

SUPALAI PLC

No. 52/2014

27 August 2014

Company Rating:	A
Issue Rating:	
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 and current senior unsecured debenture ratings of Supalai PLC (SPALI) at "A". At the same time, TRIS Rating assigns the rating of "A" to SPALI's proposed issue of up to Bt2,200 million in senior unsecured debentures. The proceeds from the new debentures will be used for debt repayment and for business expansion. The ratings reflect the company's improving operating performance, in line with expectations, and the expected growth in its revenue base. In addition, the ratings take into consideration SPALI's proven track record in the residential property development industry in Thailand, accepted brand name in the middle-income segment, and strong financial position. These strengths are partly offset by the cyclical and competitive nature of the property development industry, plus concerns over rising operating costs and the widespread labor shortage among contractors.

Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of June 2014, the Tangmatitham family, the largest shareholder, held a 28% stake in SPALI. At the end of June 2014, SPALI had 86 residential property projects. The units available for sale in these project carried a total value of around Bt27,000 million. The company had a huge backlog, worth approximately Bt40,000 million or around 3 times its current annual revenue. SPALI's residential project portfolio comprises condominium projects (57%) and housing projects (43%). The company's competitive edge is derived from its ability to control operating costs, and thus offer competitively-priced residential units to homebuyers.

SPALI's presales were Bt18,900 million in 2013, down 16% from Bt22,442 million in 2012. The drop in presales mainly came from the condominium segment. Condominium presales decreased by 30% year-on-year (y-o-y) to Bt11,947 million in 2013. Presales from housing projects were Bt6,953 million in 2013, up by 30% from Bt5,320 million in 2012. Presales during the first half of 2014 slightly increased by 4% y-o-y to Bt8,085 million. The increase in presale mainly came from low-rise housing unit.

SPALI reported revenue of Bt12,615 million in 2013, up by 10% y-o-y. Revenue from condominium projects declined slightly, falling by 2% y-o-y to Bt5,590 million in 2013. Housing projects generated revenue of Bt6,732 million in 2013, up by 21% from Bt5,564 million in 2012. During the first half of 2014, SPALI's revenue increased by 47% y-o-y to Bt5,842 million. Revenue from condominium projects grew by 170% y-o-y and revenue from housing projects rose by 16% y-o-y. It's revenue during the second half of 2014 through 2017 is partly secured by the units in backlog worth Bt12,248 million in 2014, Bt15,458 million in 2015, and over Bt10,000 million during 2016-2017. Thus, its revenue is expected to increase to around Bt16,000-Bt20,000 million over the next three years.

CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

SPALI's financial position has been strong. Its profit margin has remained higher than most property developers listed on the Stock Exchange of Thailand (SET). Operating income as a percentage of sales ranged from 30% to 33% during 2011 through the first half of 2014. In the first half of 2014, SPALI's total debt to capitalization ratio increased to 45.82% from 36.24% at the end of 2013. However, its leverage is expected to decline due to the transfer of condominium units in the second half of 2014. The ratio of interest bearing debt to equity was around 0.5 times from 2009 through 2013. In the first half of 2014, the ratio of interest bearing debt to equity increased to 0.9 times. The ratios of funds from operations (FFO) to total debt fluctuated between 50% and 54% during 2010-2012. This level is considered high for the property development industry. The ratio declined to around 28% (annualized) in the first half of 2014, since SPALI took on more debt.

Rating Outlook

The "stable" outlook reflects the expectation that SPALI can maintain its sound operating performance and strong financial position. Its revenue is expected to be in the range of Bt16,000-Bt20,000 million over the next few years. The interest bearing debt to equity ratio should remain less than 1 time or the total debt to capitalization ratio less than 50%. However, any significant delays in the cash inflows from its projects, or any weakening of its financial profile, could cause its ratings or outlook to be revised downward.

Supalai PLC (SPALI)

Company Rating:	A
Issue Ratings:	
SPALI14OA: Bt700 million senior unsecured debentures due 2014	A
SPALI14NA: Bt500 million senior unsecured debentures due 2014	A
SPALI15OA: Bt745 million senior unsecured debentures due 2015	A
SPALI165A: Bt1,000 million senior unsecured debentures due 2016	A
SPALI172A: Bt2,300 million senior unsecured debentures due 2017	A
SPALI185A: Bt500 million senior unsecured debentures due 2018	A
Up to Bt2,200 million senior unsecured debentures due within 2018	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios

Unit: Bt million

	Jan-Jun 2014	Year Ended 31 December				
		2013	2012	2011	2010	2009
Revenue	5,842	12,615	11,513	12,686	11,083	9,618
Gross interest expense	178	223	222	192	119	236
Net income from operations	1,461	3,362	3,253	2,591	2,729	2,527
Funds from operations (FFO)	1,151	2,816	3,003	2,804	2,699	2,739
Inventory investment	(5,481)	(7,351)	(1,115)	(1,792)	(2,485)	(1,553)
Total assets	35,668	30,675	23,653	20,495	18,586	15,190
Total debts	12,958	8,360	5,619	5,565	4,988	3,506
Shareholders' equity	14,829	14,252	12,888	11,132	9,623	7,822
Operating income before depreciation and amortization as % of sales	30.66	30.46	33.34	32.33	34.90	38.33
Pretax return on permanent capital (%)	17.35 **	18.84	22.79	25.08	29.00	31.56
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	11.05	19.38	19.62	22.12	34.28	16.09
FFO/total debt (%)	27.80 **	33.68	53.44	50.38	54.11	78.11
Total debt/capitalization (%)	45.82	36.24	30.36	33.33	34.14	30.95

** Adjusted with trailing 12 months.

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