TRIS RATING
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FRASERS PROPERTY HOLDINGS (THAILAND) CO., LTD.

No. 164/2018
19 October 2018

CORPORATES

Issue Ratings:

Guaranteed	AA-
Outlook:	Stable

Issue Rating History:

Date	Rating	Outlook/Alert
23/11/17	AA-	Stable

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RATIONALE

TRIS Rating affirms the ratings on the outstanding guaranteed debentures of Frasers Property Holdings (Thailand) Co., Ltd. (FPHT or Issuer) at "AA-" with a "stable" outlook. The debentures are issued under FPHT's Bt25,000 million debenture program and fully guaranteed by Frasers Property Ltd. (FPL or Guarantor). FPHT is a wholly-owned subsidiary of FPL. The issue ratings reflect the creditworthiness of the guarantor (rated "AA-/Stable" by TRIS Rating).

Under the terms of the guarantee agreement, FPL will provide an unconditional and irrevocable guarantee of all amounts due under the terms of the debentures, including the principal, plus any accrued interest, and other related expenses. The guaranteed debentures will rank equally with all other unsecured and unsubordinated obligations of FPL. The guarantee agreement is governed by the laws of Singapore.

The ratings reflect FPL's exceptional business profile, underpinned by its solid track record in the real estate business, well-diversified portfolio of quality assets in terms of geography and asset types, sizable recurring income base, and active management of capital. These strengths are partially offset by its high leverage resulting from a series of acquisitions made in recent years as FPL aggressively grew its portfolio of recurring income assets.

FPL is an integrated international real estate company based in Singapore. It was listed on the Mainboard of the Singapore Exchange Securities Trading Ltd. (SGX-ST) in 2014. Thai Charoen Corporation Group (TCC Group) is the major shareholder, holding approximately 88% of FPL's outstanding shares. FPL has four strategic business units (SBUs): Singapore, Australia, Hospitality, as well as an International Business Unit. Its businesses cover residential property development, commercial property development and investment, and hospitality.

KEY RATING CONSIDERATIONS

Well diversified portfolio

FPL's exceptional business risk profile reflects its solid track record in the real estate business and diversified portfolio in terms of geography, asset type, and client base. The company's portfolio ranges from property development, including residential and industrial properties, to recurring income-producing commercial properties, comprising retail malls, offices and business parks, industrial and logistics parks, and serviced residences and hotels.

FPL's portfolio has been increasingly diversified over the past few years. In 2014, about 70% of the company's earnings, as measured by profit before fair value change, taxation, and exceptional items (PBIT), were from its property development business. Almost 60% of the earnings were concentrated in Singapore. Currently, FPL's sources of income are distributed across all of its businesses and operating countries. For the first nine months of fiscal year 2018 (FY2018), PBIT was mainly from commercial properties (57%), followed by residential property development (33%), and hospitality (10%). PBIT from Singapore has been diluted to 35%, PBIT from Australia and other countries were 31% and 34%, respectively.

The mix of development and investment asset classes provides FPL a good combination of cash flow stability and profitability. The geographic diversification also mitigates a downside risk from unfavorable market conditions in any particular country at any given time.

Sizable portfolio of recurring income assets

FPL's business profile is also underpinned by sizable recurring income-producing assets. FPL has been continuously growing its portfolio of recurring income assets in recent years, aiming to reduce dependency and provide a buffer against volatility from the property development business, as well as secure its income base. For the first nine months of FY2018 ending June 2018, FPL's recurring income assets comprised 80% of its total property assets (comprising investment properties, property plants and equipment, investment in joint ventures and associates, and properties held for sale) of, SG$27.5 billion.

For the nine-month period of FY2018, FPL reported SG$2.9 billion in revenue and SG$918 million in earnings before interest, tax, depreciation, and amortization (EBITDA). Earnings from recurring income assets comprised approximately 70% of EBITDA. The strong and stable recurring income base helps smooth out FPL's operating performance.

TRIS Rating's base case scenario projects FPL's revenue to be SG$4.3 billion in FY2018 and SG$3.8-SG$4 billion per annum in FY2019-FY2020. We also forecast the company's EBITDA to be at least SG$1.2 billion per annum and funds from operations (FFO) of at least SG$600 million per annum during FY2018-FY2020. FPL's recurring income portfolio will secure a revenue base of SG$1.9-SG$2.2 billion annually during the forecast period. The balance will be revenue from development properties. As at June 2018, FPL had unrecognized development revenue of SG$2.7 billion, mainly from residential development in Australia. Around 70%-75% of the forecast EBITDA will be derived from its recurring income asset portfolio.

High leverage

FPL's leverage is high as a result of a series of acquisitions made in recent years. TRIS Rating's base case forecasts the ratio of adjusted debt to EBITDA to stay around 12 times over FY2018-FY2020. The forecast level is on the upper end of the tolerance threshold at FPL's current rating. According to FPL's management, the company aims to maintain the leverage ratio within the rating guidance of 12 times. The company will focus on consolidating and integrating operations of recently acquired assets over the next 12-18 months. In addition, it has plans to recycle some assets and raise some fresh capital via Real Estate Investment Trusts (REITs) which will bring down the leverage level.

At the end of June 2018, FPL's adjusted debt, including lease obligations and perpetual securities, was SG$15.1 billion, up from SG$11.2 billion FY2017. Adjusted debt to EBITDA ratio was 13.2 times for the first nine months of FY2018, annualized from the trailing 12 months.

Monetizing assets through REITs

Monetizing assets through its REIT platform can help improve FPL's financial position. FPL's strategy is to actively recycle its matured assets to its four REITs to optimize capital productivity as well as manage its balance sheet. FPL is a sponsor and its subsidiaries are the managers of the three REITs and a stapled trust including, Frasers Centrepoint Trust (FCT, retail REIT), Frasers Commercial Trust (FCOT, office and business space REIT), Frasers Logistics & Industrial Trust (FLT, industrial and logistics REIT), and Frasers Hospitality Trust (FHT, hotel and serviced residence Trust).

Capital raised via its REIT platforms supports FPL's capital structure while proceeds from divesting assets to REITs can be partly used to pay down debts. We estimate that FPL has around SG$9-SG$10 billion of investment properties in the pipeline that can be monetized through its REITs or divested to third parties. With a constant capital management, we expect FPL's capital structure to remain sound with the adjusted debt to capitalization ratio staying at 53%-55% during FY2018-FY2020.

For the first nine months of FY2018, FPL injected 21 industrial and logistics assets to FLT with portfolio value of SG$973 million. FLT raised SG$476 million in new equity to fund the acquisition. FPL also partnered in a 50:50 joint venture with FCOT to acquire Farnborough Business Park in the United Kingdom (UK) totaling SG$317 million. FCOT raised SG$100 million in new capitals to fund its acquisition portion.

Manageable liquidity

TRIS Rating holds the view that FPL's liquidity will be manageable in the next 12-18 months. Sources of funds are FFO, estimated at SG$600-SG$650 million per annum, cash and cash equivalents of SG$2.1 billion at the end of June 2018, and unused bank facilities of SG$2.3 billion. Uses of funds are scheduled debt repayments worth SG$4 billion, plus dividend payouts estimated at SG$500-SG$600 million per annum. FPL has planned investment of around SG$3-SG$3.5 billion in total during the period. We expect the company to fund the investment in part by new equity raised though its REIT platforms. We also hold the view that the company has proven ability to access the capital market and will receive support from the TCC Group if needed.

RATING OUTLOOK

The “stable” outlook reflects the creditworthiness of FPL and our expectation that FPL will continue to maintain its solid business profile with reliable and stable cash flow. We also expect FPL to prudently manage its balance sheet while growing its portfolio and deleverage to leave more headroom for financial flexibility and to strengthen its credit quality. The issue ratings and/or outlook could change if the rating and/or outlook of the guarantor, FPL, changes.

RATING SENSITIVITIES

FPL’s rating could be downgraded if its leverage as measured by the ratio of adjusted debt to EBITDA ratio exceeds 12 times on a sustained basis, either from weakening operating performance or aggressive debt-funded acquisitions. A rating upside is limited in the near term considering FPL’s current financial profile. However, a rating upgrade could emerge if the company improves its leverage such that the adjusted debt to EBITDA ratio stays below 7 times on a sustained basis while its operating performance does not deteriorate from the current level.

COMPANY OVERVIEW

FPL is an integrated international real estate company based in Singapore. It was listed on the Mainboard of the SGX-ST in 2014. TCC Group is the major shareholder, holding approximately 88% of FPL’s outstanding shares. FPL has four strategic business units (SBUs): Singapore, Australia, Hospitality, and an International Business Unit. The Singapore SBU and Australia SBU focus on residential development as well as commercial property development and investment, including retail malls, offices, and industrial properties. The Hospitality SBU operates over 16,000 serviced residences and hotel rooms in more than 80 cities across Asia, Australia, Europe, and the Middle East. The International Business Unit engages in the company's investments in Europe (Germany, the Netherlands, and the UK), China, Thailand, and Vietnam.

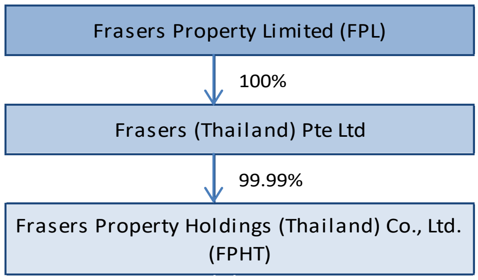
FPL is also a sponsor and its subsidiaries are the managers of three REITs listed on the SGX-ST including FCT (FPL holds 41.9%), FCOT (FPL holds 25%), and FLT (FPL holds 20.4%), and a stapled trust listed on the SGX-ST, FHT (FPL holds 23.6%).

For the first nine months of FY2018, FPL reported SG$2.94 billion in revenue, contributed 39% from the Singapore SBU (including FCT and FCOT), 27% from the Australia SBU (including FLT), 20% from the Hospitality SBU (including FHT), and 14% from the International Business Unit.

Chart 1: FPL Group Structure

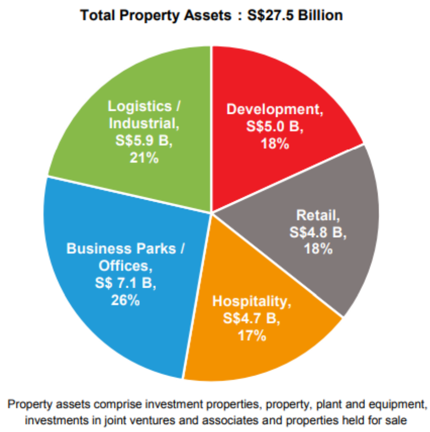
Source: FPL

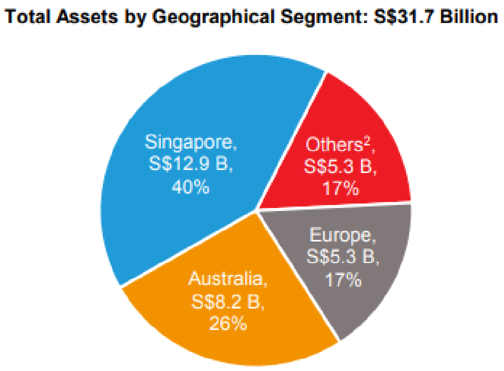
Chart 2: FPHT Group Structure

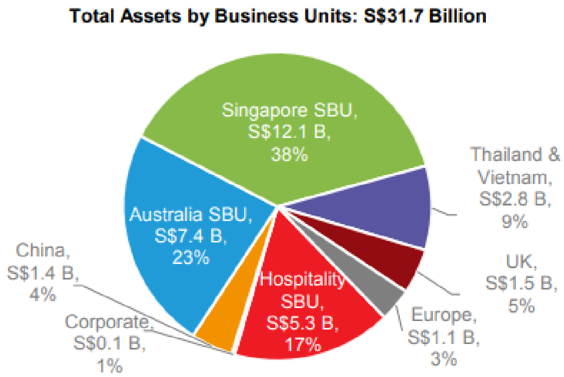


Source: FPL

Chart 3: Assets by Segment

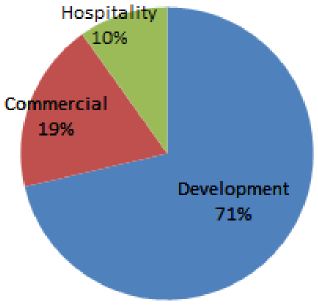




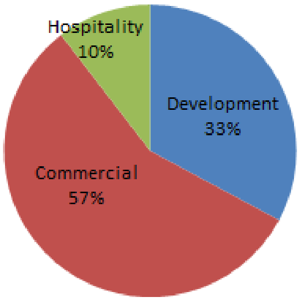


Source: FPL

Chart 4: PBIT by Business Type



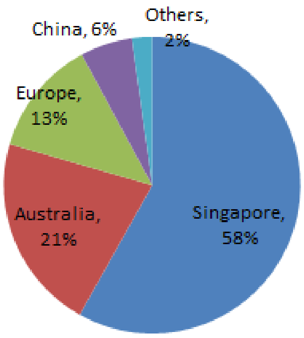
FY2014
(Total PBIT: SGD689 mil)



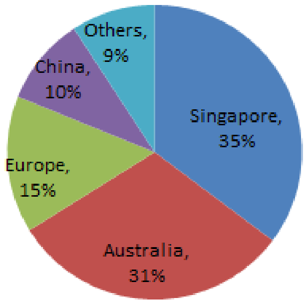
9MFY2018
(Total PBIT: SGD897 mil)

Source: FPL

Chart 5: PBIT by Geography



FY2014
(Total PBIT: SGD689 mil)



9MFY2018
(Total PBIT: SGD897 mil)

Source: FPL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: SG$ million

		------------Year Ended 30 September -------------			
	Oct-Jun 2018	2017	2016	2015	2014
Total operating revenues	2,943	4,027	3,440	3,562	2,203
Operating income	825	991	856	886	665
Earnings before interest and taxes (EBIT)	922	1,148	987	1,153	812
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	918	1,192	1,071	1,264	772
Funds from operations (FFO)	457	734	623	836	554
Adjusted interest expense	308	243	254	244	90
Capital expenditures	1,281	894	780	1,572	2,018
Total assets	31,748	27,009	24,204	23,067	21,291
Adjusted debt	15,062	11,247	9,355	10,492	9,109
Adjusted equity	12,219	11,401	10,502	9,358	9,026
Adjusted Ratios					
Operating income as % of total operating revenues (%)	28.03	24.60	24.88	24.87	30.16
Pretax return on permanent capital (%)	4.39	4.88	4.57	5.73	6.17
EBITDA interest coverage (times)	2.98	4.91	4.22	5.17	8.53
Debt to EBITDA (times)	13.15	9.43	8.73	8.30	11.80
FFO to debt (%)	3.87	6.52	6.66	7.96	6.08
Debt to capitalization (%)	55.21	49.66	47.11	52.86	50.23

Frasers Property Holdings (Thailand) Co., Ltd. (FPHT)

Issue Ratings:	
Bt25,000 million guaranteed debentures program:	
-FPHT213A: Bt2,000 million guaranteed debentures due 2021	AA-
-FPHT228A: Bt2,300 million guaranteed debentures due 2022	AA-
-FPHT233A: Bt1,000 million guaranteed debentures due 2023	AA-
-FPHT24DA: Bt2,500 million guaranteed debentures due 2024	AA-
-FPHT283A: Bt2,000 million guaranteed debentures due 2028	AA-
-FPHT288A: Bt1,200 million guaranteed debentures due 2028	AA-
Rating Outlook:	Stable

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