TRIS RATING
A Strategic Partner of S&P Global

CreditUpdate เครดิตวาระ
New Issue Report

PROPERTY PERFECT PLC

No. 75/2018
6 November 2018

CORPORATES

Company Rating:	BB+
Issue Ratings:	
Hybrid	B+
Outlook:	Stable

Last Review Date :

Date	Rating	Outlook/Alert
10/07/18	BB+	Stable

Company Rating History:

Date	Rating	Outlook/Alert
20/05/15	BB+	Stable
19/06/14	BB+	Developing
06/12/13	BB+	Stable
18/11/11	BBB-	Negative
18/09/09	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Property Perfect PLC (PF) at “BB+” and the rating on PF’s existing unsecured subordinated perpetual debentures (hybrid debentures) at “B+”. At the same time, TRIS Rating assigns the rating to PF’s proposed issue of up to Bt1,000 million in hybrid debentures at “B+”. The rating on hybrid debentures was notched down by three notches from PF’s company rating, two notches for subordination and one notch for an option to defer the coupon payment at the discretion of the issuer. The two-notch differential for subordination reflects the low recovery of principal of hybrid debentures issued by a non-investment grade issuer.

The proposed hybrid debentures’ characteristics, including subordination, the interest deferral at the discretion of the company, the five-year non-call period, and sufficient permanence, were qualified for receiving “intermediate” equity content under TRIS Rating’s criteria. Thus, TRIS Rating treats 50% of the principal amount of the debentures as equity and the other 50% as debt when calculating PF’s financial ratios. The “intermediate” equity content will fall to “minimal” (or 0% of equity treatment for this issue) at the end of the fifth year from the issuance date. This is because, after five years of issuance, the remaining effective tenor of the issue will be less than 20 years. According to TRIS Rating’s criteria, the effective maturity date of the issue will be defined as the date when there is a material step-up (equal to or more than 100 basis points (bps)) of the coupon rate. In this case, the interest spread of the hybrid debentures will step up by 100 bps at the end of the 25th year.

Except for certain events as specified in the terms and conditions (e.g., changes in the tax and accounting treatments of hybrid securities or a change in the rating agency’s criteria used to assess the equity content of the issue), PF intends (but is not obliged) to replace, redeem, or repurchase the hybrid debentures with an instrument that has similar or higher equity content. TRIS Rating could lower the equity content of the proposed hybrid debentures, as well as PF's outstanding hybrid debentures, to “minimal” from “intermediate” if we believe that the company has an intention to deviate from the replacement capital covenant (RCC).

The ratings on PF and its debentures reflect the company’s acceptable brand name in the middle- to high-income landed property segments, expected higher income from rental assets, and weak financial profile resulting from its aggressive expansion in residential property and hotel businesses as well as its relatively low profitability. The ratings also take into consideration the cyclicality and competitive environment in the residential property development business and the concern over the high level of Thailand’s household debt which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

PF’s residential sales have ranked top-10 largest among all leading property developers in Thailand for past several years. Landed property generated revenue of Bt6,500-Bt7,500 million per annum during 2015-2017. Revenue from condominium projects were Bt4,800-Bt4,900 million per annum during 2016-2017. PF’s residential sales in the first six months of 2018 grew by 50% year-on-year (y-o-y) to Bt6,864 million. TRIS Rating expects PF’s residential sales in 2018-2020 to stay around Bt13,000-Bt15,000 million per annum.

As of September 2018, PF had 60 existing landed property projects and 18 active condominium projects, with total remaining project value of Bt44,000 million (including built and un-built units). PF set a budget for land acquisition of Bt5,000 million in 2018. The company plans to launch 23 residential projects worth Bt30,000 million this year, higher than the 14 residential projects worth Bt16,000 million launched last year. Around 65% of the new project value in 2018 will be landed property projects. The rest will be condominium projects under its own and joint ventures (JVs).

PF's revenue from hotel operations was Bt2,200-Bt2,300 million per annum during 2016-2017. Hotel operations generated revenue of Bt1,432 million during the first six months of 2018. TRIS Rating forecasts PF's revenue from hotel operations will be around Bt3,500 million per annum during 2019-2020. The two new hotels; Hyatt Regency Sukhumvit and Royal Orchid Sheraton Hotel and Towers, with total 999 rooms, will drive the revenue growth.

Apart from residential property and hotel businesses, PF operates two office buildings for rent, one community mall, and 21 branches of discount store under JV with a retail partner. The company also plans to invest in wind and solar energy businesses and develops mix-used projects in Eastern Economic Corridor area in Trad province with partners. TRIS Rating raises concerns over PF's diversification into various businesses. However, the size of investments and timeframe is still uncertain.

PF's financial profile is considered weak. PF's large investments in residential projects through its own and JV projects, new recurring-income assets, and other businesses may increase financial leverage and weaken cash flows from the current levels. The company's debt to capitalization ratio was 65% as of December 2017 and 68% as of June 2018. The ratio of funds from operations (FFO) to total debt was 2%-3% during 2016 through the first six months of 2018. TRIS Rating expects PF to keep its debt to capitalization ratio at around 65% and FFO to total debt ratio at around 3% in order to satisfy the current ratings.

PF's profitability was lower than rated peers. Its operating income margin was 14%-15% during 2016 through the first six months of 2018, compared with 15%-17% of rated peers. The company's net profit margin was in the range of 2%-4% of total operating revenues during 2014 through the first six months of 2018, much lower than 10%-12% of rated peers. TRIS Rating forecasts PF's profitability may be threatened by rising land costs and more intense competition in both landed property and condominium markets. However, we forecast PF's operating income margin to stay above 12% during 2018-2020. The net profit margin should not further deteriorate from the current level. A further decline in its profitability will negatively affect the ratings.

PF's liquidity profile is tight. As of June 2018, the sources of funds comprised cash and cash equivalents of Bt5,218 million, undrawn unconditional committed credit facilities of Bt8,209 million, and unencumbered land plots at book value worth around Bt5,700 million. PF already sold a portion of its land bank at selling price of Bt2,273 million to JVs in 2018. Cash received from land plot sales will help enhance its liquidity and improve its profitability. TRIS Rating forecasts PF's FFO over the next 12 months will be around Bt500 million. These sources should be sufficient to cover the debt service needs over the next 12 months. PF has scheduled to repay short-term borrowings of Bt1,181 million, debentures of Bt8,944 million, and long-term project loans of Bt997 million, coming due in the next 12 months.

RATING OUTLOOK

The "stable" outlook reflects the expectation that PF will sustain its financial position during aggressive business expansion. PF's debt to capitalization ratio should stay at around 65% and its operating income margin should be above 12%. Also, PF has to find adequate sources of funds in order to mitigate liquidity risk.

RATING SENSITIVITIES

PF's ratings and/or outlook could be revised downward if the financial profile falls below expectations. If the debt to capitalization ratio stays above 66% on sustainable basis and there is more pressure on liquidity risk, this will lead to a downward revision. On the contrary, the ratings and/or outlook would be upgraded if its financial profile improves significantly from the current level and less concern on liquidity risk.

RELATED CRITERIA

- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Property Perfect PLC (PF)

Company Rating:	BB+
Issue Ratings:	
PF17PA: Bt447.7 million subordinated capital debentures	B+
Up to Bt1,000 million subordinated capital debentures	B+
Rating Outlook:	Stable

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