

SANSIRI PLC

No. 73/2022
17 May 2022

CORPORATES

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

Last Review Date: 21/01/22

Company Rating History:

Date	Rating	Outlook/Alert
30/04/21	BBB+	Stable
01/04/20	BBB+	Negative
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	-

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RATIONALE

TRIS Rating affirms the company rating on Sansiri PLC (SIRI) and the ratings on SIRI's existing senior unsecured debentures at "BBB+", with a "stable" rating outlook. We also affirm the ratings on SIRI's subordinated capital debentures (hybrid debentures) at "BBB-". At the same time, we assign the rating of "BBB+" to SIRI's proposed issue of up to THB3 billion in senior unsecured debentures. The proceeds from the new debentures will be used for SIRI's debt repayment and working capital.

The ratings on SIRI and its debentures reflect the company's diverse product portfolio, its strong market position in both landed property and condominium segments, and its aggressive financial leverage. The ratings also reflect our concerns over the relatively high household debt level and the rising inflation rate which could impact the purchasing power of homebuyers in the short to medium term.

KEY RATING CONSIDERATIONS

Diversified portfolio and well-recognized brands in residential property market

We view that SIRI's product portfolio is well-diversified in terms of product type and price range. SIRI offers single-detached houses (SDH), semi-detached houses (Semi-DH), townhouses, and condominiums through different market segments. SIRI's landed properties cover the low- to high-end segments with the unit price ranging from THB2 million to THB80 million. SIRI's condominium products also cover low to luxury segments, with selling prices ranging from THB50,000 to THB600,000 per square meter (sq.m.).

SIRI's product diversity allows the company to adjust its portfolio to meet market demand. This helps mitigate downside risk from unfavorable market conditions in some segments in any particular period. As of March 2022, SIRI had 60 existing landed property projects and 27 condominium projects (including six condominium projects under joint ventures (JVs)), with total unsold value of THB56.3 billion (including built and un-built units). Landed property projects accounted for 54% of the total remaining value, while condominium projects accounted for the rest.

Strong competitive position with expected improving revenue and earnings

We expect SIRI will be able to sustain its strong market position in the residential property market over the next three years. SIRI has ranked top-five among the listed residential property developers in terms of total operating revenue during the past several years. SIRI's total operating revenue ranged around THB25-THB35 billion per annum in the last five years. Revenue in 2021 stood at THB29.6 billion even though SIRI's new project launch and backlog recorded the lowest in a decade. A decline in backlog was due mainly to SIRI's changing strategy to focus more on landed property projects than condominium projects since 2019.

Looking ahead, we expect SIRI's total operating revenue will revive to THB32-THB35 billion per annum during 2022-2024 as the company plans to launch more projects during 2022-2024. In addition, SIRI's revenue will be partly supported by its backlog worth around THB17.5 billion at the end of March 2022, comprising THB15.8 billion in backlog of its own projects and THB1.7 billion in backlog under JVs. The backlog worth THB11.4 billion is expected to

be transferred to customers during the remainder of 2022, THB5.0 billion in 2023, THB1.0 billion in 2024, and THB0.1 billion in 2025.

SIRI should be able to sustain its profitability at an acceptable level during the next three years. Our base-case assumes SIRI's average gross profit margin from all businesses to be at 32% of total operating revenue, and its selling, general, and administrative (SG&A) expenses not over 20% of total operating revenue. SIRI's earnings before interest, taxes, depreciation, and amortization (EBITDA) should stay in the THB7.0-THB7.5 billion range per annum or 21%-22% of total operating revenue during 2022-2024. The pretax return on permanent capital (ROPC) ratio will likely be kept above 5% over the forecast period.

Heightened concerns over the high household debt level and rising inflation rate

As of December 2021, household debt peaked at THB14.58 trillion. The household debt to gross domestic product (GDP) ratio stood at 90.12%, increasing slightly from 89.66% at the end of 2020. The relatively slow pace of economic recovery has caused this ratio to hang at a high level. The Thai GDP dropped by 6.2% year-on-year (y-o-y) in 2020 and grew only 1.6% y-o-y in 2021. This year, we expect the GDP will grow by 2%-3% y-o-y. Thus, assuming household debt staying at the same level, the household debt to GDP ratio should maintain at around 87%-88% in 2022. The relatively high household debt level will impact the housing sales, especially in the lower-priced housing segment where bank rejection rate is high.

In addition, the rising inflation rates since the last quarter of 2021 have posed a threat to both developers and homebuyers. High inflation rates will push up the development and funding costs for developers while lowering the purchasing power of homebuyers. The high inflation rates will impact the prices of construction materials and labor costs. Thus, developers' profit margins could decline if they are unable to pass-through the rising costs to homebuyers.

Leverage will remain high

Our base-case scenario projects SIRI's debt to capitalization ratio will sustain at 63%-65% during 2022-2024. We view that SIRI's financial leverage is unlikely to drop much from the current level as the company plans to aggressively launch new projects this year. We project SIRI will launch new landed property projects worth THB30-THB35 billion per annum and condominium projects worth THB11 billion per annum (comprising THB8 billion of its own projects and THB3 billion of JV projects). Around half of new projects will be in the middle- to low-end segments. We project SIRI's budget for land acquisition for its own projects will be THB8 billion annually during 2022-2024.

We have incorporated the shareholder loan injection to the JV residential projects of around THB500 million per annum and to the JV industrial estate for rent project of THB200-THB300 million per annum in our base-case scenario. The cash received from land plot sale to a private entity as well as warehouse and factory sale to a trust from the JV industrial estates in the next few years should partly alleviate SIRI's debt burden. We do not expect the company to make sizable investment in its hotel management, financial services, and other supportive businesses.

In our base case forecast, we expect SIRI to retain its debt to capitalization ratio below 66% and its funds from operations (FFO) to total debt ratio in the 5%-10% range over the forecast period. The financial covenants on SIRI's bank loans and debentures require the company's interest-bearing debt to equity ratio (excluding lease liability) to remain below 2.5 times. As of December 2021, the ratio was 1.55 times. We believe that SIRI should have no problems to comply with the financial covenants over the next 12 to 18 months.

Tight liquidity but should be manageable

We assess that SIRI's liquidity to relatively tight but should be manageable over the next 12 months. As of December 2021, SIRI's maturing debts over the next 12 months amounted to THB30.4 billion, comprising THB10.7 billion debentures, THB8.6 billion long-term project loans, THB5.9 billion short-term promissory notes (P/Ns), THB4.0 billion short-term bills of exchange (B/Es), THB1.0 billion long-term aval P/Ns for land purchase, and THB0.2 billion lease liability. We estimate SIRI's capital expenditures for precast machinery and other investments will be around THB700 million in 2022, and dividend payment to be 50% of net profit.

At the end of December 2021, SIRI's sources of funds consisted of THB2.2 billion cash plus THB10.1 billion undrawn unconditional committed credit facilities from banks. FFO over the next 12 months is forecast to be THB3.8 billion. In addition, SIRI had unencumbered land banks at book value of THB8.5 billion and remaining finished units in its own debt-free projects with selling prices of THB4.7 billion, which can be pledged as collaterals for new loans (if needed). SIRI usually refinances its matured debentures by new debenture issuance. Project loans are normally repaid with the proceeds from the underlying projects' unit transfers. P/Ns for land purchases will be converted into long-term project loans thereafter.

As of December 2021, SIRI had total debt of THB69.8 billion. SIRI's priority debt, including secured debts at the company and its subsidiaries, was THB19.8 billion. These translate to a priority debt to total debt ratio of 28%.

BASE-CASE ASSUMPTIONS

These are the key assumptions for SIRI's operations in our base-case forecast during 2022-2024:

- SIRI to launch new landed property projects worth THB30-THB35 billion per annum.
- SIRI to launch its own new condominium projects worth THB8 billion annually and new JV condominium projects worth THB3 billion annually.
- Annual budget for land acquisition for its own projects to be THB8 billion.
- Total operating revenue to revert to THB32-THB35 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SIRI will be able to deliver its operating performance and sustain its financial profile as targeted. We expect SIRI will keep its debt to capitalization ratio below 66% and its FFO to total debt ratio in the 5%-10% range over the forecast period. We also anticipate SIRI will retain its ROPC ratio above 5%.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward should SIRI's operating results and/or financial position significantly deteriorate from our expectation. On the contrary, an upward revision would materialize if SIRI's financial profile improves to the levels attained by its higher-rated peers, such that the debt to capitalization ratio stays below 55% and the FFO to total debt ratio soars to 10%-15% on a sustained basis.

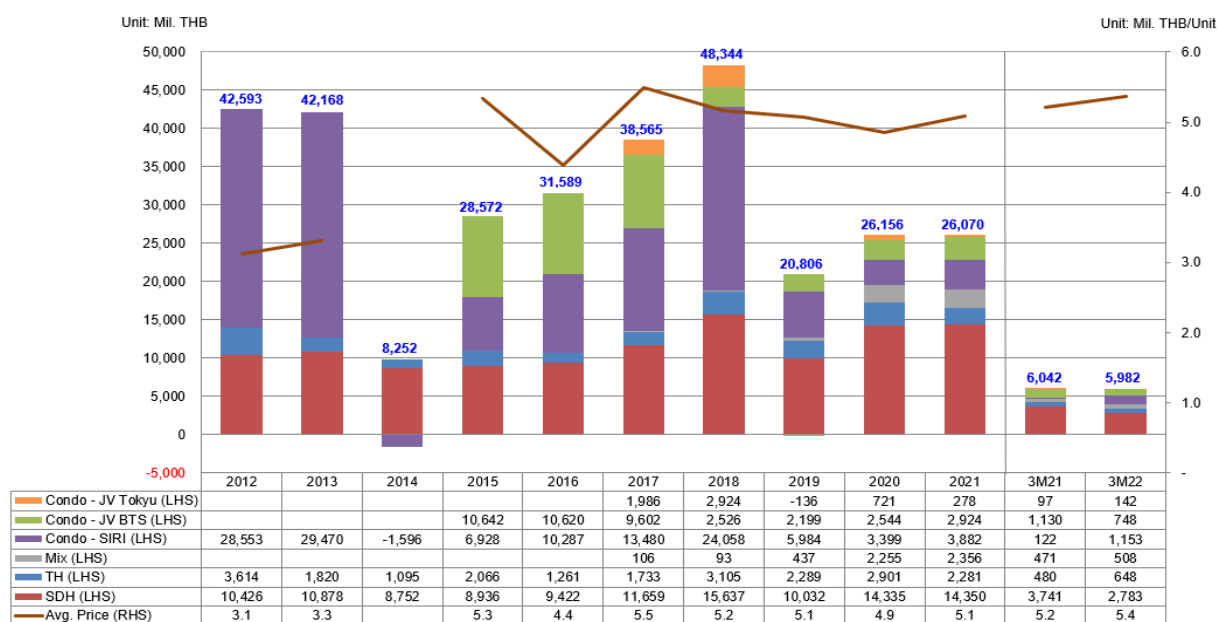
COMPANY OVERVIEW

SIRI was established in 1984 by the Chutrakul family and listed on the Stock Exchange of Thailand (SET) in 1996. SIRI offers landed property and condominium units covering low- to high-end segments. Its landed property units include SDHs, Semi-DHs, and townhouses, with the price ranging from THB2 million to THB80 million per unit. Its condominium units are priced from THB50,000 to THB600,000 per sq.m. As of March 2022, landed properties accounted for 58% of SIRI's total project value, while condominium accounted for the rest.

SIRI's revenue contribution from residential sales constituted 80%-90% of its total revenue from sales and services during the past five years. Revenue from residential sales was mainly driven by SDH and condominium products. Revenue contribution from business management through JV projects declined to 5% in 2020 and 2% in 2021, following the smaller portfolio of JV condominium projects. Revenue contribution from business management of Plus Property Co., Ltd. was 3%-4% of total revenue from sales and services during the past five years. Revenue contribution from other businesses remained negligible.

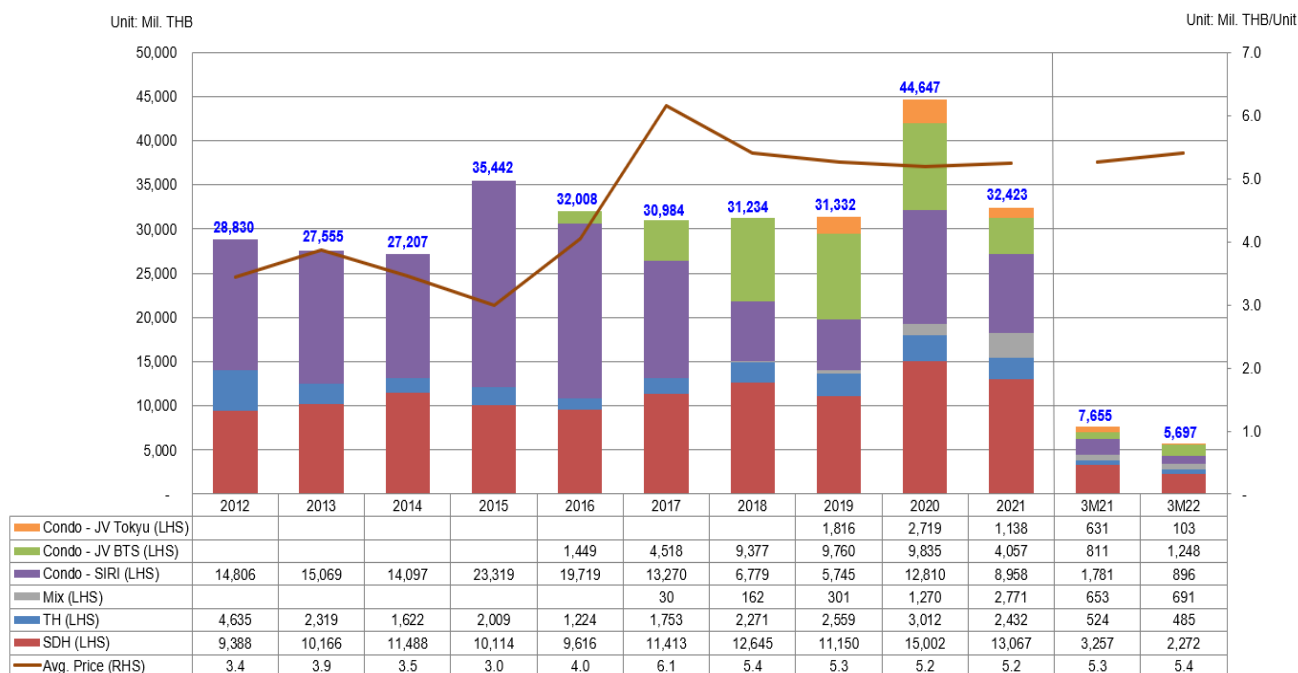
KEY OPERATING PERFORMANCE

Chart 1: Presale Performance



Source: SIRI

Chart 2: Transfer Performance



Source: SIRI

Table 1: Revenue from Sales and Service Contribution

Revenue from Sales and Services	Unit	2017	2018	2019	2020	2021
SDH	%	36.9	47.8	45.1	42.5	44.5
TH	%	5.7	8.5	10.3	8.4	7.9
Mix	%	0.1	0.6	1.2	3.5	9.2
Condo	%	41.7	25.2	22.1	35.9	29.7
Revenue from sales of real estate	%	84.4	82.1	78.7	90.3	91.3
Sales of construction materials	%	0.3	0.0	0.2	0.2	0.2
Projects for rent	%	0.1	0.1	0.1	0.2	0.4
Leasehold rights written off	%	0.2	0.2	0.2	0.1	0.2
Rental and service income	%	0.3	0.3	0.3	0.3	0.6
Business management from JV	%	11.1	12.7	15.0	4.8	1.8
Business management by Plus Property Co., Ltd.	%	3.0	3.7	3.9	3.4	4.1
Hotel	%	0.3	0.4	0.4	0.1	0.3
School	%	0.6	0.8	0.9	0.5	0.6
Hotel management	%			0.6	0.4	1.1
Revenue from rendering of services	%	15.0	17.6	20.8	9.2	7.9
Total revenue from sales and services	%	100.0	100.0	100.0	100.0	100.0
Total revenue from sales and services	Mil. THB	30,916	26,248	24,310	33,833	28,642

Source: SIRI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	29,557	34,603	24,929	26,674	31,291
Earnings before interest and taxes (EBIT)	5,594	5,528	5,058	4,813	5,644
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,413	6,370	5,593	5,230	5,982
Funds from operations (FFO)	3,203	3,603	2,813	2,754	3,676
Adjusted interest expense	2,397	2,130	1,905	1,817	1,335
Real estate development investments	85,608	83,691	80,788	69,532	58,546
Total assets	116,632	112,632	108,336	95,357	80,341
Adjusted debt	70,136	62,491	67,788	56,228	40,711
Adjusted equity	37,417	35,647	31,875	30,852	30,919
Adjusted Ratios					
EBITDA margin (%)	21.70	18.41	22.43	19.61	19.12
Pretax return on permanent capital (%)	5.29	5.43	5.19	5.71	7.85
EBITDA interest coverage (times)	2.68	2.99	2.94	2.88	4.48
Debt to EBITDA (times)	10.94	9.81	12.12	10.75	6.81
FFO to debt (%)	4.57	5.77	4.15	4.90	9.03
Debt to capitalization (%)	65.21	63.68	68.02	64.57	56.83

* Consolidated financial statements

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Sansiri PLC (SIRI)

Company Rating:	BBB+
Issue Ratings:	
SIRI229A: THB2,000 million senior unsecured debentures due 2022	BBB+
SIRI229B: THB2,500 million senior unsecured debentures due 2022	BBB+
SIRI231A: THB4,000 million senior unsecured debentures due 2023	BBB+
SIRI236A: THB4,000 million senior unsecured debentures due 2023	BBB+
SIRI243A: THB498 million senior unsecured debentures due 2024	BBB+
SIRI247A: THB2,000 million senior unsecured debentures due 2024	BBB+
SIRI240A: THB3,600 million senior unsecured debentures due 2024	BBB+
SIRI24DA: THB800 million senior unsecured debentures due 2024	BBB+
SIRI24DB: THB500 million senior unsecured debentures due 2024	BBB+
SIRI252A: THB6,000 million senior unsecured debentures due 2025	BBB+
SIRI252B: THB100 million senior unsecured debentures due 2025	BBB+
SIRI263A: THB5,000 million senior unsecured debentures due 2026	BBB+
SIRI26DA: THB200 million senior unsecured debentures due 2026	BBB+
SIRI20PA: THB3,000 million subordinated capital debentures (hybrid debentures)	BBB-
THB2,050 million subordinated capital debentures (hybrid debentures)	BBB-
Up to THB3,000 million senior unsecured debentures due within 4 years	BBB+
Rating Outlook:	Stable

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