

L.P.N. DEVELOPMENT PLC

No. 208/2020
9 December 2020

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 19/12/19

Company Rating History:

Date	Rating	Outlook/Alert
19/12/19	A-	Negative
16/01/19	A-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on L.P.N. Development PLC (LPN) and the ratings on LPN's senior unsecured debentures to "BBB+" from "A-". The rating outlook is revised to "stable" from "negative".

The downgrade reflects LPN's weakening operating performance and rising leverage levels, amid sluggish demand and increasing competition in the residential property market. LPN's presales and revenues are expected to drop below our previous base-case forecast, which could cause its funds from operations (FFO) to total debt ratio to drop below our target of 10% over the next few years.

The ratings continue to reflect LPN's well-accepted brands in the middle- to low-priced condominium segments and good after-sales services. The ratings are, however, constrained by LPN's relatively concentrated product portfolio in terms of product types and price ranges, as well as concerns over the adverse effects of the Coronavirus Disease (COVID-19), which could put more pressure on demand for residential property and the profitability of developers in the short to medium term.

KEY RATING CONSIDERATIONS

Expected weakening operating performance

We expect LPN's operating performance to fall below our previous base-case forecast. The economic fallout from COVID-19 and stringent bank lending policies are suppressing demand for residential property, especially in the condominium segment. LPN's total operating revenue decreased by 20% year-on-year (y-o-y) to THB4.8 billion in the first nine months of 2020. We have revised down our forecast for LPN's total operating revenue to THB6.5-THB8.5 billion per annum during 2020-2023, lower than our previous forecast of THB9-THB10 billion per annum.

LPN's net presales were THB2.7 billion in 2019 and THB3.8 billion in the first nine months of 2020, significantly lower than THB11-THB14 billion per annum during 2017-2018. Its backlog at the end of September 2020 was only THB3.8 billion. The backlog will be recognized as revenues of THB2.9 billion in the fourth quarter of 2020 and THB0.9 billion in 2021. Thus, LPN's revenue during 2021-2023 will depend largely on its ability to generate sales from its completed condominium projects and new landed property projects.

LPN's earnings before interest, taxes, depreciation, and amortization (EBITDA) is expected to range between THB1-THB1.5 billion annually during 2020-2023, declining from THB1.8-THB2 billion per annum during 2018-2019. However, we expect LPN's EBITDA margin to remain above 15%.

Concentrated in middle- to low-priced condominium segments

We consider LPN's product portfolio to be quite concentrated in the middle- to low-priced condominium segments. Condominium products contributed 80%-90% of total operating revenues during 2015-2018 and around 60% during 2019 through the first nine months of 2020.

As of September 2020, LPN had 39 existing projects with total remaining project value of THB17.8 billion (including built and un-built units). Condominium projects comprised 75% of total unsold value, while landed property projects

accounted for the rest. LPN's major condominium brands are "Lumpini Park", "Lumpini Place", "Lumpini Ville", and "Lumpini Township", with unit prices below THB4 million. Most of its townhouse projects are developed under the "Baan Lumpini Town Ville" brand, with prices of THB2-THB3 million per unit. Currently, LPN has only one single-detached house (SDH) project, "BAAN 365 by LPN", with unit prices ranging from THB35 million to THB60 million. Residential units with a price below THB4 million made up around 80% of LPN's total remaining value.

We assess that a lengthy slowdown in the domestic economy and more stringent loan-to-value (LTV) policies are significantly affecting demand in the middle-to low-priced segments. Although LPN has launched more landed property projects and expanded into higher-priced segments, the contribution from its landed properties remains below 25% of total operating revenue. We believe that affordably priced condominium units will remain the major source of revenue over the next three years.

Well-recognized brands in the middle- to low-priced condominium segments

We view LPN's brand recognition in the medium- to low-priced condominium segments as acceptable. The key selling points of its residential projects are the company's ability to deliver projects on time and its good after-sales services. The company has extensive experience in managing the construction of residential property projects, especially condominium projects. LPN has enjoyed long-term relationships and worked as a team with its main contractors for several years. Thus, LPN has been able to control the costs and manage the speed of construction of its condominium projects effectively. The construction period of its condominium projects is relatively short at 12-18 months.

LPN's good after-sales services have built up its brand equity over the long term. Its two subsidiaries; Lumpini Property Management Co., Ltd. (LPP) and LPC Social Enterprise Co., Ltd. (LPCSE), are responsible for community management and the provision of cleaning and security services, respectively. Revenue from LPP and LPCSE was around THB1 billion in 2019. We expect revenue from its after-sales services to range from THB1-THB1.2 billion per annum during 2020-2023.

Softening profitability for most property developers amid concerns over a prolonged COVID-19 outbreak

The residential property market closely follows trends in the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of COVID-19 could cause a severe economic downturn and further suppress market demand. In addition, the number of non-performing mortgage loans (NPL) could rise further. The weakening purchasing power of homebuyers and stringent bank lending policies have been the key factors affecting the demand for residential properties, especially from buyers in the middle- to low-income segments which are LPN's target customers. Thus, LPN needs to be more cautious in launching new projects.

Due to softening demand in the condominium segment among both local and foreign homebuyers, we foresee that several property developers will continue to employ price competition in order to boost sales during the next few years. TRIS Rating forecasts that LPN's profitability could be pressured by more intense competition and rising land cost. In any case, LPN's average gross profit margin should stay at 30%-31% during 2020-2023. The net profit margin should range from 8%-10% of total operating revenue, down from 11%-13% in prior years.

Elevated financial leverage

LPN's debt to capitalization ratio increased to 37% as of December 2019 and 47% as of September 2020, from below 35% during 2015-2018. In addition, its weaker-than-expected operating performance during 2019-2020 caused its FFO to total debt ratio to decline further to 11% during the first nine months of 2020, from 17% in 2019 and 27% in 2018. Based on our forecast, LPN's FFO to total debt ratio could drop below 10% over the next three years.

In our base-case scenario, we assume LPN will launch new condominium projects worth THB5 billion per annum and new landed property projects worth THB3 billion per annum over the next three years. We project the company to spend THB2-THB4 billion annually to purchase land plots during 2021-2023 and THB0.7-THB0.9 billion per annum to build two office buildings (including its own and joint venture projects) during 2021-2022. Despite its ongoing business expansion in both residential projects and recurring-income assets, we expect LPN to keep its debt to capitalization ratio below 50%.

The financial covenants on LPN's bank loans require maintenance of its interest-bearing debt to equity ratio below 1.25 times and its total liability to total equity ratio below 2 times. Also, the financial covenants on bonds limit the company's interest-bearing debt to equity ratio at lower than 2 times. As of September 2020, the interest-bearing debt to equity ratio was 0.9 times and the total liability to total equity ratio was 1.09 times. We believe that LPN should have no problems complying with the financial covenants over the next 12 to 18 months.

Adequate liquidity

We assess LPN's liquidity to be adequate over the next 12 months. As of September 2020, LPN's sources of funds consisted of THB0.8 billion in cash on hand plus undrawn short-term loan facilities of THB1.9 billion, undrawn unconditional project loan facilities of THB0.4 billion, and undrawn conditional project loan facilities of THB2.9 billion. We project LPN's FFO over the next 12 months to be THB0.6 billion. Debts due over the next 12 months will amount to THB6.5 billion, comprising THB5.3 billion in short-term bills of exchange (B/Es) and promissory notes (P/Ns), as well as THB1.2 billion in debentures.

LPN normally uses short-term B/Es and P/Ns to finance land costs in order to lower its funding cost and uses debentures to finance construction costs in order to match development periods. We expect the short-term B/Es and P/Ns for working capital to be either rolled over or repaid within the next 12 months, and the short-term P/Ns for land acquisitions to be converted to long-term project loans thereafter. LPN plans to refinance its maturing bonds by new bond issuance.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for LPN's operations during 2020-2023:

- LPN to launch new condominium projects worth THB5 billion per annum and new landed property projects worth THB3 billion per annum during 2021-2023
- Budget for land acquisition is forecast to be THB2-THB4 billion per annum over the next three years
- Total operating revenues to range from THB6.5-THB8.5 billion per annum
- Average gross profit margin to stay above 30% and net profit margin to drop below 10% of total operating revenue

RATING OUTLOOK

The "stable" outlook reflects our expectation that LPN will be able to sustain its operating performance as targeted. The company should be able to deliver the units in its backlog as scheduled. Despite sluggish demand and intensifying competition in the residential property market, we expect LPN to keep its EBITDA margin above 15%. We also expect LPN's debt to capitalization ratio to remain below 50%.

RATING SENSITIVITIES

The scenario of downward revision on the ratings and/or outlook could emerge if LPN's operating performance and/or financial profile turns out to be materially weaker than our base-case forecast. On the contrary, a credit upside would materialize if LPN delivers significantly better-than-expected operating performance and improves its financial profile to the same level as its higher-rated peers, such that the FFO to total debt ratio stays in the 12%-15% range for a sustained period.

COMPANY OVERVIEW

LPN was founded in 1989 by Mr. Theerachai Panjasap, Mr. Sumet Techakraisri, and Mr. Sirichai Charoensakwattana. The company was listed on the Stock Exchange of Thailand (SET) in December 1994. As of September 2020, the founders and key executives held an approximate 9% stake in the company in total. LPN has four major subsidiaries: Pornsanti Co., Ltd. (PST), which develops landed property projects for the middle- to low-income segments; LPP, which provides community management services and brokerage services; Lumpini Project Management Service Co., Ltd. (LPS), which provides project construction management services; and LPCSE, which provides community services.

LPN offers condominium, SDH, Semi-DH, and townhouse units in a limited range of prices and product categories. The company offers condominium units ranging in price from THB30,000 to THB170,000 per square meter (sq.m.). The landed property products range in price from THB10 million to THB60 million per unit for SDHs and from THB2 million to THB20 million per unit for Semi-DHs and townhouses. LPN's residential product portfolio focuses on the middle- to low-income condominium segments.

LPN's total operating revenues mainly derive from condominium projects. Revenue from condominium constituted 80%-90% of total operating revenues during 2015-2018, but decreased to around 60% during 2019 through the first nine months of 2020. Revenue from landed properties contributed 5%-15% of the total operating revenues during 2015-2018, but increased to 22%-25% during 2019 through the first nine months of 2020. Revenue from residential units with prices below THB4 million has been the major contributor accounting for 70%-80% of total operating revenues during 2016-2018 and 60% during 2019 through the first nine months of 2020. The revenue contribution from the management business and recurring-income assets was around 10% during 2017-2019 and 21% in the first nine months of 2020.

KEY OPERATING PERFORMANCE

Table 1: Product Portfolio of Condominiums

Segment	Brand	Price (THB/Sq.m.)
Premium	The Lumpini 24	170,000
High	Lumpini Suite	120,000-130,000
Middle-to-high	The Selected Lumpini Place Lumpini Park Lumpini Park Beach	50,000-130,000
Middle	Lumpini Ville Lumpini Seaview	40,000-80,000
Middle-to-low	Lumpini Center Lumpini Condotown	30,000-40,000
Low	Lumpini Township	30,000-35,000
Broad price range	Lumpini MegaCity Lumpini Mixx	40,000-140,000

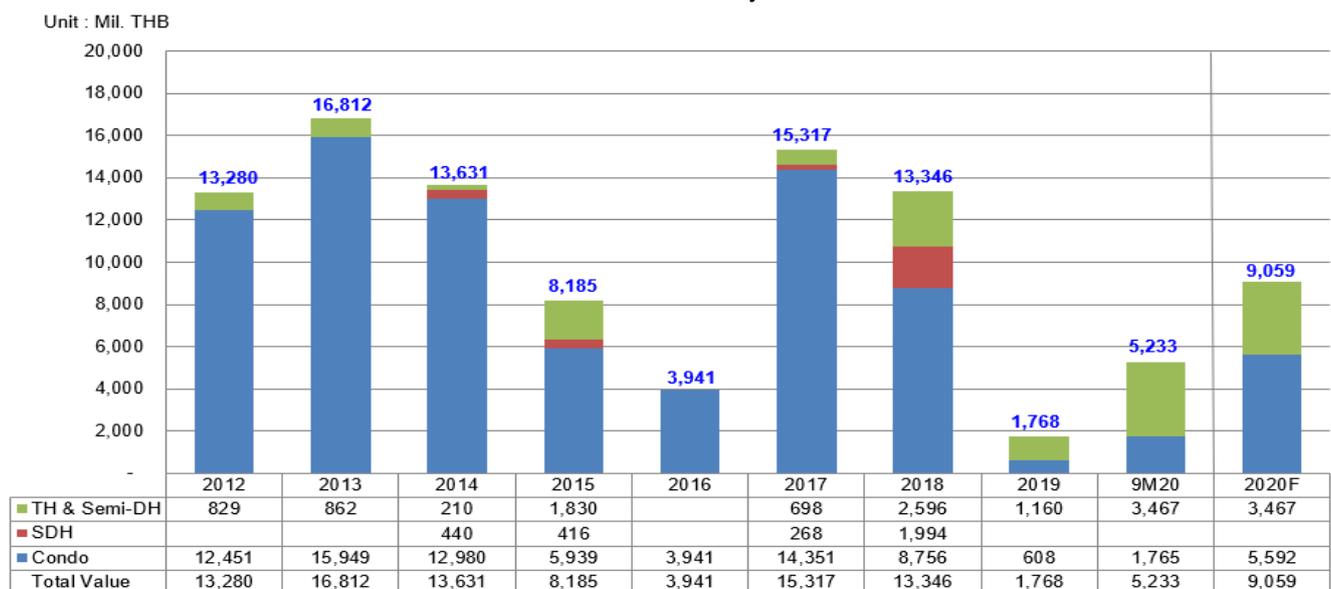
Source: LPN

Table 2: Product Portfolio of Landed Properties

Segment	Brand	Product Type	Price (Mil. THB/Unit)
Premium	BAAN 365 by LPN	3-storey SDH 4.5-storey TH	35-60 18-20
High	Baan Lumpini	2 & 3-storey SDH	10
High	Baan Lumpini Town Residence	4-storey HO 3-storey TH	8
Middle	Baan Lumpini Town Park / Town Place	2-storey Semi-DH 3-storey TH 2-storey TH	6 4 3
Middle-to-low	Baan Lumpini Town Ville	2-storey TH	2-3

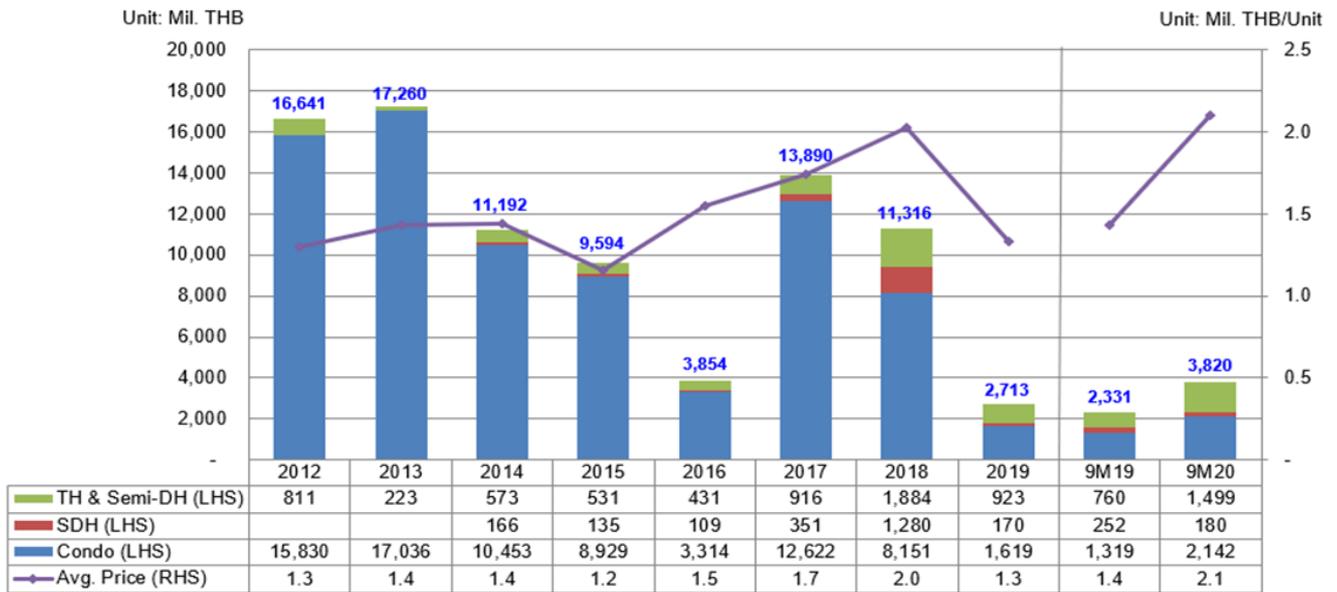
Source: LPN

Chart 1: New Residential Project Launches



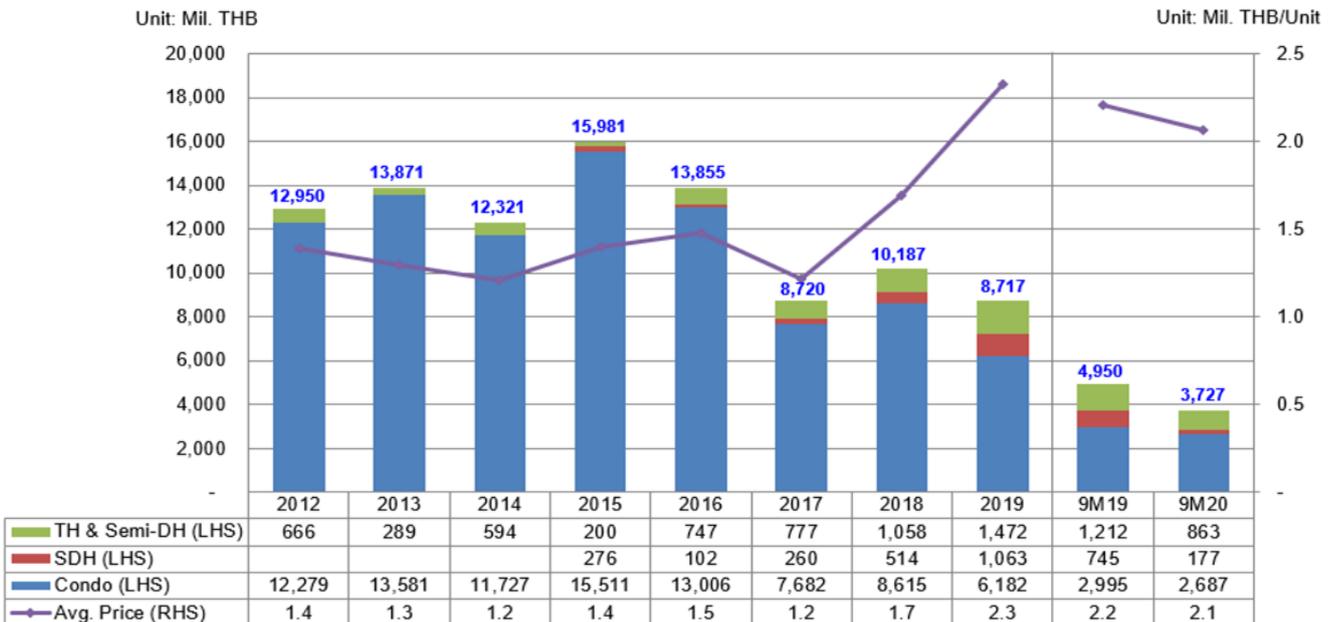
Source: LPN

Chart 2: Presales Performance



Source: LPN

Chart 3: Residential Sales



Source: LPN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	4,779	10,033	11,294	9,648	14,629
Earnings before interest and taxes (EBIT)	755	1,752	1,932	1,485	2,938
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	829	1,842	2,003	1,550	2,989
Funds from operations (FFO)	462	1,273	1,401	1,045	2,279
Adjusted interest expense	230	249	233	205	149
Real estate development investments	18,840	19,693	17,871	17,897	15,654
Total assets	24,142	23,473	21,250	21,007	18,558
Adjusted debt	10,121	7,696	5,112	5,937	3,926
Adjusted equity	11,579	13,159	12,935	12,414	12,411
Adjusted Ratios					
EBITDA margin (%)	17.35	18.36	17.74	16.07	20.43
Pretax return on permanent capital (%)	7.28 **	8.80	10.37	8.31	17.36
EBITDA interest coverage (times)	3.60	7.41	8.61	7.57	20.01
Debt to EBITDA (times)	5.92 **	4.18	2.55	3.83	1.31
FFO to debt (%)	10.94 **	16.54	27.41	17.61	58.04
Debt to capitalization (%)	46.64	36.90	28.32	32.35	24.03

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

L.P.N. Development PLC (LPN)

Company Rating:	BBB+
Issue Ratings:	
LPN224A: THB1,168 million senior unsecured debentures due 2022	BBB+
LPN220A: THB1,000 million senior unsecured debentures due 2022	BBB+
Rating Outlook:	Stable

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