

AP (THAILAND) PLC

No. 2/2020
17 January 2020

CORPORATES

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

Last Review Date : 14/08/19

Company Rating History:

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

Contacts:

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Jutamas Bunyawanchkul

jutamas@trisrating.com

Tulyawat Chatkam

tulyawat@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Suchada Pantu, Ph. D.

suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on AP (Thailand) PLC (AP) and the ratings on its outstanding senior unsecured debentures at "A-" with a "stable" rating outlook. At the same time, TRIS Rating assigns a rating of "A-" on AP's proposed issue of up to Bt2.5 billion in senior unsecured debentures due within four 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 strong market position, driven by growing revenues and stable profitability, its sizeable backlog which secures a portion of its future revenue stream, and its balanced product portfolio. These strengths are partially offset by AP's moderate use of financial leverage, the cyclical nature and heightened competition in the residential property development industry, as well as the negative impacts arising from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT).

AP's operating performance in the first nine months of 2019 was slightly lower than TRIS Rating's expectation. Revenue in the first nine months of 2019 was Bt18.5 billion, down 3% year-on-year (y-o-y). Amid the negative impacts arising from the new LTV rules, revenues from the condominium segment dropped sharply by 41% y-o-y. Nonetheless, thanks to AP's balanced product portfolio, revenues from the housing segment increased by 7.6% y-o-y, contributing 75%-80% of total revenue. The operating margin (operating income before depreciation and amortization as a percentage of revenue) has held in the range of 13.5%-16.5% over the past three years. We expect AP to keep its operating margin in this range.

In 2019, AP launched 27 residential property projects with a combined value of Bt47.9 billion. This value was the highest among peers. AP's projects (including presales from projects conducted through joint ventures) generated presales of Bt32.9 billion, declining by 20% from 2018. TRIS Rating views that the impacts from the LTV rules coupled with the current slowdown in the domestic economy will remain the major challenges for property developers over the next few years. In addition, the intense global trade tensions could reduce demand from foreign buyers. As a result, AP, like other residential property developers, must carefully manage its new project launches in order to match demand in each market segment.

AP's debt level has risen higher than our expectations, due to the number of project launches and land purchases in 2019. The debt to capitalization ratio (including 51.0% of the debt carried by the joint venture) at the end of September 2019 was 56%. We forecast the debt to capitalization ratio will stay around 50%-55% over the next three years.

AP's liquidity should remain manageable. At the end of September 2019, debts coming due over the following 12 months amounted to Bt10.3 billion, comprising Bt6.8 billion in short-term loans and Bt3.5 billion in bonds. AP plans to refinance most of the maturing bonds with new bond issues. Sources of liquidity at the end of September 2019 included cash on hand of around Bt755 million and undrawn committed credit facilities of Bt5.5 billion. We forecast funds from operations (FFO) over the next 12 months to be around Bt4.0 billion.

RATING OUTLOOK

The “stable” rating 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 the expectation that AP will continue to follow prudent financial policies and keep its debt to capitalization ratio below 55% over the next three years. FFO to total debt is expected to stay in the 12%-15% range.

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% on a sustained basis. In contrast, the ratings could be revised upward if the company can improve its profitability while lowering its debt to capitalization ratio to 40%-45% on a sustained basis.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

AP (Thailand) PLC (AP)

Company Rating:	A-
Issue Ratings:	
AP201A: Bt1,500 million senior unsecured debentures due 2020	A-
AP207A: Bt1,500 million senior unsecured debentures due 2020	A-
AP20DA: Bt1,000 million senior unsecured debentures due 2020	A-
AP217A: Bt1,500 million senior unsecured debentures due 2021	A-
AP21DA: Bt1,000 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-
AP238A: Bt1,230 million senior unsecured debentures due 2023	A-
AP248A: Bt770 million senior unsecured debentures due 2024	A-
Up to Bt2,500 million senior unsecured debentures due within 4 years	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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