Media Release:

Outlook On Sinyi Realty Revised To Stable On Resilient Housing Brokerage Business; 'twA/twA-1' Ratings Affirmed

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Rating Action Overview

- **Sinyi Realty Inc**. is the largest home broker in Taiwan. Since 2012 it has extended coverage to real estate development business with a focus on Greater Taipei. Sinyi generated EBITDA of new Taiwan dollar (NT$) 2.8 billion in 2023.
- We anticipate Sinyi could maintain resilient operating performance on housing brokerage business in Taiwan to support the company's financial buffer during market downturns. This is despite the launch of new land development project could weaken cash flow and push up debt leverage over the next one to two years.
- We have revised the outlook on the long-term issuer credit rating on Sinyi to stable from negative. This reflects our view that Sinyi's financial headroom could comfortably maintain the ratio of debt to EBITDA below our downgrade trigger of 2.5x over the next 24 months.
- At the same time, we affirmed our 'twA' long-term and 'twA-1' short-term issuer credit ratings on the company.

Rating Action Rationale

The outlook action reflects our view that operating performance of Sinyi's housing brokerage segment will remain stable over the next few years. This view is underpinned by the resilient transaction momentum of Sinyi's housing brokerage business, despite an overall housing market downturn in Taiwan. The operating performance of Sinyi's home brokerage business could continue to outperform the market and surpass its peers over the next 12-24 months, given Sinyi's solid record of flexibility in adapting to market changes.

A favorable interest rate offered by the government on mortgages for young lenders since August 2023 is likely to underpin continued purchase demand for own-use property, although momentum could decelerate over next six months to one year. To serve this demand, we estimate Sinyi's transaction volume in Taiwan's home brokerage business will retain low single digit growth in 2024, supported by the broker's solid market presence and talent management system. This is despite slowing overall transaction volume in Taiwan's housing market amid weakening economic conditions, still-high interest rates, and a series of measures by the Taiwan government to curb the overheated housing market. Even without recognition of construction revenue, we now expect Sinyi's overall EBITDA to decline only slightly to NT$2.5 billion in 2024 from NT$2.8 billion in 2023, compared with our previous forecast of NT$1.4 billion for this year.

Sinyi's debt leverage could come under strain from rising funding needs but remain manageable. We anticipate Sinyi will see large working capital outflows in 2024 and 2025 due to the existing construction period for its property development business in Taiwan. In addition, Sinyi's investments in a resort project on Malaysia's Melinsung Islands could raise its working capital needs in 2024 and afterwards. We have also factored in potential land acquisitions and the related construction expense over the next one to two years even though the company is likely to adopt a more conservative appetite for land acquisitions and property development compared with 2021-2022. Sinyi's debts are likely to rise to NT$5.1 billion in 2024 from NT$2.6 billion in 2023 and elevate the ratio of debt to EBITDA to 2.0x in 2024, which is lower than our previous forecast of 2.8x.

Sinyi has a decent track record of prudently expanding its property development business with discipline on its financial leverage. Therefore, we forecast Sinyi could maintain a moderate financial buffer supported by its fair profitability and sustain the ratio of debt to EBITDA below our downside trigger of 2.5x in 2024.

Outlook

The stable rating outlook reflects our view that Sinyi's housing brokerage business in Taiwan could maintain relatively resilient operating performance despite lingering uncertainty in the housing market. We also believe the company's sustainable operating performance from its core business company should help support a moderate financial buffer for the credit ratings over the next one to two years. This is despite a likely rise in debt due to working capital outflow and increased capital spending to support development projects in Taiwan and Malysia over the period.

Downside scenario

We could lower the long-term rating over the next 24 months if:

- The ratio of debt to EBITDA remains above 2.5x on a sustainable basis. The possible scenarios for this include an aggressive growth strategy in property development that results in continuous large working capital outflow related to land acquisitions and property construction; and/or
- EBITDA margin drops consistently below 15% possibly due to heavy losses on property development projects or a severe downturn in Taiwan's housing market if interest rates rise; 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, which would indicate a material increase in business risk.

Upside scenario

The probability for an upgrade is low over the next one to two years; however, we may raise the rating on Sinyi if:

- The company continues to grow its brand equity, business scale and market leadership in the pre-owned house brokerage business, which results in material and sustainable growth in profitability; and
- We see limited exposure to the riskier property development business and a sustained conservative financial policy that would keep the ratio of debt to EBITDA below 1.5x on a consistent basis.

Our Base Case Scenario

- Taiwan's real GDP will grow 3% in 2024 and 2.6% in 2025.
- We forecast transaction volume in Taiwan's residential property market will increase by a low single digit amid stable demand for own-use property driven mainly by the favorable interest rate for young buyers. This is despite the government's continuous measures to cool market speculation, the still high interest rate, and gloomy macroeconomy.
- Sinyi's transaction numbers to nudge up by 3% in 2024 and 2025 compared to 2023.
- Commission rate to improve slightly to 4.2% in 2024 and 2025 from 4.19% in 2023.
- Limited increase in Sinyi's average housing price in 2024 and 2025 with 0.5% growth per year.
- Property development revenue recognition of NT$0.65 billion in 2024 and NT$3.85 billion in 2025. We expect Sinyi to continue to recognize the remaining sales from the company's Wuxi, China project in 2024-2027 and the revenue from Banqiao Jia Pin project in 2025.
- The company's blended gross profit margin to improve to 33.7% in 2024 from 31.6% in 2023 thanks to still resilient Taiwan brokerage business performance. The margin could decrease to 30.4% in 2025 due to the increasing contribution from Banqiao Jia Pin project which likely carries a lower margin compared to Taiwan brokerage business.
- Working capital outflow for potential land acquisition and property construction at NT$2.3 billion in 2024 and NT$1.3 billion 2025 compared to NT$0.5 billion in 2023.
- Working capital inflow from sales of property development projects at NT$1 billion in 2024 and NT$3 billion in 2025 compared to NT$2.9 billion in 2023.
- Capital expenditure to increase greatly to NT$1.8 billion in 2024 and NT$2.7 billion in 2025 from just NT$210 million in 2023. The increase is mainly to support the construction cost in Malaysia Melinsung Island.
- Cash dividend payout of about 63.8% of net income in 2024 and 70% in 2025 compared to 72.6 in 2023.
- Effective tax rate to remain at about 25% in 2024 and 2024.
- Surplus cash to decrease to 3% in 2024 and 2025 from 8% in 2023.

Sinyi Realty Inc.--Forecast summary

Industry sector: Consumer services

(Mil. NT$)	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	18,792	13,724	14,205	12,638	16,273	13,834
EBITDA (reported)	3,861	2,295	2,753	2,493	3,154	2,794
Plus/(less): Other	43	26	39	32	32	32
EBITDA	3,904	2,322	2,792	2,525	3,186	2,826
Less: Cash interest paid	(198)	(179)	(234)	(192)	(209)	(209)
Less: Cash taxes paid	(715)	(1,388)	(477)	(430)	(592)	(502)
Funds from operations (FFO)	2,991	754	2,081	1,903	2,385	2,115
Cash flow from operations (CFO)	6,988	(489)	3,408	516	3,309	3,030
Capital expenditure (capex)	112	134	211	1,776	2,728	1,957
Free operating cash flow (FOCF)	6,876	(624)	3,198	(1,260)	581	1,073
Dividends	1,268	2,081	897	1,181	891	1,226
Discretionary cash flow (DCF)	5,608	(2,704)	2,301	(2,441)	(310)	(153)
Debt (reported)	7,394	11,662	8,834	11,076	11,403	11,573
Plus: Lease liabilities debt	3,449	3,328	3,155	3,155	3,155	3,155

Less: Accessible cash and liquid Investments	(8,128)	(8,812)	(6,999)	(6,790)	(6,790)	(6,790)
Plus/(less): Other	--	(1,748)	(2,390)	(2,390)	(2,390)	(2,390)
Adjusted Debt	2,715	4,430	2,600	5,051	5,378	5,548
Cash and short-term investments (reported)	10,160	9,578	7,216	7,000	7,000	7,000
Adjusted ratios						
Debt/EBITDA (x)	0.7	1.9	0.9	2.0	1.7	2.0
FFO/debt (%)	110.2	17.0	80.0	37.7	44.4	38.1
DCF/debt (%)	206.6	(61.0)	88.5	(48.3)	(5.8)	(2.8)
Annual revenue growth (%)	43.9	(27.0)	3.5	(11.0)	28.8	(15.0)

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity

The short-term rating on Sinyi is 'twA-1'. We believe Sinyi has strong liquidity to meet its needs over the next 24 months. The ratio of liquidity sources to liquidity uses will be 1.81x in 2024 and 1.46x in 2025. Its liquidity sources will still exceed liquidity uses even with EBITDA dropping 30%. Its financial risk management is generally prudent, considering the company’s low debt leverage, in our opinion. We also believe the broker has strong banking relationships, as indicated by the low interest rates on its debts. Sinyi's debts have no financial covenants.

Principal liquidity sources:

- Cash and short-term investments of NT$7.2 billion as of the end of 2023.
- Funds from operations of NT$1.9 billion in 2024 and NT$2.4 billion in 2025.
- The undrawn, available portion of committed credit facilities of NT$1.9 billion maturing over the next 12 months and NT$2.3 billion over the following 24 months.

Principle liquidity uses:

- Debt repayment of NT$1.7 billion in 2024 and NT$2.3 billion in 2025.
- Capital expenditure of NT$1.8 billion in 2024 and NT$2.7 billion in 2025.
- Cash dividend of NT$1.2 billion in 2024 and NT$0.9 billion in 2025.

Rating Score Snapshot

Issuer Credit Rating: twA/Stable/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: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twa

Related Criteria & Research

Related Criteria

- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry - February 03, 2014

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/Stable/twA-1	twA/Negative/twA-1