

SENA DEVELOPMENT PLC

No. 19/2019
21 February 2019

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 12/02/18

Company Rating History:

Date	Rating	Outlook/Alert
11/11/14	BBB-	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Sena Development PLC (SENA) to “BBB” from “BBB-”. The upgrade reflects SENA’s improving market position while maintaining its strong profitability. Its leverage is expected to rise but should not be significantly higher than the current level. Its debt servicing capacity remains satisfactory. The joint investment with Hankyu Group in several condominium projects should help lower capital needs during the expansion period.

The rating also takes into consideration the cyclical and competitive environment in the residential property development business, the impact from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT), and the lingering high household debt which could impact housing demand in the short to medium term.

KEY RATING CONSIDERATIONS

Improving market position

TRIS Rating believes that SENA should be able to further improve its market position in the middle- to low-priced condominium segments. SENA’s revenue base grew to around Bt4,000-Bt5,000 million during the past three years from Bt1,700-Bt2,700 million during 2012-2015. Its net profit also improved to Bt700-Bt800 million per annum during 2016-2017 from around Bt250-Bt450 million during 2012-2015. The expansion into the higher-priced condominium segment (prices above Bt100,000 per square meter (sq.m.)) under PITI and the Niche Pride brands should help enlarge its customer base.

SENA’s presales jumped to Bt6,322 million in 2017 and Bt10,168 million in 2018 from Bt3,700-Bt3,800 million per annum during 2015-2016. At the end of December 2018, SENA’s backlog was worth Bt10,200 million, comprising Bt1,700 million in its own backlog and Bt8,500 million in backlog under joint ventures (JVs). TRIS Rating also expects the acquisition of 55% shares in Proud Vanij Co., Ltd., the landed property developer, will help increase its market share in the landed property segment in provincial areas. In addition, the acquisition of 76% stakes in Acute Realty Co., Ltd., the property sale agent and brokerage, is expected to boost SENA’s domestic presales and increase its presales in the international market as well as support after-sale services.

Under TRIS Rating’s base case forecast, SENA’s total operating revenue will increase to Bt6,000 million per annum during 2019-2021. Revenue contribution from its own condominium projects is expected to decrease as SENA will launch more condominium projects under JVs from 2018 onwards. Revenue contribution from landed property projects is expected to increase to 30%-40% of total operating revenue during 2019-2021.

Above average profitability

In TRIS Rating’s view, SENA should be able to maintain its strong profitability over the next 2-3 years. The company’s ability to control construction costs and secure land plots at a favorable price should help maintain its profit margin at a relatively high level. SENA’s operating margin ranged around 20%-29% during 2014 through the first nine months of 2018, higher than the industry average of 15%-17%. Net profit margin was 14%-19% of total operating revenue during 2016 through the first nine months of 2018, compared with the industry average of 10%. SENA will start to recognize

revenue from condominium projects under the JVs from 2019 onwards, thus the company will earn more share profit from these JVs. This will help increase net profit margin over the next three years.

SENA's profitability may be pressured by the intense competition among large property developers and rising land costs. Nonetheless, the company should be able to keep its operating margin above 20% and net profit margin above 10% during 2019-2021.

Leverage is on the rise, but debt to capitalization ratio should be kept lower than 60%

TRIS Rating forecasts that SENA's debt to capitalization ratio may rise to around 60% during its expansion period. We expect the company to launch new projects worth around Bt20,000 million per annum during 2019-2021. Most of its new condominium projects will be launched under JVs. The company also plans to launch more landed property projects than in the past in order to balance its product portfolio. The land acquisition budget for its own projects is forecast to be Bt400-Bt500 million per year. Apart from its own projects, SENA's capital injection in the JV condominium projects will be around Bt2,000-Bt2,600 million per annum during 2019-2021.

Despite its JV structure with the partner to partially relieve its capital needs, SENA's need for funding to pursue its growth plan remains significant. TRIS Rating views that SENA's financial leverage may rise over the next two to three years. However, the company should keep its debt to capitalization ratio at lower than 60% or interest-bearing debt to equity ratio should stay below 1.5 times. The ratio of funds from operations (FFO) to total debt could drop below 10% in 2019 but should improve thereafter.

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 recognition 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, SENA's main customers. Thus, SENA has to carefully manage new project launches to match the demand in each segment.

The company's plan to diversify its products towards the higher priced segment will help lower the post-financing rejection rate. However, competition in this segment is becoming more intense as more players are moving towards this segment.

Acceptable liquidity profile

SENA's liquidity is acceptable. As of September 2018, the company had Bt837 million in cash and cash equivalents plus undrawn unconditional committed credit facilities from financial institutions of Bt6,300 million. Funds from operations (FFO) over the next 12 months is forecast at around Bt700 million. Debt due over the next 12 months amounts to Bt2,751 million, comprising mainly Bt1,446 million in debentures, Bt791 million in promissory notes (P/Ns), and Bt500 million in bills of exchange (B/Es).

SENA plans to refinance maturing bonds with new bond issues. Short-term P/Ns as a bridging loan for land purchase will be converted to long-term project loans thereafter. SENA plans to rollover or repay short-term B/Es depending on cash flow at that time. SENA has a policy to keep short-term B/Es at not more than 10% of total debt. SENA also maintains adequate back-up credit facilities from financial institutions to cover the outstanding B/Es.

According to the key financial covenants on its bank loans, the company has to maintain its total liabilities to total equity ratio at lower than 1.5 times. The ratio at the end of September 2018 was 1.27 times. TRIS Rating believes that SENA should have no problem complying 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:

- SENA will launch condominiums under its own and JV projects as well as landed property projects worth around Bt20,000 million per annum during 2019-2021. Around 70% of its projects will be launched under the JVs
- Total operating revenue will stay at Bt6,000 million per annum, and the operating margin is forecast to be above 20%
- Land acquisition for its own projects is budgeted at Bt400-Bt500 million per year
- Capital injection in JV projects will be Bt2,000-Bt2,600 million per annum during 2019-2021

RATING OUTLOOK

The "stable" outlook reflects the expectation of TRIS Rating that SENA will be able to deliver its operating performance during 2019-2021 as its target. Despite more intense competition in the residential property market, TRIS Rating expects SENA's total operating revenue will stay at around Bt6,000 million per annum during 2019-2021. Its operating margin should stay above 20%. With its aggressive business expansion plan over the next three years, SENA's financial leverage is expected to rise. However, the company should keep its debt to capitalization ratio lower than 60% or interest-bearing debt to equity ratio should stay below 1.5 times.

RATING SENSITIVITIES

SENA's rating and/or outlook could be revised downward should its operating performance and/or financial profile significantly deviate from the targeted levels for a certain period. However, a significant improvement in SENA's business and financial profiles from the targeted levels will be positive for SENA's rating.

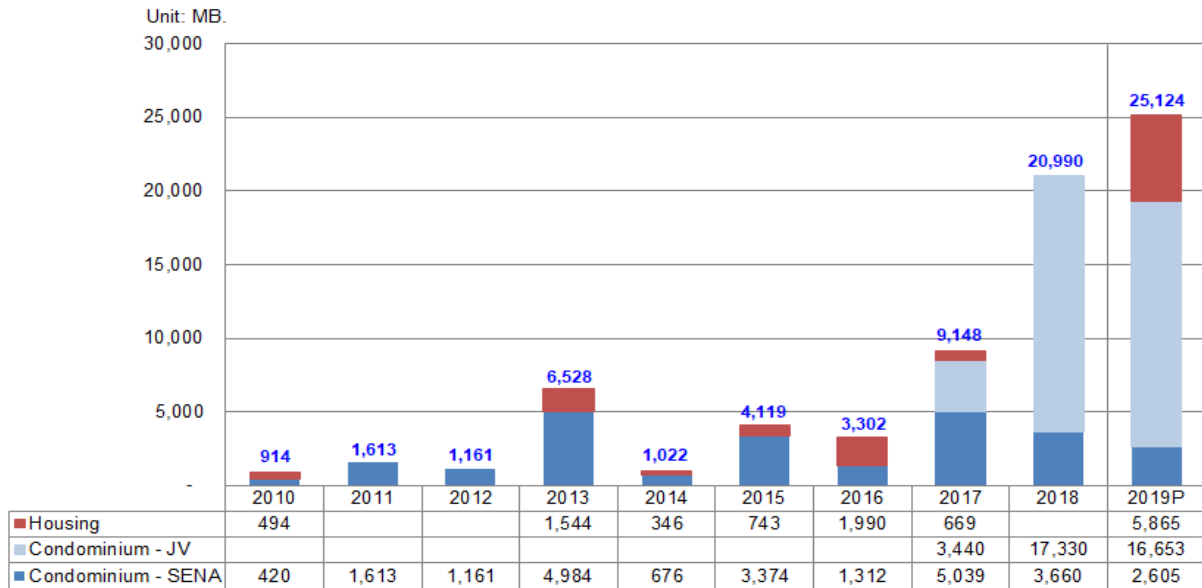
COMPANY OVERVIEW

SENA was established by Mr. Theerawat Thanyalakphark in 1993 and listed on the Stock Exchange of Thailand (SET) in 2009. As of August 2018, the Thanyalakphark family continued to be the company's largest shareholder, owning a 49% stake. SENA focuses on the residential property development business. Its products cover condominiums, single-detached house (SDH), twin houses, townhouses, and commercial units. SENA's products mainly target the middle- to low-income segments, with selling prices per sq.m. ranging from Bt60,000 to Bt100,000 for condominiums and an average price per unit of Bt6.1 million for landed properties. Its products comprise condominium projects, sold under PITI, The Niche Pride, The Niche Mono, The Niche ID, and The Kith brands; SDH projects under Sena Park Grand, Sena Park Ville, Sena Ville, and S Ville brands; and townhouse and commercial property projects under Sena Town, Sena Avenue, and Sena Shophouse brands.

SENA's revenue from sales and services mainly derive from condominium projects. Revenue from condominiums constituted 60% of total operating revenue in 2017 and 68% in the first nine months of 2018. Revenue from landed property contributed 10%-15% during 2016 through the first nine months of 2018. Revenue contribution from rental and services and solar energy business was 12% in 2017 and 14% in the first nine months of 2018.

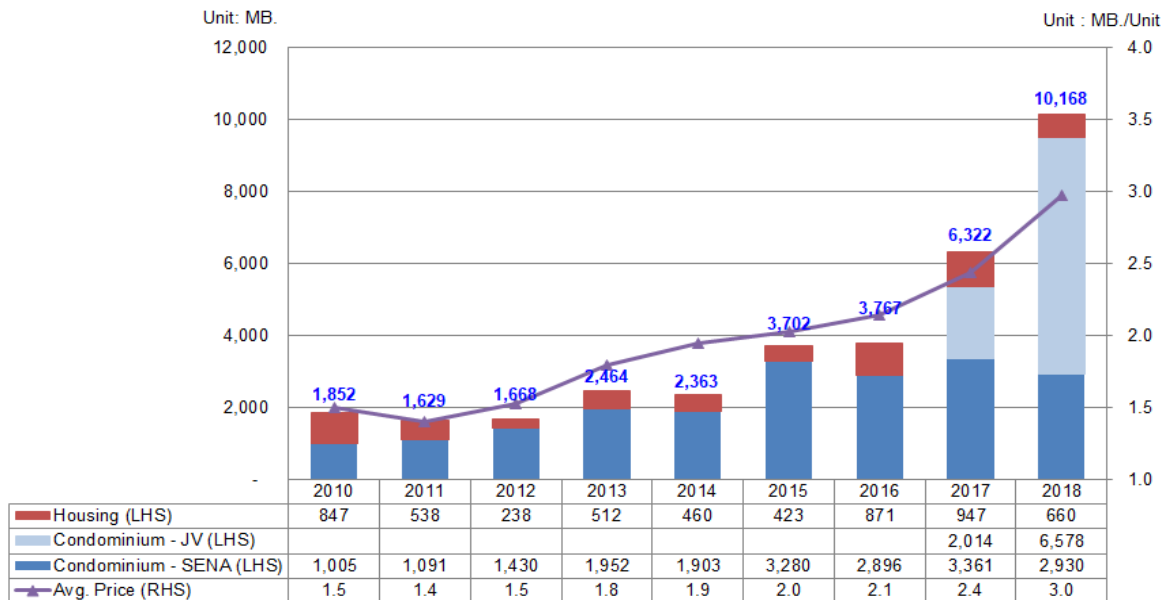
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches

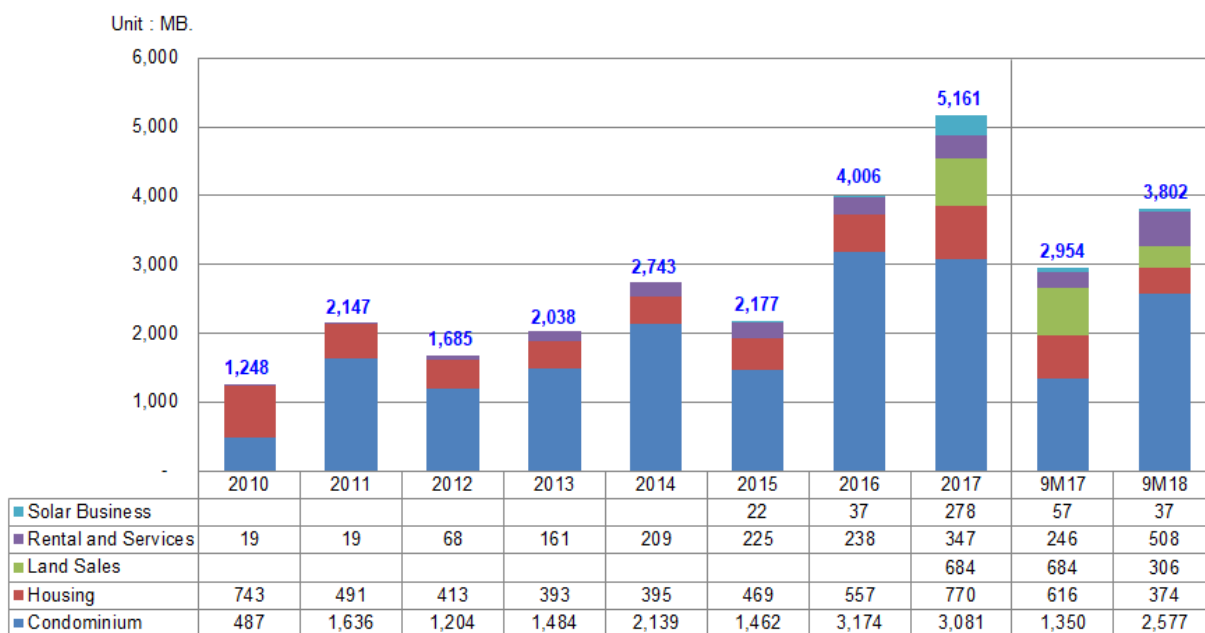


Source: SENA

Chart 2: Presales Performance



Source: SENA

Chart 3: Revenue Breakdown


Source: SENA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	3,901	5,221	4,059	2,219	2,775
Operating income	1,122	1,161	1,044	433	654
Earnings before interest and taxes (EBIT)	946	1,145	1,148	403	661
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,032	1,206	1,155	483	723
Funds from operations (FFO)	633	821	836	302	454
Adjusted interest expense	183	159	130	138	160
Real estate development investments	(1,372)	(1,191)	985	(922)	(577)
Total assets	11,859	10,732	7,633	8,136	6,709
Adjusted debt	5,261	4,028	2,669	3,664	2,867
Adjusted equity	5,216	4,778	4,048	3,541	2,776
Adjusted Ratios					
Operating income as % of total operating revenues (%)	28.76	22.24	25.73	19.53	23.59
Pretax return on permanent capital (%)	15.31 **	13.62	15.69	5.85	11.60
EBITDA interest coverage (times)	5.63	7.61	8.85	3.50	4.52
Debt to EBITDA (times)	3.11 **	3.34	2.31	7.59	3.96
FFO to debt (%)	21.41 **	20.38	31.32	8.25	15.83
Debt to capitalization (%)	50.21	45.74	39.74	50.85	50.80

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Sena Development PLC (SENA)

Company Rating:	BBB
Rating Outlook:	Stable

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