

SC ASSET CORPORATION PLC

No. 55/2024
28 June 2024

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 15/12/23

Company Rating History:

Date	Rating	Outlook/Alert
04/08/11	BBB+	Stable

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RATIONALE

TRIS Rating assigns a rating of “BBB+” to SC Asset Corporation PLC (SC)’s proposed issue of up to THB3 billion senior unsecured debentures and an additional greenshoe portion of up to THB0.5 billion due within three years. The proceeds from the new debentures will be used to repay some of its existing loans and/or fund its working capital. At the same time, TRIS Rating affirms the company rating on SC and the ratings on its outstanding senior unsecured debentures at “BBB+” with a “stable” rating outlook.

The ratings reflect SC’s strong position in the mid- to high-priced segments of the residential property market, its continued revenue growth, and its relatively high financial leverage, resulting from more project launches and an expansion into recurring income assets. The ratings are weighed down by the cyclical nature of the residential property industry and our concerns over the reimposition of tighter loan-to-value (LTV) rules, lingering high interest rates, and elevated levels of household debt.

SC demonstrated strong operating performance in 2023. Its revenue peaked at THB24.7 billion, jumping 14% from 2022. While revenue in the first quarter of 2024 (1Q24) dropped 18% year-on-year (y-o-y) to THB4 billion, achieving around 20% of our full-year forecast. Revenue decreased in 1Q24 due to sluggish housing demand and higher bank rejection rates for mortgage applications, especially in the middle- to low-income segment.

We expect SC’s operating performance to recover during the remainder of 2024, supported by a moderate backlog. As of March 2024, SC had backlog worth THB14.0 billion. Around THB6.7 billion will be recognized as revenue in 2024, THB1.2 billion in 2025, and the rest over the following two years. The backlog for condominium projects under joint ventures (JVs) stood at THB2.4 billion. Of this THB0.9 billion is slated for transfer in 2024 and THB1.5 billion in 2025. Also, government measures to reduce transfer and mortgage fees from 2% and 1%, respectively, to 0.01% for housing priced up to THB7 million per unit should help stimulate transfers this year. Over the past three years, SC has maintained its EBITDA margin in the 17%-18% range. This ratio dropped to 12.8% in 1Q24. However, we anticipate that SC’s EBITDA margin will improve over the rest of the year due to the expected increase in its transfers.

We assess SC’s financial leverage as relatively high. The debt to capitalization ratio at the end of March 2024 was 59.6%, up from 57.9% in 2023. We project this ratio to range from 55%-60% (including the proportion of the debt carried by JV projects) over the next three years. This is based on SC’s plan to launch new residential property projects worth THB30-THB43 billion annually and invest THB2.0-THB2.8 billion per year in recurring income assets over the same period. SC’s bank loans and debentures have a key financial covenant stipulating that the company must maintain its interest-bearing debt to equity ratio below 2 times. As of March 2024, the ratio was 1.5 times. Its priority debt to total debt ratio at the end of March 2024 was 33%.

We consider SC’s liquidity to be manageable for the upcoming 12 months. However, given its significant amount of short-term debt, the company will need to exercise careful management of liquidity. As of March 2024, the company’s liquidity sources included cash on hand of THB2.1 billion and unused committed credit facilities of THB5.5 billion. We expect SC’s funds from operations (FFO) to

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be around THB2.0 billion over the next 12 months. The company also has unencumbered land banks valued at around THB3.0-THB4.3 billion, which can be pledged as collateral for bank loans if needed.

SC has THB20.6 billion in maturing debts over the coming 12 months, comprising THB10.6 billion in short-term loans, THB4.7 billion in project loans, and THB5.3 billion in debentures. Short-term loans, primarily allocated for working capital and bridging loans for land purchases, are expected to be converted into project loans over time. The company's project loans will be repaid with cash received from the transfer of completed units to customers, while most of its maturing debentures will be refinanced with issuances of new debentures.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SC will maintain its competitive position and financial profile in the medium term, with the FFO to debt ratio maintained at 5%-10%. Despite its aggressive expansion plan, we expect SC to keep its debt to capitalization ratio in the 55%-60% range over the next three years.

RATING SENSITIVITIES

We could revise SC's rating and/or outlook downward should its operating performance or financial profile deteriorate significantly from the current levels, causing its debt to capitalization ratio to rise above 60% and/or FFO to debt ratio to drop below 5% for a sustained period. Conversely, we could revise the ratings upward if its revenue base grows as targeted while the FFO to debt ratio improves to around 10%-15% and the debt to capitalization ratio stays around 50%-55% on a sustainable basis.

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

SC Asset Corporation PLC (SC)

Company Rating:	BBB+
Issue Ratings:	
SC257A: THB2,000 million senior unsecured debentures due 2025	BBB+
SC261A: THB920 million senior unsecured debentures due 2026	BBB+
SC261B: THB1,250 million senior unsecured debentures due 2026	BBB+
SC267A: THB1,300 million senior unsecured debentures due 2026	BBB+
SC260A: THB1,500 million senior unsecured debentures due 2026	BBB+
SC271A: THB1,280 million senior unsecured debentures due 2027	BBB+
SC271B: THB1,250 million senior unsecured debentures due 2027	BBB+
SC277A: THB700 million senior unsecured debentures due 2027	BBB+
Up to THB3,000 million senior unsecured debentures and additional greenshoe portion of up to THB500 million due within 3 years	BBB+
Rating Outlook:	Stable

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