

SUPALAI PLC

No. 78/2015

16 December 2015

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 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 Bt1,800 million in senior unsecured debentures. The proceeds from the new debentures will be used for debt repayment and for business expansion. 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, and strong financial position. These strengths are partly offset by a rise in its leverage, the relatively high household debt level nationwide, and the cyclical and competitive nature of the property development industry.

Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of August 2015, the Tangmatitham family, the largest shareholder, held a 29% stake in SPALI. At the end of September 2015, SPALI had 136 residential property projects. The company had a huge backlog, worth approximately Bt35,000 million or around 2 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 recently started exploring its investment opportunities abroad. It purchased an office building in the Philippines for around Bt900 million in June 2013, and invested approximately Bt230 million in two joint ventures with a local partner in Australia in October 2014. The two joint ventures are two residential property development companies with two projects in the pipeline. However, SPALI's investments abroad account for a small portion of its total assets.

SPALI's presales were Bt19,191 million in 2014, unchanged from Bt19,153 million in 2013. Condominium presales decreased by 8% year-on-year (y-o-y) to Bt11,339 million in 2014. However, presales from housing projects increased by 16% y-o-y to Bt7,852 million in 2014. Presales during the first nine months of 2015 increased by 6% y-o-y to Bt12,482 million, boosted by housing presales.

SPALI reported revenue of Bt18,591 million in 2014, up by 47% y-o-y. Revenue from condominium projects surged by 86% y-o-y to Bt10,385 million, and revenue from housing projects rose by 17% y-o-y to Bt7,885 million in 2014. During the first nine months of 2015, SPALI's revenue increased by 27% y-o-y to Bt14,866 million. SPALI's revenue stream during the remainder of 2015 through 2018 is partly secured by its backlog. The units in the backlog will be converted into revenue of about Bt7,000 million in the last quarter of 2015, Bt11,000 million in 2016, and Bt17,000 million during 2017-2018. SPALI's

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revenue during the next three years is expected to increase to Bt20,000-Bt24,000 million annually.

SPALI’s financial performance has been strong. Its profit margin remains higher than that of most property developers listed on the Stock Exchange of Thailand (SET). During the past five years, operating income as a percentage of sales ranged from 30% to 35%, except in the first nine months of 2015. The ratio dropped to 27% in the first nine months of 2015, from 32% in 2014, due to cost overruns on a condominium project. SPALI’s financial leverage has increased gradually over the past few years, but remains at an acceptable level. From 2010 to 2013, the total debt to capitalization ratio ranged from 30% to 36%, while the interest-bearing debt to equity ratio ranged from 0.4 times to 0.6 times. From 2014 to the first nine months of 2015, the former ratio increased to about 47%, while the latter ratio increased to 0.9 times. Going forward, leverage is expected to remain at the current level. The fund from operation (FFO) to total debt ratio fluctuated between 50% and 54% during 2010-2012. This level is considered high for the property development industry. The ratio declined during 2013 through the first nine months of 2015, ranging from 25%-40%, as the company took on more debt to fund its project construction. However, SPALI has a sufficient amount of financial flexibility, supported by a sizable undrawn credit facility worth around Bt29,000 million as of September 2015.

Rating Outlook

The “stable” outlook reflects the expectation that SPALI can maintain its sound operating performance and strong financial position. The interest-bearing debt to equity ratio is expected to stay at the current level. A credit upside situation may arise if its operating and financial performances are significantly stronger than expected. In contrast, any significant deterioration in its profitability or capital structure could cause its ratings or outlook to be revised downward.

Supalai PLC (SPALI)

Company Rating:	A
Issue Ratings:	
SPALI165A: Bt1,000 million senior unsecured debentures due 2016	A
SPALI172A: Bt2,300 million senior unsecured debentures due 2017	A
SPALI182A: Bt2,200 million senior unsecured debentures due 2018	A
SPALI185A: Bt500 million senior unsecured debentures due 2018	A
SPALI209A: Bt1,500 million senior unsecured debentures due 2020	A
Up to Bt1,800 million senior unsecured debentures due within 2019	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Sep 2015	2014	2013	2012	2011	2010
Revenue	14,866	18,591	12,615	11,513	12,686	11,083
Gross interest expense	369	420	293	222	192	119
Net income from operations	2,662	4,446	3,362	3,253	2,591	2,729
Funds from operations (FFO)	2,872	4,877	2,816	3,003	2,804	2,699
Inventory investment	(4,673)	(6,868)	(7,351)	(1,115)	(1,792)	(2,485)
Total assets	42,640	38,031	30,675	23,653	20,495	18,586
Total debts	17,109	12,604	8,360	5,619	5,565	4,988
Shareholders' equity	18,986	17,977	14,709	12,888	11,132	9,623
Operating income before depreciation and amortization as % of sales	26.62	31.88	30.46	33.34	32.33	34.90
Pretax return on permanent capital (%)	16.47 **	20.42	18.84	22.79	25.08	29.00
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	10.57	14.24	14.77	19.62	22.12	34.28
FFO/total debt (%)	28.70 **	38.69	33.68	53.44	50.38	54.11
Total debt/capitalization (%)	47.40	41.22	36.24	30.36	33.33	34.14

* Consolidated financial statements

** Adjusted with trailing 12 months

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