GRAND CANAL LAND PLC

No. 230/2021
29 December 2021

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 03/03/21

Company Rating History:

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

Contacts:

Jutamas Bunyawanichkul
jutamas@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Grand Canal Land PLC (GLAND) at "BBB" with a "stable" outlook. The company rating incorporates a rating enhancement of one notch from its stand-alone credit profile (SACP) to reflect the company's status as a "strategic" subsidiary of Central Pattana PLC (CPN, rated "AA/Stable" by TRIS Rating). The one-notch rating enhancement follows the latest revision of our "Group Rating Methodology". We believe that CPN has a strong and long-term commitment as a major shareholder to provide timely support to GLAND if needed.

GLAND's SACP of "bbb-" reflects the reliable income streams the company receives from contract-based rental and service income from office and retail space as well as its small business scale with assets concentrated in a single location.

KEY RATING CONSIDERATIONS

Small and concentrated revenue base

We view the rental and service income that GLAND receives from its rental properties to be quite small compared with other rental property developers. Its income base is also concentrated in terms of location and tenants. GLAND has developed three office buildings; "The 9th Towers", "Unilever House", and "G Tower", with a net leasable area (NLA) of 145,328 square metres (sq.m.). GLAND has also developed retail space for rent in its office buildings and condominium project, with NLA of 24,937 sq.m. All assets are situated in a single location on Rama 9 road, Bangkok.

GLAND leased the office space of The 9th Towers and Unilever House to GLAND Office Leasehold Real Estate Investment Trust (GLANDRT) in 2017 and divested its holding in GLANDRT to CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) in 2020.

Currently, GLAND's rental and service income relies heavily on a single asset, the office building of G Tower. G Tower has net leasable office area of 67,604 sq.m. It had an occupancy rate (OR) of above 95% during 2017 through the first nine months of 2021, with an average rental rate of THB730-THB840 per sq.m. per month. The three largest office tenants in G Tower occupied 53% of the total leasable area. GLAND also has small areas of retail space in each building. The OR of retail space in Belle Grand Rama 9, The 9th Towers, and Unilever House was relatively low at 30%-50%, while the OR of retail space in G Tower was high at above 80%. We assess GLAND's revenue base to be highly concentrated in a single asset. Rental and service income from G Tower was THB700-THB800 million per annum during 2018-2020.

Operations less affected by COVID-19 pandemic

We view that GLAND's operating performance during 2020-2021 was not significantly affected by the Coronavirus Disease 2019 (COVID-19) pandemic. Although the average OR of its office buildings decreased to 91%-92% during 2020-2021, we viewed that the OR level remained acceptable. GLAND has been able to increase the rental rates of its office buildings by 1%-7% during the past two years. GLAND's retail space was affected by the drawn-out pandemic, as the average OR of retail space declined to 58% in 2020 and 49% at the end of September 2021, from around 70% during 2017-2019. GLAND had to provide a rent waiver or 20%-50% discounts on rental fees during the affected months for its retail tenants. However, the revenue contribution from retail space was only 15% of total operating revenue. GLAND's rental and service income declined slightly in 2020 and decreased by 9% year-on-year (y-o-y) during the first nine months of 2021.

Steady income and earnings from office and retail space

We assess the immediate impact from the COVID-19 pandemic on GLAND's office buildings for rent to be minimal given the contract-based nature of property for rent. GLAND rents out most of its office space on three-year fixed-rent contracts. The fixed-rent contracts make up the predictable cash flow the company receives as rental income. However, technological disruption accelerated by the pandemic, together with expected excess office supply in the next few years will likely create a downward trend for office space demand. We foresee downward pressure on OR and rental rates over the next three years. We project the average OR of office buildings to drop slightly to 88% during 2022-2023. We might see no growth in rental rates over the next three years. We forecast GLAND's revenue from office buildings to stay in the THB750-THB950 million per annum range during 2021-2023. For retail space, we expect the average OR to remain low at around 50% over the forecast period. Although GLAND has provided some discounts on rents during the past two years, we expect to see a 5% y-o-y growth in rental rates during 2022-2023. Revenue from retail space should remain around THB200 million annually.

Our base-case scenario projects GLAND's total operating revenue from all businesses to stay in the THB1.4-THB1.6 billion range per annum during 2021-2023. We view that GLAND's profitability may be threatened by intense competition among retail property developers coupled with the increasing supply of office buildings and retail space for rent in the next few years. We expect GLAND to be able to generate earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB500-THB700 million annually during 2021-2023.

Moderate financial leverage

After taking over majority control in GLAND, CPN plans to develop four land plots for mixed-use property and residential projects. Land plots located on Rama 9 road and Phaholyothin road will be developed for various types of property, including shopping centers, office buildings, and hotels. The land banks on Kampangpetch road and in the Don Muang area will be developed for residential projects. Currently, GLAND is developing residential projects in the Don Muang area and launched the first phase in September 2021. GLAND plans to acquire new land plots for residential projects in 2023 and launch residential projects on Kampangpetch road in 2024. GLAND delayed its investments for mixed-use projects on Rama 9 road and Phaholyothin road. The first phase of the development on Rama 9 road and Phaholyothin road are expected to start operations in 2025 and 2026, respectively.

Our base-case projects GLAND's capital expenditures for commercial property and residential projects of THB300 million in 2021 before increasing to THB700 million in 2022 and THB1.2 billion in 2023. We view that GLAND will need moderate amounts of capital to develop these land plots during the next three years. We incorporate the sublease of G Tower to CPNREIT in late 2023 in our base-case scenario. Cash received from the sublease of asset will partly relieve the company's debt burden. We expect GLAND to keep its net interest-bearing debt to equity ratio below 1 times over the forecast period.

Manageable liquidity

We assess GLAND's liquidity to be manageable over the next 12 months. As of September 2021, GLAND's debt due over the next 12 months will amount to THB6.6 billion, comprising THB2.5 billion long-term loans, THB2.2 billion short-term loans from CPN, THB1.0 billion debentures, and THB0.9 billion short-term bills of exchange (B/Es). At the end of September 2021, CPN's sources of funds comprised cash on hand and short-term investments of THB100 million plus undrawn committed short-term loan facilities of THB1.3 billion. CPN has also provided committed revolving short-term loan facilities of THB2.5 billion to GLAND. Funds from operations (FFO) over the next 12 months are forecast to be around THB200 million. In addition, GLAND has a significant portfolio of unencumbered assets, comprising land plots worth THB4.9 billion at cost and a 50% stake in Bayswater Co., Ltd., which owns a 48-rai land plot on Phaholyothin road. These assets can be used as collaterals for new borrowings from banks, if needed.

GLAND has remained in compliance with its financial covenants. The financial covenants on GLAND's debentures require the company's interest-bearing debt to equity ratio (excluding lease liability) to remain below 3 times. As of September 2021, the ratio was 0.4 times.

At the end of September 2021, GLAND had secured debt of THB2.5 billion. As the ratio of its secured debt to fair value of total assets was 9%, significantly below the threshold of 35% according to TRIS Rating's "Rating Methodology for Real Estate for Rent Companies", we view that GLAND's unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

Support from CPN

We hold the view that CPN is willing to provide both business and financial support to GLAND. As of September 2021, CPN held a majority stake of 67.53% in GLAND. We expect CPN's expertise in property development to benefit GLAND's new mixed-use projects on Rama 9 road and Phaholyothin road. We foresee that these projects will become a major source of income and EBITDA for GLAND in the future.

Apart from business operations, we see that CPN is also actively involved in leading GLAND's financial policy. GLAND has a policy to maintain its net interest-bearing debt to equity ratio below 1 times. CPN also provides a short-term loan facility to GLAND to use as working capital and reduce funding costs.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for GLAND's operations during 2021-2023:

- Average OR of office buildings to drop slightly to 88% during 2022-2023, with no growth in rental rate
- Average OR of retail space to stay around 50%, with a 5% y-o-y growth in rental rate during 2022-2023
- Capital expenditure for commercial and residential property projects to total THB300 million in 2021 before increasing to THB700 million in 2022 and THB1.2 billion in 2023
- Total operating revenue to stay in the THB1.4-THB1.6 billion range
- GLAND to sublease G Tower to CPNREIT in 2023

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that GLAND's operating performance and financial position should remain in line with targets. We view that GLAND will continue to follow CPN's prudent financial policy and sustain its net interest-bearing debt to equity ratio below 1 times.

RATING SENSITIVITIES

An upward credit revision could occur if GLAND's revenue and earnings bases enlarge significantly, while its financial profile does not deviate from our expectations. On the contrary, materially weaker operating and/or financial results would negatively impact the rating and/or outlook. Any material adverse change in the company's linkage with CPN could also lead to a change in the company rating on GLAND.

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 September 2021, 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 office buildings and retail spaces contributed 75%-85% of GLAND's total revenue from sales and services during 2017 through the first nine months of 2021, while the revenue contribution from real estate sales was 15%-25%.

KEY OPERATING PERFORMANCE

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

Unit: %

Business	2016	2017	2018	2019	2020	Jan.-Sep. 2021
Rental and service income	36.4	76.0	81.6	79.4	84.9	86.4
Real estate sales	63.6	24.0	18.4	20.6	15.1	13.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total revenues from sales and services (mil. THB)	**2,654**	**1,483**	**1,491**	**1,591**	**1,469**	**1,006**

Source: GLAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2021		--------------Year Ended 31 December -----------			
			2020	2019	2018	2017
Total operating revenues	1,014		1,485	1,597	1,506	1,495
Earnings before interest and taxes (EBIT)	542		1,010	896	597	629
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	545		1,122	902	792	737
Funds from operations (FFO)	302		715	223	129	(44)
Adjusted interest expense	119		200	288	443	470
Capital expenditures	47		47	21	215	307
Total assets	29,397		29,225	29,692	29,263	29,056
Adjusted debt	6,711		6,752	8,016	8,166	7,974
Adjusted equity	15,348		14,827	13,714	12,360	11,899
Adjusted Ratios						
EBITDA margin (%)	53.73		75.59	56.48	52.56	49.30
Pretax return on permanent capital (%)	3.32	**	4.65	4.22	2.90	2.87
EBITDA interest coverage (times)	4.60		5.61	3.13	1.79	1.57
Net Debt to EBITDA (times)	9.22	**	6.02	8.89	10.32	10.82
FFO to debt (%)	6.35	**	10.60	2.78	1.57	(0.55)
Debt to capitalization (%)	30.42		31.29	36.89	39.78	40.12

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

RELATED CRITERIA

- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Group Rating Methodology, 13 January 2021
- 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

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000