

SANSIRI PLC

No. 71/2018

19 October 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
12/05/14	BBB+	Stable
10/05/13	BBB+	Positive
05/02/10	BBB+	Stable
19/03/09	BBB	Positive
12/07/04	BBB	Stable
08/10/03	BBB	

Contacts:

Jutamas Bunyanichkul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Rapeepol Mahapant
rapeepol@trisrating.com

Suchada Pantu, Ph. D.
suchada@trisrating.com



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RATIONALE

TRIS Rating affirms the company rating on Sansiri PLC (SIRI) and the ratings on SIRI's existing senior unsecured debentures at "BBB+". At the same time, TRIS Rating assigns the rating to SIRI's proposed issue of up to Bt2,500 million in senior unsecured debentures at "BBB+". The proceeds from the new debentures will be used for business operation.

The ratings on SIRI and its debentures reflect the company's leading position and proven track record in the residential property development industry, well-recognized condominium and landed property brands, and diverse product portfolio. The ratings also reflect SIRI's moderate profitability and its expected higher financial leverage from aggressive business expansion, which will lower its cash flow protection. The ratings also take into consideration the cyclicity and competitive environment in the residential property development business and concern over the high level of Thailand's household debt which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

SIRI's presales grew by 24% year-on-year (y-o-y) to Bt38,565 million in 2017. Presales sharply increased to Bt41,108 million in the first nine months of 2018. Presales from condominium projects drove the growth. SIRI's total revenue has ranked among the top three listed property developers for several years. However, its revenue continually decreased to Bt33,811 million in 2016 and Bt30,916 million in 2017 from Bt36,955 million in 2015. Revenue during the first six months of 2018 decreased by 33% y-o-y to Bt10,421 million. The drop came because SIRI recognized lower revenue from its own condominium projects. TRIS Rating forecasts SIRI's revenue during 2018-2019 to stay around Bt30,000 million per annum, as few of its own condominium units will be delivered to customers.

As of 3 October 2018, SIRI had 37 existing condominium projects (including 11 condominium projects under joint ventures (JVs) with BTS Group and 3 condominium projects under JVs with Tokyu Corporation) and 57 landed property projects, with the total remaining value of Bt79,000 million (including built and un-built units). Condominium projects comprised 51% of total unsold value, while landed property projects accounted for the rest. SIRI's backlog was valued at around Bt32,000 million. Its backlog worth Bt5,700 million is expected to be delivered to customers in the fourth quarter of 2018, Bt5,200 million in 2019, Bt5,800 million in 2020, Bt11,000 million in 2021, and Bt4,200 million in 2022. The total backlog under JVs was Bt25,000 million and is expected to be transferred to buyers during the remainder of 2018 through 2021. The backlog under the JV projects will support the revenue growth of business management under the JVs over the next four years.

SIRI's operating income declined to 8% in the first six months of 2018 from 13%-15% during 2014-2017. Its net profit margin was 6% of total revenue in the first half of 2018, down from 9%-12% during the past four years. The drop was due to lower profit margin from some residential projects and thinner profit margin from business management under the JV projects. However, SIRI is expected to keep operating income and net profit margin at the target levels during 2018-2020.

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.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

SIRI's debt to capitalization ratio was 64% as of June 2018, higher than 56%-57% during 2016-2017. Despite its JVs partially alleviate its funding needs, SIRI's need for capital to pursue its growth plan remains significant. TRIS Rating views SIRI's financial leverage during 2018-2020 will be higher than the current level. However, its debt to capitalization ratio is expected to stay below 66%, or its interest-bearing debt to equity ratio to stay below 2 times. The ratio of funds from operations (FFO) to total debt is expected to decline but should be higher than 5% since its debt burden is expected to increase faster than earnings.

SIRI's liquidity is acceptable. At the end of June 2018, the company had Bt4,179 million in cash and cash equivalents plus undrawn unconditional credit facilities of project loans from financial institutions of around Bt61,000 million. TRIS Rating forecasts FFO over the next 12 months will be at around Bt2,000 million. Debt due over the next 12 months amounts to Bt22,770 million, comprising Bt3,998 million in debentures, Bt4,099 million in project loans, Bt3,754 million in long-term promissory notes (P/Ns) for land purchase, and Bt10,918 million in short-term bills of exchange (B/Es) and P/Ns.

SIRI plans to refinance its maturing bonds with new bond issuance. Project loans will be repaid with cash flow from the transfers of residential units. Long-term P/Ns for land purchase will be converted to long-term project loans thereafter. Short-term B/Es and P/Ns will either be rolled over or repaid within three to six months. SIRI normally uses short-term B/Es and P/Ns in order to lower cost of funds. However, SIRI is expected to maintain its undrawn project loans to cover all outstanding B/Es and P/Ns in order to avoid rollover risk.

RATING OUTLOOK

The "stable" outlook reflects the expectation that SIRI will be able to sustain its operating performance at the target levels. Also, the company should be able to deliver the units in its backlog as scheduled. The operating income and net profit margin should be maintained at the target levels during 2018-2020. With its aggressive business expansion, SIRI's debt burden will be on the rise. However, TRIS Rating expects SIRI to keep its debt to capitalization ratio below 66%, or interest-bearing debt to equity ratio lower than 2 times. The ratio of FFO to total debt should stay at 5%-10% for a certain period.

RATING SENSITIVITIES

SIRI's ratings and/or outlook could be upgraded should its financial profile improve to the same levels as its higher rated peers. The debt to capitalization ratio should stay below 55% on a sustainable basis. Also, the ratio of FFO to total debt should increase to around 15%. On the other hand, the ratings and/or outlook could be revised downward should SIRI's operating performance and/or financial position significantly deteriorate from the target levels.

Sansiri PLC (SIRI)

Company Rating:	BBB+
Issue Ratings:	
SIRI194A: Bt1,000 million senior unsecured debentures due 2019	BBB+
SIRI194B: Bt1,000 million senior unsecured debentures due 2019	BBB+
SIRI197A: Bt1,000 million senior unsecured debentures due 2019	BBB+
SIRI190A: Bt1,000 million senior unsecured debentures due 2019	BBB+
SIRI204A: Bt2,000 million senior unsecured debentures due 2020	BBB+
SIRI206A: Bt2,000 million senior unsecured debentures due 2020	BBB+
SIRI218A: Bt5,000 million senior unsecured debentures due 2021	BBB+
SIRI21NA: Bt2,000 million senior unsecured debentures due 2021	BBB+
SIRI229A: Bt2,000 million senior unsecured debentures due 2022	BBB+
SIRI231A: Bt4,000 million senior unsecured debentures due 2023	BBB+
Up to Bt2,500 million senior unsecured debentures due within 3 years 10 months	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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