TRIS RATING

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AREEYA PROPERTY PLC

No. 4/2019
9 January 2019

CORPORATES

Company Rating: BB
Outlook: Stable

Last Review Date: 04/01/18

Company Rating History:

Date	Rating	Outlook/Alert
04/01/18	BB	Stable
30/12/16	BB+	Negative
13/01/15	BB+	Stable
10/01/14	BBB-	Negative
13/03/13	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Areeya Property PLC (Areeya) at "BB" with a "stable" outlook. The rating reflects Areeya's high level of financial leverage, tightened liquidity profile, and volatile operating performance. The rating also incorporates concerns over the high level of household debt nationwide plus the cyclical nature of and high level of competition in the residential property industry.

KEY RATING CONSIDERATIONS

High cancellation and rejection rate leading to volatile operating performance

Areeya struggled with higher cancellation and rejection rates for mortgage loans as its products are concentrated in low-priced segments. Across Areeya's product portfolio, the average selling price was Bt3 million per unit. Due to tightening banks' lending policies in the low-priced segment, the company's cancellation and rejection rate rose to 42% of presales during the first nine months in 2018, up from 38% of presales in 2017. The high level of cancellation and rejection rate heavily influence on Areeya's revenue recognition. Areeya's revenue dropped to Bt3,019 million in the first nine months of 2018, from Bt3,595 million during the same period in 2017.

As of September 2018, Areeya's backlog stood at Bt4,665 million, which were scheduled to transfer in 2019 and 2021 at around Bt758 million and Bt2,499 million, respectively. Due to the small backlog, the company's revenue stream during 2019 through 2021 will hinge on its ability to generate new sales. At the end of September 2018, Areeya had 51 active projects, consisting of 13 single detached houses (SDHand semi-SDH) projects, 28 townhouse projects, and 10 condominium projects. Across the entire portfolio of active projects, Areeya has unsold units worth Bt14,516 million available for sale. About 34% of the value was in condominium projects, 34% in townhouse projects, and 32% in SDH projects. About 40% of the remaining value of condominiums was ready to transfer. In 2019, Areeya will place greater focus on the sales of the completed units in order to improve its financial profile.

Profitability remains relatively low

Areeya's profitability has been low due to high selling, general, and administrative expenses (SG&A). The operating margin (operating income before depreciation and amortization as a percentage of revenue) dropped to 8% in 2017, down from 13% in 2016. During the first nine months of 2018, the operating margin was 9%, a slight increase from 8% in the same period of 2017. SG&A expenses, especially marketing expenses, have risen significantly since 2017.

Going forward, TRIS Rating expects Areeya's profitability is expected to slightly increase from the current level due to more transfers of units in high-margin condominium projects and an increase in its revenue. TRIS Rating's base case assumes revenue will grow to about Bt4,600 million-Bt6,700 million per annum during 2019-2021, boosted by the completed condominium projects, the "Chalermnit" project and "A Space Mega Bangna" project. The operating margin is expected to range from 11% to 15% over the next three years.

High level of financial leverage

The level of Areeya's financial leverage is expected to remain high from aggressive expansion as well as small capital base. During the past two years, Areeya launched three condominium projects, worth approximately Bt7,000 million in total. In the coming year, the company plans to launch two mixed-use projects worth around Bt15,000 million. One of the two projects is a five-star hotel and high-end condominium project worth Bt10,700 million in total on Ratchadamri road. The other is an office building and condominium project worth around Bt4,000 million in the Bangna area. The total construction cost of these five projects during 2019 through 2021 will be around Bt6,500 million. Areeya plans to join with a partner to develop Ratchadamri project in order to partially relieve its capital need and alleviate the debt burden.

Considering the company's small capital base and its large capital expenditures, TRIS Rating expects Areeya's debt to capitalization ratio to stay at around 73%-75%. At the end of September 2018, the debt to capitalization ratio stood at 74%. The persistently high level of leverage heightens concerns over the company's ability to comply with its bond covenants. Areeya must keep the net interest-bearing debt to equity ratio below 3 times. The ratio at the end of September 2018 was 2.6 times, nearly the maximum level of 3 times stated in the terms of the bond indenture. Thus, Areeya has to manage its capital structure carefully as it expands in order to avoid breaching this covenant.

Exposed to cyclical and competitive environment

Demand for residential property is cyclical and affected greatly by economic conditions. Due to a slowdown in the domestic economy, coupled with a concern over the lingering high level of household debt nationwide, lending policies at banks remain stringent especially in the middle-to-low-income segment. Similar to other residential developers targeting the middle-to-low income segment, Areeya also struggled with higher rejection rates for mortgage loans and the declining purchasing power of prospective buyers.

Areeya started moving to capture customers in the high-end segment. Its first foray was the "AVA Residences" project launched in the beginning of 2017, followed by the "Chalermnit" project in the late 2017. The "Ratchadamri" project, planned for launch in 2019, is another project targeting buyers in the high-end segment. These three projects have an average selling price of Bt42 million per unit, Bt18 million per unit, and Bt20 million per unit, respectively. However, the move into the high-end segment has raised two major concerns: the financial burden during the development period and the company's ability to compete with other developers in the high-end segment. The slower absorption and transfer rates may cause its leverage to hang at the higher level for a longer period.

Liquidity remains a key concern

Areeya's liquidity is tight. Due to the high debt level, Areeya's cash flow protection remains weak and raises liquidity concerns. We expect Areeya's funds from operations (FFO) in 2018 is expected to drop further to around minus Bt90 million, down from minus Bt67 million in 2017. During 2019-2021, FFO is expected to be volatile ranging from minus Bt60 million to Bt300 million per annum. During the investment period, the FFO to adjusted debt ratio is forecast at -1% in 2018, and will range around -0.5% to 2.5% in 2019-2021. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio is expected to range from 1 to 1.5 times.

As of September 2018, the company had Bt3,627 million in debt due in the next 12 months, comprising debentures of Bt3,031 million, long-term project loans of Bt416 million, and short-term loans of Bt180 million (excluding promissory notes of Bt120 million used to purchase land which will be converted to long-term loans). The project loans will be repaid with the cash received from the transfers of residential property units to customers. Areeya has to refinance a part of its maturing debentures. Its sources of fund include cash of Bt125 million and undrawn committed credit facilities of around Bt1,022 million. In addition, the company plans to sell some plots of land in order to support liquidity.

BASE-CASE ASSUMPTIONS

- Under TRIS's base case scenario, TRIS Rating assumes that Areeya's revenue will grow to around Bt4,600-Bt6,700 million per annum during 2019-2021.
- We expect that Areeya's gross profit margins will stay at around 34%-39% and its operating margins will stay around 11%-15% over the next three years.
- Budget for land acquisition is expected to be Bt700-Bt1,000 million per annum in 2019-2021.
- Capital expenditure for condominium projects and mixed-use projects will be around Bt1,800 million in 2019, and around Bt2,500 million per year during 2020-2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that Areeya will maintain its operating performance and financial position at the current levels. In addition, TRIS Rating expects the company to raise capital and/or find strategic partners to lighten its debt burden. Under TRIS Rating's base case scenario, Areeya's adjusted debt to capitalization ratio will stay around 73%-75%.

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RATING SENSITIVITIES

The rating upside is limited in the near term, considering the current financial profile and the limited headroom on its covenant. However, the rating and/or outlook could be revised upward if its operating margin improves to around 11%-15% as target while its adjusted debt to capitalization ratio falls below 70%, on a sustained basis. In contrast, a rating downgrade could occur if the operating performance drops further or if the capital structure worsens more than expectations.

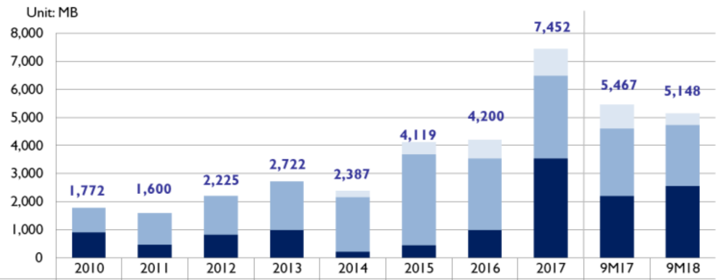
COMPANY OVERVIEW

Areeya was established by the Laohapoonrungsee family in 2000 and listed on the Stock Exchange of Thailand (SET) in April 2004. The Laohapoonrungsee family has been the company's major shareholder since inception, owning a 54% stake as of September 2018. Mr. Wisit Laohapoonrungsee remains Areeya's chairman and chief executive officer (CEO).

Areeya offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses, and condominiums. Its products target the middle-income segment. Across Areeya's product portfolio, the average selling price was Bt3 million per unit. Townhouses are the company's biggest product, contributing more than half of revenue. As of September 2018, Areeya had about 51 active projects. The total project value was Bt37,454 million. The value of remaining unsold units, across all of its active projects, was about Bt14,516 million. About 34% of the value was in condominium projects and townhouse projects, and 32% in SDH projects. Areeya's backlog stood at about Bt4,665 million as of September 2018. Nearly 90% of the value of the backlog was condominium projects.

KEY OPERATING PERFORMANCE

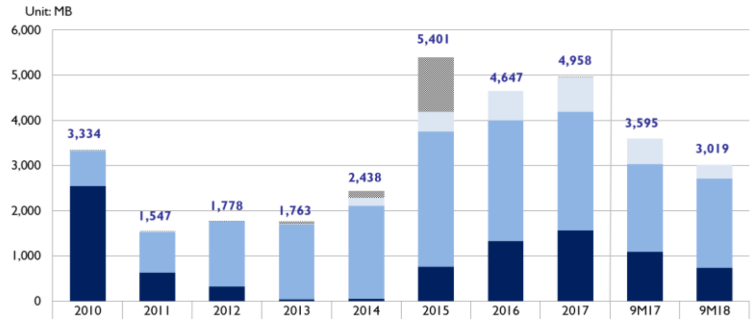
Chart 1: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	9M17	9M18
SDH			27		239	436	656	978	856	415
TH	875	1,132	1,378	1,735	1,935	3,231	2,567	2,936	2,407	2,188
CD	897	468	819	987	212	452	977	3,538	2,204	2,545
Avg. Price SDH			6.8		6.3	5.9	5.0	5.3	5.6	5.7
Avg. Price TH	2.3	2.3	2.7	3.0	2.7	2.6	2.6	2.6	2.6	2.7
Avg. Price CD	2.0	1.9	1.5	2.2	1.7	1.6	2.0	2.4	2.8	2.5
Avg. Price Overall	2.1	2.2	2.1	2.7	2.7	2.5	2.6	2.7	2.9	2.7

Source: Areeya

Chart 2: Revenue Breakdown



	2010	2011	2012	2013	2014	2015	2016	2017	9M17	9M18
Others	0	12	11	54	155	1,210	0	2	0	0
SDH	4	9	0	14	171	442	652	761	562	314
TH	779	892	1,449	1,661	2,066	2,985	2,662	2,626	1,939	1,967
CD	2,551	634	319	33	46	764	1,333	1,569	1,095	738

Source: Areeya

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2018	2017	2016	2015	2014
		---------------Year Ended 31 December ----------			
Total operating revenues	3,019	4,958	4,643	5,401	2,438
Operating income	283	418	601	464	121
Earnings before interest and taxes (EBIT)	371	536	719	560	186
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	421	605	773	611	226
Funds from operations (FFO)	(38)	(67)	164	68	(197)
Adjusted interest expense	421	627	531	488	408
Capital expenditures	33	29	63	109	224
Total assets	14,083	13,510	13,516	12,861	11,957
Adjusted debt	9,582	9,075	8,931	8,500	7,836
Adjusted equity	3,388	3,340	3,314	3,090	2,874
Adjusted Ratios					
Operating income as % of total operating revenues (%)	9.37	8.44	12.94	8.59	4.98
Pretax return on permanent capital (%)	3.90 **	4.17	5.78	4.81	1.88
EBITDA interest coverage (times)	1.00	0.96	1.45	1.25	0.55
Debt to EBITDA (times)	16.39 **	15.00	11.55	13.91	34.62
FFO to debt (%)	(0.43) **	(0.74)	1.83	0.80	(2.52)
Debt to capitalization (%)	73.88	73.09	72.93	73.34	73.17

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Areeya Property PLC (Areeya)

Company Rating:	BB
Rating Outlook:	Stable

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