TRIS RATING
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UNIVENTURES PLC

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CORPORATES

Company Rating:	BBB
Issue Rating:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 01/03/19

Company Rating History:

Date	Rating	Outlook/Alert
01/03/19	BBB+	Alert Negative
08/09/16	BBB+	Stable
01/12/14	BBB	Positive
10/09/13	BBB	Stable
11/09/12	BBB	Alert Developing
17/10/08	BBB	Stable
13/06/07	BBB	Alert Developing
03/11/05	BBB	Stable

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RATIONALE

TRIS Rating removes the "CreditAlert" with a "negative" implication placed on the company rating of Univentures PLC (UV) and the rating on UV's senior unsecured debentures since 1 March 2019. At the same time, TRIS Rating downgrades the company rating on UV and the rating on its senior unsecured debentures to "BBB" from "BBB+". The outlook is "stable".

The downgrade reflects UV's smaller business scale and less diversified business portfolio after the company divested its shareholdings in Golden Land Property Development PLC (GOLD), to Frasers Property (Thailand) PLC (FPT). The proceeds of Bt7.7 billion received from the divestment (before tax and dividend payment), will be used for future investments, dividend payment, and working capital. Although UV's leverage will drop sharply after divesting GOLD, we expect UV's debt to capitalization ratio to rise again in fiscal year (FY) 2020 as the company plans to launch more condominium projects and invest in rental properties. The company is also seeking an opportunity to invest in new businesses.

The ratings also take into consideration UV's acceptable track record in the condominium segment, the volatile operating performance of the zinc oxide and property for sale businesses, and concerns over the slowdown in the residential property segment after the implementation of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019.

KEY RATING CONSIDERATIONS

Smaller business scale and less diversified business portfolio

TRIS Rating views that UV's business scale will be smaller after divesting GOLD. In FY2018, UV's total operating revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) were Bt21 billion and Bt3.6 billion, respectively. GOLD's operations in FY2018 accounted for 75% of UV's total operating revenue and 81% of UV's EBITDA. Excluding GOLD, UV's operating revenue and EBITDA in FY2018 were only Bt5.2 billion and Bt0.7 billion, respectively.

In addition, UV's business portfolio will be less diversified, as GOLD's portfolio covers landed property for sale, three office buildings for rent, three hotels, and one joint venture mixed-use project. Without GOLD, UV's revenue will be derived mainly from the sales of condominiums and zinc oxide. Revenue from condominium sales should be around Bt3-Bt6 billion per annum while revenue from the zinc oxide business should be around Bt1.5 billion per annum. Recurring income from rental properties is expected to drop to Bt80 million from Bt1.7 billion in FY2018 as UV's rental property portfolio comprises only one hotel, Modena by Fraser in Burirum.

To build its rental asset portfolio, UV plans to invest in a new office building during FY2020-FY2022. The company will construct the function room of Modena by Fraser during FY2020-FY2021. Currently, revenue and EBITDA from rental property is quite minimal.

Temporary drop in debt level

UV will be in a net cash position after divesting 39.28% in GOLD to FPT. The proceeds from sales will be around Bt7.7 billion. UV will record a gain on its divestment of Bt1.3 billion in the last quarter of FY2019. However, the company plans to launch more condominium projects and invest in an office building. This will likely cause its leverage to rise again.

In TRIS Rating's base case scenario, we expect the company to launch new condominium projects worth Bt16 billion in FY2020 and Bt10-Bt13 billion per annum during FY2021-FY2022. UV's total operating revenues are expected to be Bt5-Bt7 billion per annum during FY2020-FY2021 and Bt8-Bt9 billion in FY2022. Apart from residential property, UV also plans to spend around Bt1.6 billion during FY2020-FY2022 to invest in a new office building, to build the function room of Modena by Fraser, and to expand its zinc oxide factory. Despite this aggressive business expansion, TRIS Rating expects UV to keep its debt to capitalization ratio below 45% and its funds from operations (FFO) to total debt ratio above 5% over the next three years.

UV is also seeking an opportunity to invest in new businesses. However, the type of business, investment size, and timing will be determined later. In the case that the new business acquisition succeeds, UV's business and financial profiles may be significantly different from projected. Thus, TRIS Rating will have to reassess the credit risk profile of the company once the acquisition has been executed.

Acceptable track record in the condominium segment

TRIS Rating views UV's track record in the condominium segment as acceptable. However, its presales have been relatively low as the company was in the process of accelerating sales of several completed condominium projects and repositioning its brands. UV launched two condominium projects worth Bt3.5 billion during 2015-FY2017. Revenue from its condominium projects was Bt2.8-Bt3.0 billion per annum during FY2017-FY2018. As UV started to launch new projects under new brands in FY2018, condominium presales increased to Bt4.7 billion in FY2018 from Bt1.9 billion in FY2017. However, due to softening demand in the condominium market, its presales dropped to Bt3.4 billion in the first nine months of FY2019.

Previously, UV focused on the middle-income condominium segment, with an average selling price of Bt100,000-Bt150,000 per square metre (sq.m.) or a unit price of Bt2-Bt4 million. Currently, UV is expanding its condominium portfolio to cover the low-end segment, with a selling price of Bt80,000-Bt100,000 per sq.m., and the high-end segment, with a selling price above Bt200,000 per sq.m. As of June 2019, UV had 12 existing condominium projects, with unsold project value (including built and un-built units) of Bt8.2 billion and total backlog of Bt4.6 billion. UV will deliver its backlog worth Bt2.5 billion during the remainder of FY2019, Bt1 billion in FY2020, and Bt1.1 billion in FY2022. Revenue from residential sales will be Bt3 billion per annum during FY2020-FY2021 and Bt6 billion in FY2022. We assume UV's residential sales will remain a major contributor accounting for 65%-75% of total operating revenue.

Variable operating performance of zinc oxide and economic cycle of property businesses

After divesting GOLD, revenue from the zinc oxide business will become a significant proportion of UV's total operating revenues. TRIS Rating forecasts that revenue from zinc oxide sales to be Bt1.5 billion per annum during FY2019-FY2022, or around 20%-30% of total operating revenues during FY2020-FY2022. However, the operating performance of the zinc oxide business can fluctuate depending on the demand-supply balance in the industry and the selling price. The sales volume increased to 19,428 tonnes in FY2018 from 18,103 tonnes in 2016. Revenue from zinc oxide sales increased to Bt2 billion in FY2018 from Bt1.1-Bt1.3 billion per annum during 2014-FY2017. However, global trade tensions have caused the company's sale volume to drop by 19% year-on-year (y-o-y) to 12,071 tonnes during the first nine months of FY2019. Over the same period, revenue from zinc oxide sales declined by 31% y-o-y to Bt1.1 billion. The gross profit margin also fluctuated, ranging from 3% to 14% based on zinc price on London Metal Exchange (LME) market.

Over the last few years, UV's operating income as a percentage of total operating revenues (operating margin) was mainly supported by growing revenue and a high operating margin of 17%-20% made by GOLD. UV's operating margin was 16%-18% during 2015 through the first nine months of FY2019, which remained above the industry average of 15%. Going forward, UV's profitability is expected to be lower than the past several years due to the lower profit margins from both condominium and zinc oxide businesses. UV's profitability could be pressured by rising land costs and more intense competition in the condominium segment as well as price volatility of zinc oxide. However, we expect UV to keep its operating margin above 8% and its net profit margin above 5% during FY2020-FY2022.

Concerns over the implementation of new LTV rules

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. The slowdown of the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers. In addition, the implementation of the new LTV rules by the BOT should impact sales of residential units in the short term. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans. TRIS Rating expects the implementation of the new LTV rules to impact the condominium segment more than the landed property segment. In response to the softening market demand, UV may have to lengthen the down payment period for some homebuyers. The delay in title transfers to customers may impact the company's revenue recognition.

Adequate liquidity

We assess UV's liquidity to be adequate over the next 12 months. As of June 2019, UV's sources of funds (excluding GOLD) consisted of Bt0.2 billion in cash on hand plus undrawn project loans of Bt1.3 billion and undrawn short-term loans of Bt4.1 billion. The proceeds of Bt7.7 billion from selling GOLD will be recorded in the last quarter of FY2019. TRIS Rating forecasts UV's FFO over the next 12 months to be around Bt0.3 billion. Debts due over the next 12 months will amount to Bt4.1 billion, comprising Bt2 billion in debentures, Bt1.1 billion in project loans, and Bt1 billion in short-term bills of exchange (B/Es) and promissory notes (P/Ns).

According to its bond covenants, UV has to get a waiver from its bondholders for the divestment of a core subsidiary. At the beginning of August 2019, the bondholders gave their consent to UV. We expect UV to be able to refinance the maturing debentures. Project loans will be repaid with cash flow from the transfers of condominium units. Short-term B/Es and P/Ns will either be rolled over or repaid within the next 12 months.

UV also has to maintain its total liability to total equity ratio (excluding deferred income) at levels lower than 2 times in order to comply with the financial covenants on its bank loans and bonds. As of June 2019, the company's total liabilities to total equity ratio (excluding deferred income) was 1.5 times. TRIS Rating believes that UV should have no problems complying with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

- UV to launch new condominium projects worth Bt16 billion in FY2020 and Bt10-Bt13 billion per annum during FY2021-FY2022
- Budget for land acquisition is forecast to be Bt2.0-Bt3.5 billion per annum during FY2020-FY2022
- Capital expenditures for rental property and zinc oxide businesses to be around Bt1.6 billion during FY2020-FY2022
- Total operating revenue to be Bt5-Bt7 billion per annum during FY2020-FY2021 and Bt8-Bt9 billion in FY2022, and the operating margin should stay above 8%

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that UV will be able to sustain its operating performance as targeted. Despite more intense competition and slow market demand in the condominium segment, TRIS Rating expects UV to keep its operating margin above 8% during FY2020-FY2022. Going forward, UV's debt to capitalization ratio should stay below 45% over the next three years.

RATING SENSITIVITIES

UV's ratings and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the target levels. UV's ratings and/or outlook could be negatively impacted by its aggressive expansion, should its debt to capitalization ratio rise above 55% on a sustained basis. On the contrary, UV's future outlook could be revised upward if the company's business scale becomes significantly larger while its leverage does not significantly deviate from the target level.

COMPANY OVERVIEW

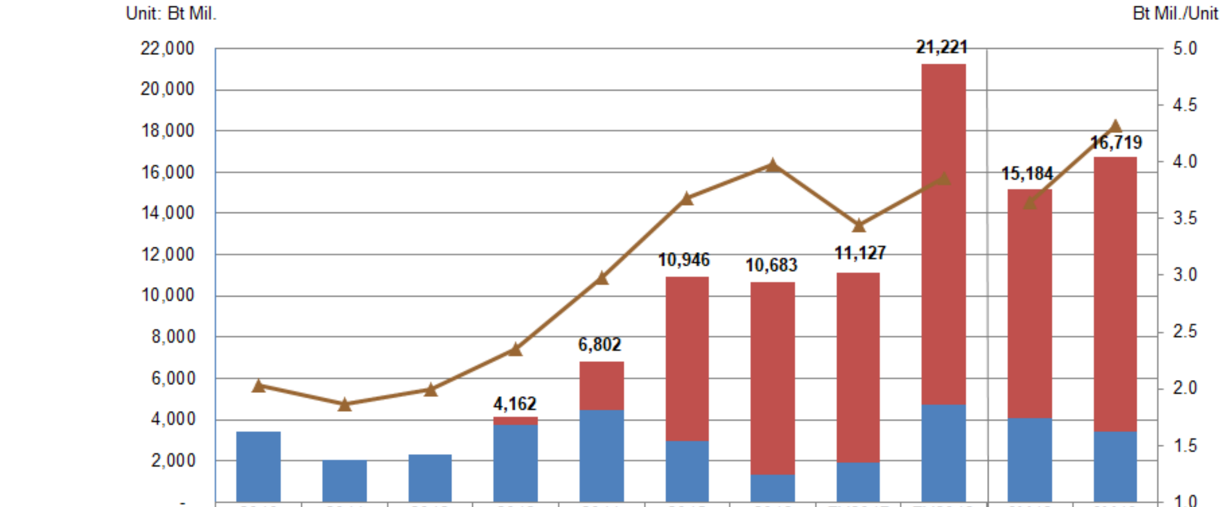
UV was founded in August 1980 to manufacture and distribute zinc oxide products. The company was listed on the Stock Exchange of Thailand (SET), in the petrochemical and chemical sector, in December 1988. UV shifted its business focus to property development and moved to the SET property development sector in September 2006. In mid-2007, Adelfos acquired 51.6% of UV's shares and became the controlling shareholder. Adelfos is owned by members of the Sirivadhanabhakdi family, which owns the TCC Group, a leading Thai conglomerate. As of June 2019, Adelfos held a 66.01% stake in UV.

After the change of its major shareholder, UV increased its stake in Grand Unity Co., Ltd., UV's investment arm in the condominium segment. UV continued to expand its residential property portfolio to the landed property segment by acquiring a 50.64% stake in GOLD in late 2012 and buying all stakes of Krungthep Land PLC (KLAND) in 2014. At the beginning of August 2019, UV divested its stake in GOLD to FPT. UV is now a holding company. Its existing portfolio comprises condominiums for sale, one hotel, zinc oxide business, and other businesses.

Based on our assumption, UV's revenue contribution from condominium projects will be 65%-75% of total operating revenue over the next three years. Revenue contribution from the zinc oxide business will be 20%-30%. Revenue from other businesses will be negligible.

KEY OPERATING PERFORMANCE

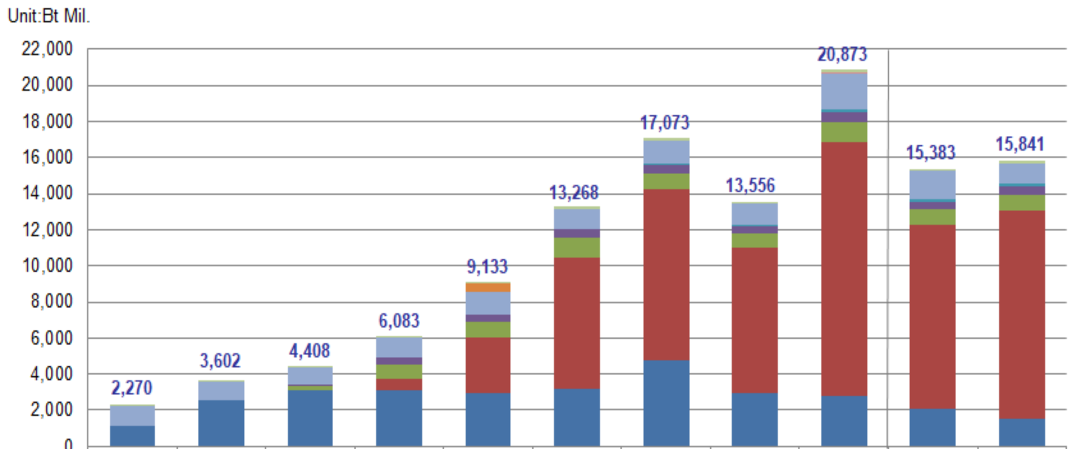
Chart 1: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	FY2017	FY2018	9M18	9M19
Housing (LHS)				382	2,301	8,003	9,369	9,210	16,513	11,129	13,315
Condominium (LHS)	3,395	2,077	2,338	3,779	4,501	2,944	1,313	1,916	4,708	4,055	3,404
Avg. Price (RHS)	2.0	1.9	2.0	2.3	3.0	3.7	4.0	3.4	3.9	3.6	4.3

Source: UV

Chart 2: Revenue Breakdown



	2010	2011	2012	2013	2014	2015	2016	FY2017	FY2018	9M18	9M19
Others	72	58	63	59	105	102	116	97	182	116	152
Golf Course Operation			2	22	19	17	21	17	27	21	25
Land Plot Sale					443						
Zinc Oxide	1,059	986	961	1,057	1,242	1,142	1,291	1,161	2,004	1,595	1,095
Management Fee Income							91	92	161	130	181
Serviced Apt. & Hotel			40	420	408	479	449	394	551	406	460
Office		13	200	781	873	1,067	868	767	1,136	827	844
Housing			29	622	3,072	7,305	9,479	8,070	14,053	10,188	11,591
Condominium	1,139	2,545	3,113	3,123	2,971	3,157	4,757	2,957	2,759	2,100	1,493

Source: UV

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		Year Ended 30 Sep		Year Ended 31 Dec	
	Oct. 2018-Jun. 2019	FY2018	FY2017	2016	2015
Total operating revenues	16,024	20,965	13,637	17,204	13,407
Operating income	2,870	3,741	2,466	2,964	2,157
Earnings before interest and taxes (EBIT)	2,162	2,812	1,846	2,325	1,911
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,795	3,563	2,497	3,042	2,462
Funds from operations (FFO)	1,715	2,491	1,949	2,284	1,433
Adjusted interest expense	660	478	218	374	805
Real estate development investments	37,759	30,375	20,964	19,415	16,564
Total assets	60,180	51,794	41,650	38,897	32,147
Adjusted debt	27,298	17,685	9,316	8,144	16,990
Adjusted equity	20,395	19,889	18,278	17,518	11,133
Adjusted Ratios					
Operating income as % of total operating revenues (%)	17.91	17.84	18.09	17.23	16.09
Pretax return on permanent capital (%)	6.59 **	8.24	6.64 **	8.48	6.83
EBITDA interest coverage (times)	4.23	7.45	11.47	8.14	3.06
Debt to EBITDA (times)	7.64 **	4.96	3.73 **	2.68	6.90
FFO to debt (%)	8.22 **	14.08	20.93 **	28.04	8.44
Debt to capitalization (%)	57.24	47.07	33.76	31.74	60.41

* *Consolidated financial statements*
** *Annualized*

RELATED CRITERIA

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

Univentures PLC (UV)

Company Rating:	BBB
Issue Rating:	
UV205A: Bt2,000 millionsenior unsecured debentures due 2020	BBB
Rating Outlook:	Stable

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