# PRUKSA HOLDING PLC

No. 54/2018
27 April 2018

## CORPORATES

| | |
|---|---|
| **Company Rating:** | A |
| **Issue Rating:** | |
| Guaranteed | A |
| **Outlook:** | Stable |

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## RATIONALE

TRIS Rating assigns the company rating of Pruksa Holding PLC (PSH) at “A”. At the same time, TRIS Rating assigns the rating of “A” to PSH’s proposed issue of up to Bt5,500 million in guaranteed debentures. The proceeds from the proposed debentures will be used to replace bridging loans from a bank and for working capital. The debentures are unconditionally and irrevocably guaranteed by Pruksa Real Estate PLC (PS); PSH’s subsidiary, rated “A” with “stable” outlook by TRIS Rating.

The ratings reflect PSH’s creditworthiness as the holding company of the Group. PSH’s major subsidiary is PS, in which PSH holds a 98.23% equity stake. The ratings are based on the significant stream of dividends PSH receives from PS. After the reorganization in 2016, PS’s residential property business remains a major revenue contributor of PSH. As a result, PS is considered as a “core” subsidiary of PSH. Therefore, the issuer-ratings of PSH and PS are equivalent.

The ratings of PSH take into consideration the strengths of PS in the residential property market. PS’s competitiveness is derived from its relatively diversified product portfolio, cost competitiveness, and large backlog partly securing the company’s future revenue stream. The ratings also take into consideration the Group’s moderate financial leverage level, the cyclicality and competitive environment in the residential property development business, and the concern over the high level of household debt nationwide which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

## KEY RATING CONSIDERATIONS

### Expected stable stream of dividends from PS

PSH is the major shareholder of PS, holding a 98.23% stake in PS. According to the Group’s dividend policy, PS will pay dividends to PSH at no less than 50% of its net income. Dividends received from PS in 2017 totaled Bt5,508 million.

At the end of 2017, PS was the only major subsidiary of PSH, representing nearly 99% of the total assets of the Group. PSH is in the initial phase of investment in healthcare business. Its first private hospital is under construction and will start operation around mid-2020. Thus, PS is expected to be the only core subsidiary of PSH in the short-to-medium term.

### Leading position of PS in terms of revenue and profitability

PS’s proven track record is underpinned by its strong operating performance. Presales increased to Bt47,536 million in 2017 from Bt44,414 million in 2016, supported by growth in the condominium segment. Presales from condominium projects grew from Bt11,497 million in 2016 to Bt18,093 million in 2017. Presales from townhouse and single detached house (SDH) projects in 2017 decreased by 6% year-on-year (y-o-y) and 20% y-o-y, respectively. Presales during the first three months of 2018 totaled Bt12,696 million, a 5% y-o-y drop.

PS’s revenue has ranked highest among all leading property developers in Thailand over the past two years. Its revenue was Bt46,926 million in 2016, but declined to Bt43,935 million in 2017. The drop was due to lower revenue from condominium projects. Revenue from landed property projects has been stable at around Bt23,000 million per annum for townhouse projects and around Bt9,000-Bt10,000 million per annum for SDH projects during the past two years. Going forward, PS's revenue over the next three years is expected to stay above Bt45,000 million per annum. The townhouse segment will remain a major contributor of total revenue.

PS's operating profit margin, as measured by operating income before depreciation and amortization as a percentage of sales, stayed at 17% during 2016-2017. The ratio has been higher than the industry average of around 15%. Under TRIS Rating's base case scenario, PS's profitability may be threatened by the intense competition among large property developers and rising land costs. Nonetheless, the company should be able to keep its operating profit margin at least 15% over the next three years.

**Diversified product portfolio, with well-accepted brands in the middle-to-low priced townhouse segment**

PS's product portfolio is well-diversified, covering various product types and price points. Currently, townhouse products cover the low- to middle-end segments, with selling prices ranging from Bt1-Bt5 million per unit. PS's townhouse units mainly focus on the Bt2-Bt3 million per unit segment under the Baan Pruksa and Pruksa Ville brands. PS's SDH unit prices range from Bt3 million to Bt25 million. Most of the SDH projects are developed under the Pruksa Village, Passorn, and The Plant brands, targeting the Bt3-Bt5 million per unit segment. PS's condominium projects cover the low- to high-end segments, with selling prices ranging from Bt30,000 to Bt250,000 per square meter (sq.m.). Its condominium products primarily target the Bt1-Bt3 million per unit segment under the Plum Condo and The Privacy brands and the Bt3-Bt5 million per unit segment under The Tree and Ivy brands. PS is adding more premium condominium projects in order to enlarge its condominium portfolio and meet market demand.

As of March 2018, PS had a large project portfolio, with around 200 existing projects. Landed property projects (including townhouse and SDH projects) accounted for around 70% of the total portfolio value, while condominium projects accounted for the remainder. The value of the remaining unsold units (including built and un-built units) across PS's portfolio was around Bt97,000 million. The total backlog was valued at around Bt31,000 million and partly secures PS's future revenue stream during the remainder of 2018 through 2020.

**Cost competitiveness from large precast production volumes and self-managed construction**

PS employs precast and prefabrication technologies to control its construction costs and shorten the construction periods for its projects. By coupling these construction technologies with its sizable production volume, PS has been one of the low-cost producers in the residential property development industry. The company can offer residential units at competitive prices and increase its production turnover. PS uses precast materials for its townhouse, SDH, and condominium projects. The company manages the whole construction process for its townhouse projects by using in-house construction teams. PS uses in-house construction teams for SDH projects in the Bt3-Bt5 million price range, the demand of which is cost sensitive. The company outsources contractors to develop SDH projects in the Bt5-Bt10 million price range in order to lower overhead costs and selling, general, and administration (SG&A) expenses of in-house teams. For condominium projects, PS both employs in-house construction teams and outsources contractors to develop the projects.

**Moderate financial leverage despite its plan to invest in property development and healthcare businesses**

For the property development business, PS spent Bt14,000 million to acquire land plots and launch 56 residential projects worth Bt59,000 million in 2017. PS's budget for land acquisition will be Bt16,000 million in 2018. The company plans to launch 77 new projects worth Bt67,800 million this year, a record high of the company. Around 60% of the new projects will be townhouse products. PS will build more ready-to-move townhouse units in order to lower backlog and rejection rates from banks. PS plans to expand its townhouse portfolio to the segment above Bt5 million under The Connect and Patio brands this year. In addition, PS expects to generate more revenue from SDH projects as the company plans to open 21 new SDH projects in 2018, more than double from last year. PS will employ its prebuilt strategy for the Bt3-Bt5 million segment in SDH projects to shorten the booking-to-transfer period and decrease cancellation rates from homebuyers. The company will also offer more SDH units with the unit price range of Bt5-Bt10 million to capture demand in this market. PS plans to consistently launch condominium projects over the next three years in order to stabilize revenue recognition from its condominium portfolio.

For the healthcare business, PSH established a subsidiary to operate a private hospital under the brand "Vimut International Hospital". PSH's investment in its first flagship hospital, will be around Bt4,900 million during the second half of 2017 through 2020. The hospital is classified as tertiary care and targets the medium-income segment. Currently, the project is under construction and is expected to commence operations as well as generate revenue from mid-2020 onwards. Going forward, the success of PSH's diversification into new businesses will be positive for the Group.

Despite expansion into the property business and its plan to invest in healthcare business, PSH is expected to keep its debt-to-capitalization ratio lower than 50%. As of December 2017, PSH's debt to capitalization ratio was 40%.

### Exposed to cyclicality and highly competitive residential property business

The residential property market closely follows trends in the overall economy. However, the volatility in this market is much more pronounced than in the general economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of homebuyers, especially in the middle- to low-income segments. Thus, several property developers have shifted their focus toward the higher-income segment, making competition in this segment more intense due to more supply in the market. PS also plans to launch more landed property and condominium projects in the high-end segments in order to enlarge its market share in this segment.

### Acceptable liquidity profile

On a consolidated basis, PSH's liquidity is acceptable. As of December 2017, PSH held Bt1,348 million in cash plus undrawn committed credit facilities from financial institutions of around Bt10,000 million. Funds from operations (FFO) over the next 12 months are forecast at a minimum of Bt5,000 million. Debt due over the next 12 months amounts to Bt10,498 million, comprising Bt6,000 million in debentures and Bt4,498 million in short-term loans from banks.

Based on TRIS Rating's forecast, the operating performance of PS, PSH's subsidiary, should be capable of generating sufficient cash to repay obligations. The holding company will issue new debentures to replace PS's maturing bonds and provide the inter-company loans to PS. Short-term loans will either be rolled over or repaid. PSH normally uses short-term loans in order to lower cost of funds. However, PSH intends to have enough unused committed credit lines and cash flow from operations to cover all short-term debt repayment.

On a stand-alone basis, PSH had only Bt1 million in short-term debt as of December 2017. PSH held cash and cash equivalents of Bt29 million. The dividend income from PS is forecast at a minimum of Bt3,000 million per annum. As a result, TRIS Rating expects that PSH will be able to refinance its bonds with new debenture issues or loans from financial institutions. The refinancing risk is mitigated by reliable cash flow from operations of PS.

According to the key financial covenants on PSH's proposed debentures, PSH has to maintain its interest-bearing debt to equity ratio on a consolidated basis lower than 2 times. The ratio at the end of December 2017 was 0.7 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that PSH should have no problem complying with its financial covenant over the next 12 to 18 months.

## RATING OUTLOOK

The "stable" outlook reflects the expectation that PSH will be able to sustain its operating performance over the next three years. The company's property subsidiary should be able to deliver a large number of the units in its backlog as scheduled. Despite more intense competition in the residential property market, PSH is expected to keep its operating profit margin of at least 15%. The total debt to capitalization ratios of PSH and PS should stay below 50%.

## RATING SENSITIVITIES

PSH's ratings will depend on the operating performance and financial position of the Group. A successful diversification into new businesses will be positive for the Group. On the contrary, the ratings of PSH will be negatively affected if the investment in new businesses drags down the financial position of the Group.

## COMPANY OVERVIEW

According to the restructuring plan for PS, PSH was established on March 2016 as a holding company. PSH made a tender offer for all securities of PS at the swap ratio of 1:1. After the completion of the tender offer, the holding company became the major shareholder of PS and its securities were listed on the Stock Exchange of Thailand (SET) in December 2016 in place of PS, whose securities were delisted from the SET simultaneously. As of March 2018, the Vijitpongpun family was PSH's largest shareholder, owning a 75% stake. PSH holds a 98.23% stake in PS.

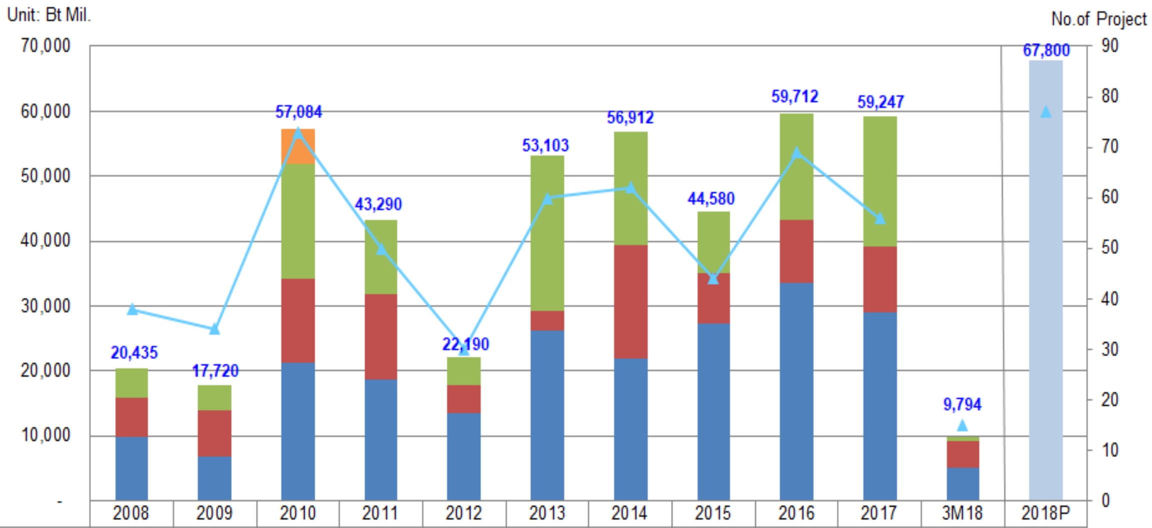
After the reorganization, PSH became a holding company while PS retained its focus on residential real estate for sale. All operating assets and key members of the management team remain intact. Since the residential property business will continue to be the major revenue contributor to the Group over the next several years, PS is considered as a "core" subsidiary of the Group. Thus, the issuer ratings of PS and the Group will be equivalent. The new structure under PSH will provide more flexibility for the Group to expand into new businesses and facilitate alliances with strategic partners.

PS is the leader in employing precast and prefabrication techniques for constructing its residential projects. The company owns precast factories and manages the construction of most residential projects by itself. PS's main focus is the middle- to low-end segment of the residential property market. Furthermore, PS is expanding its product portfolio into the high-end segment, the demand of which remains healthy.

PSH is also expanding into the healthcare business. The company set up a company, "Vimut Holding Hospital Co., Ltd.", to invest in a private hospital. The investment cost for this flagship hospital is around Bt4,900 million during 2017-2020.

## KEY OPERATING PERFORMANCE

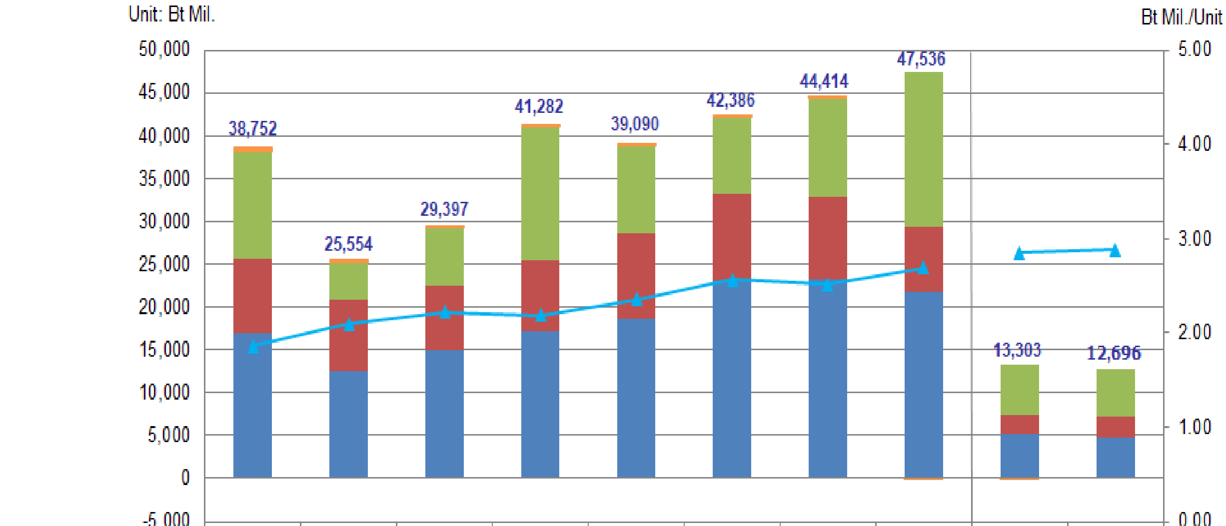
**Chart 1: New Residential Project Launches**




| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 3M18 | 2018P |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| International (LHS) | | | 5,170 | | | | | | | | | |
| Condominium (LHS) | 4,652 | 3,819 | 17,703 | 11,418 | 4,435 | 23,897 | 17,481 | 9,611 | 16,363 | 20,125 | 509 | |
| SDH (LHS) | 5,915 | 7,103 | 12,910 | 13,200 | 4,322 | 2,996 | 17,509 | 7,598 | 9,763 | 10,180 | 4,233 | |
| Townhouse (LHS) | 9,868 | 6,798 | 21,301 | 18,672 | 13,433 | 26,210 | 21,922 | 27,371 | 33,586 | 28,942 | 5,053 | |
| No. of project (RHS) | 38 | 34 | 73 | 50 | 30 | 60 | 62 | 44 | 69 | 56 | 15 | 77 |

*Source: PS*

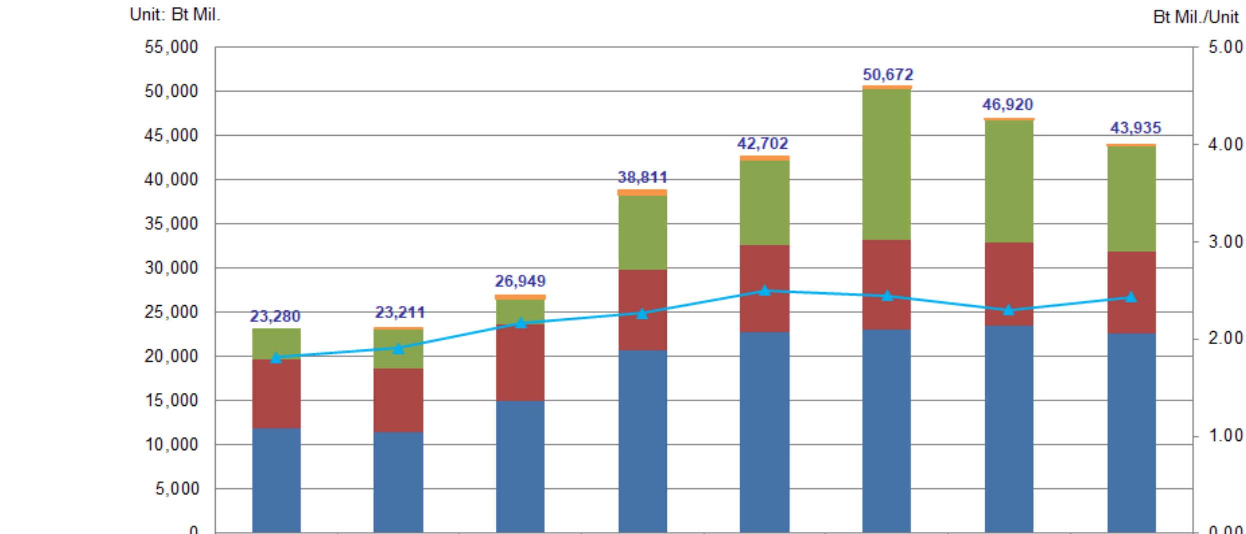
**Chart 2: Presales Performance**




| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 3M17 | 3M18 |
|---|---|---|---|---|---|---|---|---|---|---|
| International (LHS) | 698 | 378 | 116 | 227 | 232 | 241 | 72 | (1) | -1 | |
| Condominium (LHS) | 12,340 | 4,265 | 6,730 | 15,502 | 10,190 | 8,950 | 11,497 | 18,093 | 5,943 | 5,450 |
| SDH (LHS) | 8,682 | 8,435 | 7,655 | 8,355 | 10,039 | 10,119 | 9,643 | 7,693 | 2,214 | 2,459 |
| Townhouse (LHS) | 17,032 | 12,476 | 14,896 | 17,198 | 18,630 | 23,075 | 23,202 | 21,751 | 5,146 | 4,787 |
| Avg. Price (RHS) | 1.9 | 2.1 | 2.2 | 2.2 | 2.4 | 2.6 | 2.5 | 2.7 | 2.9 | 2.9 |

*Source: PS*

**Chart 3: Transfer Performance**




| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| International (LHS) | | 81 | 429 | 497 | 441 | 278 | 129 | 13 |
| Condominium (LHS) | 3,608 | 4,487 | 2,837 | 8,450 | 9,694 | 17,236 | 13,849 | 12,068 |
| SDH (LHS) | 7,723 | 7,140 | 8,775 | 9,195 | 9,776 | 10,135 | 9,413 | 9,159 |
| Townhouse (LHS) | 11,948 | 11,503 | 14,908 | 20,669 | 22,791 | 23,023 | 23,529 | 22,694 |
| Avg. Price (RHS) | 1.8 | 1.9 | 2.2 | 2.3 | 2.5 | 2.4 | 2.3 | 2.4 |

*Source: PS*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

*Unit: Bt million*

| | Year Ended 31 December | |
|---|---|---|
| | **2017** | **2016** |
| Revenue | 43,935 | 46,926 |
| Gross interest expense | 742 | 803 |
| Net income from operations | 5,456 | 5,940 |
| Funds from operations (FFO) | 6,015 | 6,410 |
| Inventory investment | (3,785) | (1,770) |
| Total assets | 72,244 | 66,344 |
| Total debts | 25,998 | 23,548 |
| Shareholders' equity | 38,660 | 36,164 |
| Operating income before depreciation and amortization as % of sales | 17.40 | 17.14 |
| Pretax return on permanent capital (%) | 12.52 | 14.00 |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) | 11.13 | 10.91 |
| FFO/total debt (%) | 23.14 | 27.22 |
| Total debt/capitalization (%) | 40.21 | 39.44 |

* *Consolidated financial statements*

## Pruksa Holding PLC (PSH)

| | |
|---|---|
| **Company Rating:** | A |
| **Issue Rating:** | |
| Up to Bt5,500 million guaranteed debentures due within 7 years | A |
| **Rating Outlook:** | Stable |

**TRIS Rating Co., Ltd.**
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