

CENTRAL PATTANA PLC

 No. 229/2021
 29 December 2021

CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 11/08/21

Company Rating History:

Date	Rating	Outlook/Alert
12/07/21	AA	Alert Negative
16/01/19	AA	Stable
18/09/18	AA	Alert Developing
22/09/17	AA	Stable
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+	-

Contacts:

Jutamas Bunyawanichkul

jutamas@trisrating.com

Pramuansap Phonprasert

pramuansap@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Wiyada Pratoomsuwan, CFA

wiyada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating and the ratings on CPN's senior unsecured debentures at "AA", with a "stable" outlook. The ratings reflect CPN's leading position in the retail property development industry in Thailand, proven track record of managing high-quality assets, and reliable cash flow from contract-based rental and service income. The ratings also take into consideration the acquisition of Siam Future Development PLC (SF) and large capital expenditures needed for business expansion during 2021-2023 as well as concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which continues to affect consumer confidence and demand for retail space.

KEY RATING CONSIDERATIONS

SF acquisition to complement CPN's portfolio

We view that the acquisition of SF strengthens CPN's retail property portfolio, especially in the Bangna area, where Mega Bangna shopping center (Mega Bangna) is prominent and strongly attracts a broad variety of tenants. After the completion of the tender offer for SF in mid-October 2021, CPN reported a total shareholding in SF of 96.24%. As of September 2021, CPN became the owner of additional 17 community malls and one super regional mall, with total net leasable area (NLA) of 364,883 square meters (sq.m.). CPN also became the joint venture (JV) partner of land plots located in potential areas.

As of September 2021, the average occupancy rate (OR) of community malls under SF was 92% and Mega Bangna was close to 100%. SF reported total operating revenue of THB1.1-THB1.5 billion per annum and earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB0.7-THB0.9 billion per annum during the past five years. SF's shared profit from its investment in Mega Bangna was THB0.3-THB0.5 billion annually during 2016-2020.

After the SF acquisition, CPN's total net leasable area of retail space increased by 20% to 2.2 million sq.m. With the inclusion of the 17 community malls and one super regional mall under SF, CPN has strengthened its leading position in most types of retail properties in Thailand. As of September 2021, CPN managed 52 shopping centers and community malls, 32 in Bangkok, 19 in provincial areas, and one in Malaysia, as well as retail space under Grand Canal Land PLC (GLAND). CPN's net leasable area totaled 2.2 million sq.m. CPN's dominant position is attributed to its leading market share of 23% of the nationwide retail space market, with OR of above 90% for the past several years.

Proven track record in high-quality asset management

We assess CPN's overall asset quality as good. CPN has a diversified portfolio of income-generating retail properties, sited in good locations, and a diverse and strong tenant base. Each shopping center regularly undergoes renovations and remerchandising to enhance its appearance and draw customer traffic. Magnet anchors, such as Central Department Stores, Robinson Department Stores, cinemas, supermarkets, brand name shops, and large multi-purpose halls, help stimulate traffic. A good mix of anchor tenants attracts other specialty retailers. The prime-quality shopping centers also attract a diverse mix of local and international brand retailers.

2021 operations hit by lockdown measures

CPN's operating performance in 2021 has been hindered by successive waves of COVID-19 outbreaks, particularly during the mandatory closure of shopping centers from mid-July to the end of August 2021. CPN provided rent discounts to its tenants during months affected by the pandemic in 2021.

We view that the momentum from the vaccination rollout in the second half of 2021 will support a strong recovery in traffic from the fourth quarter of 2021 onwards. Our base-case scenario projects CPN's revenue from shopping centers to reach THB20 billion in 2021, 35% lower than the 2019 level. Revenue from office buildings for rent may drop by 10% from the pre-pandemic level to THB1.5 billion in 2021. Revenue from food centers is projected to shrink to around THB0.3 billion this year, following the lockdown and social distancing measures. Revenue from hotel operations is also expected to plummet and will bottom out in 2021. We forecast CPN's total operating revenue will contract by 30%-35% from the 2019 level to THB25 billion this year. The company's EBITDA, including gains on subleasing of assets to the real estate investment trust (REIT), may drop by 15% from the pre-pandemic level to THB18 billion in 2021.

Gradual recovery expected during 2022-2023

We believe that customer traffic will gradually revive after the easing of lockdown measures. We expect the whole year traffic of 2022 to recover to 75%-85% of the pre-pandemic level. With weak consumer spending and the emergence of new COVID-19 variants, we believe CPN will continue to provide rent discounts to affected tenants throughout 2022. We forecast a 3% year-on-year (y-o-y) growth in rental rates in 2023. We expect CPN to open one to three new shopping centers annually over the forecast period. Overall OR should stay around 90%. Our base-case projects CPN's revenue from shopping centers to rebound to THB22-THB23 billion per annum during 2022-2023, around 25% lower than the 2019 level. Revenue from office buildings for rent should stay in the THB1.3-THB1.5 billion range annually during 2022-2023 based on the assumption of a slight drop in OR and no growth in rental rates. We project revenue from food centers to recover to THB0.6-THB0.7 billion per annum. Revenue from hotel operations should return to 50% and 70% of the 2019 level in 2022 and 2023, respectively.

The recovery of CPN's operating results has been at a slower pace than our previous projection as the drawn-out pandemic and emergence of new variants continue to pose challenges. We forecast CPN's total operating revenue from all businesses to be in the THB28-THB30 billion range annually during 2022-2023. We expect CPN to control its operating costs efficiently amid the uncertain pandemic situation and economic recovery. We project CPN's EBITDA to revive to THB19 billion in 2022 and THB25 billion in 2023, including gain on the subleasing of assets to the REIT. CPN's net profit margin should remain at least 27% of total operating revenue throughout the forecast period.

Deleveraging through asset sales and subleases to the REIT

CPN fully funded the SF acquisition transaction by debt. Thus, CPN's debt will increase by THB23.6 billion plus the THB6 billion debt obligations of SF. Our base-case scenario also assumes the company's aggregate capital expenditure of THB12 billion this year (excluding the SF acquisition cost) and THB20 billion per annum during 2022-2023. We take into account CPN's investments in new shopping centers and office buildings as well as asset enhancement of existing shopping centers of THB9-THB15 billion per annum. We project the annual budget for land purchases and construction of residential projects to be THB2-THB3 billion. We expect its new investments of around THB2 billion annually in the hospitality business during 2022-2023, and incorporate total investments by CPN, GLAND, and joint ventures (based on CPN's ownership proportion) in our base-case assumptions.

Despite the SF acquisition being wholly financed by debt, we expect CPN to be able to execute its deleveraging plan. Our base-case scenario incorporates asset sales of two shopping centers under CPN to the CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) in late 2022. We also project the sublease of assets to the REIT to be in late 2023. Cash received from the sale and sublease of assets of THB20-THB25 billion during 2021-2023 should partly alleviate the company's debt burden. We expect CPN to keep its net debt to EBITDA ratio, excluding lease liability, below 4.5 times over the forecast period. We project the ratio of EBITDA interest coverage at around 8 times.

Acceptable liquidity profile

We assess CPN to have adequate liquidity over the next 12 months. As of September 2021, CPN's debt maturing over the next 12 months will amount to THB29 billion, comprising THB14 billion short-term obligations, THB6 billion long-term loans, THB5.8 billion debentures, and THB2.8 billion lease liability. We project CPN's capital expenditures to amount to THB12 billion in 2021 and THB20 billion annually during 2022-2023. Dividend payments will be around 33%-40% of net profit. At the end of September 2021, CPN's sources of funds consisted of THB4.5 billion in cash plus THB3.5 billion in short-term investments. CPN had undrawn committed credit facilities of THB13.2 billion. Funds from operations (FFO) is forecast to be around THB15 billion in 2022. In addition, CPN had unencumbered assets at book value of around THB165 billion, which can be pledged as collateral for new loans, if needed.

CPN has remained in compliance with its financial covenants. The financial covenants on CPN's debentures require the company's net interest-bearing debt to equity ratio (excluding lease liability) to remain below 1.75 times and the total assets (excluding secured debt) to unsecured debt ratio to stay above 1.5 times. As of September 2021, CPN's net interest-bearing debt to equity ratio was 0.7 times and the total assets (excluding secured debt) to unsecured debt ratio was 4 times.

At the end of September 2021, CPN had secured debt of THB3.8 billion. As the ratio of its secured debt to cost value of total assets was only 2%, below the threshold of 35% according to TRIS Rating's "Rating Methodology for Real Estate for Rent Companies", we view that CPN's unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for CPN during 2021-2023:

- Rental and service income from shopping centers in 2021 to stay at 65% of the 2019 level and recover to THB22-THB23 billion per annum during 2022-2023.
- CPN to open one to three new shopping centers annually during 2021-2023, with overall OR of around 90%.
- Aggregate capital expenditure to be THB12 billion in 2021 and THB20 billion per annum during 2022-2023.
- Total operating revenue of THB25 billion in 2021, recovering to THB28-THB30 billion annually during 2022-2023.
- CPN to sell and sublease assets to the CPNREIT in 2022-2023.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that CPN will be able to deliver operating results as targeted amidst the challenging business environment. Despite a more aggressive business expansion, we expect CPN to sustain its strong financial profile and keep the net debt to EBITDA ratio (excluding lease liability) below 4.5 times, over the forecast period.

RATING SENSITIVITIES

A credit upside would materialize if CPN strengthens its financial position while maintaining a strong business profile. On the contrary, the ratings and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from our expectation or the net debt to EBITDA ratio (excluding lease liability) stays well above 4.5 times for a sustained period.

COMPANY OVERVIEW

CPN was incorporated in 1980 under the name "Central Plaza Co., Ltd." to develop and operate a shopping complex in Thailand. The company was listed on the Stock Exchange of Thailand (SET) in 1995. As of September 2021, the major shareholders of CPN were the Chirathivat family (27%) and Central Holding Co., Ltd. (26%). Central Holding, a wholly owned holding company of Chirathivat family members, is engaged in real estate development, hotels, food retailing, department stores, hardline products, and online marketing. 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.

CPN is the largest retail property developer in Thailand. After the acquisition of GLAND in late 2018 and SF in August 2021, CPN's property portfolio included 52 shopping centers and community malls with net leasable area of 2.2 million sq.m., 10 office buildings with net leasable area of 317,253 sq.m., two hotels, one apartment, 32 food centers, 13 existing residential projects, and two REITs/property funds.

CPN's rental and service income from shopping centers constituted 80%-85% of total revenues from sales and services during 2018 through the first nine months of 2021. Revenue from residential projects for sale has contributed 7%-8% during the past four years. Revenue from office buildings for rent has contributed 3%-7% during the same period. Revenue from hotel operations and food centers has remained negligible.

KEY OPERATING PERFORMANCE

Table 1: CPN Property Portfolio

Type of Property	Unit	CPN	GLAND	SF	Total
NLA of retail space	sq.m.	1,805,849	24,937	364,883	2,195,669
NLA of office space	sq.m.	171,925	145,328	-	317,253
Hotel	rooms	563	-	-	563
Unsold value in residential projects	Mil. THB	6,927	1,504	-	8,431

NLA = Net leasable area

Sources: CPN, GLAND, and SF

Table 2: CPN's Revenue from Sales and Services

Unit: %

Business	2016	2017	2018	2019	2020	Jan-Sep 2021
Shopping centers	89.0	88.1	82.9	82.1	83.6	84.1
Office buildings	2.4	2.4	3.1	4.6	5.6	6.6
Hotels	3.6	3.8	3.6	3.1	1.1	0.8
Apartment & others	0.0	0.0	0.0	0.0	0.0	0.0
Food & beverages	5.0	5.7	2.2	2.3	1.6	1.2
Residential			8.2	7.9	8.1	7.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total revenues from sales and services (mil. THB)	27,634	28,785	33,728	36,719	27,862	17,168

Source: CPN

Table 3: Average Occupancy Rate

Unit: %

Occupancy Rate	2016	2017	2018	2019	2020	Jan-Sep 2021
Shopping centers/ community malls						
- CPN	93.9	91.8	92.7	92.6	91.9	90.9
- GLAND			69.8	68.8	57.9	49.4
- SF						95.0
Office buildings						
- CPN	96.7	94.1	95.5	94.3	90.1	88.3
- GLAND			98.3	97.2	91.7	90.7
Hotels	82.6	85.9	86.2	76.9	33.1	17.8

Sources: CPN, GLAND, and SF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	18,242	28,924	38,093	35,317	31,094
Earnings before interest and taxes (EBIT)	7,105	9,298	15,381	14,562	13,507
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	13,036	17,103	22,260	20,533	18,760
Funds from operations (FFO)	10,279	13,070	17,168	16,320	15,008
Adjusted interest expense	1,250	1,884	2,756	2,156	1,957
Capital expenditures	4,133	7,179	10,434	9,021	10,568
Total assets	257,872	221,652	169,933	161,708	120,574
Adjusted debt	112,556	86,404	64,301	54,650	32,022
Adjusted equity	90,519	77,123	80,462	74,176	63,880
Adjusted Ratios					
EBITDA margin (%)	71.46	59.13	58.44	58.14	60.33
Pretax return on permanent capital (%)	5.15 **	5.81	11.01	12.53	13.99
EBITDA interest coverage (times)	10.43	9.08	8.08	9.52	9.59
Net Debt to EBITDA (times) (including lease liability)	6.38 **	5.05	2.89	2.66	1.71
Net Debt to EBITDA (times) (excluding lease liability)	3.70 **	2.37	2.89	2.66	1.71
FFO to debt (%)	12.35 **	15.13	26.70	29.86	46.87
Debt to capitalization (%)	55.43	52.84	44.42	42.42	33.39

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Central Pattana PLC (CPN)

Company Rating:	AA
Issue Ratings:	
CPN221A: THB1,000 million senior unsecured debentures due 2022	AA
CPN225A: THB1,500 million senior unsecured debentures due 2022	AA
CPN235A: THB2,000 million senior unsecured debentures due 2023	AA
CPN241A: THB2,000 million senior unsecured debentures due 2024	AA
CPN242A: THB3,000 million senior unsecured debentures due 2024	AA
CPN248A: THB5,000 million senior unsecured debentures due 2024	AA
CPN258A: THB1,000 million senior unsecured debentures due 2025	AA
CPN261A: THB1,250 million senior unsecured debentures due 2026	AA
CPN261B: THB750 million senior unsecured debentures due 2026	AA
CPN268A: THB4,000 million senior unsecured debentures due 2026	AA
Up to THB4,000 million senior unsecured debentures due within 15 years	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

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