TRIS RATING
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CreditNews ข่าวเครดิต

AREEYA PROPERTY PLC

No. 220/2023
3 November 2023

CORPORATES

Company Rating:	B
Outlook:	Negative

Last Review Date: 03/11/22

Company Rating History:

Date	Rating	Outlook/Alert
03/11/22	B+	Stable
28/10/21	BB-	Negative
20/10/20	BB-	Stable
30/12/19	BB	Negative
04/01/18	BB	Stable
30/12/16	BB+	Negative
13/01/15	BB+	Stable
10/01/14	BBB-	Negative
13/03/13	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Areeya Property PLC (Areeya) to “B” from “B+” and revises the outlook to “negative” from “stable”. The downgrade reflects our concerns over the company’s expected weakening operating performance, a potential material deterioration in its financial position caused by its sizable investment in the “Soonthareeya Ratchadamri” Project, and its stretched liquidity. The rating also incorporates the negative impacts of interest rate hikes and reimposition of the loan-to-value (LTV) rules which could suppress housing demand in the short to medium term.

The “negative” outlook reflects the potential for a breach of the company’s debt covenants as well as its heightened exposure to refinancing risk following a deterioration of its financial profile and an unfavorable bond market condition.

KEY RATING CONSIDERATIONS

Weak operating performance anticipated

Areeya reported weaker-than-expected operating results in 2022 and the first six months of 2023 (6M2023). Without a one-time gain on revaluation of investment properties, Areeya would have suffered a net loss of THB38 million in 2022. Areeya’s total revenue in 6M2023 reached 40% of our full-year target but its bottom line recorded a larger net loss than previously anticipated. Slower sales plus high operating costs as well as selling, general, and administrative (SG&A) expenses resulted in a weaker profit margin. Areeya’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin turned negative in 6M2023. Its funds from operations (FFO) went into deeper negative territory than our previous forecast.

Looking ahead, Areeya’s revenue and earnings in 2023-2025 will likely be challenged by intense competition among the leading property developers as well as unfavorable market sentiment caused by rising inflation and still-weak purchasing power among middle- to low-income homebuyers. Our base-case forecast expects Areeya’s total operating revenue to be in the range of THB3.0-THB3.5 billion per annum in 2023-2025. Its gross profit margin will probably decline to 24% this year but should improve to 28%-30% in 2024-2025. Given its expected high operating costs and SG&A expenses, together with projected annual interest expenses of THB400-THB500 million, Areeya will likely incur a net loss of around THB300-THB400 million per annum and its FFO will likely remain in negative territory throughout the forecast period.

Elevated business risk from the Soonthareeya Ratchadamri Project

In our view, Areeya is assuming a high level of business risk by moving forward with the Soonthareeya Ratchadamri Project, as the company cannot extend the lease term any further and is obligated to complete the project by 2025. The project has total value of approximately THB11 billion, with a total investment cost of THB7 billion (including a 30-year annual land lease of THB900 million). Areeya has already invested approximately THB2.5 billion since 2012 for an upfront land lease fee, compensation payment, construction cost, and soft cost in this project. Further capital expenditures totaling around THB4 billion will be incurred during 2023-2025.

Given the substantial investment involved, the development timeline for the project has been delayed several years from the initial plan since Areeya has not yet found a project partner or secured funding sources. However, Areeya is contractually obligated to complete the project by late 2025, after a 3-year extension granted by the landlord. Any further construction delays or extensions would incur penalty fees or require additional premiums to be paid to the landlord, resulting in increased project costs and a potential reduction in profit margin.

As of mid-2023, Areeya has already awarded the structural work to the main contractor and opened the sales gallery. The company plans to officially launch the project in early 2024, yet there are currently no concrete financing plans in place. This raises our concerns over the success of the project.

Escalating leverage raises risk of covenant breach

Areeya is at risk of breaching its financial covenants due to its escalating financial leverage, resulting from aggressive investments in the Soonthareeya Ratchadamri Project coupled with consecutive operating losses. Areeya's cash flow protection is expected to remain relatively weak, given the projected negative FFO throughout the forecast period. As of June 2023, Areeya's debt to capitalization ratio rose to 75%, up from 71%-74% during 2020-2022. Its FFO to debt ratio has remained in negative territory and its EBITDA interest coverage ratio has been below 1 times since 2021.

Our base-case scenario assumes Areeya will launch new residential projects worth THB1.7 billion this year and THB2.5 billion annually in 2024-2025. We assume an annual budget for land acquisition of around THB500 million in 2024-2025. Capital expenditure for the Soonthareeya Ratchadamri Project is projected to range from THB0.6-THB2.0 billion per annum, while construction expenditures for other projects will range approximately THB1.0-THB1.5 billion per annum during the forecast period. Due to increasing interest costs, Areeya is likely to incur negative FFO of around THB500-THB600 million per annum. Additionally, in the absence of an equity partner for the Soonthareeya Ratchadamri Project, Areeya's debt to capitalization ratio could surge to 76%-86% in 2023-2025.

This heightened leverage raises the prospect of a potential breach of financial covenants on the company's debenture obligations in 2024-2025. These covenants require the company to maintain its net interest-bearing debt to equity ratio below 3 times. As of June 2023, the ratio stood at 2.6 times. We may consider taking further negative rating actions in a scenario of potential covenant breach and there is a high degree of uncertainty surrounding the company's ability to obtain covenant waivers from its creditors. We expect Areeya will need to prudently address these financial challenges, especially in view of the unfavorable market environment.

Tight liquidity

We assess Areeya's liquidity to be tight over the next 12 months. We also expect the company to face heightened refinancing risk. Persistently weak operating performance together with large amounts of maturing debt each year have kept raising our concern over the company's liquidity.

According to information as of June 2023, the company had debt of THB4.3 billion, which will be due over the next 12 months, comprising THB3.1 billion in debentures, THB443 million in long-term loans, THB655 million in short-term promissory notes (P/Ns), and THB35 million in short-term overdrafts (O/Ds). Areeya has already refinanced THB1.3 billion secured debentures due in August 2023 by a new debenture issuance. The company also plans to refinance the THB1.8 billion debentures coming due in January 2024 with a new debenture issuance. New issues of debentures would be secured by collateral released from the redeemed debentures.

We assess Areeya's liquidity sources as stretched. As of June 2023, the company had cash on hand of THB120 million and undrawn committed and uncommitted credit facilities of THB186 million. Most of its land banks and residential projects have been pledged as collaterals for debenture obligations and bank loans, leaving the company with limited room in managing its liquidity. Its priority debt (per priority debt calculation) of THB9.6 billion was nearly 100% of total consolidated debt.

Negative impact from interest rate hikes and more stringent LTV rules

The Bank of Thailand (BOT) has already raised the policy rate by 100 basis points (bps) to 2.5% this year. We view that rising interest rates will affect not only the funding costs of developers but also the debt servicing capacity of homebuyers, especially those in the middle- to low-income segments. Rising interest rates could also dampen demand from investors as their expected returns would be eroded by higher funding costs. However, we do not expect the proportion of demand from investors and/or speculative demand to increase.

The reimposition of loan-to-value (LTV) rules could also soften housing demand in the short to medium term. In our view, the LTV rules will generally have a greater impact on the middle- and high-end segments since these buyers may have more than one mortgage contract. However, the impact of the more stringent LTV measures on Areeya is likely to be alleviated to some extent since a major portion of its clients are first-time homebuyers.

BASE-CASE ASSUMPTIONS

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

- Areeya to launch new residential projects worth THB1.7 billion in 2023 and THB2.5 billion per annum in 2024-2025.
- Budget for land acquisition of THB500 million per annum in 2024-2025.
- Annual capital expenditure for the Soonthareeya Ratchadamri Project of THB0.6-THB2.0 billion.
- Total operating revenue to hover around THB3.0-THB3.5 billion per annum.
- Negative FFO of around THB500-THB600 million each year.

RATING OUTLOOK

The "negative" outlook reflects our concerns of a potential breach of Areeya's debt covenants and its elevated refinancing risk under the current bond market condition.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward if Areeya's operating performance and/or financial profile turn out to be worse than our expectations. The rating could be revised downward for multiple notches if the company cannot secure debt refinancing as planned and there is a breach of its debt covenants in absence of waivers from debenture holders.

On the contrary, an upward revision could occur if Areeya is able to deliver significantly stronger operating results than the target levels and improve its financial profile, with the liquidity concern clearly addressed.

COMPANY OVERVIEW

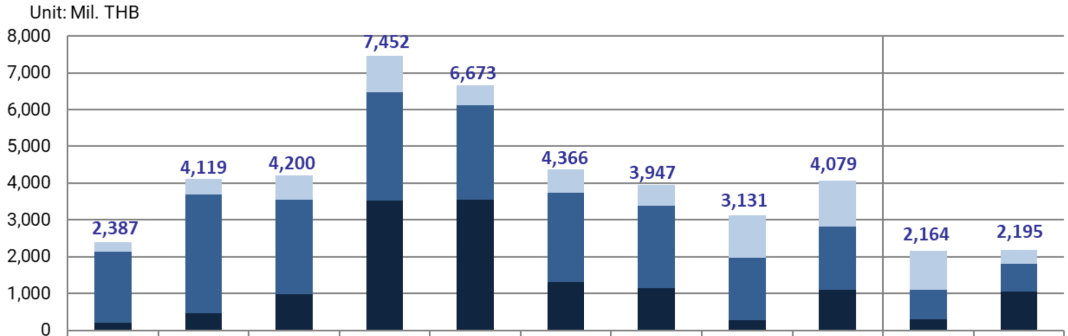
Areeya was established by the Laohapoonrungsee Family in 2000 and listed on the Stock Exchange of Thailand (SET) in April 2004. The Laohapoonrungsee Family has been the company's major shareholder since its inception, owning a 69.1% stake as of June 2023. Mr. Wisit Laohapoonrungsee remains Areeya's Chairman and Chief Executive Officer (CEO).

Areeya offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses (THs), and condominiums. Its products target the middle-income segment. Across Areeya's product portfolio, the average selling price is THB5 million per unit. THs and semi-DHs are the company's main products, contributing the majority of its revenue.

As of June 2023, Areeya had 41 active projects with a total project value of THB45 billion. The value of the remaining unsold units, across all of its active projects, was about THB25.2 billion. About 60% of the value was in condominium projects, 23% in TH and semi-DH projects, and 17% in SDH projects. About 9% of the remaining value of condominiums was ready to be transferred. Areeya's backlog stood at about THB1.8 billion as of June 2023.

KEY OPERATING PERFORMANCE

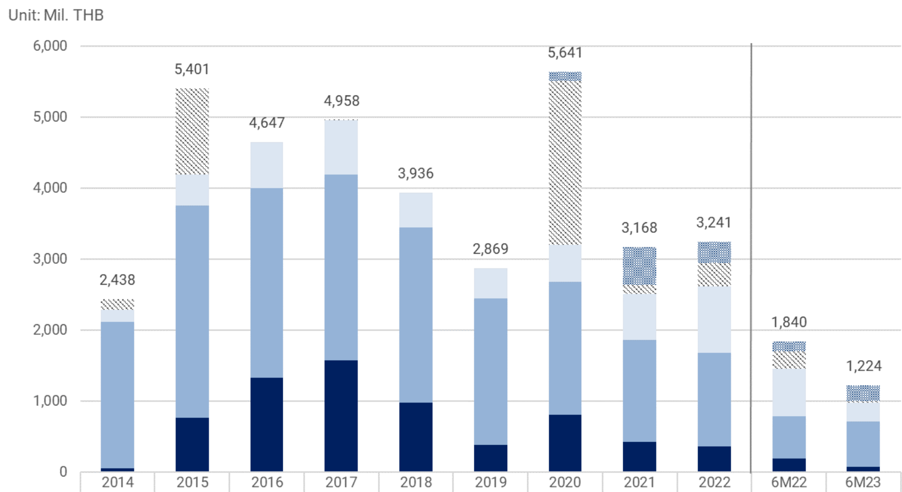
Chart 1: Presales



	2014	2015	2016	2017	2018	2019	2020	2021	2022	6M22	6M23
SDH	239	436	656	978	549	626	564	1,156	1,251	1,063	393
TH	1,935	3,231	2,567	2,936	2,567	2,418	2,227	1,691	1,735	806	755
CD	212	452	977	3,538	3,556	1,322	1,155	285	1,093	295	1,047
Avg. Price SDH	6.3	5.9	5.0	5.3	5.8	6.7	6.0	7.8	15.1	8.8	9.1
Avg. Price TH	2.7	2.6	2.6	2.6	2.8	3.2	3.7	3.9	3.6	4.3	4.2
Avg. Price CD	1.7	1.6	2.0	2.4	2.5	3.2	2.7	3.8	2.6	3.4	4.7
Avg. Price Overall	2.7	2.5	2.6	2.7	2.7	3.5	3.5	4.7	4.2	5.5	4.9

Source: Areeya

Chart 2: Revenue Breakdown



	2014	2015	2016	2017	2018	2019	2020	2021	2022	6M22	6M23
Construction							129	531	295	143	228
Land and project sold	155	1,210	0	2			2,312	124	330	237	15
SDH	171	442	652	761	488	421	515	652	933	671	274
TH	2,066	2,985	2,662	2,626	2,469	2,064	1,883	1,437	1,326	597	631
CD	46	764	1,333	1,569	980	384	801	424	358	192	76
Total revenue	2,438	5,401	4,647	4,958	3,936	2,869	5,641	3,168	3,241	1,840	1,224

Source: Areeya

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-----------Year Ended 31 December ----------			
	Jan-Jun 2023	2022	2021	2020	2019
Total operating revenues	1,261	3,326	3,280	5,737	2,954
Earnings before interest and taxes (EBIT)	(20)	396	149	797	80
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(8)	423	190	847	148
Funds from operations (FFO)	(294)	(193)	(406)	221	(461)
Adjusted interest expense	286	588	579	582	605
Real estate development investments	8,453	8,482	8,261	9,325	11,834
Total assets	14,299	13,270	12,883	13,144	15,279
Adjusted debt	8,636	8,453	7,992	8,075	9,830
Adjusted equity	2,823	3,019	2,889	3,274	3,103
Adjusted Ratios					
EBITDA margin (%)	(0.67)	12.72	5.78	14.77	5.01
Pretax return on permanent capital (%)	0.24 **	3.30	1.26	6.35	0.60
EBITDA interest coverage (times)	(0.03)	0.72	0.33	1.46	0.24
Debt to EBITDA (times)	155.87 **	19.98	42.17	9.53	66.37
FFO to debt (%)	(6.20) **	(2.29)	(5.08)	2.74	(4.69)
Debt to capitalization (%)	75.37	73.69	73.45	71.15	76.01

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

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Areeya Property PLC (Areeya)

Company Rating:	B
Rating Outlook:	Negative

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