Media Release:

Outlook On Sinyi Realty Revised To Negative On Increasing Debt Leverage; Liquidity Revised To Strong; 'twA/twA-1' Ratings Affirmed

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Rating Action Overview

- The EBITDA margin of Sinyi Realty Inc., the largest home broker in Taiwan, is likely to dip over the next one to two years given the downturn in the housing market in Taiwan.
- In addition, we believe Sinyi's land acquisition plans and newly development project launches are likely to weaken its cash flow and escalate debt leverage over the next one to two years. We have therefore revised our rating outlook on Sinyi to negative from stable and affirmed our 'twA' long-term and 'twA-1' short-term issuer credit ratings on the company.
- At the same time, we have revised down our assessment of Sinyi's liquidity to strong from exceptional.
- The negative outlook reflects our view that Sinyi's declining profitability and escalating debt could drive its ratio of debt to EBITDA above our downgrade trigger of 2.5x over the next 24 months.

Rating Action Rationale

Slowing housing demand in Taiwan could dent Sinyi's profitability. The company's operating performance in the home brokerage business could slow down over the next 12-24 months. We estimate Sinyi's transaction volume in Taiwan's home brokerage business will decline by a middle single digit in 2023, dragged down by the decreased commission rate and slowing housing price. This is amid weakening economic conditions, escalating interest rates, and a series of measures by the Taiwan government to curb the overheated housing market.

Meanwhile, Sinyi will recognize revenue from its home-building project in Banqiao, Taiwan, in 2023. This has lower margin than the brokerage business. As a result, we expect the company's overall EBITDA margin to decline to 12.2%-12.7% in 2023 and 2024, from 20.8% in 2021 and 16.9% in 2022.

Sinyi's land acquisitions and property development could deplete cash flow and raise debt. We forecast the company will generate cash flows from sales of its property development project in Wuxi, China, and in Banqiao over the next one to two years. However, the company will likely have larger working capital outflows in 2024 due to increasing land acquisitions and subsequent construction activities. Sinyi's investments in a resort project on Malaysia's Melinsung and

Mengalum Islands will also raise its debt in 2023 and afterwards, though the company has not finalized its development plan yet.

Sinyi's credit metrics could weaken over the next 24 months. We forecast the company's ratio of debt to EBITDA will rise above 2.5x over the next 24 months, from 0.7x in 2021, due to declining EBITDA and escalating debt. This will materially reduce the rating buffer, given our downgrade trigger of 2.5x. However, Sinyi has decent record of flexibility in adapting to market condition. Its operating performance is also more resilient performance than that of peers in the domestic home brokerage segment.

Outlook

The negative outlook reflects our view that Sinyi has a one-in-three likelihood of a downgrade over the next 24 months.

In our view, the company's weakening profitability and rising debt leverage have significantly reduced the buffer for the current rating. We forecast the company's ratio of debt to EBITDA will rise above 2.5x over the period due to a slowdown in the domestic housing market and Sinyi's appetite for land acquisitions.

Downside scenario

We could lower the rating over the next 24 months if:

- Sinyi's ratio of debt to EBITDA remains above 2.5x on a sustainable basis. The possible scenario includes an aggressive growth strategy in property development, resulting in continuous large working capital outflow related to land acquisitions and property construction; and/or
- The company's EBITDA margin drops consistently below 15%. Heavy losses on property development projects or a severe downturn in Taiwan's housing market, possibly due to interest rate hike, could lead to such deterioration; or
- The EBITDA contribution of Sinyi's property development business increases to more than 30% of consolidated EBITDA on a weighted average basis through the development cycle. This will indicate a material increase in business risk.

Upside scenario

We could revise the rating outlook back to stable over the next 24 months if Sinyi can lower its ratio of debt to EBITDA to below 2.5x on a consistent basis. Factors that could cause such improvement are:

- A stronger performance of Sinyi's home brokerage business than we expect; and/or
- A deceleration in land acquisitions and a more conservative approach to property development.

Our Base Case Scenario

- Taiwan's real GDP will grow 1.5% in 2023 and 2.5% in 2024. The slowing GDP growth in 2023 could drag demand for homes.
- China's real GDP will grow 5.5% in 2023 and 5.0% in 2024 as the government has eased its COVID stance and the property market stabilizes.
- Taiwan's residential property transactions will slide by mid-single digit percentage, primarily due to the government's measures to cool the housing market, escalating interest rates, and a gloomy economic outlook. These factors could substantially reduce transactions for investment purposes and subsequently ease upward pressure on housing price.
- Sinyi's transaction volume in the brokerage business to decline by 4%-7% in 2023, reflecting a fall in transactions for investment purposes and a weakening housing market. We expect the company's number of transactions in the brokerage business to recover by 1%-4% in 2024. The transaction volume plummeted 27.9% in 2022, compared with 2021.
- Sinyi's brokerage commission rate to reduce to 4.05%-4.10% in 2023, compared with 4.18% in 2022, and in line with the level of 4.07% over 2019-2020. The rate will gradually improve to 4.06%-4.11% in 2024.
- Average housing price in Taiwan to decline by 10% in 2023 to levels seen in 2020-2021. It will nudge up by 0%-3% in 2024. Average housing price in 2022 went up by 8% compared with 2021.
- Sinyi's property development revenue recognition to be New Taiwan dollar (NT$)3.3 billion-NT$3.8 billion in 2023 and NT$1.2 billion-NT$1.7 billion in 2024, compared with NT$2.7 billion in 2022.
- The company's blended gross profit margin to drop to 24%-27% in 2023 from 28.8% in 2022. This reflects the housing market downturn, and the increased contribution from lower margin construction projects. The margin could increase to 25%-28% in 2024 as the market gradually recovers.
- Working capital outflow for potential land acquisitions and property construction will be NT$2.5 billion-NT$3.0 billion in 2023 and NT$3.0 billion-NT$3.5 billion in 2024, compared with NT$3.2 billion in 2022
- Working capital inflow from sales of property development projects to be NT$3.2 billion-NT$3.7 billion in 2023 and NT$1.5 billion-NT$2.0 billion in 2024, compared with NT$2.3 billion in 2022.
- Annual capital expenditure will be NT$100 million-NT$150 million in 2023 and 2024.
- Cash dividend payout to be about 71.5% of net income in 2023 and 70% in 2024.
- Effective tax rate to remain at about 30% in 2023 and 2024.
- Surplus cash haircut of 8% in 2023 and 2024.

Based on these assumptions, we arrive at the following credit measures:

- EBITDA margin of 12.2%-12.7% in 2023 and 2024, down from 16.9% in 2022.
- Ratio of debt to EBITDA of 1.9x-2.2x in 2023 and 2.6x-2.9x in 2024, up from 1.9x in 2022.

Liquidity

The short-term rating on Sinyi is 'twA-1'. We revised down our assessment of Sinyi's liquidity to strong from exceptional due to lower source of liquidity over the next 24 months, given the company's weaker profitability and increasing debt repayment needs. We believe Sinyi's ratio of liquidity sources to uses will be 1.8x-2.2x in 2023 and 1.3x-1.7x in 2024. Liquidity sources will exceed uses even if EBITDA drops 30% from our base case.

Sinyi can absorb low probability high impact events in Taiwan's housing market and in the property market in China, in our opinion. We also believe the company has strong banking relationships, indicated by low interest rates on its debt. None of Sinyi's debt carry any financial covenants.

Principal liquidity sources:

- Cash and short-term investments of NT$9.6 billion as of the end of 2022.
- Funds from operations of NT$1.0 billion-NT$1.5 billion in 2023 and NT$0.8 billion-NT$1.3 billion in 2024.
- Undrawn credit facilities maturing beyond the next 24 month to support upcoming debt repayment of NT$2.5 billion-NT$3.5 billion in 2023.

Principle liquidity uses:

- Debt repayment of NT$5.8 billion-NT$6.3 billion in 2023 and NT$1.5 billion-NT$2.0 billion in 2024.
- Capital expenditure of NT$100 million-NT$150 million annually in 2023 and 2024.
- Cash dividend of NT$883 million in 2023 and NT$350 million-NT$400 million in 2024.

Rating Score Snapshot

Issuer Credit Rating: twA/Negative/twA-1
Note: The descriptors below are on a global scale.

Business Risk: Fair

- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Fair

Financial Risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: twa-

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Positive (+1 notch)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twa

ESG credit indicators: E-2, S-3, G-2

Related Criteria & Research

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry - February 03, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities - November 13, 2012
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Sinyi Realty Inc.		
Issuer Credit Rating	twA/Negative/twA-1	twA/Stable/twA-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.