

# SANSIRI PLC

No. 39/2019

11 June 2019

## CORPORATES

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Stable

Last Review Date: 10/05/19

### 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 Bunyawanichkul

jutamas@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Tulyawat Chatkam

tulyawat@trisrating.com

Suchada Pantu, Ph. D.

suchada@trisrating.com



WWW.TRISRATING.COM

## 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 Bt4,000 million in senior unsecured debentures at "BBB+". The proceeds from the new debentures will be used to replace debentures maturing in July and October 2019 and for working capital.

The ratings on SIRI and its debentures reflect the company's diverse product portfolio, strong market position in both landed property and condominium segments, and higher contribution from business management income and share profit from its joint ventures (JVs). The ratings also take into consideration SIRI's high level of selling and administrative expenses and its aggressive financial leverage. The ratings continue to reflect the cyclical and competitive environment in the residential property development business and the lingering high household debt. The impact from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) may also affect demand for condominiums in the short term.

SIRI's presales reached a record high of Bt48,344 million in 2018. Condominium presales contributed 60%-65% of total presales during 2016-2018. Presales of SIRI during the first three months of 2019 dropped by 2% year-on-year (y-o-y) to Bt6,628 million. SIRI's total operating revenue decreased to Bt26,674 million in 2018, from Bt31,291 million in 2017 and Bt34,131 million in 2016. The drop came because SIRI recognized lower revenue from its own condominium projects. However, TRIS Rating expects SIRI's total operating revenue to stay at Bt28,000 million in 2019 and above Bt30,000 million per annum from 2020 since the company plans to launch more of its own projects.

As of March 2019, SIRI had 38 existing condominium projects (including 15 condominium projects under JVs) and 58 landed property projects, with total unsold value of Bt78,000 million (including built and un-built units). Condominium projects comprised 54% of the total remaining value, while landed property projects accounted for the rest. SIRI's backlog was worth Bt53,000 million, comprising Bt30,000 million in its own backlog and Bt23,000 million in backlog under JVs. SIRI will deliver its own backlog to customers, worth Bt7,300 million in 2019, Bt7,200 million in 2020, Bt11,000 million in 2021, and Bt4,800 million in 2022. The JV backlog will be delivered to customers during 2019-2022. The backlog under the JV projects will support the revenue growth of business management under the JVs over the next four years.

SIRI's profitability has declined continuously over the last three years. Its operating income dropped to 11%-13% during 2017 through the first three months of 2019 from 15% in 2016. Its pretax return on permanent capital also declined to 6%-8% during 2017 through the first quarter of 2019 from 9%-11% during 2013-2016. Going forward, SIRI's profitability may be threatened by the intense competition among large property developers and the thin profit margin from business management under the JV projects. However, the operating income and net profit margin should stay above 10% and above 7%, respectively, during 2019-2021. The higher contribution from the JV projects

**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.

should help improve its pretax return on permanent capital during 2020-2021.

TRIS Rating views that SIRI's debt burden will remain high during 2019-2021. Under TRIS Rating's base case, SIRI's debt to capitalization ratio may peak in 2019. The ratio will improve after 2019 since SIRI will deliver more of its own and JV condominium projects during 2020-2021. Although its JV structures with the partners partially alleviate its funding needs, SIRI's need for capital to pursue its growth plan remains significant. However, we expect the company to keep its debt to capitalization ratio below 66%, or its interest-bearing debt to equity ratio lower than 2 times in order to maintain its current ratings. The ratio of funds from operations (FFO) to total debt should be in a range of 5%-10%.

SIRI's liquidity is tight but should be manageable. At the end of March 2019, the company had Bt7,063 million in cash and cash equivalents plus undrawn unconditional committed credit facilities from financial institutions of around Bt10,000 million. FFO over the next 12 months is forecast at Bt2,500 million. Debt due over the next 12 months amounts to Bt15,656 million, comprising Bt8,166 million in short-term bills of exchange (B/Es) and promissory notes (P/Ns), Bt3,999 million in debentures, and Bt3,491 million in project loans.

## **RATING OUTLOOK**

The "stable" outlook reflects our expectation that SIRI will be able to sustain its operating performances at the target levels. TRIS Rating expects the company to deliver the units in backlog as scheduled. The operating profit margin and net profit margin should be maintained at current levels during 2019-2021. Despite its aggressive business expansion, SIRI should keep its debt to capitalization ratio below 66%, or interest-bearing debt to equity ratio below 2 times. The FFO to total debt ratio should stay at 5%-10% on a sustainable basis.

## **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, such that the debt to capitalization ratio stays below 55% and the FFO to total debt ratio increases to around 15% on a sustainable basis. We could also lower the ratings and/or outlook if SIRI's operating performances and/or financial position significantly deteriorate from the target levels.

## **RELATED CRITERIA**

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

**Sansiri PLC (SIRI)**

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
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+
SIRI222A: Bt4,933.4 million senior unsecured debentures due 2022	BBB+
SIRI229A: Bt2,000 million senior unsecured debentures due 2022	BBB+
SIRI229B: Bt2,500 million senior unsecured debentures due 2022	BBB+
SIRI231A: Bt4,000 million senior unsecured debentures due 2023	BBB+
Up to Bt4,000 million senior unsecured debentures due within 3 years 10 months	BBB+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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

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