TRIS RATING
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GRAND CANAL LAND PLC

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CORPORATES

Company Rating: BBB

Outlook: Stable

Last Review Date: 25/07/19

Company Rating History:

Date	Rating	Outlook/Alert
25/07/19	BBB	Stable
18/09/18	BBB-	Positive
27/07/17	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Grand Canal Land PLC (GLAND) at “BBB” with a “stable” rating outlook. The rating reflects the stable income streams the company receives from contract-based rental and service income from office and retail space, and its small business scale with relatively few income-generating assets concentrated in one location. The rating is partly enhanced by the support GLAND receives from its major shareholder, Central Pattana PLC (CPN), rated “AA/Stable” by TRIS Rating.

KEY RATING CONSIDERATIONS

Reliable income streams, with expected EBITDA margin of 43%-45%

We expect GLAND’s existing assets to continue generating reliable revenue streams. GLAND rents out most of its office and retail space on three-year fixed rent contracts. The one exception is the office space of Unilever House, which is leased to Unilever Thai Trading Co., Ltd. for 20 years. Since GLAND’s properties are very new, we expect most tenants to renew their contracts. GLAND normally increases rental rates every three years. The fixed-rent contracts make up the predictable cash flow GLAND receives as rental income and the dividend income it take from a 15% stake in GLANDRT. In TRIS Rating’s base case scenario, we expect GLAND to be able to keep the overall OR of its office buildings above 95% and of its retail space at 65%-70%. We forecast the rental rate to grow by 3% per annum over the next three years. GLAND’s total operating revenues are expected to stay at Bt1.3-Bt1.5 billion per annum during 2019-2022.

GLAND’s earnings before interest, tax, depreciation, and amortization (EBITDA) margin was 50%-52% during 2017 through the first nine months of 2019. Its EBITDA margin was in line with the industry average. However, GLAND’s profitability may be pressured by intense competition among rental property developers plus the increased supply of office buildings and retail space in the future. We expect GLAND to keep its EBITDA margin at 43%-45% during 2020-2022.

Small and concentrated recurring income base

TRIS Rating considers the rental and service income GLAND earns from its rental properties to be quite small, compared with other rental property developers, and it is also concentrated in terms of location and tenant profile. GLAND has developed four office buildings; tower A and tower B of “The 9th Towers”, “Unilever House”, and “G Tower”, all situated at a single location on Rama 9 road. The office buildings have a net leasable area of 148,772 square metres (sq.m.) plus retail space of 25,944 sq.m. (including the retail space of “Belle Grand Rama 9”). GLAND has leased the office space of The 9th Towers and Unilever House to GLAND Office Leasehold Real Estate Investment Trust (GLANDRT) since 2017.

Currently, GLAND’s rental and service income is mainly derived from one office building, G Tower. G Tower has net leasable office area of 67,440 sq.m. It had an occupancy rate (OR) of above 95% during 2017-2019, with an average rental rate of Bt730-Bt760 per sq.m. per month. The three largest office tenants in G Tower occupied around 60% of the total leasable area. GLAND also has small areas of retail space in each building with a combined net leasable area of 25,944 sq.m. The OR of retail space in Belle Grand Rama 9, The 9th Towers, and

Unilever House remained low at 50%-70%, while the OR of retail space in G Tower was high at 80%. We consider GLAND's revenue to be highly concentrated in a single asset. Rental and service income from G Tower contributed 50% of total revenue from sales and services in 2018-2019.

Moderate financial leverage

In our assumption, we forecast GLAND to invest Bt0.4-Bt0.7 billion per annum during 2020-2021, and increase to Bt2 billion in 2022. After CPN takes a majority control in GLAND, CPN plans to turn four land plots into income-generating assets. Land plots located at The Grand Rama 9 and Phaholyothin road will be developed as mixed-use property projects, consisting of shopping centers, office buildings, and residences. Land plots on Kampangpetch road and in the Don Muang area will be developed as residential projects. TRIS Rating anticipates that GLAND will begin needing capital for these new projects from 2022 onwards. GLAND plans to fund its capital expenditures by leasing the office and retail spaces of G Tower to CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) by 2023. We believe that GLAND will be able to keep its debt to capitalization ratio at around 50%. The company has to maintain the interest-bearing debt to equity ratio below 3 times in order to comply with the financial covenants of its debentures.

Manageable liquidity

TRIS Rating assesses GLAND's liquidity to be manageable over the next 12 months. As of September 2019, GLAND's sources of funds comprised cash on hand of Bt0.1 billion plus undrawn short-term loan facilities of Bt0.4 billion. CPN also provided committed short-term loan facilities of Bt2.5 billion to GLAND in late 2019. We forecast GLAND's funds from operations (FFO) in 2020 to be Bt0.1 billion. Debt coming due over the next 12 months totals Bt1.8 billion, comprising Bt0.96 billion in short-term bills of exchanges (B/Es) and promissory notes (P/Ns) and Bt0.8 billion in long-term obligations. GLAND will spend Bt0.4 billion for capital expenditures in 2020.

GLAND also has a significant amount of unencumbered assets, comprising land worth Bt4.13 billion at cost, a 50% stake in Bayswater Co., Ltd., which owns a 48-rai land plot worth Bt7.85 billion (100%) at cost on Phaholyothin road, and a 15% stake in GLANDRT worth Bt0.78 billion. These assets can be used as collateral for new borrowings from banks, if needed.

Support from CPN

TRIS Rating holds the view that GLAND will continue to receive business and financial support from CPN. As of December 2019, CPN had a majority stake of 67.53% in GLAND. With the benefit of CPN's expertise in property development, GLAND's new mixed-use projects on Rama 9 road and Phaholyothin road are expected to generate recurring income and EBITDA for GLAND over the next several years.

Apart from business operations, we view that CPN is heavily involved in leading GLAND's financial policy. GLAND has a policy to maintain the ratio of total liabilities to total equity below 1 times. CPN also provides a short-term loan to GLAND to help reduce funding costs and replace maturing debt.

BASE-CASE ASSUMPTIONS

- Overall OR of office buildings should be above 95% and OR of retail spaces will be 65%-70%, with the rental rate growth by 3% per annum during 2020-2022.
- Total operating revenues to be Bt1.3-Bt1.5 billion per annum.
- EBITDA margin should stay at 43%-45%.
- Debt to capitalization ratio to stay around 50%.
- Capital expenditures will be Bt0.4-Bt0.7 billion per annum during 2020-2021, and will increase to Bt2 billion in 2022.

RATING OUTLOOK

The "stable" rating outlook reflects TRIS Rating's expectation that GLAND's operating and financial performances will be in line with our projections. We expect GLAND's existing assets to continue generating reliable cash flow streams. We believe that GLAND will follow CPN's prudent financial policy and maintain its debt to capitalization ratio at around 50%.

RATING SENSITIVITIES

GLAND's rating and/or outlook could be revised upward should its revenue or cash flow base enlarge significantly, while its financial profile remains close to the current level. Increased support from CPN and more business integration with CPN would be positive for the rating. On the contrary, a weaker operating performance and/or financial profile would negatively impact the rating and/or outlook.

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. MMP subsequently changed its company name to “Grand Canal Land PLC” or “GLAND”.

In late 2018, the Charoenkij Group, a major shareholder with a 50.43% stake in GLAND, sold its shares to CPN Pattaya Co., Ltd., a wholly-owned subsidiary of CPN. As of December 2019, GLAND’s major shareholder, CPN Pattaya, held 67.53% of the company. The Rattanarak family was the second largest shareholder, holding a 29.9% stake in GLAND.

GLAND’s existing rental assets are located on a 73-rai plot of land at the intersection of Rama 9 road and Ratchadapisek road. Rental and service income from rental properties contributed around 80% of GLAND’s total revenue from sales and services during 2017 through the first nine months of 2019, while the revenue contribution from real estate sales declined to around 20%.

KEY OPERATING PERFORMANCE

Table 1: GLAND’s Revenue from Sales and Service Breakdown

Unit: %

Business	2015	2016	2017	2018	Jan-Sep 2019
Rental and service income	20.0	36.4	76.0	81.7	82.4
Real estate sales	80.0	63.6	24.0	18.3	17.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total revenues from sales and services (Bt million)	**3,952**	**2,654**	**1,483**	**1,493**	**1,093**

Source: GLAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		-------------	Year Ended 31 December	------------	
	Jan-Sep 2019	2018	2017	2016	2015
Total operating revenues	1,205	1,521	1,495	2,666	3,976
Earnings before interest and taxes (EBIT)	597	597	629	1,391	1,657
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	605	791	737	1,445	1,716
Funds from operations (FFO)	242	187	(44)	586	819
Adjusted interest expense	216	385	470	499	348
Capital expenditures	4	253	307	2,010	1,335
Total assets	29,319	29,263	29,056	26,398	24,551
Adjusted debt	8,114	8,165	7,974	11,678	9,667
Adjusted equity	12,768	12,360	11,899	11,322	11,471
Adjusted Ratios					
EBITDA margin (%)	50.23	52.05	49.30	54.19	43.17
Pretax return on permanent capital (%)	3.68 **	2.90	2.87	6.12	8.42
EBITDA interest coverage (times)	2.80	2.06	1.57	2.89	4.93
Debt to EBITDA (times)	9.77 **	10.32	10.82	8.08	5.63
FFO to debt (%)	3.16 **	2.28	(0.55)	5.02	8.47
Debt to capitalization (%)	38.86	39.78	40.12	50.77	45.73

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Grand Canal Land PLC (GLAND)

Company Rating:	BBB
Rating Outlook:	Stable

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