

AP (THAILAND) PLC

No. 81/2018

12 December 2018

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 20/07/18

Company Rating History:

Date	Rating	Outlook/Alert
21/06/11	A-	Stable
12/07/10	BBB+	Positive
28/06/07	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on AP (Thailand) PLC (AP) and the ratings on its outstanding senior unsecured debentures at "A-". At the same time, TRIS Rating assigns a rating of "A-" to AP's proposed issue of up to Bt2,000 million in senior unsecured debentures due within three years. The company plans to use the proceeds from the new debentures to repay some of its existing loans and fund business expansion.

The ratings reflect AP's satisfactory business profile, driven by its proven track record in the residential property development industry, diverse range of products, and moderate backlog, which secures a portion of its future revenues. These strengths are partially offset by the cyclical nature of the property development industry, AP's moderate use of financial leverage, and concerns over the relatively high level of household debt nationwide.

AP's operating performance in the first nine months of 2018 was higher than TRIS Rating's expectation. As of September 2018, AP's owned projects generated presales of Bt21,904 million, up 54% from the same period last year. The company also had Bt8,797 million of presales from condominium projects undertaken by the joint venture (JV). AP's revenue in the first nine months of 2018 was Bt19,080 million, up 36% year-on-year (y-o-y). Revenues from housing segment increased 46% y-o-y. The operating margin (operating income before depreciation and amortization as a percentage of revenue) was 14.8% in the first nine months of 2018, decreasing from 15.5%-17.0% during 2015-2017. This ratio dropped because the lower gross profit margin of the condominium segment and relatively high selling and administrative expenses. The gross profit margin of the condominium segment in the first nine months of 2018 was only 28%, declining from 34%-37% in the past three years.

At the end of September 2018, the value of the backlog stood at Bt9,831 million, splitting between the housing units worth Bt5,543 million and the condominium units worth Bt4,288 million. The backlog will be recognized as revenue in 2018 and 2019. The backlog of the projects under the JV was Bt36,527 million and will be transferred from 2018 onwards. TRIS Rating expects that AP will realize share of profit from investments in its JVs of around Bt600-Bt1,000 million per year during 2018-2021.

The debt to capitalization ratio (including 51.0% of the debt carried by the JV) at the end of September 2018 was 51.9%, slightly increased from 51.2% at the end of 2017. We expect AP's debt to capitalization ratio to stay around 50.0%-55.0% over the next three years.

AP's liquidity position is adequate. At the end of September 2018, AP has debts due over the next 12 months of Bt10,240 million, comprising Bt6,389 million in short-term bills of exchange (B/Es) and promissory notes (P/Ns), and Bt3,850 million in bonds. AP plans to refinance most of the maturing bonds with new bond issues. AP's liquidity source was cash on hand at the end of September 2018, standing at Bt785 million, and undrawn committed credit facilities at Bt8,923 million. We forecast AP's funds from operations (FFO) over the next 12 months to hold above Bt3,000 million.

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.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectations that AP will remain competitive in its core market segments and will rebalance its product portfolio as market conditions and customer needs change. The outlook is also based on our expectation that AP will continue to follow prudent financial policies and keep the debt to capitalization ratio below 55.0% over the next three years.

RATING SENSITIVITIES

The company’s ratings and/or outlook could be revised downward should its financial profile deteriorate significantly from the current level or if the debt to capitalization ratio stays above 55.0% on a sustained basis. In contrast, the ratings could be revised upward if the company can improve its profitability while its debt to capitalization ratio declines to 40.0%-45.0% on a sustained basis.

RELATED CRITERIA

- Rating Methodology – Corporate, 31 October 2007

AP (Thailand) PLC (AP)

Company Rating:	A-
Issue Ratings:	
AP191A: Bt350 million senior unsecured debentures due 2019	A-
AP191B: Bt1,000 million senior unsecured debentures due 2019	A-
AP191C: Bt500 million senior unsecured debentures due 2019	A-
AP197A: Bt1,000 million senior unsecured debentures due 2019	A-
AP197B: Bt1,000 million senior unsecured debentures due 2019	A-
AP201A: Bt1,500 million senior unsecured debentures due 2020	A-
AP207A: Bt1,500 million senior unsecured debentures due 2020	A-
AP217A: Bt1,500 million senior unsecured debentures due 2021	A-
AP221A: Bt1,500 million senior unsecured debentures due 2022	A-
AP222A: Bt500 million senior unsecured debentures due 2022	A-
AP228A: Bt1,500 million senior unsecured debentures due 2022	A-
Up to Bt2,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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