

SANSIRI PLC

No. 24/2015

8 April 2015

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB
Outlook:	Stable

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	

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Rating Rationale

TRIS Rating affirms the company rating of Sansiri PLC (SIRI) at “BBB+” and affirms the ratings of SIRI’s existing senior unsecured debentures at “BBB”. At the same time, TRIS Rating assigns the rating of “BBB” to SIRI’s proposed issue of up to Bt2,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance debentures maturing in May and October 2015. The ratings reflect SIRI’s leading position and proven track record in the residential property development industry, well-known condominium and housing brands, and diverse product portfolio. These strengths are partially offset by SIRI’s expected higher financial leverage from project expansion under its own projects and through joint ventures (JVs), and concerns over the high number of backlog cancellations in low-end condominium segment. The ratings also take into consideration the cyclical and competitive nature of the property development industry, plus concerns over the slower-than-expected growth in the domestic economy and high household debt levels which may lead to low purchasing power and stagnant demand in residential property development.

SIRI is one of the leading property developers in Thailand. As of December 2014, the company had 110 residential projects in its portfolio, worth a total of around Bt140,000 million. The portfolio consisted of condominium (55% of the total portfolio value), single-detached house (SDH, 37%), and townhouse (8%) projects. The average unit price across the portfolio was Bt3.5 million. At the end of December 2014, SIRI had a backlog worth Bt36,000 million and unsold units worth Bt66,000 million available for sale.

SIRI’s presales reached around Bt42,000 million per annum during 2012-2013. Presales plunged to Bt8,762 million in 2014 due mainly to large number of backlog cancellations, especially in SIRI’s “dcondo” and “The Base” condominium projects. In addition to a high number of cancellations, SIRI launched fewer new residential projects in 2014, reflecting the political unrest and low consumer confidence. Presales for condominium projects were actually a negative Bt1,086 million in 2014 because cancellations outstripped actual bookings. Presales of SDH and townhouse projects declined by 20% and 40% year-on-year (y-o-y), respectively.

SIRI’s total revenue in 2014 dropped by 2% y-o-y to Bt28,093 million. Condominiums generated revenue of Bt14,045 million in 2014, a 7% y-o-y drop. Revenue from SDHs increased by 13% y-o-y, while revenue from townhouses fell by 31%. SIRI’s revenues in 2015 and 2016 are partly secured by backlogs worth Bt20,000 million and Bt13,000 million, respectively. Over the next three years, SIRI’s revenue is expected to be around Bt30,000 million per annum, if the company can transfer its backlog to customers as planned.

SIRI’s gross profit margin held at 33%-34% of total revenue annually during the past five years. Selling, general, and administrative (SG&A) expenses remained

high at 20%-24% of total revenue during 2011-2014. As a result, the operating margin (as measured by operating income before depreciation and amortization as a percentage of sales) was 10%-15% during the past four years. Going forward, SIRI's operating margin is expected to range from 12%-15% over the next three years.

SIRI's financial leverage was relatively high. Its real estate investments rose substantially, causing the debt to capitalization ratio to increase from 61%-63% during 2010-2012 to 67% in 2013 and 69% as of September 2014. However, the company successfully raised around Bt6,000 million of new capital in the fourth quarter of 2014, dropping the debt to capitalization ratio to 61% at the end of 2014. Due to the significant amount of its real estate investments, its leverage is expected to maintain at a relatively high level. Under TRIS Rating's base-case scenario, SIRI's financial leverage over the next three years will rise from its business expansion to pursue the growth. However, the debt to capitalization ratio (including proportionate debt from JVs) should not exceed 65%, or the interest-bearing debt to equity ratio should be less than 2 times.

SIRI's liquidity profile during 2013-2014 weakened due primarily to higher debt. The ratio of funds from operations (FFO) to total debt declined to 4% in 2013 and 8% in 2014, down from 12%-14% during 2009-2012. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio diminished to 2-3 times during the past two years, from 4-6 times during 2009-2012. SIRI's financial flexibility was supported by Bt3,000 million in cash, Bt40,000 million in undrawn credit facilities as of December 2014, and expected minimum FFO of around Bt2,000 million per year.

Rating Outlook

The "stable" outlook reflects the expectation that SIRI will be able to deliver the backlog as scheduled. The operating margin should be maintained at 12%-15% over the next three years. SIRI is expected to keep its debt to capitalization ratio (including proportionate debt from JVs) below 65%, or the interest-bearing debt to equity ratio at less than 2 times.

SIRI's ratings and/or outlook could be upgraded, should its financial profile improve, as its FFO to total debt ratio stays at around 10%-15% and the debt to capitalization ratio (including proportionate debt from JVs) is kept below 60% on a sustainable basis. On the contrary, the ratings and/or outlook could be revised downward if SIRI's financial performance is significantly worse than the target levels.

Sansiri PLC (SIRI)

Company Rating:	BBB+
Issue Ratings:	
SIRI155A: Bt1,000 million senior unsecured debentures due 2015	BBB
SIRI150A: Bt1,000 million senior unsecured debentures due 2015	BBB
SIRI167A: Bt1,000 million senior unsecured debentures due 2016	BBB
SIRI160A: Bt1,000 million senior unsecured debentures due 2016	BBB
SIRI181A: Bt3,000 million senior unsecured debentures due 2018	BBB
SIRI185A: Bt1,000 million senior unsecured debentures due 2018	BBB
SIRI188A: Bt2,000 million senior unsecured debentures due 2018	BBB
SIRI194A: Bt1,000 million senior unsecured debentures due 2019	BBB
Up to Bt2,000 million senior unsecured debentures due within 2020	BBB
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December					
	2014	2013	2012	2011	2010	2009
Revenues	28,093	28,597	29,821	20,542	18,596	15,824
Gross interest expense	1,956	1,481	1,181	886	540	464
Net income from operations	3,393	1,930	2,938	2,015	1,898	970
Funds from operations (FFO)	3,130	1,400	3,387	2,266	1,886	1,270
Inventory investment	(11,125)	(11,085)	(8,365)	(2,669)	(3,140)	95
Total assets	73,147	60,040	46,495	36,238	31,190	25,783
Total debts	39,103	34,675	24,017	19,367	15,948	10,541
Shareholders' equity	24,816	17,067	15,225	11,377	9,448	8,251
Operating income before depreciation and amortization as % of sales	14.28	9.80	14.11	15.48	16.23	15.25
Pretax return on permanent capital (%)	8.61	6.44	12.07	10.75	12.89	10.92
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.71	2.17	3.85	3.76	5.74	4.89
FFO/total debt (%)	8.01	4.04	14.10	11.70	11.82	12.05
Total debt/capitalization (%)	61.18	67.01	61.20	62.99	62.80	56.09

* Consolidated financial statements

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