

# CENTRAL PATTANA PLC

No. 118/2017

22 September 2017

<b>Company Rating:</b>	AA
<b>Issue Ratings:</b>	
Senior unsecured	AA
<b>Outlook:</b>	Stable

## Company Rating History:

Date	Rating	Outlook/Alert
12/05/14	AA-	Stable
05/02/13	A+	Positive
23/05/07	A+	Stable
22/02/05	A	Stable
12/07/04	A-	Positive
04/10/02	A-	
17/05/01	BBB+	

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## Rating Rationale

TRIS Rating upgrades the company rating and the ratings of senior unsecured debentures of Central Pattana PLC (CPN) to “AA” from “AA-”. The upgrades reflect the company’s stronger financial profile, driven by solid operating performance and reliable streams of income. The ratings continue to reflect CPN’s leading position in the retail property development industry in Thailand, proven record of managing high-quality shopping centers, reliable cash flows from contract-based rental and service income, and conservative financial policy. The ratings also take into consideration the large capital expenditures needed for business expansion during 2017-2020.

CPN is the largest retail property developer in Thailand. Its major shareholders are the Chirathivat family (27%) and Central Holding Co., Ltd. (26%). The ownership link with the Central Group is a benefit for CPN since many anchor tenants under the group have been strong magnets for shopping centers owned by CPN. As of June 2017, CPN managed 30 shopping centers, with 1.6 million square meters (sq.m.) of retail space. The shopping centers are located in Bangkok and major provincial cities in Thailand. CPN has long been the market leader in the Thai retail property industry. As measured by the total amount of retail space in Greater Bangkok, CPN had approximately 20% market share during the past five years.

CPN’s strong operating performance is attributed to the high occupancy rates (OR) at its shopping centers and healthy growth in same-store rental and service income. The average OR of all shopping centers has been in the high range of 93%-94% during 2015-2017. Rental and service income soared by 14% year-on-year (y-o-y) to Bt25,246 million in 2016. During the first half of 2017, rental and service income grew by 5% y-o-y to Bt13,048 million. The growth was due to CPN’s ability to generate higher rental and service income from the existing shopping centers and the opening of a new center, Central Plaza Nakhon Si Thammarat, in mid-2016. CPN’s same-store rental and service income grew by 2% y-o-y in 2016 and 3.4% y-o-y in the first six months of 2017. Over the next three years, CPN’s rental and service income is expected to reach Bt27,000-Bt30,000 million per annum with its target to open two to three new shopping centers each year.

The company’s operating profit margin, defined as operating income before depreciation and amortization as a percentage of total revenue, increased to 57% in 2016 and 62% in the first half of 2017 from 51%-54% during 2013-2015. CPN’s ability to increase its rental rates, control operating costs, and manage selling and administrative (SG&A) expenses drove profitability higher. Despite intense competition in the retail property development industry and a slowdown in the domestic economy, CPN is expected to keep its operating profit margin above 50% over the next three years.

The company’s adjusted debt to capitalization ratio improved to 38% at the end of June 2017, from 44% as of December 2015. The adjusted net debt to earnings before interest, tax, depreciation, and amortization (net debt/EBITDA) ratio improved to 1.7 times as of June 2017 from 2.2 times as of December 2015. CPN’s liquidity remained strong as the ratio of funds from operations (FFO) to adjusted debt was 42% in 2016 and 43% (annualized with trailing 12 months) in the first six months of 2017. CPN’s financial flexibility is supported by cash on hand and short-term investments of Bt2,205 million, as well as unused credit facilities of

Bt6,100 million as of June 2017. In late 2017, CPN plans to convert CPN Retail Growth Leasehold Property Fund (CPNRF) into CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT). At the same time, CPN will sublease the Central Festival Pattaya Beach shopping centre and Hilton Pattaya hotel, worth Bt11,908 million, to the REIT. The cash received from subleasing the new assets to CPNREIT will be partly used to fund capital expenditures budgeted at Bt14,000-Bt16,000 million per annum during 2017-2020. TRIS Rating expects that CPN will be able to keep the adjusted net debt to EBITDA ratio below 2 times over the next three years. FFO is projected to be in the range of Bt14,000-Bt17,000 million per annum.

#### Rating Outlook

The “stable” outlook reflects the expectation that CPN will be able to sustain its strong operating performance. Over the next three years, CPN’s total revenue is expected to be in the range of Bt29,000-Bt35,000 million per annum. The company is expected to maintain its financial discipline by keeping the operating profit margin above 50%. The adjusted net debt to EBITDA ratio should remain below 2 times.

CPN’s ratings and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the current levels. Also, adjusted net debt to EBITDA ratio at around 3-4 times for certain periods may lead to a downward rating or outlook revision.

#### Central Pattana PLC (CPN)

<b>Company Rating:</b>	AA
<b>Issue Ratings:</b>	
CPN188A: Bt1,400 million senior unsecured debentures due 2018	AA
CPN180A: Bt500 million senior unsecured debentures due 2018	AA
CPN208A: Bt1,400 million senior unsecured debentures due 2020	AA
CPN20DA: Bt800 million senior unsecured debentures due 2020	AA
CPN210A: Bt300 million senior unsecured debentures due 2021	AA
CPN21DA: Bt800 million senior unsecured debentures due 2021	AA
CPN221A: Bt1,000 million senior unsecured debentures due 2022	AA
CPN228A: Bt800 million senior unsecured debentures due 2022	AA
CPN22DA: Bt600 million senior unsecured debentures due 2022	AA
<b>Rating Outlook:</b>	Stable

**Financial Statistics and Key Financial Ratios\***

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2017	2016	2015	2014	2013	2012
Rental and service income	13,048	25,246	22,232	20,375	18,128	15,325
Food and beverage sales	791	1,389	1,068	975	882	725
Gross interest expense	259	660	621	845	1,176	1,237
Net income from operations	5,259	9,244	7,880	7,307	6,293	6,189
Funds from operations (FFO)	7,392	13,540	11,604	10,515	9,139	9,001
Capital expenditures	4,227	7,378	17,099	11,679	11,807	9,257
Cash and short-term investment	2,205	3,204	4,326	3,773	1,869	4,207
Total assets	108,628	104,527	103,045	89,035	77,539	69,636
Total debt	19,325	17,904	22,657	16,023	19,846	25,788
Shareholders' equity	54,660	53,005	46,801	41,748	36,824	25,900
Operating income before depreciation and amortization as % of rental & service income and sales	61.53	57.29	54.29	53.82	51.29	48.89
Pretax return on permanent capital (%)	16.00 **	15.52	14.38	14.91	13.66	13.90
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.94	8.53	8.45	7.57	6.92	7.06
FFO/total debt (%)	42.63 **	42.26	31.97	36.13	28.20	24.44
Total debt/capitalization (%)	38.01	37.68	43.68	41.08	46.82	58.71
Total debt/capitalization (%) ***	26.12	25.25	32.62	27.74	35.02	49.89

Note: All ratios are operating lease adjusted

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

\*\*\* Excluding capitalized annual leases

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