

SC ASSET CORPORATION PLC

No. 104/2024
16 December 2024

CORPORATES

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

Last Review Date: 17/10/24

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 THB3.5 billion senior unsecured debentures due within three years. The proceeds from the new debentures will be used to repay some of its existing loans. 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 market position in the mid- to high-priced segment of the residential property market and its stable operating performance. The ratings are weighed down by the company’s high financial leverage, resulting from its aggressive project launches and expansion into recurring income assets. The ratings also consider the negative impacts of persistently high interest rates and rising household debt levels, which have resulted in higher mortgage rejection rates.

SC’s operating performance in the first nine months of 2024 (9M24) was slightly below TRIS Rating’s expectations. Revenue for 9M24 decreased by 7% year-on-year (y-o-y) to THB14.7 billion, achieving around 70% of our full-year forecast. SC’s gross profit margin declined to 31.6% in 9M24, compared to 32.7%-33.5% in the previous two years. Consequently, SC reported EBITDA of THB2.3 billion for 9M24, which fell short of our full-year target of THB3.5 billion. The weaker profit margins were primarily due to intense price competition, weakened housing demand, and increased bank rejection rates for mortgage applications.

We anticipate improvement in SC’s performance in the fourth quarter of 2024 (4Q24), driven by a moderate backlog. As of September 2024, SC had a backlog valued at THB15.5 billion. Around THB7.2 billion is scheduled for transfer to customers in 4Q24, THB1.2 billion in 2025, THB5.5 billion in 2026, and THB1.6 billion in 2027. The backlog for condominium projects under joint ventures (JVs) stood at THB2.7 billion, with THB0.9 billion slated for transfer in 4Q24 and most of the remainder in 2025. Also, government measures reducing transfer and mortgage fees from 2% and 1% respectively, to 0.01% for housing priced up to THB7 million per unit, are expected to stimulate transfers this year. Consequently, we anticipate SC’s EBITDA margin will improve to 17%-18% from 15.7% in 9M24 due to the projected increase in transfers.

We assess SC’s financial leverage as relatively high. The debt to capitalization ratio at the end of September 2024 was 60.4%, up from 57.9% in 2023 and slightly exceeding our threshold of 60%. However, we expect SC’s improving operating performance, along with its strategy of developing new condominium and rental property projects through JVs, to help reduce financial leverage, bringing it in line with our target. 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 September 2024, the ratio was 1.6 times. Its priority debt to total debt ratio at the end of September 2024 was 33%.

We assess SC’s liquidity as manageable over the next 12 months. As of September 2024, the company’s liquidity sources included cash on hand of THB2.2 billion and unused committed credit facilities of THB7.2 billion. We expect SC’s funds from operations (FFO) to be around THB2.2 billion over the next 12 months. Also, the company has unencumbered land banks and

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investment properties valued at around THB2.6 billion. This is in addition to the remaining finished units in debt-free residential projects totaling THB21 billion. All of these can be pledged as collateral for bank loans if necessary.

SC has THB17.2 billion in maturing debts over the coming 12 months, comprising THB5.7 billion in short-term loans, THB4.5 billion in project loans, and THB7.0 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. 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 business 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 ratings and/or outlook downward should its operating performance or financial profile deteriorate significantly from current levels, causing its debt to capitalization ratio to rise above 60% and/or FFO to debt ratio to drop below 5% over 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+
SC257B: THB1,500 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+
SC277B: THB1,800 million senior unsecured debentures due 2027	BBB+
Up to THB3,500 million senior unsecured debentures due within 3 years	BBB+
Rating Outlook:	Stable

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