

# CHARN ISSARA DEVELOPMENT PLC

No. 103/2024  
24 June 2024

## CORPORATES

**Company Rating:** BB  
**Outlook:** Stable

**Last Review Date:** 31/05/23

### Company Rating History:

Date	Rating	Outlook/Alert
30/04/21	BB	Stable
09/04/20	BB+	Negative
23/04/18	BB+	Stable
16/08/13	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Charn Issara Development PLC (CI) at “BB”, with a “stable” rating outlook. The rating reflects CI’s modest and volatile revenue and earnings, continuing high financial leverage stemming from aggressive residential project expansion, and tight but manageable liquidity. The rating also takes into consideration CI’s acceptable market position in the middle to high-end segment as well as expected revenue and earnings growth in 2024-2026. However, the property industry is facing challenges from unfavorable market sentiment caused by the reimposition of stringent loan-to-value (LTV) rules in 2023, lingering high interest rates, and elevated household debt level.

## KEY RATING CONSIDERATIONS

### Small and volatile income and earnings base

CI’s revenue and earnings base remains relatively modest and volatile compared with most rated property developers, given its limited number of active residential projects and hotel portfolio. Its annual operating revenue rebounded to the THB2-billion level in 2021-2023, from THB1.3 billion in 2020, following an uptick in residential unit transfers and the recovery of hotel operations. CI’s EBITDA has been in the THB300-THB400 million per annum range in the past three years, from THB100 million in 2020.

At the end of March 2024, the company had 12 active residential projects, located mainly in Bangkok and popular tourist destinations. The value of unsold units (both built and un-built) totaled THB7.7 billion. CI’s backlog stood at THB1.6 billion, most of which are expected to be recognized as revenue this year. Nearly 80% of the backlog came from two condominium projects, “The Issara Sathorn” and “Sasara”.

CI’s hotel portfolio is spread over three locations; Phuket, Hua Hin and Cham, and Phang-Nga. Revenue from the hotel business rose by 41% year-on-year (y-o-y) to THB947 million in 2023 and continued to register slight growth in the first quarter of 2024 (1Q24). The hotel EBITDA doubled to THB161 million in 2023 but dropped 3% y-o-y in 1Q24.

### Well-accepted brand in the middle to high-end segment

CI’s market presence in the residential property and hotel businesses has been broadly recognized in terms of the quality of products and services offered as well as its unique style. Its residential products and hotels mainly target middle to high-end customers. CI offers landed property products with unit prices ranging from THB10-THB100 million for single detached houses (SDH) and THB30-THB60 million for residential villas. Condominium units are priced from THB60,000-THB200,000 per square meter (sq.m.).

CI usually develops residential projects and hotels in the same areas, mainly in major tourist destinations like Phuket, Hua Hin and Cha-am, and Phang-Nga. The company currently operates hotels with a total of 240 keys. The average room rate (ARR) is in the range of THB10,000-THB20,000 per room per night for villas and THB5,000-THB10,000 per room per night for typical hotel rooms. We view that the development of mixed-use products would enhance the property value of CI’s residential units.

### Expected growth in revenue and earnings

We expect CI's operating revenue and earnings to sharply increase in 2024-2026, buoyed by its aggressive residential project expansion this year and continued recovery in hotel operations. Although domestic demand in the residential property market remains stagnant, the rising number of foreign buyers is expected to boost demand in the mid- to high-priced segment, particularly luxury residential villas situated in popular tourist destinations. Additionally, increasing numbers of tourist arrivals in Thailand should improve overall hotel performance.

Our base-case scenario forecasts CI's total operating revenue from all businesses would be THB3.2-THB3.6 billion per annum in 2024-2026. Revenue from residential property is expected to improve to THB1.9-THB2.3 billion annually in 2024-2026, from around THB800 million in 2023. Residential sales largely depend on the company's ability to transfer backlog units in The Issara Sathorn and Sasara projects, as well as the ability to generate new sales in finished condominiums and landed property projects. We expect revenue from The Issara Sathorn and Sasara to constitute 70% of total residential sales in 2024 and around 50% in 2025. For the hotel business, we anticipate revenue from hotel operations to gradually increase in 2024-2025 and it should reach the THB1-billion level in 2026. This is based on our assumption of a 2%-5% growth in occupancy rate (OR) and a 1%-2% growth in ARR.

Despite intense competition in the residential property market and expected higher fixed costs in hotel operations, we project CI will be able to sustain its gross profit margin from all businesses at 28%-30%. We expect CI to control its selling, general, and administrative (SG&A) expenses at below 25% of total operating revenue. This will result in projected EBITDA from normal operations of THB500-THB700 million annually, or an EBITDA margin of 18%-20% in 2024-2026.

### Financial leverage to remain high

CI's financial leverage in 2023-1Q24 was relatively high due mainly to the large number of land acquisitions and sluggish demand in residential property together with a delay in asset sales to the Sri Panwa Hospitality Real Estate Investment Trust (SRIPANWA). Adjusted net debt jumped to THB7.2-THB7.3 billion in 2023-1Q24 from THB6.4 billion in 2022. As a result, the debt to capitalization ratio increased to 73%-74% in 2023-1Q24 from 68% in 2022. The funds from operations (FFO) to debt ratio was negative in 2023 but turned slightly positive in 1Q24.

Looking ahead, we expect CI to maintain its financial leverage at a level aligned with our target. Our baseline forecasts CI's debt to capitalization ratio will remain below 75% and its FFO to debt ratio should improve to above 2% throughout the forecast period. Under TRIS Rating's base case, we assume CI will launch new landed property projects worth THB6.3 billion of its own and THB2.6 billion under a joint venture (JV) in 2024-2025. CI's budget for land acquisition will be THB950 million over 2024-2026, mostly in JV projects. We estimate equity injections and shareholder loans to the JV of around THB200 million each in 2024-2026. Our base-case scenario also incorporates sales of "Sripanwa Yaya" to SRIPANWA with lease back in 2025. The proceeds from the asset sales are expected to be THB1 billion. In our view, CI's strategy to sell its assets to the REIT will help improve its earnings and capital base. However, any delay in the sales could erode CI's equity and drag down its financial position which could trigger a downward revision of the rating and/or outlook.

The financial covenants on CI's bank loans and debentures require the company's interest-bearing debt to equity ratio (calculated in different ways) to remain below 2 times and 3.75 times, respectively. At the end of March 2024, the ratio was 1.9 and 2.1 times, respectively. We expect the company to prudently manage its capital structure to comply with the financial covenants.

### Tight but manageable liquidity

We expect CI's liquidity to be tight but manageable over the next 12 months. As of March 2024, CI's sources of liquidity consisted of THB230 million in cash plus THB647 million in investments in marketable securities and THB160 million in undrawn committed credit facilities from banks. FFO is projected to be around THB200 million in 2024. CI also had unencumbered land banks with an appraisal value of THB605 million, which could be pledged as collateral for new loans if needed.

On the flip side, CI's maturing debts over the next 12 months will amount to THB2.8 billion, comprising THB1.6 billion in long-term loans, THB800 million in debentures, THB200 million in short-term loans, and THB200 million in lease liabilities. We expect project loans to be repaid with cash generated from the residential unit transfers. CI normally refinances its maturing debentures by new debenture issuances. We also expect CI's use of funds to include lease liabilities equivalent to the present value of future lease payments for the renewal of the SPM2 lease agreement in 2024.

### Debt structure

As of March 2024, CI had total debt of THB6.3 billion (per priority debt consideration). The company's priority debt, including secured debts at the parent company and total debts of its subsidiaries, was THB5.1 billion. This translates to a priority debt

to total debt ratio of 81%. Thus, in our view, CI's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

#### BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for CI's operations in 2024-2026 are as follows:

- CI to launch new residential projects (including JV) worth THB8.9 billion in 2024-2025.
- Budget for land acquisition (including JV) of THB950 million.
- Total operating revenue to reach the THB3.2-THB3.6 billion per annum level.
- EBITDA margin (excluding gains on asset sales to the REIT) to hover around 18%-20%.
- CI to sell assets to the REIT worth THB1 billion in 2025.

#### RATING OUTLOOK

The "stable" outlook reflects our expectation that CI's operating results and financial profile will not deteriorate further from our targets. We expect the company to keep its debt to capitalization ratio below 75% on average and its FFO to debt ratio above 2% over the forecast period.

#### RATING SENSITIVITIES

The rating and/or outlook could be revised downward if CI's operating performance and/or financial metrics worsen materially than our expectation. Conversely, an upward revision would materialize if CI achieves a significant and sustainable improvement in its business and financial profiles such that its debt to capitalization ratio stays below 70% and its FFO to debt ratio improves to above 5% on a sustained basis.

#### COMPANY OVERVIEW

CI was established in 1989 by the Issara family. CI became a public company in June 2002 and was listed on the Stock Exchange of Thailand (SET) in December 2002. The Issara family has been the company's major shareholder since its inception. As of March 2024, the Issara family held a 44% stake in the company.

CI's residential property products target the middle- to high-income segments. At the end of March 2024, the residential property portfolio comprised condominiums (56% of the total remaining value of the project portfolio), SDH (26%), and residential villas (18%). CI's existing residential projects are located in Bangkok (42% of the total remaining value), Cha-am and Hua Hin (36%), Phuket (17%), Chiang Mai (3%), and Nakhon Ratchasima (2%).

CI started to develop luxury residences for sale and opened its first boutique hotel, "Sri Panwa", in Phuket in 2003. The Sri Panwa Hotel started operations in 2006. The company sold the Sri Panwa Hotel to Sri Panwa Hotel Property Fund (SPWPF) in 2013 and simultaneously invested in a 30% stake of SPWPF. In 2016, SPWPF was converted from a property fund to a REIT named SRIPANWA. Currently, CI directly and indirectly holds 16.8% of SRIPANWA. The company also owns 17.6% of Bangkok Commercial Property Fund (BKKCP), a property fund that owns two office buildings, "Charn Issara Tower I" and "Charn Issara Tower II". CI manages these two office buildings for the fund. In addition, the company owns 3,578 sq.m. of net leasable area in these two buildings.

In 2015, CI developed its second mixed-use project in Phang-Nga under an 86:14 JV with Junfa Real Estate Co., Ltd., a Chinese property developer. The project included 24 villas for sale and a boutique hotel under the brand "Baba Beach".

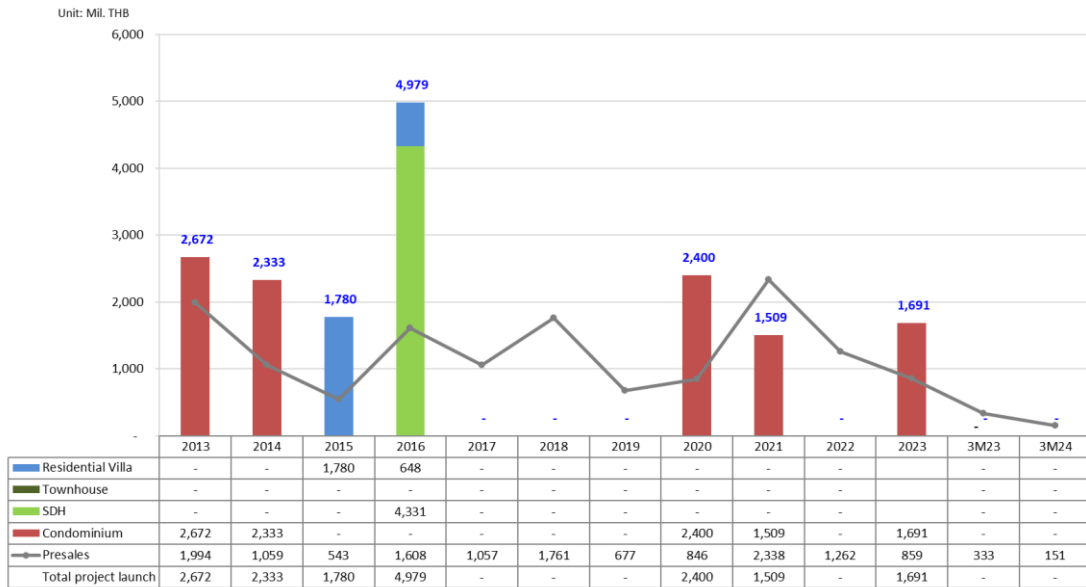
In 2016, CI formed a 50:25:25 JV with Saha Pathanapibul PLC (SPC) and I.C.C. International PLC (ICC) to develop another mixed-use project under the brand "Baba Beach" in Cha-am District, Phetchaburi. In 2021, CI opened "Habita Seaview", an extension of Baba Beach Hua Hin Hotel.

In July 2022, CI opened "Yaya", which is in the same compound as Sri Panwa Hotel. Yaya Sri Panwa includes 24 pool suites and a convention hall.

In May 2024, CI setup a JV named Issara Naporn Co., Ltd. with a partner to develop a mixed-use project in Phuket. The company holds a 60% shareholding in the JV.

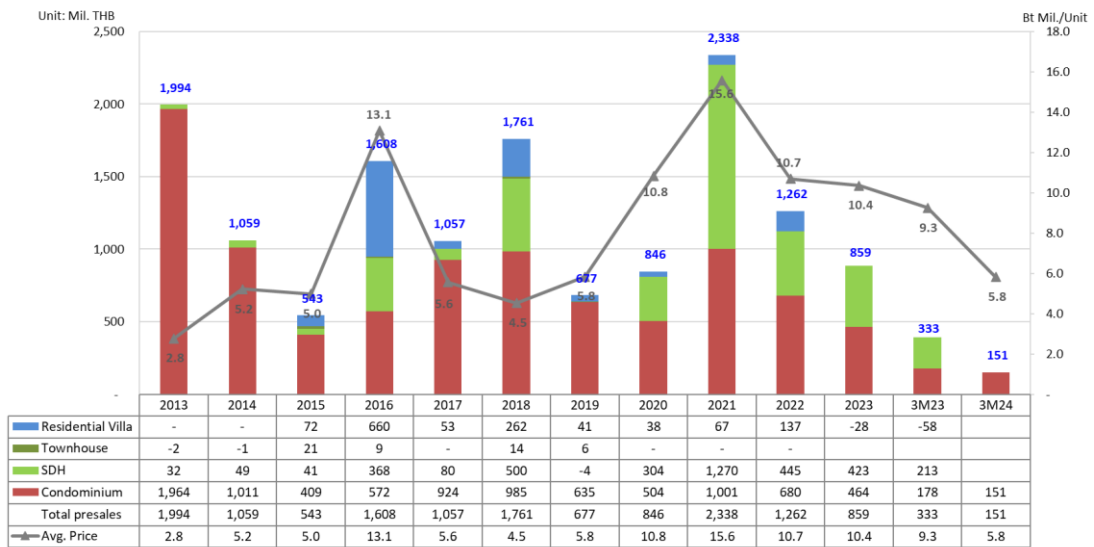
**KEY OPERATING PERFORMANCE**

**Chart 1: Residential Project Launches**



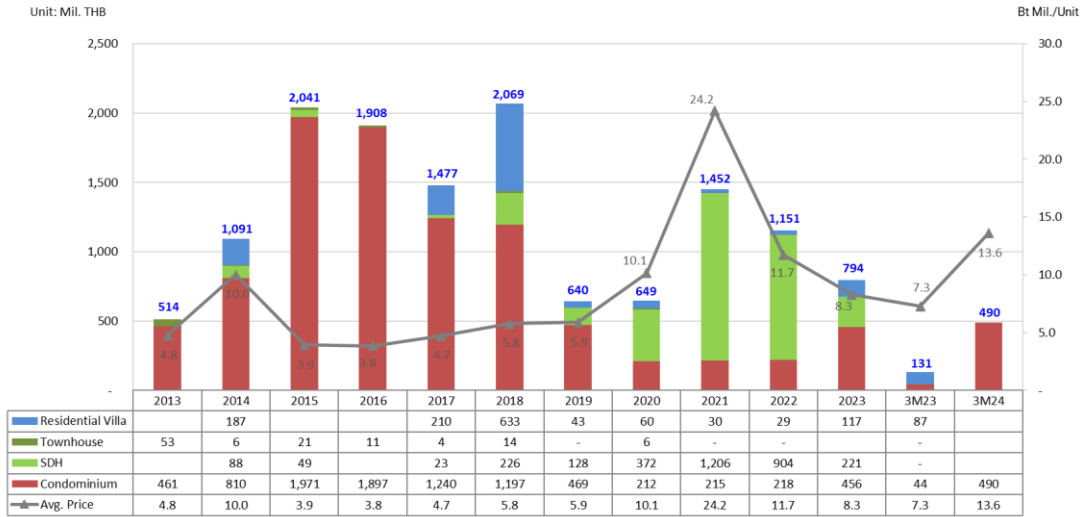
Source: CI

**Chart 2: Presales Performance**



Source: CI

**Chart 3: Transfers Performance**



Source: CI

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	874	2,006	2,069	2,001	1,348
Earnings before interest and taxes (EBIT)	201	36	30	25	(176)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	276	376	364	299	101
Funds from operations (FFO)	169	(155)	(93)	(149)	(342)
Adjusted interest expense	104	525	444	448	443
Real estate development investments	5,689	5,894	4,226	5,120	5,588
Total assets	11,519	12,820	11,153	10,199	10,805
Adjusted debt	7,190	7,314	6,388	6,277	6,869
Adjusted equity	2,646	2,616	3,021	2,402	2,438
<b>Adjusted Ratios</b>					
EBITDA margin (%)	31.6	18.8	17.6	14.9	7.5
Pretax return on permanent capital (%)	2.0 **	0.3	0.3	0.3	(1.8)
EBITDA interest coverage (times)	2.7	0.7	0.8	0.7	0.2
Debt to EBITDA (times)	13.4 **	19.4	17.5	21.0	68.1
FFO to debt (%)	0.4 **	(2.1)	(1.5)	(2.4)	(5.0)
Debt to capitalization (%)	73.1	73.7	67.9	72.3	73.8

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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**Charn Issara Development PLC (CI)**

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<b>Company Rating:</b>	BB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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