Press Release

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TRIS Rating Assigns "A/Stable" Rating to Senior Unsecured Debt Worth Up to Bt2,700 Million of "SPALI"

TRIS Rating has assigned the rating of "A" to the proposed issue of up to Bt2,700 million in senior unsecured debentures of Supalai PLC (SPALI). At the same time, TRIS Rating has affirmed the company rating and the current senior unsecured debenture ratings of SPALI at "A". The outlook remains "stable". The proceeds from the new debentures will be used for bond repayment. The ratings reflect SPALI's proven track record in the residential property development industry in Thailand, well-known brand name in the middle-income segment, and strong financial position. These strengths are partly offset by a recent rise in SPALI's leverage, the high household debt level nationwide, and the cyclical and competitive nature of the property development industry.

The "stable" outlook reflects the expectation that SPALI can maintain its sound operating performance and strong financial position. The FFO to total debt ratio should range between 20% and 25%, while the total debt to capitalization ratio should stay below 50% over the next three years. The credit upside situation may arise if its operating and financial performances are significantly stronger than expected. A higher revenue contribution from the investments in income-generating assets will be a plus for the ratings or outlook. In contrast, any significant deterioration in profitability or capital structure could cause the ratings or outlook to be revised downward.

Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of August 2016, the Tangmatitham family, the largest shareholder, held a 29% stake in SPALI. At the end of September 2016, the units available for sale in its residential property projects carried a total value of Bt51,455 million. SPALI's residential project portfolio comprises housing projects (54%) and condominium projects (46%). The company derives its competitive edge from its ability to control operating costs, and thus offer competitively-priced residential units to homebuyers.

SPALI has explored investment opportunities abroad since 2013. It purchased an office building in the Philippines for about Bt900 million in June 2013. Moreover, it invested about Bt1,200 million in five joint ventures (JV), with local partners in Australia, during 2014 through the first nine months of 2016. The five JVs are five residential property development companies. However, SPALI's investments abroad account for a small portion of total assets. Rental income and the shares of profits and losses from the overseas investments were minor contributions to SPALI's overall performance.

SPALI's presales in the first nine months of 2016 increased by 26.8% year-on-year (y-o-y) to Bt17,485 million. Housing presales rose by 33% y-o-y to Bt10,058 million, while condominium presales rose by 19.2% y-o-y to Bt7,427 million. SPALI's revenue in the first nine months of 2016 grew by 15.5% y-o-y to Bt17,164 million. Revenue from housing projects were the key growth driver, rising sharply by 71.4% y-o-y to Bt9,170 million. In contrast, revenue from condominium projects declined by 17% y-o-y to Bt7,680 million. SPALI's revenue stream during the remainder of 2016 through 2019 is partly secured by a sizable backlog of about Bt36,000 million. The units in the backlog will be converted into revenue of about Bt4,650 million in the last quarter of 2016, Bt13,100 million in 2017, and Bt18,250 million during 2018-2019. SPALI should continue on its growth path over the next three years, bolstered by transfers of units in condominium projects launched over the past few years. TRIS Rating's base case forecast assumes SPALI's revenue will increase from about Bt20,000 million in 2016 to Bt29,000 million in 2019.

SPALI's profitability is strong, despite the recent drop. The operating income as a percentage of sales (the operating margin) fell to 27%-28% during 2015 through the first nine month of 2016, from the past levels of above 30%, due to cost overruns on a condominium project. TRIS Rating's base case forecast assumes the company's operating margin will stay above 27% over the next three years. Financial leverage has increased over the past few years due to the company's business expansion. The total debt to capitalization ratio stood at 48.2% as of September 2016, rising from a range of 30%-41% during 2011-2014. However, the level of leverage remains at an acceptable level. In TRIS Rating's base case forecast, the total debt to capitalization ratio is assumed to stay below 50% over the next three years. Cash flow protection has dropped recently as leverage rose. The fund from operation (FFO) to total debt ratio was 50% in 2011 and 53% in 2012, but has since fallen. The ratio ranged from 23% to 39% during 2013 through the first nine months of 2016. Despite the drop, this level is considered high for a property development company. Over the next three years, the FFO is forecast at Bt5,000-Bt6,000 million

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per annum. SPALI has debts of Bt5,000-Bt6,000 million coming due annually. As a result, the FFO will be sufficient to meet the scheduled debt repayments. SPALI has a sufficient amount of financial flexibility, supported by sizable undrawn project loans worth around Bt24,000 million as of September 2016.

Supalai PLC (SPALI)	
Company Rating:	A
Issue Ratings:	
SPALI172A: Bt2,300 million senior unsecured debentures due 2017	A
SPALI182A: Bt2,200 million senior unsecured debentures due 2018	A
SPALI185A: Bt500 million senior unsecured debentures due 2018	A
SPALI19DA: Bt2,500 million senior unsecured debentures due 2019	A
SPALI209A: Bt1,500 million senior unsecured debentures due 2020	A
Up to Bt2,700 million senior unsecured debentures due within 2020	A
Rating Outlook:	Stable

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