

ORIGIN PROPERTY PLC

No. 58/2024
23 April 2024

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 24/04/23

Company Rating History:

Date	Rating	Outlook/Alert
24/03/22	BBB+	Stable
30/04/21	BBB	Positive
05/04/19	BBB	Stable
03/08/18	BBB-	Positive
29/09/17	BBB-	Stable
23/05/17	BBB-	Alert Developing
12/09/16	BBB-	Stable

Contacts:

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Bundit Pommata
bundit@trisrating.com

Jutamas Bunyawanichkul
jutamas_b@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



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RATIONALE

TRIS Rating affirms the company rating on Origin Property PLC (ORI) and the ratings on its outstanding senior unsecured debentures at “BBB+” with a “stable” rating outlook. At the same time, TRIS Rating assigns a rating of “BBB+” to ORI’s proposed issue of up to THB7 billion senior unsecured debentures due within five years. The proceeds from the debenture issuance are intended to be used to repay some of the company’s existing loans and/or fund business expansion.

The ratings reflect ORI’s robust market position in the residential property industry, its sizable backlog, and the increasing earnings contribution from other businesses. However, the ratings are weighed down by its high financial leverage, stemming from aggressive expansion in both residential and commercial property segments. Additionally, the property sector is facing challenging market conditions, including the reimposition of tighter loan-to-value (LTV) rules in 2023, lingering high interest rates, and elevated levels of household debt.

KEY RATING CONSIDERATIONS

Robust market position in residential property

The ratings on ORI are supported by its robust market position in the residential property market. Residential property sales, including sales from both the company’s own projects and joint ventures (JVs), recovered steadily after a sharp drop during the COVID-19 pandemic in 2020.

ORI’s presales, which included THB7.6 billion from JVs, reached a peak of THB28.2 billion in 2023, up 7% from 2022. Condominium presales amounted to THB21.9 billion, increasing by 8% year-on-year (y-o-y), while sales of landed properties under Britania PLC (BRI) increased to THB6.3 billion in 2023, up by 2% y-o-y. The transferred value of residential property units has steadily increased over the last five years, reaching THB22.8 billion in 2023.

ORI’s revenues have remained in the range of THB14-THB15 billion annually during 2021-2023, improving from THB11 billion in 2020. Revenue from the residential property business, which includes management fee income, continues to be the major revenue contributor, accounting for over 80% of total revenues. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) have risen to THB5.3-THB6.0 billion per annum over the past three years, up from THB4.1 billion in 2020. Its EBITDA margin has remained satisfactory, exceeding 35% over the past several years.

Sizable backlog to support earnings growth over the next two to three years

In our base-case forecast, we project ORI’s annual revenue will grow from THB14.5 billion in 2024 to THB16.0 billion in 2026. Its EBITDA should stay above THB5 billion per annum over the forecast period. Revenue and earnings growth will be supported by the company’s sizable backlog and the greater contribution from landed properties. In addition, government measures to reduce transfer and mortgage fees from 2% and 1%, respectively, to 0.01% for housing priced up to THB7 million per unit should help stimulate transfers this year.

At the end of 2023, ORI’s total backlog was worth around THB45.9 billion, comprising THB20.7 billion of its own projects and THB25.2 billion of JV projects. Residential units from its own projects will be recognized as revenue

of around THB5.3 billion in 2024, THB6.1 billion in 2025, THB6.6 billion in 2026, and the rest in 2027. Backlog from JV projects of around THB12.3 billion are projected to be transferred to customers in 2024, THB7.6 billion in 2025, and the rest in 2026. Shares of profit from its investments in JV projects are expected to be around THB0.7-THB1.2 billion per annum during 2024-2026. ORI also expects to earn management fee income from JV projects of around THB1.3-THB1.6 billion per annum over the next three years.

In addition, the substantial number of new project launches during 2022-2023 should help support the company's growth over the next two to three years. At the end of 2023, ORI's own projects comprised 32 landed property projects and 48 condominium projects. Projects developed under JVs comprised six landed property projects and 24 condominium projects. The total units available for sale (both built and un-built) carried a value of around THB76 billion, comprising its own projects (70%) and JV projects (30%). In 2024, the company plans to launch residential property projects (including projects under JVs) worth THB37 billion, comprising landed property projects worth THB17 billion and condominium projects worth THB20 billion.

Rising earnings contribution from other businesses

ORI's revenues from other businesses including revenues from rendering services under Primo Service Solutions PLC (PRI) and revenue from the rental and hospitality business under One Origin PLC (ONEO) have risen from less than 5% of total operating revenues in 2021 to almost 13% in 2023. Currently, the company's commercial real estate portfolio (including JV projects) comprises 11 hotels with 2,657 rooms and retail space of 2,000 square meters (sq.m.). Additionally, the development of an office building under a JV, with approximately 37,000 sq.m. of leasable area is slated for completion in 2024. Moving forward, ONEO plans to develop five or six hotels during 2024-2025. Thus, rental and services income from its commercial property is anticipated to increase to approximately THB500-THB600 million per annum during 2024-2026, compared to THB468 million in 2023.

ORI has joined with SCGJWD Logistics PLC (SJWD) to set up Alpha Industrial Solutions Co., Ltd. (ALPHA), to operate a warehouse and logistics business. ALPHA plans to sell 167,100 sq.m. of leased warehouse space to its newly set up real estate investment trust this year. Furthermore, ORI has invested in several other businesses including asset management, health and wellness, and energy. ORI's expansion into these new businesses is still in the initial stages and the success of the investments remains to be seen. In our view, the diversification into other businesses, if successful, will broaden ORI's business mix and enhance earnings stability in the long run.

Financial leverage is expected to be temporarily elevated

Due to significant investments in land and fixed assets and the launch of numerous new residential projects in 2023, ORI's debt to capitalization ratio rose sharply to 65%, surpassing our threshold of 60%. ORI's total outstanding debt in 2023, including 51% of JV debt, increased to THB41.9 billion, up from THB28.5 billion at the end of 2022. The funds from operations (FFO) to debt ratio dropped to 6.7%, lower than our threshold of 10%. The surge in debt was primarily driven by the significant cash outlay for land acquisitions and the increased working capital required for the launch of numerous residential projects in the second half of 2023. However, we expect that ORI's leverage will decrease once the company divests some equity holdings in its own projects to JV partnerships.

Under our base-case scenario, we expect ORI's debt to capitalization ratio will gradually decrease to below 60% by 2025. We also expect its FFO to debt ratio to gradually increase to 10% by the end of 2026. Our projections assume that ORI will launch residential projects worth THB37 billion in 2024 and THB25-THB26 billion per annum in 2025 and 2026, with 60% of the projects to be developed under JVs. Given the company's plan to develop multiple landed property projects with landlords, the budget for new land acquisitions is expected to decline significantly, falling from THB10 billion in 2023 to around THB1.5-THB3.5 billion per annum in 2024-2026. The investment budget for hotels is set at THB2 billion in total during 2024-2026, while investments in other businesses are expected to be around THB0.5 billion.

The financial covenants on its bank loans and debentures require ORI to maintain its net interest-bearing debt to equity ratio below 2.5 times. The ratio at the end of 2023 was 1.5 times. In our view, ORI should have no problem complying with the financial covenants over the next 12-18 months. The higher proportion of investment made through JVs and the company's plan to list ONEO on the Stock Exchange of Thailand (SET) will also help improve the company's capital structure in the next two to three years.

Manageable liquidity

ORI's liquidity should be manageable over the next 12 months, based on our assessment. At the end of 2023, ORI had THB14.6 billion maturing debts over the following 12 months, comprising THB2.0 billion short-term loans, THB2.3 billion short-term bills of exchange (B/E), THB5.0 billion debentures, THB4.9 billion project loans, and THB0.4 billion financial leases. 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. We expect project loans to be repaid with internally generated cash from the transfers of residential units. The company plans to refinance maturing debentures with new debenture issuances.

Its sources of funds comprised cash on hand of THB1.5 billion and THB0.5 billion in undrawn committed credit facilities. ORI's FFO over the next 12 months are projected to be THB2.2-THB2.3 billion. The company also had unencumbered assets worth around THB4.2 billion as an alternative source of liquidity, if needed. Due to its relatively large amount of short-term debt, we expect the company to carefully manage its liquidity.

Debt structure

At the end of December 2023, ORI's consolidated debt, excluding lease liability, was THB34 billion. ORI's priority debt was THB17.5 billion, comprising secured debt owed by ORI and all borrowings incurred by its subsidiaries. The priority debt to total debt ratio was 51%, slightly higher than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria". However, we maintain the rating on ORI's senior unsecured debentures at the same level as the company rating. This is because the company plans to reduce its priority debt over the next 12 months by repaying some bank loans with senior unsecured debentures and divesting shares of its own projects to JVs.

BASE-CASE ASSUMPTIONS

- Residential property project launches worth THB37 billion in 2024 and THB25-THB26 billion per annum during 2025-2026, with the value of new launches under JVs accounting for around 60% of the total.
- Revenue will be THB14.5-THB16.0 billion per annum during 2024-2026. Shared profits from JV investments will amount to THB0.7-THB1.2 billion annually, as JVs are expected to deliver condominium units worth around THB12-THB15 billion per annum over the next three years.
- Land acquisition for its own projects is budgeted at THB1.5-THB3.5 billion yearly over the next three years.
- Capital expenditure for commercial properties and other business investments is set at THB4.5-THB5.5 billion in total during 2024-2026.
- EBITDA margin is sustained around 34%-35%

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that ORI will maintain its competitive advantage and market position in the residential property sector, and deliver its sizable backlog as scheduled. We also expect ORI to lower its debt to capitalization ratio to below 60% while its FFO to debt ratio should gradually improve to around 10% over the next one to two years.

RATING SENSITIVITIES

The ratings could be revised upward if the company continues to expand its revenue base and cash flow significantly while maintaining profitability. Its debt to capitalization ratio should remain below 55% and FFO to debt ratio above 10% on a sustained basis. Conversely, the ratings and/or outlook could be revised downward should operating performance or financial leverage deteriorate significantly from current levels, causing its debt to capitalization ratio to rise above 60% and/or its FFO to debt ratio to drop below 5% on an extended basis.

COMPANY OVERVIEW

ORI was established in 2009 by the Jaroon-ek family. The company became a public company in November 2014 and was listed on the SET in October 2015. After the initial public offering, the Jaroon-ek family continued to be ORI's largest shareholder, holding a 65.4% stake in the company as of March 2024.

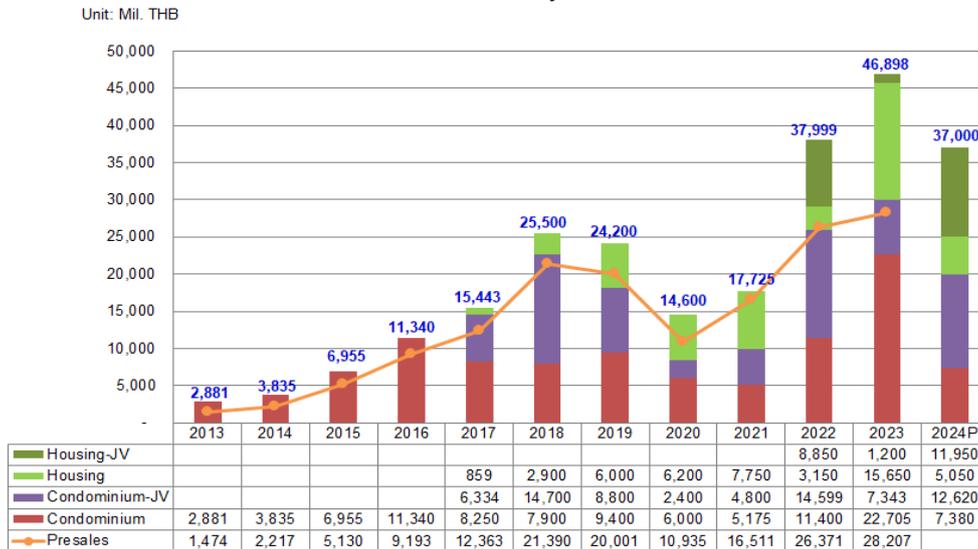
ORI focuses on the residential property development business. The company's condominium projects are developed under the "The Origin", "Origin Play", "Origin Place", "So Origin", and "Park Origin" brands. Its condominium products cover the low- to high-end segments, with selling prices ranging from THB50,000 to more than THB200,000 per square meter. Most of its condominium projects are located in Bangkok and its vicinity, Chonburi, and Rayong. The company recently expanded to Phuket, Nakhon Ratchasima, Ubon Ratchathani, and Khon Kaen.

ORI began diversifying into the landed property sector in 2017 through its subsidiary, Britania PLC (BRI). ORI's single detached house (SDH) brands include: "Britania", "Grand Britania", "Belgravia", and "Branded Residence Villa", with unit prices from THB4-THB60 million. Its townhouse projects are developed under brand names like "Brighton", with selling prices of THB2.5-THB4.0 million per unit. At the end of 2023, ORI's own existing and ongoing projects consisted of 48 condominium projects with a total project value of THB88 billion, 32 landed property projects with a total project value of THB40 billion, and five commercial properties with a combined project value of THB3.7 billion.

Besides its own projects, ORI has expanded launches of residential projects and commercial property projects by joining hands with strategic partners in JVs, primarily Nomura Real Estate Development Co., Ltd. (NRED), a Japanese property developer. At the end of 2023, existing and ongoing projects under JVs consisted of 24 condominium projects with a total project value of THB56 billion, six landed property projects with a total project value of THB10 billion, and seven commercial properties with a combined project value of THB13 billion.

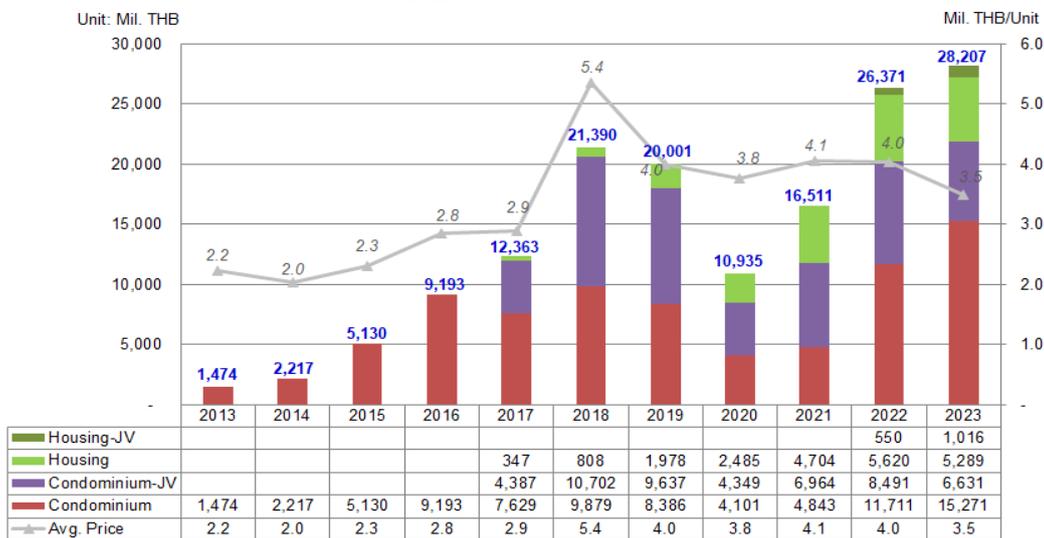
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



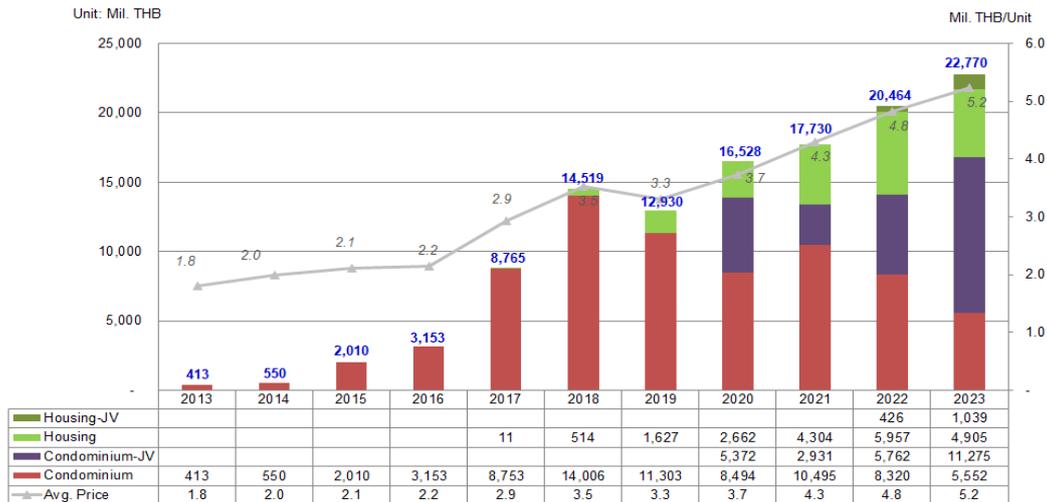
Source: ORI

Chart 2: Presales Performance



Source: ORI

Chart 3: Transfer Performance



Source: ORI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2023	2022	2021	2020	2019
Total operating revenues	14,006	14,536	15,260	10,917	13,663
Earnings before interest and taxes (EBIT)	4,827	5,673	5,048	3,916	4,646
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,393	5,994	5,330	4,129	4,850
Funds from operations (FFO)	2,661	3,909	3,397	2,614	3,154
Adjusted interest expense	1,499	892	1,011	950	728
Real estate development investments	35,916	26,361	22,874	23,458	22,610
Total assets	65,230	48,091	35,398	33,694	32,079
Adjusted debt	39,456	24,873	18,709	19,104	19,607
Adjusted equity	21,098	19,933	14,937	11,373	9,657
Adjusted Ratios					
EBITDA margin (%)	38.5	41.2	34.9	37.8	35.5
Pretax return on permanent capital (%)	8.7	13.5	15.0	12.6	16.8
EBITDA interest coverage (times)	3.6	6.7	5.3	4.4	6.7
Debt to EBITDA (times)	7.3	4.1	3.5	4.6	4.0
FFO to debt (%)	6.7	15.7	18.2	13.7	16.1
Debt to capitalization (%)	65.2	55.5	55.6	62.7	67.0

* Consolidated financial statements

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Origin Property PLC (ORI)

Company Rating:	BBB+
Issue Ratings:	
ORI248A: THB500 million senior unsecured debentures due 2024	BBB+
ORI249A: THB807.8 million senior unsecured debentures due 2024	BBB+
ORI249B: THB600 million senior unsecured debentures due 2024	BBB+
ORI259A: THB982.2 million senior unsecured debentures due 2025	BBB+
ORI259B: THB1,000 million senior unsecured debentures due 2025	BBB+
ORI263A: THB1,200 million senior unsecured debentures due 2026	BBB+
ORI267A: THB2,067.9 million senior unsecured debentures due 2026	BBB+
ORI269A: THB714.7 million senior unsecured debentures due 2026	BBB+
ORI271A: THB780.5 million senior unsecured debentures due 2027	BBB+
ORI273A: THB700 million senior unsecured debentures due 2027	BBB+
ORI277A: THB955.6 million senior unsecured debentures due 2027	BBB+
Up to THB7,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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