

CENTRAL PATTANA PLC

No. 54/2018

26 July 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
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+	-

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RATIONALE

TRIS Rating affirms the company rating on Central Pattana PLC (CPN) and the ratings on its outstanding senior unsecured debentures at “AA”. At the same time, TRIS Rating assigns the rating of “AA” to CPN’s proposed issue of up to Bt10,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance CPN’s existing debentures, repay outstanding debt, and fund business expansion.

The ratings of CPN and its debentures reflect the company’s leading position in the retail property development industry in Thailand, proven record of managing high-quality shopping centers, reliable cash flow stream from contract-based rental and service income, and strong financial profile. The ratings also take into consideration the large capital expenditures needed for business expansion during 2018-2022.

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 March 2018, CPN managed 32 shopping centers, with 1.7 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 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 range of 92%-94% during 2015 through the first quarter of 2018. According to CB Richard Ellis (CBRE), the industry average OR of shopping centers has been 92%-93% during 2017 through the first quarter of 2018.

Rental and service income increased by 3% year-on-year (y-o-y) to Bt26,057 million in 2017. During the first three months of 2018, rental and service income grew by 4% y-o-y to Bt6,776 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 new centers, Central Plaza Nakhon Ratchasima and Central Plaza Mahachai, in late 2017. CPN’s same-store rental and service income grew by 3.5% y-o-y in 2017 and 3% y-o-y in the first quarter of 2018. TRIS Rating forecasts CPN’s rental and service income during 2018-2020 will be around Bt30,000 million per annum.

CPN’s operating profit margin, defined as operating income before depreciation and amortization as a percentage of total revenue, increased to 55%-57% during 2016-2017 and 64% in the first three months of 2018 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, CPN is expected to keep its operating profit margin above 50% during 2018-2020.

After the conversion of CPN Retail Growth Leasehold Property Fund (CPNRF) into CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) at the same time of subleasing new assets to the REIT, CPN’s financial leverage

improved. The adjusted debt to capitalization ratio decreased to 27% as of December 2017 and 30% as of March 2018, from 38% as of December 2016. The adjusted net debt to earnings before interest, tax, depreciation, and amortization (net debt/EBITDA) ratio improved to 1 times during 2017 through the first three months of 2018 from 1.7 times in 2016. Although CPN plans to spend Bt15,000-Bt20,000 million per annum on capital expenditures during 2018-2022, TRIS Rating expects CPN to keep adjusted debt to capitalization ratio below 40% and adjusted net debt to EBITDA ratio below 2 times.

CPN's liquidity is acceptable. At the end of March 2018, the sources of funds comprised cash on hand and short-term investments of Bt7,157 million as well as undrawn credit facilities from financial institutions of Bt10,159 million. TRIS Rating forecasts CPN's funds from operations (FFO) over the next 12 months will be around Bt15,000 million. These sources are sufficient to cover the funding needs and the debt service needs over the next 12 months. CPN has scheduled to repay short-term borrowings of Bt14 million, debentures of Bt1,900 million, and long-term loans of Bt334 million, coming due in the next 12 months.

RATING OUTLOOK

The "stable" outlook reflects the expectation that CPN will be able to sustain its strong operating performance. CPN's total revenue during 2018-2020 should stay around Bt35,000 million per annum. TRIS Rating expects the company to maintain its financial discipline by keeping the operating profit margin above 50% and the adjusted net debt to EBITDA ratio below 2 times.

RATING SENSITIVITIES

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, the adjusted net debt to EBITDA ratio at around 3-4 times for prolonged periods may lead to a downward rating or outlook revision. On the contrary, the ratings and/or outlook would be upgraded if CPN's business expansion strengthens its business position and financial profile.

Central Pattana PLC (CPN)

Company Rating:	AA
Issue Ratings:	
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
Up to Bt10,000 million senior unsecured debentures due within 15 years	AA
Rating Outlook:	Stable

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