TRIS RATING
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PRUKSA REAL ESTATE PLC

No. 152/2024
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CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 04/08/23

Company Rating History:

Date	Rating	Outlook/Alert
04/08/23	A-	Stable
18/07/22	A	Negative
14/08/12	A	Stable
24/11/11	A	Negative
07/05/10	A	Stable
30/06/09	A-	Positive
25/06/08	A-	Stable
18/04/06	BBB+	Positive
12/07/04	BBB	Stable
19/06/03	BBB	-
05/02/02	BB+	-

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RATIONALE

TRIS Rating downgrades the company rating on Pruksa Real Estate PLC (PS) to "BBB+" from "A-" with a "stable" rating outlook. The downgrade follows the rating action on its parent company, Pruksa Holding PLC (PSH, rated "BBB+/Stable"). Since PS is considered a "core" subsidiary of PSH, the rating on PS is at the same level as that assigned to PSH. The rating downgrade reflects the underperformance of the residential property business, coupled with increasing risk exposure from a substantial investment portfolio and expected increase in the group's financial leverage.

The rating reflects our expectation of a smaller scale in PS's future revenue and earnings, driven by the prospects of diminished purchasing power of home buyers and heightened competition among top-tier developers. The rating also incorporates the negative impacts of lingering high interest rates and rising household debt levels, which have led to higher mortgage rejection rates and lower purchasing power. The rating continues to reflect PS's adequate liquidity.

KEY RATING CONSIDERATIONS

The rating on PS reflects its 'core' status within the group

The rating downgrade of PS follows the rating downgrade on PSH, as PS is a core subsidiary of PSH. The downgrade of PSH primarily reflects a significant deterioration in its residential property business, increasing risk exposure from its sizable investment portfolio with marginal returns in the next few years, plus expected rises in financial leverage.

After the completion of the tender offer and delisting of PS from the Stock Exchange of Thailand (SET) in 2016, PSH became the major shareholder of PS. At present, PSH holds a 98.23% stake in PS. PS is the major contributor to PSH's revenues and earnings, accounting for around 90% of PSH's total operating revenue and EBITDA in 2023. As of June 2024, PS's assets accounted for around 70% of PSH's total assets.

Looking forward, we expect PS to remain a core subsidiary of PSH, given its dominant earnings contribution to the group. We view that PS's property business will continue generating a substantial EBITDA of more than 85% of the group's EBITDA in 2024-2026. As a core subsidiary, PS is expected to receive continued financial support from PSH. As of June 2024, 52% of PS's debt was made up of loans from PSH.

Overall performance fell below expectations

Unfavorable economic conditions, coupled with high interest rates and increasing household debts have weakened the purchasing power of homebuyers, particularly in the middle- to low-income segments. Intense competition from leading players has also adversely affected PS's market position. PS's net presales plunged to THB17-THB18 billion in 2022-2023, from THB20-THB25 billion in 2020-2021 and above THB35 billion in earlier years. Its net presales continued declining by 18% year-on-year (y-o-y) to THB7.5 billion in the first six months of 2024 (6M2024). PS's total operating revenue tumbled to THB22.8 billion in 2023, below our prior forecast of THB27 billion. Revenue in 6M2024 contracted by 28% y-o-y and reached only one-third of our full-year target.

PS's gross profit margin has softened across all product types as the company undertook additional promotional campaigns to stimulate sales. Selling, general, and administrative (SG&A) expenses relative to total revenue increased to 19%-21% in 2023 and the first half of 2024, up from 16%-18% in 2020-2022. This rise was driven by a decline in revenue and high fixed operating expenses. As a result, PS's EBITDA significantly decreased to THB2.9 billion in 2023 from around THB5 billion per annum in 2020-2022. EBITDA in 6M2024 dropped by 38% y-o-y and achieved only one-fourth of our prior full-year forecast. PS's net profit margin shrank to 8%-9% of total revenue in 2023 and the first half of 2024, down from above 10% in previous years.

Portfolio transition is a challenge

As of June 2024, PS had around 140 existing projects with total unsold value of THB60 billion (including built and unbuilt units). Townhouse projects accounted for 42% of total remaining value, single-detached houses (SDHs) 37%, and condominiums 21%. Although PS offers diverse product types, its existing portfolio focuses on the middle- to low-income segment with a unit price below THB7 million. This product segment constituted around 85% of total portfolio. Lower purchasing power of homebuyers in this segment coupled with interest rate hike have led to a decline in residential property sales.

Going forward, PS plans to shift its portfolio more towards middle- to high-end segments. The company targets to launch the products with a unit price above THB7 million around half of total new project value in each year. PS expects the portfolio mix from the above THB7 million segment to increase to 30% by the end of 2024 and 40% by 2026. Given the lack of prominence in this market segment and the intense competition from large players, we view that PS is likely to face challenges in gaining its market position in the upper segment. However, if successful, the portfolio shift should enable PS to regain market share and enhance its operating performance.

Future revenue and earnings lower than prior forecast

In our base-case scenario, we have revised PS's projected revenue down by 30% from the previous forecast to THB18-THB20 billion per annum for 2024-2026. We expect revenue from landed property to contribute around 70% of total revenue. Additionally, we have adjusted the projected EBITDA to a range of THB2.5-THB3.0 billion, down from our prior forecast of THB4.8-THB5.0 billion. The EBITDA margin is expected to sustain at 14%-15% in 2024-2026.

We expect PS to launch new landed property projects worth THB18-THB20 billion annually as well as new condominium projects worth THB3.2 billion this year and THB5-THB8 billion per annum in 2025-2026. We project a budget for land acquisition of THB3-THB4 billion per year. Additionally, we estimate equity injection and shareholder loans to joint ventures (JVs) totaling THB1.5 billion over 2024-2026. Our assumptions also include annual capital expenditures of THB100-THB200 million and dividend payment of 90%.

Adequate liquidity

We expect PS to have adequate liquidity to cover its debt repayments over the next 12 months. As of June 2024, PS's debts coming due in the following 12 months amounted to THB2.1 billion, comprising THB1.2 billion short-term loans from the parent company and THB0.9 billion short-term aval for land purchases.

PS's sources of liquidity consisted of THB1.1 billion cash on hand, THB5.5 billion undrawn committed credit facilities, and THB26.9 billion undrawn uncommitted credit facilities. Projected funds from operations (FFO) would be THB2.1 billion in 2024. PS also has unencumbered land at book value of THB16.4 billion and remaining finished units in debt-free projects at cost value of THB8 billion, which could be sold or pledged as collateral for new credit facilities, if needed. In addition, as a core subsidiary of the group, we expect PS to receive timely financial support from the group if needed.

Debt structure

As of June 2024, PS had total consolidated debts of THB2 billion. PS's priority debt, including secured debt at the company and total debts at its subsidiaries, amounted to THB0.9 billion. This translates to a priority debt to total debt ratio of 43%, below our 50% threshold.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for PS's operations in 2024-2026:

- New landed property project (own and JVs) launches worth THB18-THB20 billion annually
- New condominium project (own and JVs) launches worth THB3.2 billion in 2024 and THB5-THB8 billion per annum in 2025-2026.
- Annual budget for land acquisition of THB3-THB4 billion.
- Total operating revenue to hover in the THB18-THB20 billion per annum range, with an EBITDA margin of 14%-15%.

RATING OUTLOOK

The "stable" outlook is aligned with the outlook on the parent company and reflects our expectation that PS will maintain its status as a core subsidiary of PSH.

RATING SENSITIVITIES

The rating and/or outlook on PS hinges not only on its operating performance but also on the financial position of the group. The credit profile on PS will be negatively affected if the group operating performance and/or financial position significantly deteriorate from the target level. Any change in the company's linkage with PSH could also lead to a change in the company rating on PS. On the contrary, a stronger operating result and/or financial profile of the group will have positive effect on the rating on PS.

COMPANY OVERVIEW

PS was founded in 1993 by Mr. Thongma Vijitpongpun and listed on the Stock Exchange of Thailand (SET) in December 2005. After the completion of the tender offer following a restructuring plan in November 2016, PSH became the major shareholder of PS. On 1 December 2016, PSH's securities were listed on the SET in place of PS's shares, whose securities were simultaneously delisted. As of June 2024, the Vijitpongpun family was PSH's largest shareholder, owning a 75% stake. PSH holds a 98.23% stake in PS.

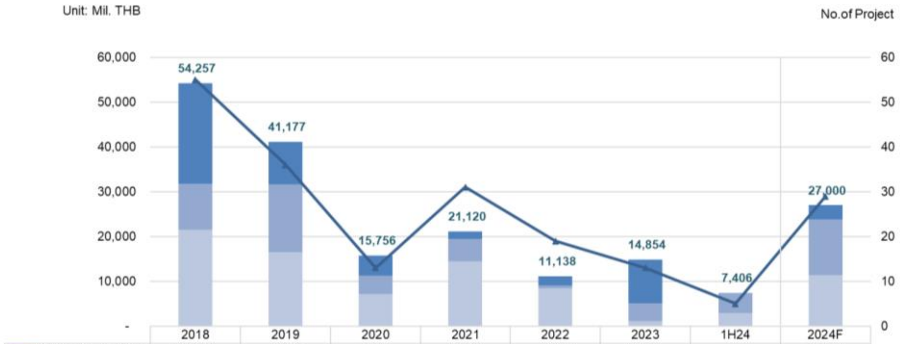
After the reorganization, PS has retained its concentration on residential properties for sale. PS is considered as a "core" subsidiary of PSH since the residential property business is likely to remain the key contributor to the revenue and earnings of the group over the next several years. Thus, the issuer ratings on PS and the group are equivalent. The organizational structure under PSH will provide more flexibility for the group to expand into new businesses and facilitate alliances with strategic partners.

In late 2023, PS entered joint venture agreements with subsidiaries of Origin Property PLC (ORI) to develop two residential property projects and one mix-used project, with total project value of THB9 billion. In 2024, PS jointly develops two luxury wellness residence projects with CapitaLand Wellness Fund (C-WELL), with aggregate project value of THB4 billion.

PS offers various types of residential products. Its products cover townhouses, SDHs, and condominiums across several price ranges. PS's main products target the middle- to low-income segments of the residential property market. As of June 2024, PS had a sizable project portfolio worth THB150 billion in total project value. The portfolio was 60% sold and 55% transferred. Townhouses remain the largest source of income, constituting around 40%-50% of total operating revenue in past several years. Revenue from condominiums and SDHs contributed around 30%-40% and 20%-30%, respectively, in the past five years.

KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



	2018	2019	2020	2021	2022	2023	1H24	2024F
Condominium (LHS)	22,486	9,573	4,507	1,688	2,032	9,780	-	3,200
SDH (LHS)	10,311	15,090	4,166	4,943	714	3,947	4,474	12,400
Townhouse (LHS)	21,460	16,514	7,083	14,489	8,392	1,128	2,932	11,400
Total	54,257	41,177	15,756	21,120	11,138	14,854	7,406	27,000
No. of project (RHS)	55	36	13	31	19	13	5	29

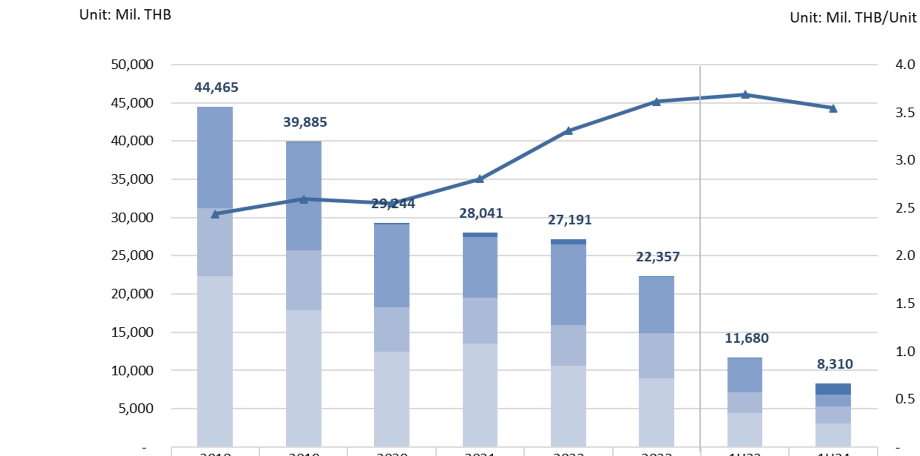
Source: PS

Chart 2: Presales Performance

	2018	2019	2020	2021	2022	2023	1H23	1H24
Condominium (LHS)	17,228	13,164	4,704	4,626	1,554	4,723	1,876	1,660
SDH (LHS)	9,756	6,447	5,340	6,563	5,792	5,046	2,477	2,718
Townhouse (LHS)	24,118	15,990	11,924	14,238	9,668	8,771	4,763	3,101
Presales Value	51,101	35,601	21,968	25,428	17,013	18,540	9,116	7,478
Avg. Price (RHS)	2.7	3.0	2.4	2.7	2.7	3.0	3.0	3.6

Source: PS

Chart 3: Transfer Performance



	2018	2019	2020	2021	2022	2023	1H23	1H24
Land sales (LHS)		85	181	638	744	131	101	1,487
Condominium (LHS)	13,250	14,137	10,769	7,916	10,538	7,325	4,492	1,569
SDH (LHS)	8,879	7,783	5,869	5,925	5,249	5,969	2,643	2,230
Townhouse (LHS)	22,336	17,880	12,426	13,562	10,660	8,932	4,444	3,024
Transfer Value	44,465	39,885	29,244	28,041	27,191	22,357	11,680	8,310
Avg. Price (RHS)	2.4	2.6	2.5	2.8	3.3	3.6	3.7	3.5

Source: PS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024		------------Year Ended 31 December ---------- 2023	2022	2021	2020
Total operating revenues	8,526		22,817	27,416	28,155	29,528
Earnings before interest and taxes (EBIT)	1,085		2,732	4,661	4,319	4,668
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,184		2,941	5,019	4,712	5,114
Funds from operations (FFO)	909		2,257	3,645	3,267	3,366
Adjusted interest expense	50		171	471	685	939
Real estate development investments	40,008		41,894	49,362	57,463	67,380
Total assets	48,520		48,331	59,209	67,953	75,930
Adjusted debt	1,300		0	4,863	14,534	24,570
Adjusted equity	41,064		42,438	43,574	42,728	42,254
Adjusted Ratios						
EBITDA margin (%)	13.9		12.9	18.3	16.7	17.3
Pretax return on permanent capital (%)	4.6	**	5.8	8.3	6.7	6.5
EBITDA interest coverage (times)	23.9		17.2	10.7	6.9	5.4
Debt to EBITDA (times)	0.6	**	0.0	1.0	3.1	4.8
FFO to debt (%)	130.5	**	n.a.	74.9	22.5	13.7
Debt to capitalization (%)	3.1		0.0	10.0	25.4	36.8

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
n.a. *Not available*

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

Pruksa Real Estate PLC (PS)

Company Rating:	BBB+
Rating Outlook:	Stable

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