PRUKSA HOLDING PLC

No. 143/2023
4 August 2023

CORPORATES

Company Rating: A-
Issue Ratings:
Guaranteed A-
Outlook: Stable

Last Review Date: 18/07/22

Company Rating History:

Date	Rating	Outlook/Alert
18/07/22	A	Negative
27/04/18	A	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Pruksa Holding PLC (PSH) and the ratings on PSH's guaranteed debentures to "A-" from "A" and revises the outlook to "stable" from "negative". PSH's debentures are unconditionally and irrevocably guaranteed by Pruksa Real Estate PLC (PS), PSH's subsidiary, rated "A-/Stable" by TRIS Rating. The guaranteed debentures are ranked pari passu to PS's senior unsecured creditors.

The ratings downgrade reflects the weaker-than-expected operating performance of the group's residential property business, the exposure of its large-scale investment portfolio, and expected rise in financial leverage. We view that PSH's future revenue and earnings will be challenged by intense competition and unfavorable market sentiment in the residential property market. The rating also incorporates our concerns over interest rate hikes and the reimposition of loan-to-value (LTV) rules which could negatively impact housing demand in the short to medium term. The ratings also take into account PSH's diversified residential portfolio and adequate liquidity.

KEY RATING CONSIDERATIONS

Ratings constrained by weaker-than-expected operating performance

PSH's residential property business has weakened significantly, falling below our previous forecast for the past three consecutive years. The sluggish demand and higher mortgage rejection rates from banks, particularly in the middle-to low-income segments, have led to a slowdown in PS's project launches and a decline in its residential sales. Intense competition from more landed property project launches of several developers since 2020 has negatively impacted PS's overall performance. Revenue from the group's healthcare business was in line with our expectations and has benefited from the consolidation of "Theptarin Hospital" since August 2022.

PSH's total operating revenue stood at THB28-THB29 billion in 2020-2022, still falling below our minimum projected revenue target of THB30 billion. Its profitability has also declined following its attempts to offer more promotional campaigns to speed up residential sales and clear slow-moving stock, along with the negative earnings before interest, taxes, depreciation, and amortization (EBITDA) generated from its healthcare business. As a result, PSH's EBITDA went downward to THB4-THB5 billion in 2020-2022 from THB8-THB9 billion in earlier years.

Looking forward, we project PSH's total operating revenue from all businesses to range THB29-THB32 billion per annum in 2023-2025, with an EBITDA margin of around 17%. The real estate business will continue to be the major contributor, accounting for more than 90% of total revenue and earnings over the forecast period. Revenue from the healthcare business and strategic investments will likely remain marginal. As a new player in the healthcare industry, it will take time for PSH to build its market position and generate significant earnings from this business.

Exposure of aggressive and sizable investment portfolio

We assess PSH's investment policy is posing significant risk given its large scale and the venturing into new businesses. Over the past few years, PSH has made investments in various joint ventures (JVs) spanning healthcare-related, and logistics businesses. Additionally, PSH has invested in several corporate venture funds associated with the property and healthcare businesses, logistics services, and foreign income funds. As of March 2023, the total value of investments in these corporate ventures stood at THB6.6 billion. We expect investments through corporate venture funds and under JVs to range around THB10-THB17 billion by 2025, taking into consideration certain committed investments.

Given the substantial size of these investments in new businesses, we raise concerns over PSH's capability to effectively manage operations and generate the targeted returns. The larger scale of investments undertaken by PSH also exposes the group's credit profile to higher risk. At this point in time, the outcome of these investments remains uncertain and will be closely monitored over time.

Elevated financial leverage

We expect PSH to incur additional debt that will result in higher financial leverage during 2023-2025, to fund its expansion plans in the residential property and healthcare businesses, along with investments in corporate venture funds and JVs. As a result, we project PSH's debt to capitalization ratio to increase to 30%-40% in 2023-2025 from 19% in 2022. We project the group's debt to EBITDA ratio to remain between 4.5-5.5 times over the forecast period. The FFO to debt ratio is likely to weaken to 12%-16%.

Our base case assumes that PS will launch new residential projects worth THB23 billion in 2023 and THB30 billion per annum in 2024-2025, with an annual budget for land acquisition of THB7.0-THB7.5 billion. We estimate material investments in 2023-2025 comprising THB2.7 billion in the healthcare business, THB10-THB17 billion through corporate venture funds and under JVs. We project dividend payment of around 80% in our base case.

As of March 2023, PSH had THB17.3 billion in debt, comprising THB10.8 billion guaranteed debentures, THB0.7 billion short-term loans, and THB5.8 billion long-term loans. PSH's priority debt, amounting to THB3.7 billion, was made up of debts at the subsidiary level. This translates to PSH's priority debt to total debt ratio of 21%. Although its priority debt ratio is less than 50%, we view it is appropriate for PSH's debentures to be guaranteed by PS since PS or other subsidiaries will likely incur more debt in the future.

Diversified residential products and well-accepted brands in the middle- to low-end segments

We consider PSH's property business portfolio is diversified in terms of product type and price range. The company's portfolio comprises townhouses, single-detached houses (SDH), and condominiums, covering almost all segments of the residential property market. Its townhouse products cater to the low- to middle-income segments, with selling prices ranging from THB2-THB5 million per unit. SDH products are priced from THB3.5-THB15 million per unit. PSH's condominium units offer selling prices ranging from THB50,000-THB260,000 per square meter (sq.m.). Currently, around 40% of property products is in the sub-THB3-million segment.

The impacts of interest rate hikes and the weak purchasing power of middle-to low-income homebuyers caused a drop in PSH's residential sales. PSH, therefore, plans to include more products targeting the middle-to high-end segments in its portfolio. The company plans to launch more townhouse projects in the THB3-THB5 million range and more SDH projects under The Palm brand in the THB20-THB30 million range in the next few years. PSH expects the combination of properties targeting the middle-to high-end segments to make up around half of its total portfolio within the next five years. We expect the portfolio shift coupled with its well-accepted brands should help PSH regain market share and improve its operating performance in the residential property business.

Adequate liquidity anticipated

On a consolidated basis, we expect PSH to have adequate liquidity over the next 12 months. As of March 2023, PSH's sources of funds comprised THB6 billion cash on hand, THB7 billion undrawn committed credit facilities, and THB15.8 billion undrawn uncommitted credit facilities. We forecast PSH's funds from operations (FFO) in 2023 to be THB3.4 billion. PSH also has unencumbered land at book value of THB13.1 billion, which could be pledged as collateral for new loans, if needed.

Debts due over the next 12 months will amount to THB5 billion, comprising THB2.8 billion debentures, THB0.7 billion short-term loans, THB1.5 billion long-term loans, and THB102 million lease liability. PSH already repaid the THB750 million debentures due in May 2023 with internal cash.

The financial covenants on PSH's bonds and bank loans require the company to maintain its interest-bearing debt to equity ratio below 2 times. As of March 2023, the ratio was 0.4 times. We believe that PSH should have no problems complying with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for PSH's operations during 2023-2025:

- PSH to launch new residential projects worth THB23 billion in 2023 and THB30 billion per annum in 2024-2025
- Annual budget for land acquisition to be THB7.0-THB7.5 billion
- Annual capital expenditures for the healthcare business to be THB600-THB800 million in 2023-2024 and THB1.3 billion in 2025
- Investments through corporate venture funds and under JVs is set to be THB10-THB17 billion by 2025
- Total operating revenue to range between THB29-THB32 billion per annum with an EBITDA margin of around 17%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PSH will be able to deliver operating performance as targeted. This is based on the assumption that its substantial investments will not poise material deterioration in PSH's financial profile. We also expect the debt to EBITDA ratio to stay 4.5-5.5 times over the forecast period.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward should the company's operating results significantly deviate from our expectation and/or its sizable investments further weigh down the credit profile of the group. On the contrary, a credit upside scenario could emerge if the company is able to improve its operating performance and competitive position comparably with higher rated peers.

COMPANY OVERVIEW

PSH was established in March 2016 as a holding company, in accordance with the restructuring plan of PS. PSH made a tender offer for all securities of PS at a swap ratio of 1:1. After completion of the tender offer, the holding company became the major shareholder of PS and its securities have been listed on the Stock Exchange of Thailand (SET) since December 2016 in place of PS, whose securities were simultaneously delisted from the SET. As of March 2023, the Vijitpongpun family was PSH's largest shareholder, owning a 76% stake. PSH holds a 98.23% stake in PS.

PSH operates as a holding company which currently invests in the residential property and healthcare businesses, and in strategic investments. PSH's residential property portfolio is well-diversified, covering landed property and condominium products across broad price ranges. Its main products target the middle- to low-priced market segments. PSH has expanded into the healthcare business with the launch of "Vimut Hospital", its first flagship hospital, in May 2021, and by investing in a 51% stake in "Theptarin Hospital" in February 2021.

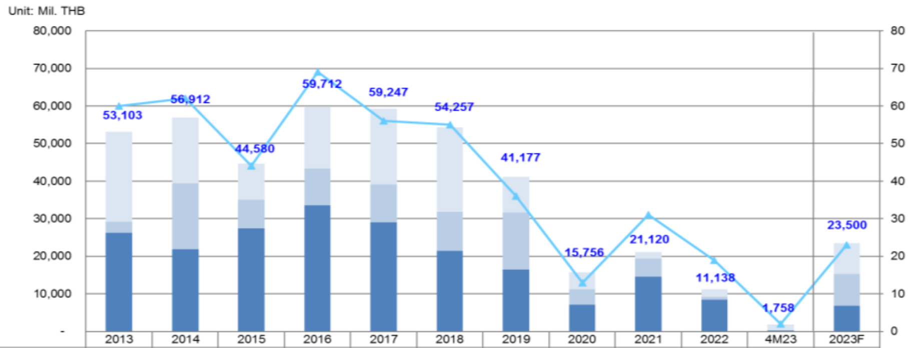
In 2022, PSH began investing in other businesses through JVs and corporate venture fund in prop-tech, health-tech, sustainability-tech and e-commerce. PSH invested in Pathology Asia Holdings Pte., Ltd. (PAH) in Singapore and set up a JV as PAH Holdings (Thailand) Co.,Ltd. to develop advance gene lab in Thailand.

In 2023, PSH joined with CapitaLand Investment Group (CLI) and Ally Logistic Property Co., Ltd. (ALP) to set up CapitaLand SEA Logistics Fund (CSLF). CSLF will focus on investing, developing, holding, and leasing of logistics properties or projects, which provide comprehensive automated logistics services in Southeast Asia.

Revenue and earnings from the residential property business will continue to be a key contributor to the group over the next several years, thus PS is considered as a "core" subsidiary of the group. The issuer ratings on PS and the group are equivalent.

KEY OPERATING PERFORMANCE

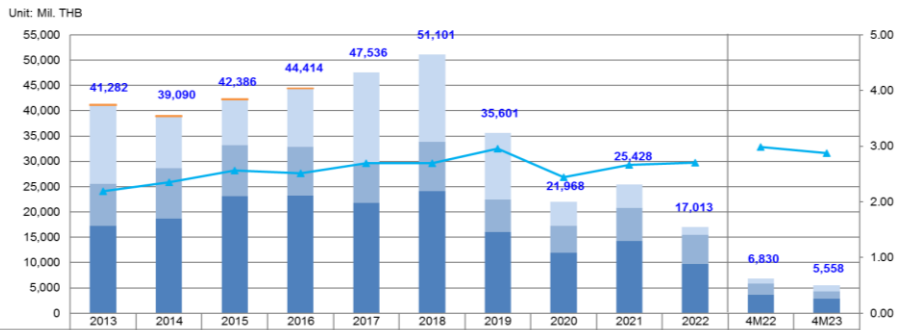
Chart 1: New Residential Project Launches



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	4M23	2023F
Condominium (LHS)	23,897	17,481	9,611	16,363	20,125	22,486	9,573	4,507	1,688	2,032	1,551	8,190
SDH (LHS)	2,996	17,509	7,598	9,763	10,180	10,311	15,090	4,166	4,943	714		8,530
Townhouse (LHS)	26,210	21,922	27,371	33,586	28,942	21,460	16,514	7,083	14,489	8,392	207	6,780
No. of project (RHS)	60	62	44	69	56	55	36	13	31	19	2	23

Source: PS

Chart 2: Presales Performance



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	4M22	4M23
International (LHS)	227	232	241	72	(1)							
Condominium (LHS)	15,502	10,190	8,950	11,497	18,093	17,228	13,164	4,704	4,626	1,554	1,002	1,243
SDH (LHS)	8,355	10,039	10,119	9,643	7,693	9,756	6,447	5,340	6,563	5,792	2,243	1,490
Townhouse (LHS)	17,198	18,630	23,075	23,202	21,751	24,118	15,990	11,924	14,238	9,668	3,584	2,825
Avg. Price (RHS)	2.2	2.4	2.6	2.5	2.7	2.7	3.0	2.4	2.7	2.7	3.0	2.9

Source: PS

Chart 3: Revenue Breakdown

	2017	2018	2019	2020	2021	2022	3M22	3M23
Others	184	171	266	269	119	227	58	117
Healthcare business				-	270	1,211	244	412
Land sales			85	181	638	744	643	26
International	13							
Condominium	12,068	13,411	14,137	10,769	7,916	10,538	1,432	2,759
SDH	9,159	8,924	7,783	5,869	5,925	5,249	1,143	1,199
Townhouse	22,694	22,566	17,880	12,426	13,562	10,660	2,461	2,045
Total operating revenue	44,118	45,071	40,152	29,513	28,430	28,629	5,981	6,559

Source: PSH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	------------Year Ended 31 December ----------- 2022	2021	2020	2019
Total operating revenues	6,559	28,629	28,430	29,513	40,152
Earnings before interest and taxes (EBIT)	1,012	4,242	3,827	4,559	7,823
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,155	4,725	4,289	5,013	8,589
Funds from operations (FFO)	853	3,139	2,923	3,385	6,207
Adjusted interest expense	113	667	600	786	847
Real estate development investments	46,173	48,722	56,757	66,863	76,244
Total assets	72,270	68,656	72,052	78,273	86,782
Adjusted debt	11,781	10,618	16,741	25,286	31,930
Adjusted equity	46,276	45,577	44,072	43,786	43,792
Adjusted Ratios					
EBITDA margin (%)	17.62	16.50	15.09	16.99	21.39
Pretax return on permanent capital (%)	6.85 **	6.82	5.69	6.16	10.42
EBITDA interest coverage (times)	10.19	7.08	7.15	6.38	10.14
Debt to EBITDA (times)	2.42 **	2.25	3.90	5.04	3.72
FFO to debt (%)	27.88 **	29.56	17.46	13.39	19.44
Debt to capitalization (%)	20.29	18.90	27.53	36.61	42.17

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Pruksa Holding PLC (PSH)

Company Rating:	A-
Issue Ratings:	
PSH23NA: THB2,000 million guaranteed debentures due 2023	A-
PSH245A: THB3,000 million guaranteed debentures due 2024	A-
PSH245B: THB1,000 million guaranteed debentures due 2024	A-
PSH24NA: THB3,000 million guaranteed debentures due 2024	A-
PSH255A: THB1,000 million guaranteed debentures due 2025	A-
Rating Outlook:	Stable

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