Press Release

No. 25/2017
22 February 2017

TRIS Rating Assigns "B+/Stable" Rating to Subordinated Capital Debt Worth Up to Bt2,000 Million of "PF"

TRIS Rating has assigned the rating of "B+" to the proposed issue of up to Bt2,000 million in unsecured subordinated perpetual debentures (hybrid debentures) of Property Perfect PLC (PF). At the same time, TRIS Rating has affirmed the company rating of PF at "BB+". The outlook remains "stable". The hybrid debentures have been 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% equity treatment for this issue) at the end of the fifth year from the issuance date. This is because, five years after 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 of PF continues to reflect the company's proven track record in the housing market, accepted brand name in the middle- to high-income segments, and expected higher recurring income after the acquisition of Thai Property PLC (TPROP) and its subsidiary, Grande Asset Hotels and Property PLC (GRAND), in mid-2015. These strengths are partially offset by PF's weak financial profile resulting from its relatively high financial leverage, low profitability, and concerns over the diversification into several unfamiliar businesses. The ratings also take into consideration concerns over the high level of household debts nationwide, coupled with the current slowdown in the domestic economy, which may impact the demand in the residential property market in the short to medium term.

The "stable" outlook reflects the expectation that PF will sustain its financial position during aggressive expansion. PF's debt to capitalization ratio should stay at around 65% and its operating profit margin should be around 10%. Also, PF is expected to find adequate sources of funds in order to mitigate liquidity risk.

PF's ratings and/or outlook could be revised downward if the financial profile falls below expectations. If the debt to capitalization ratio remains above 65% 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, as defined by the debt to capitalization ratio staying below 65% and the operating profit margin increasing above 10% for a sustainable period.

Currently, the company has three business segments: residential property development, hotel, and retail businesses. The residential property segment has been the largest source of revenue, accounting for 80% of total revenue. As of December 2016, PF had around 60 existing residential property projects, worth Bt120,000 million in total. PF's project portfolio consists of housing (60% of the total portfolio value) and condominium (40%) projects. The average unit price was Bt5.1 million for a housing unit and Bt3 million for a condominium unit. At the end of December 2016, PF had unsold units worth Bt42,000 million available for sale (including built and un-built units) and a backlog worth Bt5,200 million.

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PF's presales was around Bt10,000 million per annum during 2015-2016. Around 70% of presales came from housing projects, while the rest was from condominium projects. PF's total revenue was Bt12,000 million per year during 2014-2015. Revenue during the first nine months of 2016 grew by 35% year-on-year (y-o-y) to Bt10,843 million. Revenue from housing and condominium projects increased by 6% y-o-y and 71% y-o-y, respectively. After acquiring TPROP and GRAND in mid-2015, revenue from hotel operations and rental assets comprised 15% of total revenue in 2015 and 17% in the first nine months of 2016. Over the next three years, PF's total revenue is expected to reach Bt15,000-Bt17,000 million per annum, supported by the revenue base from housing units, higher income from condominium units, and more recurring income from hotel operations and rental assets.

PF's financial profile is considered weak. Its operating profit margin (as measured by operating income before depreciation and amortization as a percentage of sales) deteriorated to 5%-8% during 2013-2015, before improving to 13% in the first nine months of 2016. However, PF's net profit margin during 2012 through the first nine months of 2016 was very thin at 1%-4% of total revenue, much lower than the industry average of 10%. Over the next three years, PF's operating profit margin is expected to stay between 8%-10%. The net profit margin should not further deteriorate from the current level, taking into account the expected higher profit margin from residential projects and recurring income assets. A further decline in its profitability will negatively affect the ratings.

The company's debt to capitalization ratio deteriorated to 70% as of September 2016, from 65% as of December 2015. PF's large investments needed for residential projects and its expansion into more recurring income assets pushed financial leverage higher than most listed property developers. TRIS Rating expects that PF will be able to keep its debt to capitalization ratio at around 65%, or interest-bearing debt to equity ratio at around 2 times in order to satisfy the current ratings.

PF's liquidity profile during the past five years weakened due mainly to relatively high financial leverage. The ratio of funds from operations (FFO) to total debt was only 1%-4% during 2012 through the first nine months of 2016. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio was only 1-2 times during the past five years. As of September 2016, PF had short-term borrowings worth Bt3,639 million and long-term debentures worth Bt5,010 million coming due in 2017. PF's financial flexibility is tight as the company had cash on hand (net of all obligations) of Bt1,000 million and undrawn credit facilities from long-term project loans of Bt8,000 million (including undrawn unconditional credit facilities of Bt2,000 million) as of December 2016, as well as cash received from capital increase of Bt300 million in December 2016. PF has to cautiously manage its cash inflows and cash outflows in order to mitigate its exposure to liquidity risk.

Property Perfect PLC (PF)	
Company Rating:	BB+
Issue Rating:	
Up to Bt2,000 million subordinated capital debentures	B+
Rating Outlook:	Stable

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