GRAND CANAL LAND PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
27/07/17	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating of Grand Canal Land PLC (GLAND) at "BBB-". The rating reflects the relatively stable income streams GLAND receives from its rental properties located in a good location at the Rama IX intersection and the moderate use of leverage. However, the constraints of these strengths are the tenant concentration risk and the small number of rental properties and residential for sale projects. In addition, the company plans to build the tallest building in Thailand, the Super Tower. This massive project may cause its leverage to rise and lessen the company's ability to invest in other projects over the next several years.

KEY RATING CONSIDERATIONS

Few rental properties and only one property development project offering for sale

GLAND's rental and service income is quite concentrated in just a few properties. The company has developed three office buildings on Rama IX road: The 9th Towers, Unilever House, and G Tower. The three buildings hold a total lettable area of 148,917 square meters (sq.m.) plus a retail space of 26,042 sq.m. In April 2017, GLAND set up GLAND Office Leasehold Real Estate Investment Trust (GLANDRT) to sublease The 9th Towers and Unilever House from itself at a rate of around Bt6,000 million. GLAND holds 15% of GLANDRT. Thus, going forward, GLAND's rental income will be mainly from the office space in the G Tower and the retail space in all three buildings.

As of March 2018, tenants occupied 66,091 sq.m. in G Tower or 98% of the total amount of office space. The three largest tenants in G Tower occupied around 60% of the total lettable area. The average rental rate was Bt736 per sq.m. per month, slightly lower than the market rate. However, the high level of tenant concentration risk is offset by the relatively strong credit profiles of these tenants.

For the residential property development business, the company currently has only one project, the Belle Grand Rama 9, available for sale. The company launched this project in 2008. At the end of March 2018, the company sold and transferred 91% of the project to buyers. The value of the remaining units available for sale was around Bt1,500 million. The average selling price was around Bt8 million per unit. Despite the company having some land banks on hand, it has no plan to develop any new residential property projects in the near term.

Stable income streams from rental properties

Despite the concentration of its rental properties in a single location, GLAND's assets are located at the heart of the Rama 9 intersection, Ratchadapisek road, close to the central business district. Therefore, the occupancy and rental rates were quite acceptable. At the end of March 2018, the office space at G Tower was 98% occupied. The retail space at The 9th Towers, Unilever House, G Tower, and Belle Grand Rama 9 were 49%, 51%, 79% and 75% occupied, respectively. The company was able to increase rental rates by about 3%-4% per annum on average over the past three years.

GLAND rents out most of its office and retail space on three-year contracts, except for the office space at Unilever House which is rented out to Unilever Co., Ltd. for 20 years. Therefore, the rental income of its assets and dividend income received from GLANDRT are quite predictable. In addition, since its properties are relatively new, the company expects most tenants will renew their contracts. Generally, the company will adjust rental rates every three years.

GLAND's financial performance in 2017 through the first quarter of 2018 was in line with TRIS Rating's expectation. GLAND's revenue in 2017 was Bt1,483 million and Bt372 million in the first quarter of 2018. Almost 80% of GLAND's revenue was generated from the rental business and the rest from the sales of its remaining condominium units in the Belle Grand Rama 9 project. GLAND has not launched any new residential projects. As a result, the company expects the revenue from condominium projects to stay around Bt300 million per year over the next three years. The office space will contribute revenue of around Bt600 million per annum and the retail space will generate revenue of around Bt200 million per annum. The company has maintained the operating margin (operating income before depreciation and amortization as a percentage of revenue) at around 42%-45% over the past three years. The operating margin was 49% in the first quarter of 2018.

Moderate leverage level but expected to rise from its investment in "The Super Tower"

GLAND's financial leverage is moderate. After subleasing two office buildings to GLANDRT, GLAND's leverage has improved substantially. The company used the proceeds from the sublease transaction to repay its project loans and bills of exchange (B/E). The debt to capitalization ratio decreased from 52% in the first quarter of 2017 to 41% at the end of 2017 and has been constant through the end of March 2018.

However, the company has a plan to develop a sizable mixed-use project called "The Super Tower". The investment in the Super Tower project, excluding the land cost, will be around Bt22,000 million. The Super Tower will have a total lettable area of 143,000 sq.m. and the construction period will run from 2018 to 2024. The large investment and the long construction period will put a great pressure on GLAND's financial profile during the construction period. In addition, the company is exposed not only to construction delay risk but also cost overrun risk. TRIS Rating expects GLAND's leverage will also rise during the development period. However, GLAND has to keep the interest bearing debt to equity ratio below 2 times in order to comply with the financial covenants of its bank loans and bonds.

Relatively tight but manageable liquidity

GLAND's liquidity profile is relatively tight. At the end of March 2018, the company had Bt488 million in cash, plus undrawn credit lines of Bt1,100 million. Funds from operations (FFO) will be around Bt300 million per annum. The debts coming due over the next 12 months will be Bt2,063 million, comprising Bt300 million in short-term loans, Bt463 million in project loans, and Bt1,300 million in debentures.

GLAND also enhanced its liquidity by using its significant amount of unencumbered assets comprising land banks worth around Bt3,800 million, a 50% stake in Bayswater Co., Ltd. which owns a 48 rais of land plot worth around Bt8,000 million on Phaholyothin road, and a 15% stake in GLANDRT worth Bt750 million. These assets can be used as collateral for new bank borrowings, if needed.

Under TRIS Rating's base-case, we expect GLAND's FFO to total debt ratio to maintain at around 2%-5% on average, while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio will stay above 2.5 times over the next three years. Thus, the company needs to manage its liquidity prudently in order to maintain its rating at the current level.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectations that GLAND's operating performance will be in line with our projection. Under TRIS Rating's base case, we forecast GLAND's revenue to stay around Bt1,200-Bt1,400 million per annum during the next three years. The operating margin should stay above 40%. Taking into account the investment in the Super Tower project, the ratio of FFO to total debt will deteriorate significantly from the current level of 6.5% in 2016 to less than 5% during the construction period. However, the company plans to fund the investment in the Super Tower project with long-term project loans from banks. TRIS Rating expects the company to match the debt repayment schedule with cash inflows from the project.

RATING SENSITIVITIES

A rating upside is limited due to the plan to invest in the Super Tower project. The rating and/or outlook could be lower should GLAND's liquidity deteriorate from the target level in such a way that the EBITDA interest coverage ratio stays below 1.5 times on a sustained basis.

COMPANY OVERVIEW

GLAND was formerly known as Media of Medias PLC (MMP). MMP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1996. In 2009, Grand Canal Land Co., Ltd. completed a reverse takeover of MMP and changed its business from media and television to real estate development. A year later, MMP changed its company name to "Grand Canal Land PLC" or “GLAND”. As of March 2018, GLAND’s major shareholder was Charoenkij Group, the founder of GLAND, which held approximately 51% of the company.

GLAND’s properties are located on a 73-rai plot of land at the heart of the Rama 9 intersection, Ratchadapisek road. GLAND has already developed three office buildings on Rama IX road: The 9th Towers, Unilever House, and G Tower. The three buildings hold a total lettable area of 148,749 sq.m. plus a retail space of 25,397 sq.m.

The rental properties have started generating income since 2014, however, the contribution was quite small. GLAND’s revenue from the condominium segment comprised 80%-97% of total revenues during 2012-2015, while revenue from rental and service business gradually increased from 7% in 2014 to more than 75% in 2017.

GLAND plans to build the tallest building in Thailand, the Super Tower. The Super Tower will have a total lettable area of 143,000 sq.m., comprising 120,000 sq.m. of office space and 23,000 sq.m. of retail space. The expected rental rate of the Super Tower’s office space will be around Bt1,200 per sq.m. per month. The investment in the Super Tower project, excluding the land cost, will be around Bt22,000 million. The construction period will run from 2018 to 2024.

KEY OPERTING PERFORMANCE

Table 1: GLAND’s Revenue Breakdown by Line of Business

Unit: %

Revenue Breakdown	2012	2013	2014	2015	2016	2017	Mar 18
Condominium	90	97	93	80	64	24	24
Rental & service	10	3	7	20	36	76	76
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total revenue (Bt million)	**1,092**	**3,385**	**4,680**	**3,952**	**2,654**	**1,483**	**372**

Source: GLAND

Table 2: GLAND’s Rental Asset Details

Projects	Lettable Area (sq.m.)	2014	2015	2016	2017	Mar 2018
The 9th Towers						
Occupancy rate (%)						
- Office	62,950	62	71	81	*N.A.*	*N.A.*
- Retail	5,692	23	33	48	55	49
Rental rate (Bt/sq.m./month)						
- Office		528	538	550	*N.A.*	*N.A.*
- Retail		1,364	1,258	1,082	994	1,019
Unilever House						
Occupancy rate (%)						
- Office	18,527	100	100	100	*N.A.*	*N.A.*
- Retail	3,866	1	14	41	51	51
Rental rate (Bt/sq.m./month)						
- Office		640	640	640	*N.A.*	*N.A.*
- Retail		896	888	973	854	854
G Tower						
Occupancy rate (%)						
- Office	67,440	-	-	13	97	98
- Retail	6,196	-	-	2	77	79
Rental rate (Bt/sq.m./month)						
- Office		-	-	699	733	736
- Retail		-	-	1,395	1,390	1,372
Belle Grand Rama 9 (Retail)						
Occupancy rate (%)	10,288	44	54	67	76	75
Rental rate (Bt/sq.m./month)		630	615	635	640	651
Total Office	**148,917**					
Total Retail	**26,042**					

N.A. Not available, GLAND set up GLANDRT to sublease office space of The 9th Towers and Unilever House in April 2017.

Source: GLAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	---------------- Year Ended 31 December ----------- 2017	2016	2015	2014
Revenue	372	1,483	2,654	3,952	4,680
Gross interest expense	116	476	550	344	490
Net income from operations	77	(45)	412	593	768
Funds from operations (FFO)	46	(142)	784	1,079	1,256
Inventory investment (-increase/+decrease)	18	79	719	1,427	1,806
Total assets	29,223	29,056	26,398	24,432	19,660
Total debts	8,444	8,334	12,056	10,430	7,065
Shareholders' equity	11,988	11,899	11,322	11,471	10,229
Operating income before depreciation and amortization as % of sales	49.47	41.58	44.79	41.59	37.86
Pretax return on permanent capital (%)	3.76 **	3.60	6.12	8.43	11.25
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	1.91	1.69	2.55	4.87	3.73
FFO/total debt (%)	(1.52)**	(1.70)	6.50	10.34	17.77
Total debt/capitalization (%)	41.33	41.19	51.57	47.63	40.85

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

Company Rating:	BBB-
Rating Outlook:	Stable

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