

Press Release

No. 68/2017
11 April 2017

TRIS Rating Upgrades Company Rating of "PREB" to "BBB" from "BBB-" with "Stable" Outlook

TRIS Rating has upgraded the company rating of Pre-Built PLC (PREB) to "BBB" from "BBB-" with "stable" outlook. The rating upgrade reflects a recent drop in PREB's leverage, higher-than-expected cash flow from operations, and ample liquidity. The rating also takes into consideration the company's acceptable track record of constructing high-rise buildings, steady profitability, and acceptable financial profile. These strengths are partially offset by the high concentration risk in the end-markets PREB serves, the cyclical nature of the engineering and construction (E&C) industry, and stiff competition.

The "stable" outlook reflects the expectation that PREB will sustain its competitive edge in its core business. The company is also expected to keep profitability and its financial profile stay in line with expectations. The investments in the JV projects are not expected to raise the debt to capitalization ratio to be above 30% over the next three years.

A rating upgrade is unlikely in the near term. However, if PREB significantly enhances the revenue and profitability from the current levels for a sustained period, and prudently manages leverage, these factors would be positive for PREB's rating. In contrast, the rating and/or outlook could be lowered if the company loses its competitive position. A downgrade would also be possible if the revenue and profitability decline or if the investments in the JV projects cause the debt level to rise and the capital structure to considerably deteriorate.

Established in 1995, PREB is a general contractor focusing on the construction of high-rise buildings for private sector clients. PREB was listed on the Stock Exchange of Thailand (SET) in 2005. The Charoentra family, the founding shareholders, holds the majority of PREB's shares, owning 26% as of March 2017. The company expanded into the production and distribution of construction materials in 2004, through a wholly-owned subsidiary, PCM Construction Material Co., Ltd. (PCM). PCM produces precast concrete. In 2009, PREB widened its scope of business to the property development. PREB set up Built Land Co., Ltd., a property developer, which develops condominium and townhouse projects. Since its establishment, Built Land developed 10 residential property projects worth approximately Bt6.8 billion. The property development segment boosted PREB's profit margin at the cost of an elevated level of debt.

PREB recently made a significant change in strategy by divesting Built Land. PREB now plans to develop potential residential property projects through joint ventures (JV) with other property developers. In February 2017, PREB's board of directors approved the sale of Built Land to Mr. Chiyarat Thampeera, a director of PREB, for Bt900 million. The divestment of Built Land is underway and is expected to be complete by the second quarter of 2017. In March 2017, PREB set up Pre-Built Holding Co., Ltd., a holding company, as an investment vehicle. Pre-Built Holding then took a 40% stake in a JV with Porn Perm Poon Co., Ltd., a property developer. The JV was formed to develop a condominium project located near the BTS Green Line Senanikorn Station. The project value is about Bt1.5 billion. PREB is the project contractor.

TRIS Rating holds the view that PREB's shift in strategy should have a positive impact on its business and financial profiles. For example, after the divestiture of Built Land, PREB will have a lower need for borrowing and have the potential to secure new construction work from the JV projects. The cash received from the divestment of Built Land should reduce leverage and bring in funds PREB can use to invest in other ventures through Pre-Built Holding.

The rating upgrade reflects the recent improvements in PREB's operating performance and a drop in leverage. Revenue was Bt5.32 billion in 2016, up from Bt4.14 billion in 2015. The property segment has been driving the increase in revenue. Profitability improved despite a tough competitive environment. The gross margin has held at around 10%-12% over the past several years. The gross margin rose to 14.9% in 2015 and 26.1% in 2016 as PREB's largest condominium project, the TEMPO Grand Sathorn-Wuttakard, started transferring finished units to customers. The gross profit margin in the property development segment, which is higher than the construction segment, enhanced the overall gross profit margin of the company. However, the gross margin in the construction segment in 2016 improved to 14.7%, from 12.6% in 2015, notwithstanding declines in construction revenue over the past two years.

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PREB's backlog stood at Bt7.39 billion at the end of 2016. The backlog will secure about 68% of the revenues in 2017, 51% in 2018, and 17% in 2019, according to TRIS Rating's base-case forecast.

The rating reflects PREB's acceptable track record of undertaking residential property and commercial high-rise building projects. PREB is positioned to service reputable property developers, most of which are SET-listed. PREB constructs condominium projects, chiefly in Bangkok and in prime areas outside the metropolitan area. In addition, PREB can construct industrial plants and undertake system and design works. PREB expanded its scope of business into construction materials, mainly to support its construction works. The revenue contribution from sale of construction materials remains small, accounting for less than 10% of total revenue per annum.

PREB is highly reliant on a few large customers. For the past three years, most of PREB's revenue was derived from four clients: a Pra Dhammakaya-related foundation, Quality Houses PLC (QH), Raimon Land PLC (RML), and Ananda Development PLC (ANAN). Each client accounted for 20%-35% of the company's total revenue each year. This level of customer concentration risk puts a lid on the rating. However, the risk is somewhat alleviated by the acceptable payment risk of PREB's major customers. The rating is also constrained by the cyclicity and stiff competition in the E&C industry. These two factors remain downside risks for the revenues and profits.

The rating also takes into consideration PREB's acceptable financial profile. During 2014 and 2015, the debt to capitalization ratio increased as PREB's boosted its investment in the property development segment, especially the condominium projects. The ratio stood at 28% in 2014 and 37% in 2015. After PREB's fine performance in 2016, the debt to capitalization ratio declined sharply to 9.4% at the end of 2016. Leverage is expected to rise again once PREB commences new residential property projects. However, the higher gearing should be offset by PREB's ample liquidity and conservative financial policies.

TRIS Rating's base-case scenario assumes PREB's revenue to be Bt4.5-Bt5 billion per annum during 2017-2019. The operating margin will range from 6%-8%. Funds from operations (FFO) are expected at Bt300-Bt400 million per annum during 2017-2019. Financial leverage is expected to increase slightly as it undertakes more JV projects. Leverage should stay manageable. The debt to capitalization ratio (including a portion of the debt from the JVs) is expected to stay below 30% over the next three years. Cash flow protection will improve after the debt repayment and profits have risen. The company had Bt707 million in cash and Bt948 million in current investments, while debts totaled Bt211 million at the end of 2016. During 2017-2019, the FFO to total debt ratio and the EBITDA (earnings before interest, taxes, depreciation, and amortization) interest coverage ratio will stay at high levels.

Pre-Built PLC (PREB)

Company Rating:

BBB

Rating Outlook:

Stable

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