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# SUPALAI PLC

No. 114/2017 12 September 2017

**Company Rating:** A

**Issue Ratings:**
Senior unsecured A

**Outlook:** Stable

**Company Rating History:**

| Date | Rating | Outlook/Alert |
|---|---|---|
| 18/07/14 | A | Stable |
| 07/06/13 | A- | Positive |
| 20/05/10 | A- | Stable |
| 03/03/06 | BBB+ | Stable |
| 29/10/04 | BBB | Stable |

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**Rating Rationale**

TRIS Rating affirms the company rating and the ratings of the senior unsecured debentures of Supalai PLC (SPALI) at "A". The ratings reflect SPALI's proven track record in the residential property development industry in Thailand, well-known brand name in the middle-income segment, well-balanced residential property portfolio, and strong financial position. Revenue and earnings contributions from the investments abroad and the income-generating assets are currently small compared with the existing business. Higher revenue and earnings contributions from the investments abroad or the income-generating assets will be positive factors for the ratings or outlook. A high level of household debt nationwide and the cyclical and competitive nature of the property development industry remain concerns for the ratings.

Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of July 2017, the Tangmatitham family, the largest shareholder, held a 29% stake in SPALI. The company 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 and are located in a number of major cities in Thailand. A wide range of products in a significant number of locations enable SPALI to tap various homebuyer demands. As of June 2017, SPALI had about one hundred active projects. The value of the unsold units was approximately Bt60,000 million. About half of the value was in housing projects and the other half was in condominium projects.

SPALI derives its competitive edge from its ability to control operating costs, and thus offer competitively-priced residential units to homebuyers. Presales grew steadily during the last three years. The growth was due to a remarkable increase in housing presales. SPALI has launched many more housing projects since 2014. In the first half of 2017, presales rose by 16.5% year-on-year (y-o-y) to Bt12,556 million. Housing presales rose by 28.1% y-o-y to Bt7,346 million, while condominium presales rose by 3.3% y-o-y to Bt5,210 million.

Mirroring the rise in presales, revenue grew continuously during 2013-2016. However, revenue slipped in the first half of 2017, sliding by 22.3% y-o-y. Revenue was quite high in the first half of 2016 because SPALI benefited from the government's property transfer tax cut. In the first half of 2017, revenue from housing projects fell by 12.7% y-o-y to Bt5,465 million, while revenue from condominium projects declined by 33% y-o-y to Bt4,084 million. TRIS Rating's base case forecast assumes flat growth in revenue for 2017. Revenue will get back on a growth path in 2018, reaching Bt30,000 million in 2020. SPALI's revenue stream during the second half of 2017 through 2020 is secured in part by a sizable backlog of about Bt37,000 million. The units in the backlog will be converted into revenue of about Bt10,000 million in the second half of 2017, about Bt11,000 million in 2018, and about Bt16,000 million during 2019 and 2020.

SPALI has explored investment opportunities abroad since 2013. It purchased an office building in the Philippines for about Bt900 million in June 2013. It also invested about Bt1,600 million in six joint ventures (JV), with local residential property developers in Australia, during 2014 through the first half of 2017. However, SPALI's investments abroad account for a small portion of total assets. Rental income and the shares of profits and losses from the investments abroad played a minor role in SPALI's overall performance.

Leverage has improved. The total debt to capitalization ratio fell to 47.3% as of June 2017 from a peak of nearly 50% in 2015. TRIS Rating expects the leverage ratio will improve further after SPALI aims to strengthen its capital structure. In July 2017, SPALI's board of directors approved the issuance of new warrants (SPALI-W4) and the suspension of the dividend payment for the 2017 fiscal year. The resolutions need to be approved by the shareholders at an extraordinary general meeting scheduled for the middle of September 2017. Proceeds from the exercise of the warrants and the suspension of the dividend payment are expected to increase SPALI's cash position by about Bt3,500 million during the next two years. As a result, the total debt to capitalization ratio will fall, staying at about 40% over the next three years, under the assumptions in TRIS Rating's base case forecast.

Profitability remained strong despite a recent drop. Operating income as a percentage of sales (the operating margin) ranged from 26%-28% during 2015 through the first half of 2017, down from the past levels of more than 30%. As SPALI sold many more housing projects during the last three years, the profit contribution from housing projects increased. Housing projects typically yield lower gross margins than condominium projects. The overall gross margins hence declined. Intense competition also pressured profitability. However, the operating margin is high compared with other property developers rated by TRIS Rating. TRIS Rating forecasts the operating margin will stay above 25% over the next three years.

Cash flow protection dropped recently as profitability fell. The ratio of funds from operations (FFO) to total debt was above 50% before 2012, but has since fallen. The ratio ranged from 18% to 39% during 2013 through the first half of 2017. Despite the drop, the ratio is considered high for a property development company. TRIS Rating forecasts an increase in the FFO to total debt ratio over the next three years, ranging from 20%-30%. The rise is mainly due to the improved capital structure. FFO is forecast at Bt4,000-Bt6,000 million per annum over the next three years. SPALI has debts of Bt5,000-Bt7,000 million coming due annually over the next three years. As a result, the company could have a shortfall of about Bt1,000 million. However, SPALI has a sufficient amount of financial flexibility, supported by sizable undrawn project loans worth approximately Bt20,000 million as of June 2017.

**Rating Outlook**

The "stable" outlook reflects the expectation that SPALI can maintain its sound operating performance and strong financial position. The FFO to total debt ratio should stay above 20%, while the total debt to capitalization ratio should stay below 50% over the next three years. The credit upside situation may arise if the company's operating and financial performances are significantly stronger than expected. Higher revenue and earnings contributions from the investments in overseas markets or the income-generating assets will be a plus for the ratings or outlook. In contrast, any significant deterioration in profitability or capital structure could cause the ratings or outlook to be revised downward.

## Supalai PLC (SPALI)

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|---|---|
| **Company Rating:** | A |
| **Issue Ratings:** | |
| SPALI182A: Bt2,200 million senior unsecured debentures due 2018 | A |
| SPALI185A: Bt500 million senior unsecured debentures due 2018 | A |
| SPALI19DA: Bt2,500 million senior unsecured debentures due 2019 | A |
| SPALI202A: Bt2,700 million senior unsecured debentures due 2020 | A |
| SPALI205A: Bt1,000 million senior unsecured debentures due 2020 | A |
| SPALI209A: Bt1,500 million senior unsecured debentures due 2020 | A |
| **Rating Outlook:** | Stable |

**Financial Statistics and Key Financial Ratios***

*Unit: Bt million*

| | Jan-Jun 2017 | | ------------------ Year Ended 31 December ------------ 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| Revenue | 9,763 | | 23,336 | 21,364 | 18,591 | 12,615 |
| Gross interest expense | 332 | | 642 | 527 | 420 | 293 |
| Net income from operations | 2,193 | | 4,805 | 4,015 | 4,446 | 3,362 |
| Funds from operations (FFO) | 1,918 | | 5,173 | 4,705 | 4,877 | 2,831 |
| Inventory investment | (1,007) | | (3,520) | (8,882) | (6,868) | (7,351) |
| Total assets | 53,777 | | 51,680 | 47,287 | 38,031 | 30,675 |
| Total debts | 22,107 | | 21,212 | 20,188 | 12,604 | 8,360 |
| Shareholders' equity | 24,664 | | 23,612 | 20,450 | 17,977 | 14,709 |
| Operating income before depreciation and amortization as % of sales | 26.44 | | 27.70 | 27.42 | 31.88 | 30.46 |
| Pretax return on permanent capital (%) | 12.33 | ** | 14.65 | 15.07 | 20.42 | 18.84 |
| Adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) *** | 9.76 | | 11.26 | 11.91 | 15.26 | 15.77 |
| FFO/total debt (%) | 18.07 | ** | 24.39 | 23.31 | 38.69 | 33.68 |
| Total debt/capitalization (%) | 47.27 | | 47.32 | 49.68 | 41.22 | 36.24 |

* *Consolidated financial statements*
** *Adjusted with trailing 12 months*
*** *Adjusted for capitalized interest expense*

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