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SINGHA ESTATE PLC

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CORPORATES

Company Rating: BBB+
Outlook: Stable

RATIONALE

TRIS Rating assigns a company rating of "BBB+" to Singha Estate PLC (S) with a "stable" rating outlook. The rating takes into consideration the continued recovery in S's hotel operations, its planned expansion in real estate projects, and our expectation that its financial leverage will remain on a declining path over the coming years. The rating also reflects the good quality of its hotel portfolio, well-accepted residential brands, and recurring revenue stream from its commercial business. The rating is, however, constrained by the cyclical nature of the hotel industry and the company's limited track record in the real estate business.

KEY RATING CONSIDERATIONS

Recovery in hotel business expected to continue

We expect the company's hotel business to continue to recover in 2023-2024, with the overall hotel occupancy rate (OR) to improve to around 70% in 2023 and 72%-73% in 2024-2025, and overall average daily rate (ADR) to increase by 5% in 2023 and 2% per annum in 2024-2025. Overall revenue per available room (RevPAR) should recover to near or slightly better than the pre-Coronavirus Disease 2019 (COVID-19) level in 2023 before rising above that level in 2024. We also assume the company will acquire more hotels in 2024-2025. Hence, revenue from the hotel business is projected to increase to THB10.4 billion in 2023 and THB11.4-THB12.5 billion per annum in 2024-2025.

The performance of S's hotels improved significantly in 2022 as the COVID-19 situation eased and the government gradually relaxed travel restrictions. Revenue from S's hotel business increased to THB8.7 billion in 2022, from THB4.6 billion in 2021. The company's overall hotel OR increased to about 60% in 2022 from about 40% in 2021. RevPAR in Fiji recovered to better than pre-COVID-19 levels in 2022. RevPAR in the United Kingdom (UK) also rose above pre-COVID-19 levels in 2022, mainly from higher average room rates resulting from asset enhancement and the pass-through of higher costs. Hotels in the Maldives saw an improvement in OR to 66% in 2022 from 58% in 2021 and in ADR to THB14,100 in 2022 from THB10,200 in 2021, while RevPAR of hotels in Thailand and Mauritius were around 60%–80% of pre-COVID-19 levels.

The company is constantly seeking ways to enhance the quality of its hotel assets and increase the efficiency of its hotel portfolio. The "Outrigger Fiji Beach Hotel" is currently under renovation, with gradual closure of some service areas while operating largely as normal. S is planning to renovate some of its hotels in the UK that have high potential for room rate uplifts, while considering selling some of the underperforming hotels. The company is also considering rebranding and repositioning some hotels that have the potential to reach a higher segment.

The company plans to expand its hotel portfolio mainly through the acquisition of operating hotels, focusing on upper midscale to luxury hotels in leisure travel destinations. The company's expansion strategy also takes into consideration the diversity of geography, market segments, and customer bases. TRIS Rating expects the company to spend approximately THB2.1 billion on hotel renovations in 2023-2025 and assumes a hotel acquisition budget of THB2 billion per annum in 2024-2025.

Contacts:

Tulyawat Chatkam
tulyawatc@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Thiti Karoonyanont, Ph.D., CFA
thiti@trisrating.com

Well-accepted residential brands in luxury segments

We view the company's residential brands are well accepted in terms of quality and style among high-end residential customers, despite its narrowly focused penetration strategy on high-end single-family detached houses and condominium projects. The ongoing housing projects include "Santiburi The Residences", an ultra-luxury project with an average unit price of THB200 million, and "Siraninn Residences", a super-luxury project with an average unit price of THB100 million. For condominium projects, the company has "The ESSE" as the brand for luxury condominium in the THB250,000-THB300,000+ per square meter (sq.m.) price range, and the new brand "The Extro" for luxury condominium in the THB200,000-THB250,000 per sq.m. price range. In 2023, the company plans to launch new luxury house projects under new brands for a lower price range, with average unit prices of THB20-THB60 million. We believe that success in these new housing segments would further strengthen the company's residential business.

Modest but expanding residential revenue base

The company's residential business has a relatively small and volatile income base. Revenue from the residential business was THB5 billion in 2019 and decreased to about THB1.5-THB2.6 billion per annum in 2020-2022, due to fewer transfers of sold condominium units (excluding revenue from Nirvana Daii PLC, of which the company sold all shares in 2021).

As of the end of 2022, the company had five ongoing projects, comprising three landed property projects and two condominium projects, all located in Bangkok. The total unsold project value was THB5.1 billion. The company's residential backlog was THB4.8 billion, of which THB2.7 billion is expected to be recognized as revenue in 2023, while the remainder will be gradually recognized during 2024-2025.

The company intends to launch more projects and diversify its residential portfolio, both in terms of locations and customer base. The company's development plan includes the launch of five new landed property projects worth around THB9.5 billion in 2023. We also assume the company will launch projects worth around THB5-THB8 billion per annum in 2024-2025. The company's land acquisition budget is set at around THB3.8 billion in 2023, and is projected to be THB1.3 billion per annum in 2024-2025 to support more project launches.

We forecast revenue from its residential business to increase to THB4.5 billion in 2023, supported by the transfer of backlog and additional sales of existing and new projects in 2023. Revenue in 2024-2025 is projected to be THB5.5-THB6.4 billion per annum thanks to the scheduled completion and transfer of the "Extro Phayathai-Rangnam" condominium project in 2024 and continued launches of new projects in 2024-2025. The reopening of countries in Asia, especially China, could boost the sale of condominium units to foreigners. The company's residential gross margin should be in the range of 27%-29% in 2023-2025, about the same level as in 2021-2022, as construction costs, both building materials and labor costs, will likely remain high, and the intense competition in the residential market will likely continue.

Recurring revenue from commercial business

The company's commercial assets comprise four office buildings and one small retail space, with a total leasable area of approximately 193,000 sq.m. The company's office buildings are well located in central business district (CBD) and non-CBD areas of Bangkok with good accessibility to public transportations. The office buildings are of good quality and mostly relatively new, comprising the "Singha Complex" and "S-Metro" buildings, about four and seven years old respectively; the "S-OASIS" building opened in late 2022; and the "Suntowers" complex opened in 1992, although relatively old but is still in good condition thanks to ongoing maintenance.

The company's commercial business generated relatively steady revenues of around THB1 billion per year during 2020-2022, although the ORs were affected during the COVID-19 pandemic. The overall OR (excluding the S-OASIS building) was 86% in 2022, down slightly from 87% in 2021. The average rental rate (excluding the S-OASIS building) increased by around 5% in 2022, after the impact of COVID-19 that induced rental discounts for tenants in 2021.

We expect ORs and average rental rates to continue under pressure from weak demand and the increasingly adopted hybrid working model and the anticipated sizable new supply coming into the market in 2023-2024. According to CB Richard Ellis (CBRE), new office supply is expected to enter the market at a rate of 400,000-500,000 sq.m. per annum in 2023-2024, while net take-up is expected to be negative in 2023 and only 60,000 sq.m. per annum in 2024-2025.

We project the overall OR (excluding the S-OASIS building) to fall to 83% in 2023, as some tenants in the Singha Complex have not renewed their contracts, and the company will likely take some time to find new tenants. The OR should revive to 85% in 2024-2025 but remain lower than that in 2022. We forecast no rental rate growth during 2023-2025 due to the anticipated large supply of new office buildings entering the market, which will likely elevate competition in the industry. We expect the S-OASIS building to gradually ramp up its OR during 2023-2024, reaching 80% in 2025. Revenue from the commercial business is projected to be around THB1.1 billion in 2023 before picking up to THB1.4-THB1.5 billion per annum in 2024-2025.

Entry into industrial estate business

The company entered the industrial estate business in 2021 by investing in the "S-Angthong Industrial Estate Project", located on the Asian Highway in Angthong Province. The project has a total salable area of 992 rai and a project value of approximately THB4 billion. The project is currently under construction and will be gradually transferred to customers. In addition, the company has invested in a 30% stake in three combined cycle power plants, namely B. Grimm Power (Angthong) 1 (BPAT1), B. Grimm Power (Angthong) 2 (BPAT2), and B. Grimm Power (Angthong) 3 (BPAT3), with a total installed capacity of around 400 megawatts (MW). BPAT1 is currently in operation, while BPAT2 and BPAT3 are under construction and are slated to begin operations in late 2023. All three power plants have 25-year power purchase agreements (PPA) with the Electricity Generating Authority of Thailand (EGAT), accounting for approximately 70% of their power generation capacity.

The company recognized revenue from industrial estate land sales of THB198 million in 2022 from the transfer of 77 rai of land. Another 10 rai of land has been booked as of the end of 2022. Going forward, we expect the company to sell more land in S-Angthong, with transfers of around 150 rai of land per year in 2023-2025. We also expect utility revenue to gradually increase with more customers in the industrial estate. The company's revenue from the industrial estate business is forecast to reach around THB600–THB700 million per annum during 2023-2025.

High but declining financial leverage

The company's financial leverage remained high in 2022 due to the continued investments it has made to expand its business in recent years, while its cash generation has not fully recovered from the impacts of COVID-19. The company's adjusted debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio was 11 times in 2022, while the ratio of funds from operations (FFO) to adjusted debt was 4.4%.

TRIS Rating expects the company's financial leverage to gradually decline as cash generation recovers, despite its continued business expansion. The company's plan to focus on launching landed properties, which take less time in revenue recognition than high-rise developments, and sales of inventory of the existing condominium projects as well as the industrial estate, with most of the investment and construction costs having already been incurred, should contribute to a significant decline in leverage. The debt to EBITDA ratio is forecast to gradually fall to 7.7 times in 2025 from 10 times in 2023, while the FFO to adjusted debt ratio is expected to improve to 6.8% in 2025 from 4.7% in 2023. We expect S's EBITDA to increase to a range of THB3.6-THB4.7 billion per annum during 2023-2025, from THB2.8 billion in 2022. We assume its capital expenditure will total THB1.7 billion in 2023 and around THB2.4-THB2.6 billion per annum in 2024-2025.

The key financial covenant on the company's loan obligations requires the company to maintain its interest-bearing debt to equity ratio below 2 times. As of December 2022, the ratio was 1.58 times.

As of December 2022, S had consolidated debt of THB29.9 billion, of which around THB27.8 billion was considered priority debt. S's priority debt consisted of secured loans at the company level and secured and unsecured loans at subsidiaries. As its priority debt ratio was 93%, well exceeding the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that S's senior unsecured creditors could be significantly disadvantaged compared with its priority debt holders with respect to claims against the company's assets.

Acceptable liquidity

We assess the company has an acceptable liquidity position. Its sources of funds included cash and cash equivalents of THB3.4 billion and undrawn credit facilities of THB3.7 billion as of December 2022. FFO of THB1.7 billion are expected in 2023. The uses of funds include loans of THB5.9 billion coming due in the next 12 months. The company may need to refinance a major portion of its maturing debt or seek additional funding to meet its investment plans. We expect the company's capital expenditure of THB1.7 billion and land acquisition of THB3.8 billion in 2023.

BASE-CASE ASSUMPTIONS

For the three-year period from 2023-2025, TRIS Rating's assumptions for S's operations are as follows:

- Revenue of THB16.7 billion in 2023, THB20.0 billion in 2024, and THB20.2 billion in 2025.
- EBITDA margin to remain around 22%-23% throughout the forecast period.
- Capital expenditures of around THB1.7-THB2.6 billion per annum.
- Land acquisition of THB3.8 billion in 2023 and THB1.3 billion per annum in 2024-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its competitiveness in its core businesses and that its operating performance and credit metrics will continue to improve, such that the adjusted debt to EBITDA ratio falls below 8 times in 2025 and/or the FFO to adjusted debt ratio increases to more than 5% in 2024-2025.

RATING SENSITIVITIES

The rating could be revised downward if the company's operating performance is significantly weaker than expected or if the company makes more debt-financed investments than anticipated that cause the adjusted debt to EBITDA ratio to stay above 8 times and/or the FFO to adjusted debt ratio to remain below 5% for a prolonged period. A rating upgrade is unlikely in the near term; however, this could happen if the company demonstrates significantly better-than-expected operating performance and enlarges its cash generation, causing the adjusted debt to EBITDA ratio to remain below 5 times and/or the FFO to adjusted debt ratio to stay above 10% on a sustained basis.

COMPANY OVERVIEW

Singha Estate PLC (S) (formerly known as Rasa Property PLC) was established in 1995 and listed on the Stock Exchange of Thailand (SET) in 2007 under the stock symbol "RASA". In 2014, the company completed its business acquisition by accepting the entire business transfer from Singha Property Management Co., Ltd.'s group and Mr. Santi Bhirombhakdi's group. The company also executed a shareholding restructuring, resulting in a change in the major shareholders to Singha Property Management (a wholly-owned subsidiary of Boon Rawd Brewery Group) and Mr. Santi Bhirombhakdi. Thereafter, the company was renamed Singha Estate PLC, with the SET ticker symbol changing from "RASA" to "S". As of December 2022, Singha Property Management's group and Mr. Santi Bhirombhakdi's group together controlled 71% of S's total paid-up shares.

The company engages in four core real estate businesses: hospitality business, residential business, commercial business, as well as industrial estate and infrastructure business. The company's assets consist of 38 hotels with 4,552 keys in five countries, five ongoing residential projects, five commercial buildings, and one industrial estate, S-Angthong, located in Angthong Province. In 2022, 69% of S's revenue came from the hospitality business, 21% from the residential business, 8% from the commercial business, and 2% from the industrial estate business.

KEY OPERATING PERFORMANCE

Table 1: S's Revenue Breakdown

Unit: %

Revenue Breakdown	Unit	2019	2020	2021	2022
Total revenue	**Bt million**	**12,275**	**6,563**	**7,739**	**12,530**
Hospitality business	%	31	24	58	69
Residential business	%	63	61	29	21
Commercial business	%	6	15	12	8
Industrial estate business	%	0	0	0	2
Total revenue	**%**	**100**	**100**	**100**	**100**

Sources: S & TRIS Rating calculation

Table 2: S's Hotel Portfolio

	Hotel	Country	Segment	Number of Keys
	Self-managed hotels under owned brands			
1	SAii Phi Phi Island Village	Thailand	Upscale	96
2	SAii Laguna Phuket	Thailand	Upper Upscale	201
3	SAii Koh Samui Choengmon	Thailand	Upper Upscale	255
4	Santiburi Koh Samui	Thailand	Luxury	52
5	Konotta Maldives	Republic of Maldives	Luxury	53
	Hotels under hotel management agreement with Outrigger Group			
6	Outrigger Fiji Beach Resort	Republic of the Fiji Islands	Upper Upscale	253
7	Castaway Island, Fiji	Republic of the Fiji Islands	Upper Upscale	65
8	Outrigger Mauritius Beach Resort	Republic of Mauritius	Upper Upscale	181
	Hotels under CROSSROADS Project, Phase 1			
9	SAii Lagoon Maldives, Curio Collection by Hilton	Republic of Maldives	Upper Upscale	178
10	Hard Rock Hotel Maldives	Republic of Maldives	Upper Upscale	198
	SHR's hotels in the United Kingdom portfolio			
11-34	24 hotels under Mercure brand	United Kingdom	Upper Mid-Scale	2,711
	Hotels operating under joint venture			
35-37	2 hotels under Holiday Inn brand and 1 hotel under Mercure brand	United Kingdom	Upper Mid-Scale	229
38	SO/ Maldives (expected to open for business in 2023)	Republic of Maldives	Luxury	80
	Total			**4,552**

Source: S

Table 3: S's Existing Residential Projects

	Project Name	Project Value (Mil. THB)	Presales (% of Total Project Value)	Transfer (% of Total Project Value)
1	The ESSE Sukhumvit 36	5,901	77%	67%
2	The Extro Phayathai-Rangnam	3,996	23%	Expected start transfer 1Q24
3	Santiburi The Residences	5,188	100%	61%
4	Siraninn Residences	2,908	70%	29%
5	Sentre (home office)	92	52%	29%
	Total	**18,085**		

Source: S

Table 4: S's Commercial Building Portfolio

	Property Name	Location	Rental Space (Sq.m.)
1	Suntowers	Bangkok	63,786
2	Singha Complex	Bangkok	58,927
3	S-Metro	Bangkok	13,677
4	S-OASIS	Bangkok	53,480
5	The Lighthouse	Bangkok	3,317
	Total		**193,187**

Source: S

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	---------------------Year Ended 31 December ---------------				
	2022	**2021**	**2020**	**2019**	**2018**
Total operating revenues	12,665	7,987	6,749	12,466	7,822
Earnings before interest and taxes (EBIT)	1,397	(225)	(1,635)	2,046	1,271
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,840	869	(437)	2,903	1,791
Funds from operations (FFO)	1,379	(428)	(1,766)	1,650	911
Adjusted interest expense	1,319	1,130	1,078	921	720
Capital expenditures	1,889	1,550	1,292	4,562	7,057
Total assets	68,810	65,990	65,113	67,681	58,930
Adjusted debt	31,332	30,544	20,973	22,651	28,166
Adjusted equity	22,606	21,898	23,541	27,596	20,093
Adjusted Ratios					
EBITDA margin (%)	22.42	10.88	(6.48)	23.29	22.89
Pretax return on permanent capital (%)	2.48	(0.44)	(3.13)	3.77	2.90
EBITDA interest coverage (times)	2.15	0.77	(0.41)	3.15	2.49
Debt to EBITDA (times)	11.03	35.15	(47.99)	7.80	15.73
FFO to debt (%)	4.40	(1.40)	(8.42)	7.28	3.24
Debt to capitalization (%)	58.09	58.24	47.12	45.08	58.36

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Singha Estate PLC (S)

Company Rating:	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000