TRIS RATING
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RAIMON LAND PLC

No. 214/2020
24 December 2020

CORPORATES

Company Rating: BB+
Outlook: Negative

Last Review Date: 27/12/19

Company Rating History:

Date	Rating	Outlook/Alert
30/06/15	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Raimon Land PLC (RML) to "BB+" from "BBB-" and revises the rating outlook to "negative" from "stable". The rating actions reflect an expected deterioration in operating performance and weakening financial profile during 2020-2022. Inconsistent project launches and few residential projects on hand have led to weakening and volatile operating performance, while RML's financial leverage is rising.

The rating continues to reflect RML's well-accepted brand in the high-end condominium segment and its ability to deliver high-quality products. The ratings are, however, constrained by RML's relatively concentrated product portfolio in terms of product types and price ranges, as well as concerns over the adverse effects of the Coronavirus Disease (COVID-19), which could put more pressure on demand for residential property and the profitability of developers in the short to medium term.

KEY RATING CONSIDERATIONS

Expected weakening and volatile operating performance

TRIS Rating expects RML's operating performance to fall below our previous base-case forecast. The economic fallout from COVID-19 has suppressed both local and foreign demand for residential property. RML's total operating revenue declined by 29% year-on-year (y-o-y) to THB2.4 billion in the first nine months of 2020. We have revised down our forecast for RML's total operating revenue to THB2-THB3 billion per annum during 2020-2022, lower than our previous forecast of THB3.2-THB4.4 billion per annum, as demand from both domestic and foreign buyers is still contracting. RML's earnings before interest, taxes, depreciation, and amortization (EBITDA) is expected to turn negative within this year and then improve to THB0.2-THB0.3 billion annually during 2021-2022, down from our previous forecast of THB0.6-THB0.9 billion per annum.

RML's operating performance has been rather volatile as the company has launched new residential projects inconsistently and has had a limited number of projects on hand. As of September 2020, RML had 12 existing condominium projects, including two projects from KPN Land Co., Ltd. (KPNL) and two projects developed under joint ventures (JVs). The value of remaining unsold units (including built and un-built units) was THB10.1 billion. RML's total backlog was THB7.1 billion, consisting of THB2.3 billion under its own projects and THB4.8 billion under JV projects. RML's own backlog is expected to be recognized as revenue of THB0.9 billion in the fourth quarter of 2020, THB0.8 billion in 2021, and THB0.6 billion in 2023. Its JV backlog will be translated to share profit during 2022-2024. Thus, RML's operating revenue and EBITDA during the next few years will largely hinge on the sale of units in existing projects.

Well-recognized brand, but concentrated in high-end condominium segment

RML's products are well-accepted in the high-end condominium segment. The company's competitive edge in the luxury condominium market comes from its unique designs, high-quality materials, and prime locations. However, demand in the high-priced condominium segment is catered to a focused customer group. In addition, projects are relatively high in value and require long development periods. RML's revenue recognition could consequently swing considerably from year to year, depending on the success of sales and the completion of a few projects each year.

Most of the company's remaining unsold units are priced above THB10 million per unit. RML's condominium projects have been developed under the "Northpoint", "The River", "185 Rajadamri", "Zire", and "Unixx" brands. The company introduced the "Lofts" brand, with average price per unit ranging from THB10-THB20 million, during 2015-2019. In late 2018, RML jointly developed two luxury condominium projects with its partner, Tokyo Tatemono Asia Pte. Ltd., one of leading Japanese property developers. The total project value of both JV projects, "The Estelle" and "Tait 12", was THB9.5 billion. The average prices per unit were THB35 million and THB19 million, respectively.

Softening profitability for most developers amid concerns over a prolonged COVID-19 outbreak

Although RML's main customers are in the high-end segment, where purchasing power is less affected by the economic slowdown than the middle-to low-end segments, a lengthy COVID-19 outbreak could also drag down demand in this segment. The number of local customers who can afford high-end residential products is quite limited while demand from foreign buyers has also been affected by the global economic slowdown and the travel restrictions. Thus, RML needs to be cautious in launching new projects.

Due to softening demand in the residential market among both local and foreign homebuyers, we foresee that several property developers will continue to employ price competition in order to boost sales during the next few years. RML's profitability could be pressured by more intense competition and rising land costs. Under TRIS Rating's base case, RML's average gross profit margin is projected to drop below 20% this year and should then recover to more than 30% during 2021-2022. Although RML is expected to control fixed costs and manage variable costs efficiently during the market downturn, the lower sales could lead to net losses during 2020-2021. We expect RML's bottom line to turn positive from 2022 onwards.

Expected rise in financial leverage

In our base-case forecast, we project a rise in RML's financial leverage during the next couple of years as the company plans to expand its residential project portfolio and its large JV office building project is at the development stage. At the same time, few residential projects will be completed and ready for transfers. As a result, we expect RML's debt to capitalization ratio (including the proportionate debt from JVs) will elevate to 62%-67%, equivalent to an adjusted net interest-bearing debt to equity ratio of 1.6-2 times, during 2021-2022. Its adjusted net debt to EBITDA ratio could stay above 20 times over the next few years. This is based on our assumptions that RML will launch new owned and JV residential projects, worth THB9 billion in 2021 and THB7 billion in 2022. We expect RML will spend THB0.5 billion in 2021 and THB1.2 billion in 2022 to purchase land plots.

The financial covenants on RML's bank loans require the company's reported interest-bearing debt to equity ratio to remain below 1.75 times while the financial covenants on bonds require the ratio to remain below 2.5 times. As of September 2020, the company's interest-bearing debt to equity ratio was 0.83 times. We expect RML to prudently manage its capital structure in order to comply with the financial covenants at all times. According to the company's internal financial policy, the management team intends to keep its interest-bearing debt to equity ratio below 1.5 times. In the event that the ratio approaches the trigger point, the management team will refer a capital increase plan to the shareholders to alleviate debt financing.

Tight but manageable liquidity

We assess RML's liquidity as tight but manageable. As of September 2020, RML's sources of funds consisted of THB0.4 billion in cash on hand plus undrawn committed long-term loan facilities of THB1 billion and undrawn uncommitted long-term loan facilities of THB1.5 billion. Debts due over the next 12 months will amount to THB2.1 billion, comprising THB1.1 billion in short-term bridging loans for land acquisition, THB0.8 billion in long-term loans, and THB0.2 billion in debentures.

Some short-term bridging loans will be repaid by cash received from land plot sales, while the rest will be extended over the next few years. Long-term project loans will be repaid with cash received from transfers of residential units, and other long-term loans will be revolved with financial institutions. RML plans to refinance its maturing bonds by new bond issuance.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for RML's operations during 2020-2022:

- RML to launch new residential projects worth THB9 billion in 2021 and THB7 billion in 2022
- Budget for land acquisition is forecast to be THB0.5 billion in 2021 and THB1.2 billion in 2022
- Total operating revenue to stay in the THB2-THB3 billion per annum range
- Average gross profit margin to drop below 20% this year and recover to more than 30% during 2021-2022

- Net profit to be negative during 2020-2021 and turn positive in 2022

RATING OUTLOOK

The "negative" outlook reflects our view that RML's credit metrics will likely continue to be under pressure as demand from both domestic and foreign buyers has the tendency to decline further. Delays in transfers and slower sales could potentially lead to material deterioration in the company's financial profile significantly below our base-case forecast.

RATING SENSITIVITIES

RML's rating could be revised downward should there be clear signs that lead us to believe the company's operating performance and/or financial profile are heading for a deeper-than-expected deterioration. On the contrary, the outlook could be revised to "stable" if RML's operating performance steadily revives and its financial profile improves significantly, such that the funds from operations (FFO) to total debt ratio stays around 5% on a sustainable basis.

COMPANY OVERVIEW

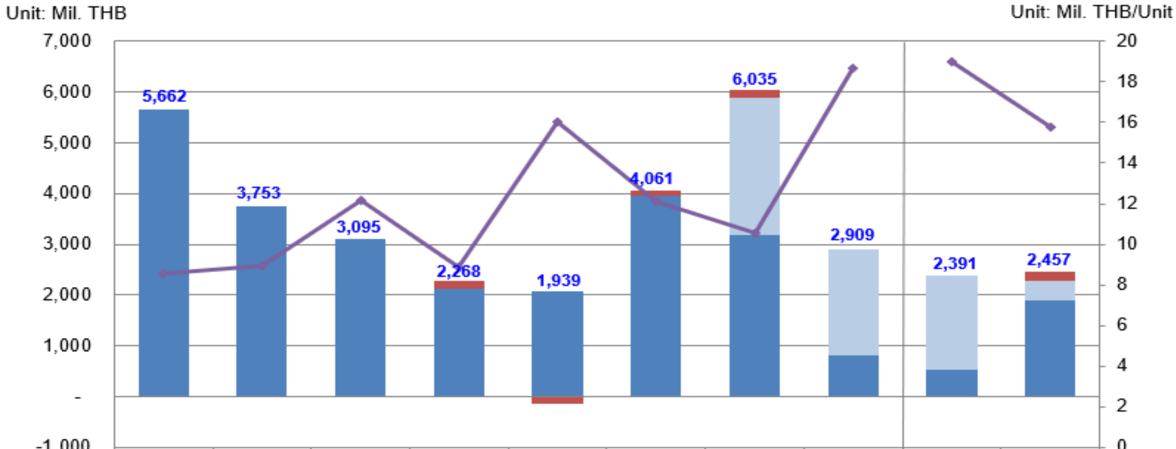
RML was established by Ms. Jurairat E. Bonithern in 1987 and listed on the Stock Exchange of Thailand in 1994. The major shareholders have changed several times. In February 2013, JS Asset Management Pte., Ltd. (JS Asset) purchased a 24.98% stake in RML, and became the major shareholder. JS Asset is a Singaporean investment holding company, entirely owned by Mr. Lee Chye Tek Lionel. Mr. Lee is also the owner and director of Jit Sun Investments (Jit Sun), whose businesses include offshore oil and gas services, engineering and ship construction for the offshore and marine industries, a boutique hotel, and food & beverage. In late 2018, RML invested in the assets of KPNL. The company has acquired two subsidiaries of KPNL plus the sold and unsold units of the Diplomat 39 and Diplomat Sathorn projects. In addition, RML has acquired two land plots located on Sukhumvit Road. As a result of these transactions, the shareholding of JS Asset was diluted to 21% from 25%. KPNL became the second-largest shareholder, with a 20% stake and two seats on RML's board of directors.

In September 2020, MESA THAI Pte.Ltd. (MESA THAI) acquired the 21% stake from JS Asset and became the major shareholder. MESA THAI is a Singaporean private investment company, wholly owned by Mr. Evan Kwee. Mr. Kwee is currently the director of his family company, Pontiac Land Group, and the executive director of Capella Hotel Group Asia. Pontiac Land Group is a non-listed luxury real estate developer and hotel owner based in Singapore. After becoming the major shareholder, two new executives from MESA THAI took the place of representatives from JS Asset on RML's board of directors. Presently, RML is in the process of finding a new chief executive officer. Two executives from KPNL are currently managing the company's business strategy and direction.

RML focuses on the high-end condominium segment, with an average selling price above THB10 million per unit. As of September 2020, RML had 12 existing condominium projects (including two projects from KPNL and two projects developed under JVs). The value of remaining unsold units (including built and un-built units) was THB10.1 billion. Around 23% of the unsold value was from completed units ready to transfer to customers. The total backlog was THB7.1 billion. Apart from the core business, RML has its own recurring-income assets; Klapsons, Cube, and Kitch Hotel. Revenue from these assets remains negligible. RML is also in the developing stage of the One City Center project, a grade-A office building located on Ploenchit Road and developed under a JV. The project is expected to be completed in late 2022.

KEY OPERATING PERFORMANCE

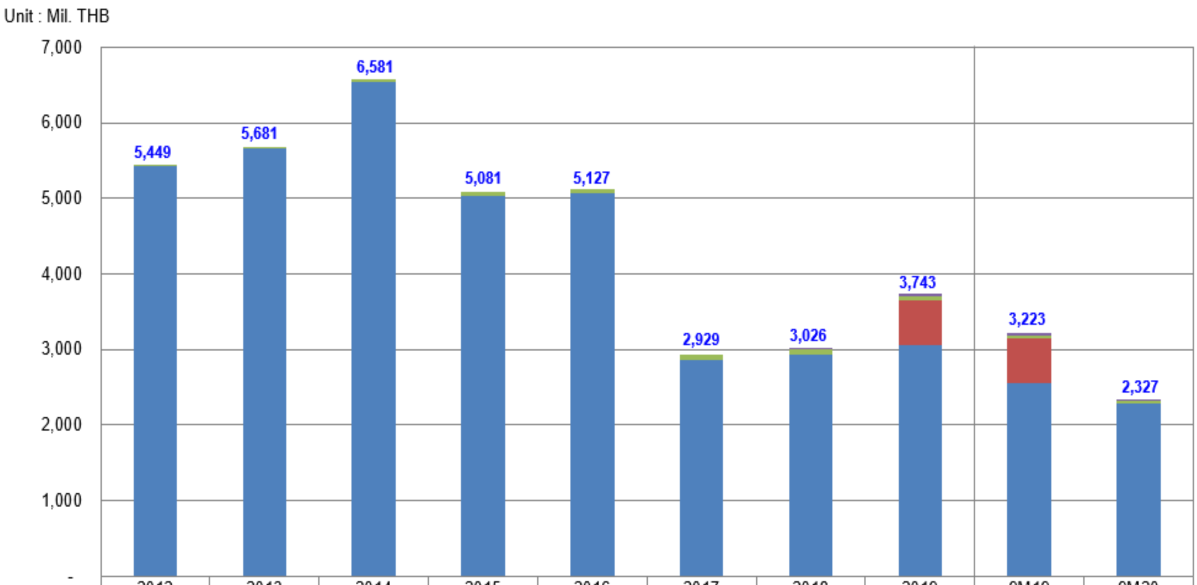
Chart 1: Presales Performance



	2012	2013	2014	2015	2016	2017	2018	2019	9M19	9M20
Landed Property (LHS)				145	-145	110	148			170
Condo - JV (LHS)							2,700	2,084	1,852	398
Condo - RML (LHS)	5,662	3,753	3,095	2,123	2,084	3,951	3,187	824	539	1,889
Avg. Price (RHS)	8.6	9.0	12.1	8.9	16.0	12.1	10.6	18.6	19.0	15.8

Source: RML

Chart 2: Revenue from Sales and Services



	2012	2013	2014	2015	2016	2017	2018	2019	9M19	9M20
Food & beverages sale							29	45	34	9
Rental & service income	14	25	34	39	54	63	64	49	38	23
Land plot sales								594	594	
Real estate sales	5,435	5,656	6,547	5,042	5,074	2,866	2,933	3,056	2,557	2,295

Source: RML

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2020		-------------Year Ended 31 December ------------ 2019	2018	2017	2016
Total operating revenues	2,436		4,011	3,230	3,008	5,202
Earnings before interest and taxes (EBIT)	(123)		340	216	439	1,317
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(57)		426	306	508	1,381
Funds from operations (FFO)	(306)		(7)	(38)	302	1,036
Adjusted interest expense	195		313	283	146	120
Real estate development investments	5,387		7,133	8,274	7,379	6,772
Total assets	10,693		12,901	14,376	10,458	9,700
Adjusted debt	6,662		7,509	7,153	3,168	1,843
Adjusted equity	5,083		5,730	5,769	5,067	5,108
Adjusted Ratios						
EBITDA margin (%)	(2.34)		10.62	9.49	16.87	26.55
Pretax return on permanent capital (%)	(1.35)	**	2.43	1.86	5.07	17.06
EBITDA interest coverage (times)	(0.29)		1.36	1.08	3.47	11.48
Debt to EBITDA (times)	(60.37)	**	17.63	23.34	6.24	1.33
FFO to debt (%)	(6.61)	**	(0.10)	(0.54)	9.54	56.22
Debt to capitalization (%)	56.72		56.72	55.36	38.47	26.51

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

RELATED CRITERIA

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

Raimon Land PLC (RML)

Company Rating:	BB+
Rating Outlook:	Negative

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