

SENA DEVELOPMENT PLC

No. 103/2023

12 September 2023

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Negative

Last Review Date: 22/06/23

Company Rating History:

Date	Rating	Outlook/Alert
31/05/22	BBB	Negative
08/03/22	BBB	Alert Negative
21/02/19	BBB	Stable
11/11/14	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Sena Development PLC (SENA) and the ratings on SENA's senior unsecured debentures at "BBB", with a "negative" rating outlook. At the same time, we assign the rating of "BBB" to SENA's proposed issue of up to THB3.5 billion senior unsecured debentures. The proceeds from the new debentures are intended to be used for debt repayment, working capital, and business expansion.

The "negative" outlook reflects our concerns over the uncertainty of SENA's revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) as well as the expected rise in financial leverage over the next few years. The ratings also incorporate our concerns over intense competition in the residential property market as well as unfavorable market conditions driven by interest rate hikes and the reimposition of loan-to-value (LTV) rules.

The ratings continue to reflect SENA's acceptable track record in the middle- to low-income segments of the residential market, satisfactory profitability, higher income contribution from investments in joint ventures (JVs), and adequate liquidity.

SENA's operating performance in the first six months of 2023 (6M2023) fell short of our targets. SENA reported total operating revenue of THB1.9 billion and EBITDA of THB0.6 billion, around 15% lower than our half-year targets. This was due to fewer residential unit transfers amid higher cancellation rates in the middle- to low-income segments. However, we expect SENA's revenue and earnings to improve in the second half of 2023, buoyed by scheduled transfers of backlog (including its own and JV projects) worth THB4.6 billion.

The prospects of SENA's revenue and EBITDA in 2023-2025 remains uncertain and may continue to fall below our expectations owing to unfavorable market sentiment and the still-weak purchasing power of middle- to low-income homebuyers. We project total operating revenue of less than THB5 billion (excluding revenue from JVs) while the company's EBITDA in 2023-2025 may not improve much from last year.

Given its rapid expansion in the residential property business and its investments in other businesses, coupled with the uncertainty of revenue and EBITDA, SENA's financial leverage is likely to trend upward which will put pressure on its financial profile. SENA's debt to capitalization ratio remained high at 59% as of June 2023. Its FFO to debt ratio was 3% in 6M2023, well below our 8% target. A rise in the debt to capitalization ratio to a level above 60% and a decline in the FFO to debt ratio to below 7.5%, with no signs of potential improvement, could result in a rating downgrade.

At the end of June 2023, SENA's total debt, as per our priority debt calculation, was approximately THB12.7 billion. Priority debt, including secured debts at the company and total debt at the subsidiaries, was about THB3.8 billion. This translates to a priority debt to total debt ratio of 30.3%.

We expect SENA to be able to refinance most of its maturing debentures and short-term bank loans to maintain adequate liquidity and to fund its business operations. As of June 2023, SENA's sources of funds consisted of THB1.1 billion in cash plus THB3 billion in undrawn credit facilities for working capital from banks. FFO over the next 12 months is forecast to be THB1.1 billion.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

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On the flip side, SENA’s maturing debts over the next 12 months amounted to THB6.0 billion, comprising THB1.9 billion in debentures, THB1.3 billion in long-term project loans, THB1.3 billion in short-term bills of exchange (B/Es), and THB1.5 billion in short-term promissory notes (P/Ns). The debentures coming due will be repaid by the company’s internally generated cash and/or replaced with a new debenture issuance. Project loans are normally repaid with proceeds from the underlying projects’ unit transfers. SENA also plans to roll over the short-term bank loans, some of which will be converted into long-term project loans thereafter.

The financial covenants on SENA’s bank loans and debentures require the company’s total liabilities to total equity to remain below 2 times for bank loans and 2.5 times for debentures. As of 30 June 2023, the ratio was 1.4 times. We believe that SENA should remain in compliance with the financial covenants over the next 12 to 18 months.

RATING OUTLOOK

The “negative” outlook reflects our concerns over the uncertainty of SENA’s projected revenue and earnings amid unfavourable market sentiment and intense competition in the residential property industry. We expect SENA’s financial leverage to remain at a high level due to rapid business expansion.

RATING SENSITIVITIES

The outlook could be revised to “stable” if SENA’s operating performance and financial profile remain in line with our expectations, such that the FFO to debt ratio stays above 7.5% and the debt to capitalization ratio stays around 55% over the forecast period.

In contrast, downward pressure on the ratings could emerge if SENA’s operating results and/or financial position deteriorate materially from our forecast, such that the FFO to debt ratio drops below 7.5% and the debt to capitalization ratio exceeds 60%, with no signs of potential improvement.

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

Sena Development PLC (SENA)

Company Rating:	BBB
Issue Ratings:	
SENA249A: THB470 million senior unsecured debentures due 2024	BBB
SENA253A: THB1,200 million senior unsecured debentures due 2025	BBB
SENA259A: THB1,530 million senior unsecured debentures due 2025	BBB
SENA262A: THB2,000 million senior unsecured debentures due 2026	BBB
Up to THB3,500 million senior unsecured debentures due within 5 years	BBB
Rating Outlook:	Negative

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