TRIS RATING
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ASSETWISE PLC

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CORPORATES

Company Rating: BBB-

Outlook: Stable

Last Review Date: 31/08/21

Company Rating History:

Date	Rating	Outlook/Alert
31/08/21	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Assetwise PLC (ASW) at "BBB-" with a "stable" rating outlook. The rating reflects ASW's improving market position in the middle- to low-priced condominium segment, as well as its relatively high backlog. However, the rating is partly constrained by the company's product segment concentration, and an anticipated rise in financial leverage as a result of its aggressive expansion. Its expansion into the landed property segment is still in an initial stage and needs time to prove its success.

The rating also takes into consideration our concerns over the relatively high household debt level and rising inflation rate which could impact the purchasing power of homebuyers and development costs of property developers in the short to medium term.

KEY RATING CONSIDERATIONS

Improving market position in mid- to low-priced condominiums

ASW's market share, especially in the middle- to low-priced condominium segment, is increasing over time. The company's condominium projects developed under the "Kave", "Atmoz", and "Modiz" brands are well-accepted among college students and those in their early careers. Its presales ranged from THB3.3-THB5.2 billion per annum during 2017-2021, growing from around THB1.5-THB2.0 billion per annum during 2015-2016. The growth came despite the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) in 2019, and the Coronavirus Disease 2019 (COVID-19) pandemic, both of which negatively affected the condominium market. Presales in the first half of 2022 were THB4.9 billion, jumped from THB2.5 billion in the same period last year.

ASW's operating performance during 2021 through the first half of 2022 was in line with TRIS Rating's expectations. ASW's revenues grew steadily over the past few years. Revenue in 2021 rose to THB5.0 billion, from THB4.2 billion in 2020 and THB2.6 billion in 2019. In the first half of 2022, revenue was THB2.7 billion, increasing by 19% year-on-year (y-o-y). The company's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin stayed in a range of 25%-30% during 2020 through the first half of 2022, higher than the industry average of around 20%-23%.

Relatively high backlog and plans to launch new projects will support earning growth

Our base case projects ASW's revenues to range THB6-THB8 billion per annum during 2022-2024, supported by its relatively high backlog and its plan to consistently launch new projects over the next 2-3 years. Its annual EBITDA is expected to range THB1.5-THB2.0 billion, based on the assumption that its EBITDA margin will remain at around 25%.

At the end of June 2022, ASW's backlog stood at THB9.2 billion. The backlog is likely to be recognized as revenue of around THB4.2 billion in the second half of 2022, THB4.7 billion in 2023, and the rest in 2024. Under ASW's three-year business plan, the company aims to launch new condominium projects worth around THB8-THB10 billion per annum during 2022-2024. In addition, the company plans to launch more landed property projects. ASW plans to launch a detached house project under the "ESTA" brand worth THB683 million in the last quarter of 2022, and four landed property projects under the “Arbor”, "Chann", and "The Honor" brands, with a total project value of around THB9 billion from 2023 onwards.

Diversification into landed property should help reduce concentration risk

We view that ASW’s product portfolio is quite concentrated in terms of locations, product types, and price range. As of June 2022, ASW had 26 condominium projects and four townhouse projects. Its projects are located mainly in the Rangsit, Lat Phrao-Ratchada, and Minburi areas of Bangkok. The total value of the remaining units available for sale was THB15 billion (including built and un-built units). Condominium projects comprised almost all total unsold value. In addition, more than 80% of the condominium projects were low-rise condominiums, priced below THB3 million per unit.

Going forward, ASW plans to add more landed property projects and high-rise condominiums to its portfolio. The company aims to increase the proportion of landed property projects to around 30% of its portfolio by the end of 2025. In addition, the company plans to launch one or two high-rise condominium projects each year. In our view, a diversified product portfolio will give the company more flexibility to adjust its products to meet market demand, while revenues and profitability should become less volatile in the future.

Anticipated rise in financial leverage due to aggressive expansion

TRIS Rating expects ASW’s leverage to rise over the next three years since the company plans to launch a number of new projects to sustain growth momentum. In our base-case forecast, we assume ASW will launch residential projects worth THB11 billion (including joint venture (JV) projects) in 2022 and THB12-THB14 billion per annum in 2023-2024. Projects under JVs will make up around 20%-30% of its condominium portfolio value. In January 2022, ASW set up a 51:49 JV with Takara Leben Co., Ltd., a property developer in Japan, to develop the “Atmoz Bangna” project worth THB2.3 billion. The budget for land acquisition will be around THB3 billion per annum.

Based on its plan to launch more residential projects, ASW’s debt to capitalization ratio (including a proportionate 51% of debt from JVs) could rise to 55%-60% during 2022-2024 from 50.7% at the end of June 2022. The ratio of funds from operations (FFO) to debt is expected to stay in the range of 10%-13% during 2022-2024. According to the covenants on its loan obligations, ASW is obliged to maintain its total liability to equity ratio below 2 times. The ratio was 1.69 times at the end of June 2022. We expect that ASW should have no problem complying with its financial covenants over the next 12 to 18 months.

However, ASW’s priority debt, which included total consolidated secured debt and unsecured debt of its subsidiaries, was relatively high. At the end of June 2022, its priority debt stood at THB4.7 billion or around 68% of its total consolidated debt. As this ratio exceeds the 50% threshold according to TRIS Rating’s “Issue Rating Criteria”, we view the company’s unsecured creditors as being significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company’s assets.

Concerns over high household debt and rising inflation

As of March 2022, household debt in Thailand stood at THB14.64 trillion. The household debt to gross domestic product (GDP) ratio was 89.2%, decreasing slightly from 90.0% at the end of 2021. The relatively slow pace of economic recovery has caused this ratio to hang at a high level. The Thai GDP dropped by 6.2% y-o-y in 2020 and grew by only 1.6% y-o-y in 2021. This year, we expect the GDP will grow by 2%-3% y-o-y. Thus, assuming household debt stays at the same level, the household debt to GDP ratio should remain at around 87%-88% in 2022. The relatively high household debt level will impact housing sales, especially in the lower-priced housing segment where bank rejection rates are high.

Rising inflation since the last quarter of 2021 poses another threat to both developers and homebuyers. High inflation rates will push up development and funding costs for developers while lowering the purchasing power of homebuyers. High inflation will also impact the prices of construction materials and labor costs. Thus, developers’ profit margins could decline if they are unable to pass through the rising costs to homebuyers. With our concerns over the rising construction and labor costs, we expect ASW’s EBITDA margin will slightly decline but it should remain around 25% over the forecast period.

Acceptable liquidity

We assess ASW to have adequate liquidity over the next 12 months. The company’s liquidity sources comprised cash plus short-term investments of THB1.9 billion and available credit facilities of THB693 million, as of June 2022. We forecast the company’s FFO over the next 12 months to be around THB1 billion. ASW’s uses of funds over the next 12 months will amount to THB2.8 billion, comprising repayments of THB1.6 billion short-term loans, THB0.5 billion project loans, THB0.5 billion debentures, and THB262 million other long-term loans. Short-term loans are mostly for working capital and bridging loans for land purchases which are expected to be converted to project loans over time. Its cash on hand should be sufficient to repay its debentures and other long-term loans while its project loans will be repaid with cash received from the transfers of finished units to customers.

BASE-CASE ASSUMPTIONS

- ASW to launch new residential projects worth around THB11-THB14 billion per annum (including JV projects) over the next three years.
- Revenue is forecast at around THB5.8 billion in 2022, gradually increasing to THB8.4 billion in 2024.
- EBITDA margin to stay above 25%.
- Land acquisition budget of around THB3 billion per annum over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectations that ASW will deliver its performance as targeted. Despite its aggressive expansion plan, we do not expect ASW's debt to capitalization ratio to rise significantly higher than 55% while its FFO to debt ratio is expected to range around 10%-13% over the next three years.

RATING SENSITIVITIES

We could revise ASW's rating and/or outlook upward if the company can enlarge its revenue base and cash flow while maintaining its debt to capitalization ratio at around 50% on a sustained basis. On the other hand, we would revise the rating and/or outlook downward should ASW's operating performance and financial leverage deteriorate significantly from our base-case forecast, such that its debt to capitalization ratio rises above 60% and/or the FFO to debt ratio falls below 10% on a sustained basis.

COMPANY OVERVIEW

ASW was established in 2005 by the Vipanpong family. The company became a public company in May 2020 and was listed on the Stock Exchange of Thailand (SET) in April 2021. After the initial public offering (IPO), the Vipanpong family continued to be ASW's largest shareholder, holding a 68% stake in the company as of June 2022.

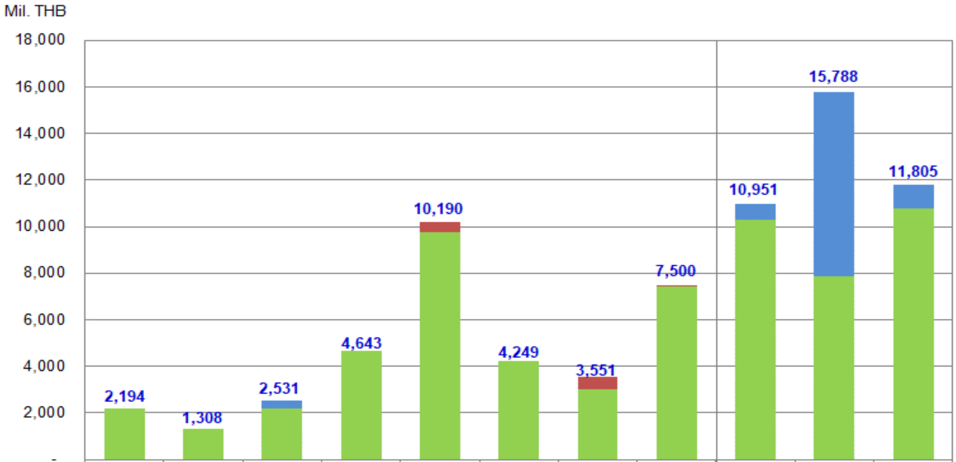
ASW focuses on the middle- to low-end condominium segment. The average selling price of its condominiums ranges from THB55,000-THB100,000 per sq.m. or THB1.5-THB3.5 million per unit. ASW's condominium projects are located mostly in the Rangsit, Lat Phrao-Ratchada, and Minburi areas of Bangkok. It also has several projects located near universities in the Rangsit and Salaya areas and aims to expand to Sri Racha in Chonburi province.

ASW's condominium brands include: "Kave", "Atmoz", and "Modiz". "Modiz" is a middle- to high-income condominium segment brand with selling prices of THB85,000-THB130,000 per sq.m. The "Atmoz" brand has selling prices of THB70,000-THB95,000 per sq.m. and the "Kave" brand was introduced to capture the middle- to low-income segment, with selling prices from THB60,000-THB75,000 per sq.m. The company's single detached house (SDH) brands, "The Honor", "Chann", "Arbor", and "ESTA", have a selling price range from THB4-THB60 million per unit. Its townhouse projects are developed under brand names like "Glam" and "Baan Puri Puri", with prices ranging from THB10-THB18 million per unit.

ASW's revenue base is considered small compared with its SET-listed peers. The company transferred just a few projects each year during 2015-2017, generating revenue below THB2 billion annually. Revenue improved to the THB4-THB5 billion range during 2020-2021. Revenue in the first half of 2022 was THB2.7 billion, a 19% increase y-o-y.

KEY OPERATING PERFORMANCE

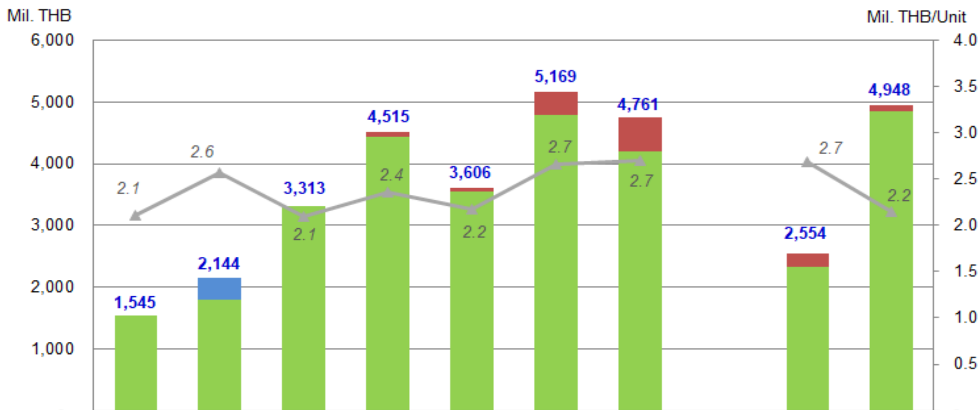
Chart 1: Residential Project Launches



	2014	2015	2016	2017	2018	2019	2020	2021	2022P	2023P	2024P
TH	-	-	-	-	436	-	536	90	-	-	-
SDH	-	-	351	-	-	-		-	683	7,915	1,039
Condominium	2,194	1,308	2,180	4,643	9,754	4,249	3,015	7,410	10,268	7,873	10,766

Source: ASW

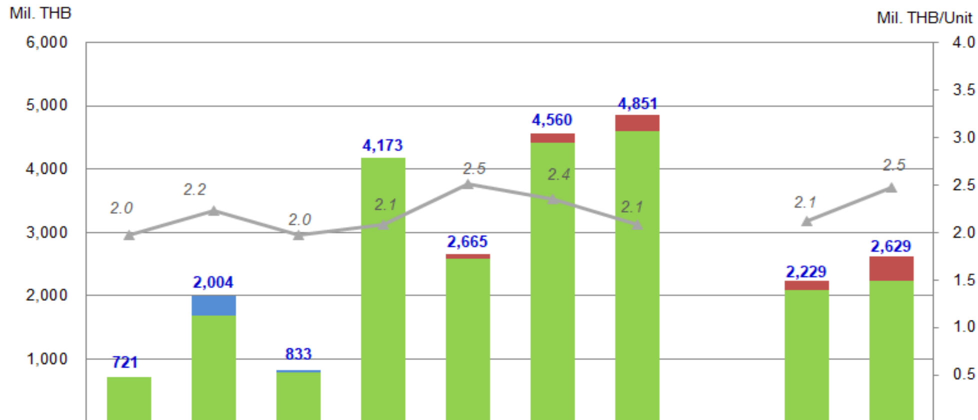
Chart 2: Presales Performance



	2015	2016	2017	2018	2019	2020	2021		6M21	6M22
Townhouse	-	-	-	77	63	387	556		226	93
SDH	-	351	-	-	-	-	-		-	-
Condominium	1,545	1,793	3,313	4,437	3,542	4,782	4,205		2,328	4,854
Avg. Price	2.1	2.6	2.1	2.4	2.2	2.7	2.7		2.7	2.2

Source: ASW

Chart 3: Transfer Performance



	2015	2016	2017	2018	2019	2020	2021		6M21	6M22
Townhouse	-	-	-	-	80	151	256		146	390
SDH	-	316	35	-	-	-	-		-	-
Condominium	721	1,688	798	4,173	2,585	4,409	4,594		2,083	2,239
Avg. Price	2.0	2.2	2.0	2.1	2.5	2.4	2.1		2.1	2.5

Source: ASW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022		--------------Year Ended 31 December 2021	2020	2019	2018 --------------
Total operating revenues	2,739		4,966	4,228	2,631	4,355
Earnings before interest and taxes (EBIT)	620		1,410	1,142	446	862
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	708		1,513	1,191	480	885
Funds from operations (FFO)	407		1,035	726	214	635
Adjusted interest expense	156		179	205	148	109
Real estate development investments	9,529		8,289	6,751	5,259	4,599
Total assets	13,877		11,335	8,160	6,860	5,492
Adjusted debt	5,315		3,573	3,757	3,584	3,594
Adjusted equity	5,164		4,937	2,297	1,716	788
Adjusted Ratios						
EBITDA margin (%)	25.86		30.46	28.17	18.24	20.32
Pretax return on permanent capital (%)	12.90	**	17.57	19.10	8.68	20.45
EBITDA interest coverage (times)	4.54		8.43	5.80	3.24	8.12
Debt to EBITDA (times)	3.63	**	2.36	3.15	7.47	4.06
FFO to debt (%)	17.71	**	28.97	19.33	5.97	17.67
Debt to capitalization (%)	50.72		41.99	62.06	67.63	82.02

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

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Company Rating:	BBB-
Rating Outlook:	Stable

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