

# SUPALAI PLC

Announcement no. 817

13 September 2011

**Company Rating:** A-

**Outlook:** Stable

**New Issue Rating:** -

**Rating History:**

Date	Company	Issue (Secured/ Unsecured)
20/07/10	A-/Sta	A/A-
20/05/10	A-/Sta	A/-
26/07/07	BBB+/Sta	A/-
03/03/06	BBB+/Sta	-
29/10/04	BBB/Sta	-

**Rating Rationale**

TRIS Rating affirms the company rating of Supalai PLC (SPALI) at "A-". At the same time, TRIS Rating also affirms the ratings of SPALI's senior secured debentures at "A" and senior debentures at "A-". The ratings reflect SPALI's proven track record in the residential property development industry, accepted brand name in the middle-income segment, ability to efficiently control operating costs, and strong financial position. The strengths are partly offset by the cyclical nature of the property development industry, increasing raw materials and labor costs, and rising interest rates. The rating of the senior secured debentures incorporates the value of *Supalai Grand Tower*, which is pledged as collateral at 1.7 times the value of the outstanding debentures throughout the life of the issue.

Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of May 2011, the Tangmatitham family, the largest shareholder, held a 28% stake. As of June 2011, SPALI had 67 existing residential projects with the remaining value of around Bt21,000 million available for sale. The company also had a huge backlog worth approximately Bt19,000 million. SPALI's residential project portfolio comprises condominium projects (61% of total project value) and housing projects (39%). The company's competitive edge is derived from its ability to control operating costs efficiently. As a result, SPALI is able to offer its residential units at competitive prices.

SPALI's presales value was Bt14,366 million in 2010, up 9% from Bt13,237 million in 2009. The growth in presales was driven mainly by the successful launch of new condominium projects in 2010 which pushed condominium presales to Bt9,550 million in 2010 from Bt7,882 million in 2009. In contrast, housing presales dropped by 10% in 2010. Presales during the first half of 2011 continued to grow, increasing by 13% to Bt8,344 million from Bt7,358 million during the same period of 2010. Total revenue rose along with presales, improving to Bt11,083 million in 2010 from Bt9,618 million in 2009. During the first six months of 2011, revenue was Bt7,309 million, 38% higher than revenue of Bt5,281 million during the same period of 2010. The revenue growth was primarily supported by transfers of more housing units to customers in 2010 and transfers of condominium units in the *Supalai Park Kaset-Nawamint*, *City Home Rattanaibeth*, and *City Resort Ramkhamhang* projects to customers in the first half of 2011. Operating income as a percentage of sales declined slightly from 34.95% in 2010 to 32.93% in the first six months of 2011. The lower profit margin in the first half of 2011 was due to the end of tax incentives scheme in mid-2010. However, the company's cash flow protection remained strong as the funds from operations (FFO) to total debt ratio was 54.05% in 2010 and 38.22% (non-annualized) during the first half of 2011. Financial leverage as measured by debt to capitalization ratio was maintained at a low level of 30.58% at the end of June 2011.

Demand for housing depends mostly on consumer confidence and the economic environment. The government usually provides supports for this industry during an economic downturn. Due to the government tax incentives scheme offered during 2008-2010 and the domestic economy which recovered more rapidly than expectation, demand for residential property has improved significantly since the second half of 2009. The momentum was maintained throughout 2010. Several developers have stepped up land acquisitions since late 2009, which caused the industry-wide leverage level to increase significantly in

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2010. The changes in the loan-to-value policy (LTV ratio) implemented by the Bank of Thailand (BOT) in 2011 and rising interest rates have curbed the speculative demand in the condominium segment and reduced the affordability of housing for the low-income segment. Therefore, the growth rate of this industry is lower this year compared with the previous year. However, large developers have gained more market share at the expense of smaller developers, as several major developers have diversified by entering the low-priced housing segment. This move has caused the competition in this segment to be more intense than before. Concerning the current government's policies which are related to the property development industry, TRIS Rating will closely monitor the effects of the policies.

#### Rating Outlook

The "stable" outlook reflects the expectation that SPALI will be able to sustain its strong financial position in the medium term. Despite the expiration of the government tax incentives and more intense competition in the residential property segment, SPALI's profitability is expected to remain at a relatively high level compared with its peers. Although more projects and land acquisitions are planned, the company's cash flow protection and financial leverage should remain at acceptable levels.

#### SUPALAI PLC (SPALI)

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
SPALI133A: Bt1,000 million senior secured debentures due 2013	A
SPALI141A: Bt500 million senior debentures due 2014	A-
SPALI150A: Bt745 million senior debentures due 2015	A-
<b>Rating Outlook:</b>	Stable

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