TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

SANSIRI PLC

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CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Hybrid	BBB-
Outlook:	Negative

Last Review Date: 11/06/19

Company Rating History:

Date	Rating	Outlook/Alert
12/05/14	BBB+	Stable
10/05/13	BBB+	Positive
05/02/10	BBB+	Stable
19/03/09	BBB	Positive
12/07/04	BBB	Stable
08/10/03	BBB	-

Contacts:

Jutamas Bunyawanichkul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Tulyawat Chatkam
tulyawat@trisrating.com

Suchada Pantu, Ph. D.
suchada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Sansiri PLC (SIRI) and the ratings on SIRI's senior unsecured debentures at "BBB+" and assigns the rating of "BBB-" to SIRI's proposed issue of up to Bt3 billion in unsecured subordinated perpetual debentures (hybrid debentures). However, TRIS Rating revises the outlook on SIRI to "negative" from "stable". The "negative" rating outlook reflects our concerns that SIRI's leverage may not decline as expected. Moreover, due to the negative impact from the COVID-19 outbreak, the presales and transfers of SIRI's residential sales could be lower than our prior projection.

The ratings on SIRI and its debentures continue to reflect the company's diverse product portfolio and strong market position in both landed property and condominium segments. The ratings also take into consideration SIRI's aggressive financial leverage and its lower profitability resulting from its higher selling and administrative (SG&A) expenses than peers. However, the rising contribution from business management income and share of profit from its joint ventures (JVs) should help improve its profitability in the short to medium term.

The rating on SIRI's hybrid debentures is two notches below its senior unsecured issue ratings. The rating differential reflects the subordination of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis. The proposed hybrid debentures' characteristics, including subordination, interest deferral at the discretion of the company, five-year non-call period, and sufficient permanence, are qualified for "intermediate" equity content under TRIS Rating's criteria. The "intermediate" equity content implies that TRIS Rating treats 50% of the principal amount of the debentures as equity and the other 50% as debt. The 50% equity content will fall to "minimal" (or 0%) at the end of the fifth year from the issue date since the remaining effective tenor of the issue will be less than 20 years.

SIRI intends (but is not obliged) to replace, redeem, or repurchase the hybrid debentures with an instrument that has similar or higher equity content, except for certain events as specified in the terms and conditions (e.g., changes in the tax and accounting treatments of hybrid securities or a change in the rating agency's criteria used to assess the equity content of the issue). TRIS Rating could lower the equity content of the proposed hybrid debentures to "minimal" from "intermediate" if we believe that the company has an intention to deviate from the replacement capital covenant (RCC).

KEY RATING CONSIDERATIONS

Diversified products and strong brands in the residential property market

TRIS Rating views that SIRI has great flexibility to adjust its portfolio to meet market demand and retain market position given wide-ranging project portfolios and well-recognized brands. As of December 2019, SIRI had 37 existing condominium projects (including 12 condominium projects under JVs) and 64 landed property projects, with total unsold value of Bt89.4 billion (including built and un-built units). Landed property projects comprised 54% of the total remaining value, while condominium projects accounted for the rest.

The company offers condominium, single-detached house (SDH), and townhouse units in different market segments. SIRI's condominium units cover low- to high-end segments, with selling prices ranging from Bt50,000 to Bt600,000 per square meter (sq.m.). In the SDH segment, SIRI's brands include Kanasiri, Habitia, Saransiri, Burasiri, Setthasiri, Narasiri, and Baan Sansiri, with a wider price range of Bt4-Bt240 million per units. Townhouse units are sold under the Habitown, Met Town, Siri Place, Siri Avenue, Town Avenue, B Avenue, and Tiger Lane brands, with the price ranging from Bt2-Bt80 million per unit.

Strong market position

TRIS Rating expects SIRI to maintain its strong competitive position in the residential property market over the next three years. SIRI has ranked top-three among the listed residential property developers in terms of operating revenue. Its total operating revenue was in the range of Bt27-Bt37 billion per annum during 2014-2018 and fell to Bt25 billion in 2019. In terms of presales, SIRI's presales hit a record high at Bt48.3 billion in 2018, before declining to Bt20.8 billion in 2019. The drop was due mainly to the slowdown of the domestic economy and the implementation of more stringent loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019, which have impacted overall residential property industry.

Due to the negative impact from the COVID-19 pandemic, SIRI's total operating revenue could decline by 20%-30% from last year. However, its total operating revenue should recover to around Bt30 billion per annum during 2021-2022. This will be supported by the delivery of its backlog. SIRI's backlog at the end of 2019 was Bt28.8 billion. SIRI plans to deliver to customers its own backlog worth Bt11.4 billion in 2020, Bt9.3 billion in 2021, Bt7.6 billion in 2022, and Bt0.4 billion in 2023.

Profitability is still under pressure, but should improve after this year

SIRI's profitability may come under pressure from the slowdown in the domestic economy, resulting from the severe drought and the COVID-19 pandemic in 2020. SIRI's earnings before interest, tax, depreciation, and amortization (EBITDA) margin was 18%-23% during 2014-2019. However, due to its increasing capital expenditures in JVs, SIRI's pretax return on permanent capital (ROC) dropped to 5%-6% during 2018-2019 from 8%-10% during 2014-2017. This year, we expect SIRI's profitability to decline further as company may have to spend more on marketing and promotions to boost presales and accelerate transfer. SIRI's EBITDA margin could drop to below 15% while its ROC could drop to 3% in 2020.

However, TRIS Rating expects revenues from transfers of its own projects should improve in the following years. In addition, income contribution from JV projects should also recover after the fear of virus subsides. We forecast SIRI to realize share of profit from investments in JVs of Bt0.5-Bt0.6 billion per year over the next three years. As of December 2019, SIRI had 12 existing condominium projects under JVs, with total remaining unsold value of Bt17.6 billion. The JV projects were 58% sold and 27% transferred to customers. The backlog under JVs was Bt13.1 billion, or 31% of the total backlog in SIRI's portfolio. In addition, the more JV projects SIRI manages, the more revenue from business management the company will receive. Under TRIS Rating's base case scenario, we expect SIRI's revenue from business management through JVs will be Bt2-Bt3 billion per annum during 2020-2022. SIRI's ROC should recover to 5%-8% during 2021-2022 once the situation improves.

Leverage may hang at a high level for a longer period

TRIS Rating views that SIRI's debt burden may peak in 2020 instead of 2019 we previously forecast. Due to the negative impact from the COVID-19 pandemic, the company's plan to deliver more of its own and JV condominium projects during 2020-2021 may not be achievable. SIRI lowered the number of its new project launches due to the slowdown in the residential property market after the implementation of the new loan-to-value rules in 2019 and the concern over the global trade war and the appreciation of Thai baht. However, its debt to capitalization ratio still rose to 68% in 2019 from 65% in 2018. Its real estate development investments jumped to Bt80.8 billion in 2019 from Bt69.5 billion in 2018.

SIRI's funds from operations (FFO) to total debt ratio also dropped to 5% during 2018-2019 from 9% in 2017. Based on our revised projection, we expect SIRI's debt to stay at a high level while its profitability may drop from the lower transfers than our previous forecast. As a result, SIRI's FFO to total debt ratio could be significantly lower than 5% this year. The FFO to total debt ratio below 5% for a prolonged period with no sign of recovery could trigger a rating downgrade for the company.

Exposure to unprecedented risk from the COVID-19 outbreak

Although the outbreak of COVID-19 may not directly impact the industry, it is causing severe damage to the overall economy. As the domestic economy is already fragile and heavily reliant on tourism and exports, the virus pandemic could cause a contraction in the domestic economy. The more prolonged the outbreak, the greater the impact will be on the property industry. Assuming that the COVID-19 outbreak is contained in the first half of this year, residential property sales in 2020 could still decline by as much as 20%-30% from 2019.

Negative impacts from the COVID-19 outbreak on the property developers have escalated since late February 2020 as fears of the virus spreading outside China increased. The number of Thai homebuyers visiting show units declined sharply due to fear of the contagion and the imposition of restrictions on travel and gatherings by the government. Thus, revenues and cash flow from unit transfers could be negatively affected by the unprecedented risk arising from the virus outbreak. The rated developers need to focus heavily on liquidity. The fear of impacts from the virus outbreak on economy has also soured investor confidence. Due to the prolonged nature of the outbreak, bond investors are holding on their cash and are reluctant to invest even in bonds issued by good-quality companies. The risk-off sentiment in the corporate bond market poses a refinancing risk for all rated issuers.

Liquidity should be manageable

We assess SIRI's liquidity to be manageable over the next 12 months. At the end of December 2019, the company had Bt2.5 billion in cash and cash equivalents plus undrawn unconditional committed credit facilities from financial institutions of around Bt11 billion. FFO over the next 12 months is forecast at Bt0.8 billion. The company also has unencumbered land banks at book value worth Bt15.7 billion and remaining units in its own debt-free projects with a selling price of Bt5.7 billion. SIRI's debts scheduled for repayment over the next 12 months amount to Bt17.1 billion, comprising Bt5.5 billion in short-term promissory notes (P/Ns), Bt1.4 billion in short-term bills of exchanges (B/Es), Bt3.9 billion in long-term project loan, Bt1.3 billion in long-term P/N for land, and Bt5 billion in debentures. As demand for corporate bonds dries up, SIRI plans to use its available credit facilities to repay its short-term obligations and debentures.

According to the key financial covenants on its bank loans and debentures, SIRI has to maintain the interest-bearing debt to equity ratio (based on its consolidated financial statements) at lower than 2.5 times. The ratio at the end of December 2019 was 1.96 times. Thus, the company was still in compliance with its financial covenants.

BASE-CASE ASSUMPTIONS

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

- SIRI to launch new own and JV condominium projects worth Bt8 billion in 2020 and Bt15 billion per annum during 2021-2022
- SIRI to launch new landed property projects worth Bt8 billion per annum
- Annual budget for land acquisition for its own projects is forecast to be Bt3-Bt5 billion per annum
- Capital investment in JV projects and associates will be Bt0.6 billion per annum

RATING OUTLOOK

The "negative" rating outlook on SIRI reflects our concerns that SIRI's financial leverage may not improve as expected. Due to the negative impact from the COVID-19 outbreak, SIRI's presales and transfers could be lower than our forecast. Thus, its debt to capitalization ratio could stay above 66% and its FFO to total debt ratio should be significantly below 5%.

RATING SENSITIVITIES

SIRI's outlook could be revised back to "stable" should its debt to capitalization ratio stay below 66% and its FFO to total debt ratio increase to 5%-10% on a sustainable basis. A further decline in its financial profile without sign of recovery could trigger a rating downgrade.

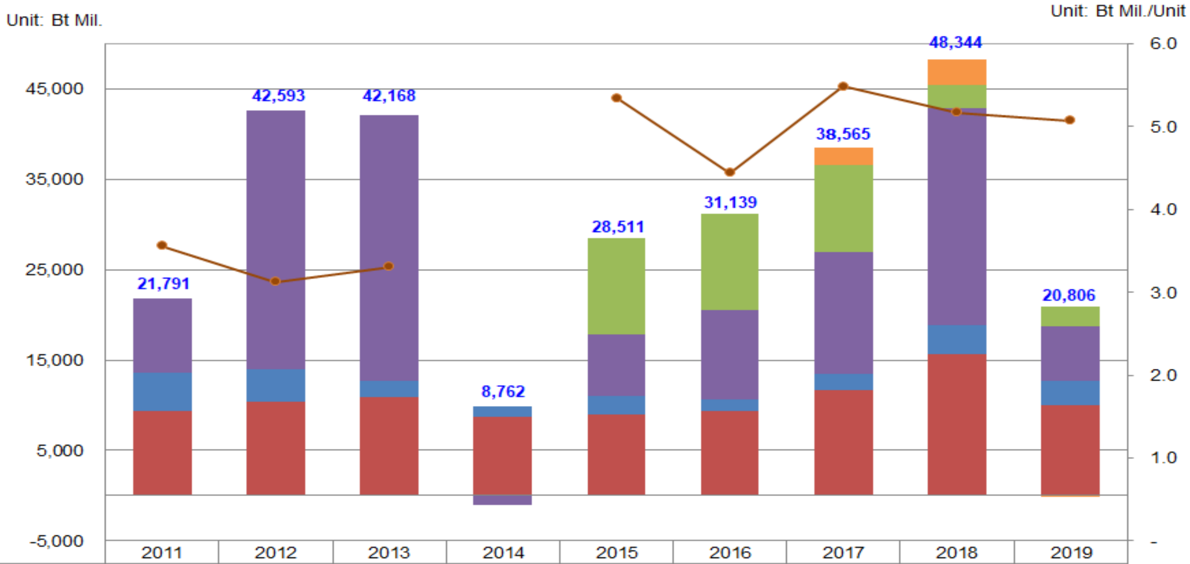
COMPANY OVERVIEW

SIRI was established in 1984 by the Chutrakul family and listed on the Stock Exchange of Thailand (SET) in 1996. SIRI offers condominium, SDH, and townhouse units covering low-end to high-end segments. Its condominium units are priced from Bt50,000 to Bt600,000 per sq.m. SIRI's SDH units are priced from Bt4 million to Bt240 million per unit, while the prices of its townhouse products range from Bt2 million to Bt80 million. At the end of December 2019, condominiums accounted for 53% of SIRI's total project value, while landed properties accounted for the rest.

SIRI's revenue contribution from residential sales constituted more than 85% of total operating revenue during 2014-2016, but its contribution decreased to 81% in 2018 and 77% in 2019. Revenue contribution from business management through JV projects increased to 11% -14% of total operating revenue during 2017-2019, from 6% in 2016 and 2% in 2015, following larger portfolio of JV condominium projects. Revenue from business management of Plus Property Co., Ltd. contributed 2%-5% of total operating revenue during the past five years. Revenue from other businesses accounted for the rest.

KEY OPERATING PERFORMANCE

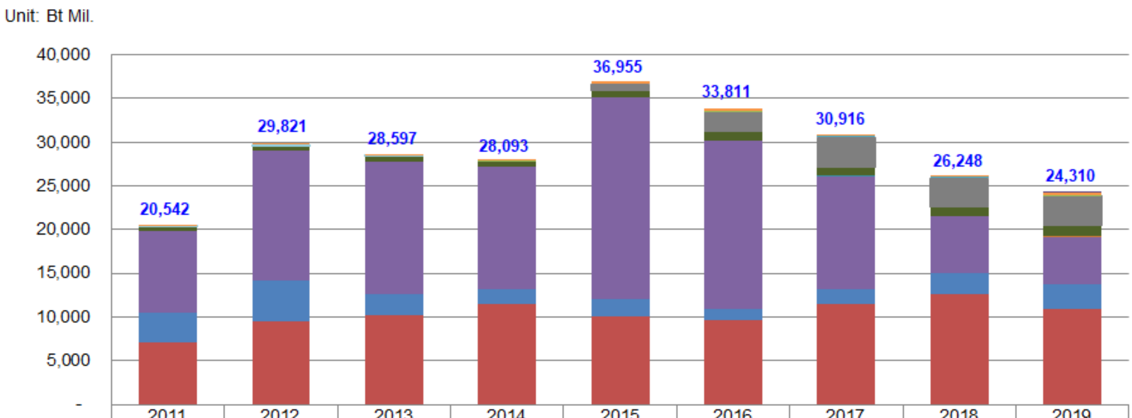
Chart 1: Presales Performance



	2011	2012	2013	2014	2015	2016	2017	2018	2019
Condo - JV Tokyu							1,986	2,924	-136
Condo - JV BTS					10,642	10,620	9,602	2,526	2,199
Condo - SIRI	8,204	28,553	29,470	-1,086	6,868	9,837	13,480	24,058	5,984
TH & Mix	4,200	3,614	1,820	1,095	2,066	1,261	1,838	3,199	2,726
SDH	9,387	10,426	10,878	8,752	8,936	9,422	11,659	15,637	10,032
Avg. Price	3.6	3.1	3.3		5.3	4.4	5.5	5.2	5.1

Source: SIRI

Chart 2: Breakdown of Revenue from Sales and Services



	2011	2012	2013	2014	2015	2016	2017	2018	2019
Hotel management (The Standard)									145
School	96	142	184	184	227	212	205	206	212
Hotel	18	19	14	53	77	90	88	91	91
Medical spa	65	75	49						
Leasehold rights written off	43	51	52	54	52	57	54	52	53
Business management (JV)					770	2,201	3,423	3,329	3,418
Business management (PLUS)	438	473	500	606	661	1,072	944	982	1,183
Projects for rent	113	106	74	22	12	23	36	32	37
Sales of construction materials					4	57	86	2	44
Condominium	9,262	14,804	15,157	14,045	23,048	19,260	12,897	6,605	5,368
TH & Mix	3,372	4,635	2,367	1,622	1,996	1,224	1,781	2,396	2,791
SDH	7,136	9,515	10,200	11,508	10,108	9,616	11,401	12,552	10,967

Source: SIRI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----------------------Year Ended 31 December -------------------				
	2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	24,929	26,674	31,291	34,131	37,364
Earnings before interest and taxes (EBIT)	5,085	4,813	5,644	6,150	6,487
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,620	5,230	5,982	6,495	6,834
Funds from operations (FFO)	3,093	2,881	3,829	4,106	3,806
Adjusted interest expense	1,905	1,817	1,335	1,445	1,786
Real estate development investments	80,788	69,532	58,546	56,099	55,078
Total assets	108,336	95,357	80,341	72,774	69,451
Adjusted debt	68,011	56,228	40,711	36,438	32,859
Adjusted equity	31,875	30,852	30,919	28,096	27,198
Adjusted Ratios					
EBITDA margin (%)	22.54	19.61	19.12	19.03	18.29
Pretax return on permanent capital (%)	5.21	5.71	7.85	9.40	10.21
EBITDA interest coverage (times)	2.95	2.88	4.48	4.50	3.83
Debt to EBITDA (times)	12.10	10.75	6.81	5.61	4.81
FFO to debt (%)	4.55	5.12	9.40	11.27	11.58
Debt to capitalization (%)	68.09	64.57	56.83	56.46	54.71

* *Consolidated financial statements*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

Sansiri PLC (SIRI)

Company Rating:	BBB+
Issue Ratings:	
SIRI204A: Bt2,000 million senior unsecured debentures due 2020	BBB+
SIRI206A: Bt2,000 million senior unsecured debentures due 2020	BBB+
SIRI218A: Bt5,000 million senior unsecured debentures due 2021	BBB+
SIRI21NA: Bt2,000 million senior unsecured debentures due 2021	BBB+
SIRI222A: Bt4,933.4 million senior unsecured debentures due 2022	BBB+
SIRI229A: Bt2,000 million senior unsecured debentures due 2022	BBB+
SIRI229B: Bt2,500 million senior unsecured debentures due 2022	BBB+
SIRI231A: Bt4,000 million senior unsecured debentures due 2023	BBB+
SIRI236A: Bt4,000 million senior unsecured debentures due 2023	BBB+
Up to Bt3,000 million subordinated capital debentures	BBB-
Rating Outlook:	Negative

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000