ORIGIN PROPERTY PLC

No. 44/2019
5 April 2019

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 03/08/18

Company Rating History:

Date	Rating	Outlook/Alert
03/08/18	BBB-	Positive
29/09/17	BBB-	Stable
23/05/17	BBB-	Alert Developing
12/09/16	BBB-	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Origin Property PLC (ORI) to “BBB” from “BBB-”. At the same time, TRIS Rating revises the outlook to “stable” from “positive”. The upgrade reflects revenue and profit that exceeded our forecast. Over the last three years, ORI’s revenues and profitability grew by roughly 5 times, surpassing several rated developers. Going forwards, we believe that ORI’ operating performance should maintain around the current level.

The rating continues to reflect ORI’s improving market position in the middle- to low-priced condominium segment. Its expansion into the high-priced condominium segment and landed property also received a good reception from customers. However, the rating is constrained by ORI’s relatively high financial leverage as a result of the aggressive expansion in both the residential and commercial property segments.

The rating also takes into consideration the cyclical and competitive nature of the residential property development industry. Other faces, such as new loan-to-value (LTV) lending rules set by the Bank of Thailand (BOT), and a persistently high level of household debt nationwide, could affect the demand for housing over the next few years.

KEY RATING CONSIDERATIONS

Performance exceeds expectations

ORI’s operating performance in 2018 exceeded TRIS Rating’s expectation. Revenue in 2018 rose to Bt16,011 million, from Bt9,347 million in 2017 and Bt3,199 million in 2016. The strong growth in revenue was driven by the acquisition of Proud Residence Co., Ltd. (PROUD), the owner of the Park 24 project, in 2017. The large backlog of the Park 24 project and increased recognition of the “Park” brand should help support the revenue growth of ORI during 2019-2021.

ORI’s profitability is relatively high, reflecting its ability to control costs and adjust selling prices. The operating margin (operating income before depreciation and amortization as a percentage of revenue) stayed in the range of 26%-27% during 2015-2017. This ratio improved to 29.8% in 2018. The average operating margin of property developers rated by TRIS Rating was range of 15%-17%. Under TRIS Rating’s base case, ORI should be able to keep its operating margin stay above 20% during 2019-2021.

Improving market position

In TRIS Rating’s view, ORI’s market position in the condominium segment has improved over time. Revenues and presales have grown significantly since inception, with presales doubling in the past three years. Presales increased from Bt9,193 million in 2016 to Bt12,363 million in 2017, then jumped to Bt21,390 million in 2018. Presales in 2018 comprised presales of ORI’s owned projects of Bt10,687 million and presales from joint venture (JV) projects of Bt10,702 million.

As of December 2018, ORI had 39 projects with a total project value around Bt78,000 million, comprising three landed property projects, 31 ORI’s condominium projects, and five condominium projects under the 51:49 joint venture between ORI and Nomura Real Estate Development Co., Ltd. (NRED). The average selling price across the entire portfolio was Bt4.2 million per unit.

The value of the remaining units available for sale was Bt22,200 million, including Bt16,200 million of ORI's owned projects and Bt6,000 million of JV projects.

In TRIS Rating's base case, ORI's revenue will range around Bt13,000-Bt15,000 million yearly during 2019-2021. ORI's sizeable backlog of condominium projects will support its growth in revenue over the next few years. At the end of December 2018, the value of ORI's backlog stood at Bt18,551 million. Units from the backlog will be recognized as revenue of around Bt10,000 million in the 2019, Bt2,500 million in 2020, Bt5,000 million in 2021, and the rest in 2022. The backlog of the JV's projects is currently worth around Bt15,089 million. Units in this backlog will be transferred to customers in 2020 onwards.

Aggressive expansion led to high financial leverage

TRIS Rating expects ORI's leverage to remain at a relatively high level over the next two to three years. Under ORI's five-year business plan, the company plans to invest in both residential property and commercial property. ORI will launch new residential property projects, on its own and through JVs, worth Bt25,000-Bt30,000 million per annum. The company plans to balance the proportion of landed properties and condominium projects in its portfolio.

ORI also has plans to develop the nine commercial property, such as hotels, serviced apartments, and offices. ORI will spend around Bt2,400 million in 2019, Bt2,000 million in 2020, and Bt3,600 million in 2021 on commercial property projects. In our view, the diversification into the landed property segment and commercial property development will broaden ORI's product portfolio and smooth earnings in the long run.

Three of the nine projects will be developed under the 51:49 joint ventures with NRED. The joint ventures will alleviate some of the need for new capital. However, we expect leverage will remain at a relatively high level during the investment period. In TRIS Rating's base case, the debt to capitalization ratio is forecast to stay around 60%-65% over the next three years, or the debt to equity ratio staying at 1.5-1.8 times.

Implementation of macro-prudential measures may cause a slowdown in presales

TRIS Rating expects that the implementation of new LTV rules by the BOT should impact the sales of condominium units in the short term. The BOT will implement a new macro prudential policy in April 2019. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100% of the collateral value, for their second and subsequent mortgage loans. Therefore, the company may have to lengthen the down payment period for some homebuyers. The delay in transfer will impact the company's revenue recognized in the second half of 2019.

However, we expect the lower LTV ratio for the second and subsequent mortgage loans should benefit developers in the long run. The new measures will reduce speculative demand and will help strengthen the property market. In the meantime, the company will take a wait-and-see approach. The company may delay its new project launches should the new measures significantly slow down the demand and cause its accumulated inventory to rise.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers, ORI's main customers. Thus, ORI has to carefully manage new project launches to match the demand in each segment.

The company has expanded its products into the higher priced segment, under brand "Park Origin", which will help lower the post-financing rejection rate. However, competition in this segment is becoming more intense as more players are moving towards to this segment. In addition, ORI also expanded into landed housing segment to capture new customers and diversify its products towards the lower risk segment.

Relatively tight liquidity

Due to its plan to invest more in commercial properties, ORI may need to incur more debts or find equity partners for some of its projects. ORI's uses of funds comprises debts of Bt8,017 million (including project loans) due over the next 12 months, capital expenditures of Bt2,000-Bt2,500 million and a dividend payment of Bt900-Bt1,000 million. Sources of funds comprise cash on hand of Bt1,819 million and undrawn project loans of Bt5,694 million at the end of 2018. Funds from operations (FFO) over the next 12 months is forecast at around Bt2,700 million. Thus, the company has to refinance some of its debts. However, based on the company's strong operating performance, it should have no problem managing its debt obligations.

In our base case forecast, the FFO to total debt ratio will hold at 12%-15% over the next three years, while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is expected to stay above 4.5 times.

ORI has to keep the interest-bearing debt to equity ratio below 2.0 times in order to comply with the key financial covenants in its bank loans and bonds. The ratio at the end of December 2018 was 1.4 times. TRIS Rating believes that ORI should be able to comply with its financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- Residential property project launches in 2019 of Bt26,000 million, comprising condominiums as its own projects worth Bt12,150 million and JV projects worth Bt7,500 million. New landed housing project launches will be worth Bt6,350 million. Going forward, the company will launch new residential projects worth around Bt26,000-Bt28,000 million per annum.
- Revenue is forecast at Bt13,000-Bt15,000 million per annum in 2019 and 2020. Revenue in 2021 will jump to around Bt19,000 million, as the large backlog schedule to deliver to its customers.
- Land acquisition is budgeted at Bt5,000-Bt6,000 million yearly over the next three years.
- Capital expenditures on commercial properties are set at Bt2,000-Bt2,500 million per annum.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that ORI's operating performance will meet the target levels. The operating margin is expected to stay around 20%-25%, despite a rise in operating expenses to support the new projects. Given the aggressive expansion plan, the debt to capitalization ratio is expected to stay at around 60%-65% while the interest-bearing debt to equity ratio is forecast at 1.5-1.8 times over the next three years.

RATING SENSITIVITIES

The rating could be revised upward if revenue base and cash flow continue to grow, as long as the debt to capitalization ratio stays below 60%. On the other hand, the ratings and/or outlook could be revised downward should operating performance or financial leverage deteriorate significantly from the current levels.

COMPANY OVERVIEW

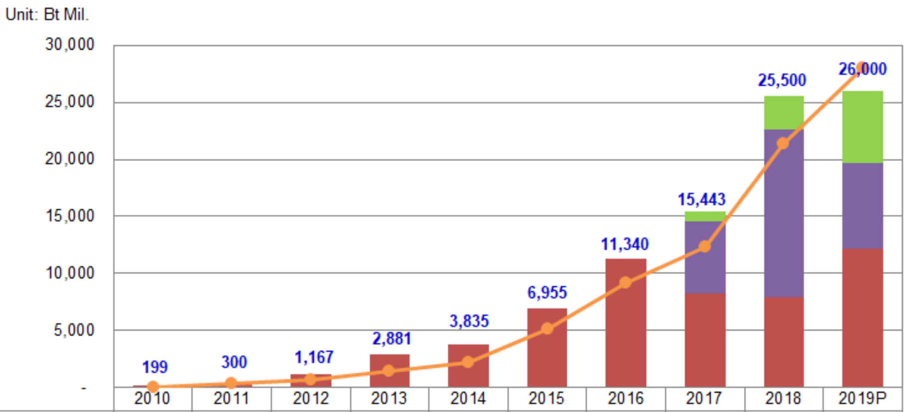
ORI was established in 2009 by the Jaroon-ek family. The company became a public company in November 2014 and was listed on the Stock Exchange of Thailand (SET) in October 2015. After the initial public offering (IPO), the Jaroon-ek family continued to be ORI's largest shareholder. As of February 2019, the Jaroon-ek family held a 60% stake in the company.

ORI focuses on the middle- to low-end condominium segment. The average selling price ranges between Bt45,000-Bt95,000 per square meter (sq.m.) or Bt1.5-Bt3.5 million per unit. Most of its condominium projects are located in the suburbs of Bangkok, especially along the Skytrain route from Bearing to Samut Prakan and the route from the Kasetsart University intersection to Saphan Mai. The company recently expanded into the Sri Racha and Laem Chabang districts in Chonburi province.

ORI's efforts to diversify its product line began in 2017. ORI acquired all of Proud Residence Co., Ltd. (PROUD) in order to enter into the high-end condominium segment. ORI set up 51:49 joint ventures with NRED, a property developer in Japan. At the end of 2018, the JVs have developed five condominium projects, with a combined project value of Bt21,000 million and three commercial property. ORI also launched its first single detached house (SDH) project, under the "Britania" brand, in 2017. Units are priced between Bt5-Bt8 million each. Commercial property development is also a market which ORI hopes to penetrate.

KEY OPERATING PERFORMANCE

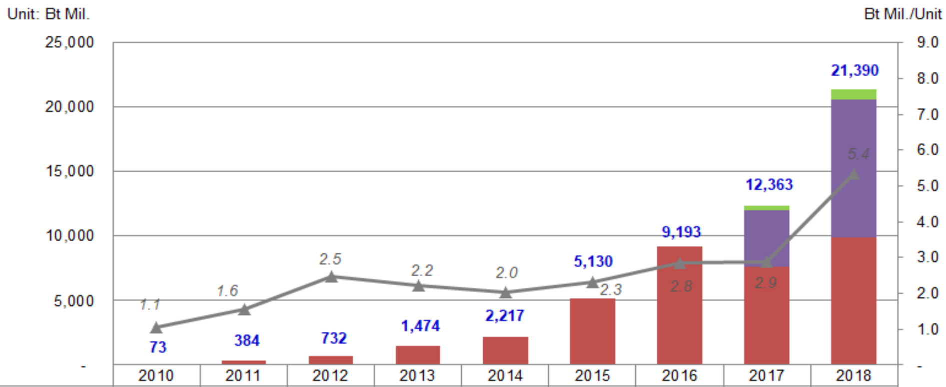
Chart 1: Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019P
Housing								859	2,900	6,350
Condominium-JV								6,334	14,700	7,500
Condominium-ORI	199	300	1,167	2,881	3,835	6,955	11,340	8,250	7,900	12,150
Presales	73	384	732	1,474	2,217	5,130	9,193	12,363	21,390	28,000

Source: ORI

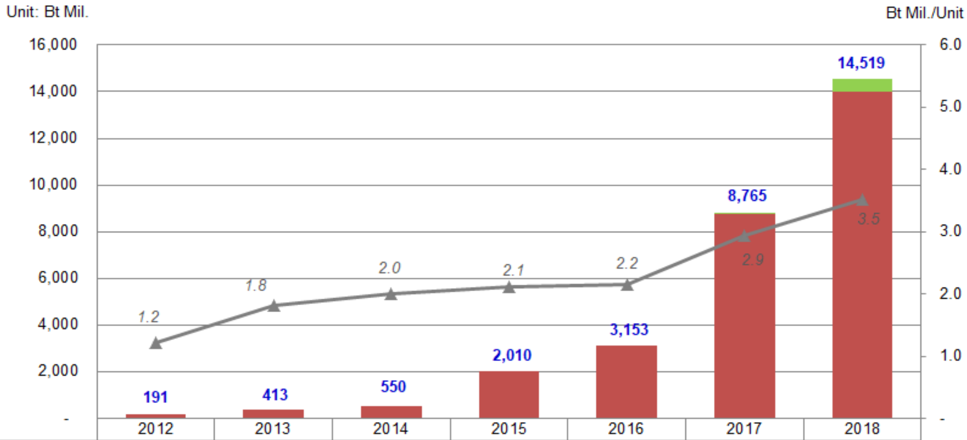
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018
Housing								347	808
Condominium-JV								4,387	10,702
Condominium-ORI	73	384	732	1,474	2,217	5,130	9,193	7,629	9,879
Avg. Price	1.1	1.6	2.5	2.2	2.0	2.3	2.8	2.9	5.4

Source: ORI

Chart 3: Transfer Performance



	2012	2013	2014	2015	2016	2017	2018
Housing						11	514
Condominium	191	413	550	2,010	3,153	8,753	14,006
Avg. Price	1.2	1.8	2.0	2.1	2.2	2.9	3.5

Source: ORI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----Year Ended 31 December-----				
	2018	**2017**	**2016**	**2015**	**2014**
Total operating revenues	16,011	9,347	3,199	2,055	559
Operating income	4,774	2,442	861	536	105
Earnings before interest and taxes (EBIT)	5,062	2,943	871	539	100
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,196	3,102	912	573	114
Funds from operations (FFO)	3,557	2,161	642	386	49
Adjusted interest expense	659	358	108	88	46
Real estate development investments	574	289	256	58	31
Total assets	27,203	22,925	6,758	3,347	1,910
Adjusted debt	15,436	10,826	2,845	408	1,003
Adjusted equity	7,437	5,123	2,193	1,748	287
Adjusted Ratios					
Operating income as % of total operating revenues (%)	29.82	26.13	26.92	26.09	18.84
Pretax return on permanent capital (%)	24.41	26.27	21.54	28.53	9.84
EBITDA interest coverage (times)	7.89	8.66	8.42	6.50	2.46
Debt to EBITDA (times)	2.97	3.49	3.12	0.71	8.83
FFO to debt (%)	23.04	19.96	22.56	94.64	4.89
Debt to capitalization (%)	67.49	67.88	56.46	18.93	77.77

* *Consolidated financial statements*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Origin Property PLC (ORI)

Company Rating:	BBB
Rating Outlook:	Stable

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