

NOBLE DEVELOPMENT PLC

 No. 178/2018
 9 November 2018

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB-
Outlook:	Stable

Last Review Date :

Date	Rating	Outlook/Alert
01/06/18	BBB	Stable

Company Rating History:

Date	Rating	Outlook/Alert
28/12/17	BBB	Stable
06/11/15	BBB	Negative
04/01/13	BBB	Stable
08/09/06	BBB+	Stable
12/07/04	BBB	Stable
14/10/03	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on Noble Development PLC (NOBLE) at “BBB” with a “stable” outlook, and also affirms the ratings on NOBLE’s senior unsecured debentures at “BBB-”. The ratings reflect NOBLE’s well-accepted brand name in the middle- to high-end segment of the condominium market, and large backlog, which partly secures its future revenue stream. These strengths are partially offset by its relatively volatile operating performance and its relatively high level of financial leverage, a result of an aggressive expansion.

The ratings are not affected by a recent change in shareholder structure as most of the company’s management team remains intact. The ratings factor in concerns over the high level of household debt nationwide plus rising competition in high-priced condominium segment.

KEY RATING CONSIDERATIONS

Well-accepted brand recognition in the middle-to-high income condominium segment

NOBLE’s competitive edge in the condominium segment is derived from its prime locations and unique designs, two strong features of the brand and key selling points. Its condominium projects have wide acceptance among middle- to high-income buyers. One indicator of customer acceptance is NOBLE’s record of satisfactory presales. In the first half of 2018, NOBLE launched two condominium projects, “Nue Noble Chaengwattana” project and “Noble Around Ari” project. At the end of August 2018, Nue Noble Chaengwattana project and Noble Around Ari project were 89% and 77% sold, respectively.

Volatile operating performance expected to improve in the next 2-3 years

Noble’s operating performance was relatively volatile over the past five years as the company launched only one or two projects each year. Revenues dropped to Bt373 million in 2015 before jumping to Bt4,503 million in 2016 and soaring to Bt9,677 million in 2017, after the completion of its large project “Noble Ploenchit”.

Going forward, NOBLE plans to launch four new projects worth Bt27,300 million in 2019, and four or five new projects worth Bt10,000-Bt15,000 million per year during 2020 and 2021. The continuation of its new projects launches should help revenues and profitability more stable in the future. NOBLE continues to focus on condominium projects priced at Bt8-Bt13 million per unit, an average selling price of Bt200,000 per square metre (sq.m.).

Significant amount of backlog partly secures future revenue recognition

At the end of June 2018, NOBLE had a backlog of Bt18,491 million. The backlog should be recognized as revenues of Bt3,036 million in the second half of 2018 and around Bt2,000-Bt5,000 million per annum during 2019-2022.

As of June 2018, NOBLE had 19 existing condominium projects, with the remaining value (including built and un-built units) of Bt16,914 million available for sale. Nearly half (45%) of the remaining value was in the Noble Ploenchit project which has been completed and ready to transfer. The company plans to focus on selling the remaining units to foreign buyers, using the network of its new shareholder, Fulcrum Global Capital Ltd. (Fulcrum). Fulcrum and N Capital Ltd. (N Capital) now hold 24.90% of NOBLE. Currently, its sales to foreign

buyers accounted for less than 10% of its total portfolio. The success of its execution remains to be proven. TRIS Rating's base case assumes NOBLE's revenue will be around Bt5,000 million in 2018, and then will sharply rise to Bt8,000-Bt10,000 million annually in 2019-2021, backed by the schedule of its large backlog and selling the remaining units on hand.

Exposure to cyclical and highly competitive industry

Demand for residential property is cyclical and largely impacted by the economy. Due to a slowdown in the domestic economy, coupled with a concern over the lingering high level of household debt nationwide, lending policies at banks remain stringent especially in the middle- to low-income segment. Thus, several property developers have shifted their focus toward the higher-income segment, making competition in this segment more intense due to more supply in the market. As such, NOBLE has to carefully manage its new project launches to match the demand in each area. The slower absorption and transfer rates may cause its leverage to hang at the higher level for a longer period.

Recently, the Bank of Thailand (BOT) has proposed the measures to control non-performing housing loans which may become effective next year. The new measures include the lowering of the loan-to-value limit to 80% for mortgage loans on the second and subsequent housing units acquired by the same purchasers. In our view, TRIS Rating believes that the new measures should not greatly affect NOBLE because the company generally requires customers to make down payments of 20%-30% of the selling price.

Relatively high financial leverage

NOBLE's level of leverage will stay high for the next three years due to aggressive expansion plan. Its future projects will mainly focus on condominium segment more than 80%, which typically require greater investment amounts and longer payback period than housing projects. In our base case, we foresee no material reduction in debt over the next three years, given high capital expenditure related to property development and rising land cost in inner-Bangkok area. However, NOBLE plans to dispose some raw land and fixed assets to reduce funding needs. The debt to capitalization ratio should hover around 65% as a result; the net interest-bearing debt to equity ratio should not exceed 2 times. Under its financial covenant, the company has to maintain the net interest-bearing debt to equity ratio below 2.5 times. At the end of June 2018, NOBLE's net interest-bearing debt to equity stood at around 1.9 times. We expect the company to prudently manage its capital structure so as to comply with the financial covenant at all times.

Liquidity expected to improve

TRIS Rating believes NOBLE should be able to manage its liquidity to meet its needs over the next 12 months. At the end of June 2018, NOBLE's liquidity consisted of cash on hand and marketable securities of Bt762 million, and undrawn unconditional project loans of Bt3,444 million. We estimate NOBLE's funds from operations (FFO) will be around Bt520 million in 2018. FFO will then rise considerably and range around Bt1,200-Bt2,000 million per annum during 2019-2021. The company has Bt4,797 million in debt due in the next 12 months, comprising bills of exchange (B/E) of Bt686 million, debentures of Bt3,148 million, and long-term project loans of Bt963 million. The debentures will be refinanced by a new debenture issuance, and the project loans will be repaid by the cash received from the transfers of units in the condominium projects. The FFO to net debt ratio is forecast at 4% in 2018, then improve to 6%-12% in 2019-2021. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio is expected to stay above 2 times.

RATING OUTLOOK

The "stable" outlook reflects our expectation that NOBLE will be able to sustain its operating performance and financial position at the target levels. Under TRIS Rating's base case scenario, NOBLE's revenue is expected to be Bt5,000-Bt10,000 million per annum over the next three years and the company is expected to keep its operating profit margin at least 20%. The debt to capitalization ratio should be around 65% or the interest-bearing debt to equity ratio should stay around 2 times.

RATING SENSITIVITIES

The ratings and/or outlook of NOBLE could be under downward pressure if its operating performance and/or financial profile deteriorate significantly from the target levels. On the other hand, NOBLE's ratings and/or outlook could be revised upward should its business scale enlarge and its capital structure improves significantly from the current level. Its FFO to total debt ratio should be improved to around 8%-12% on a sustained basis.

COMPANY OVERVIEW

NOBLE was founded in 1991 by Mr. Kittti Thanakitamnuay, Mr. Chali Sophonpanich, and Mrs. Panida Teapkarnjana. The company was listed on the Stock Exchange of Thailand (SET) in November 1996. As of September 2018, Mr. Kittti

Thanakitamnuy, the company’s founder and major shareholder, held a 43.76% stake in total, following by nCrowne Pte. Ltd. (nCrowne) with 24.90%. Later on, nCrowne sold its entire stake to Fulcrum, a real estate investor and distributor based in Hong Kong, and N Capital. Consequently, Fulcrum and N Capital became the second largest shareholders of NOBLE, holding 24.90% stake of the company, and obtained one seat on NOBLE’s board of directors.

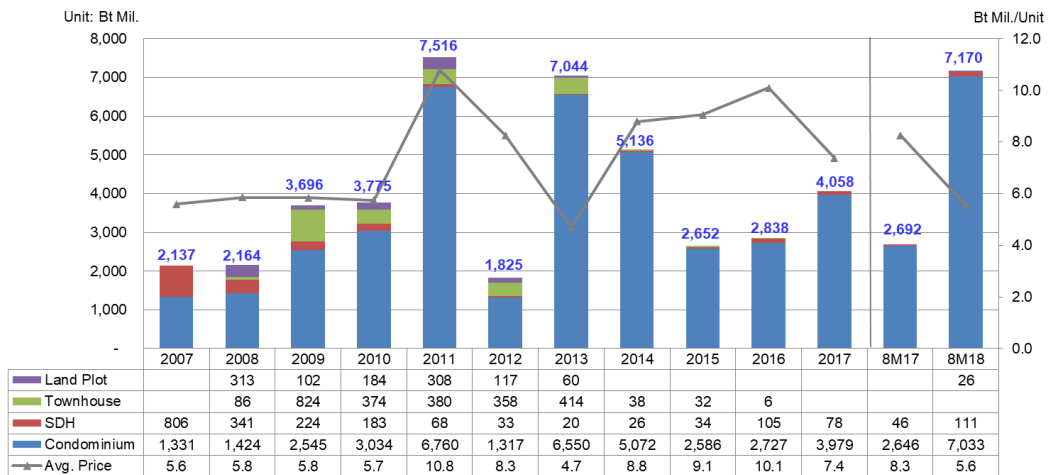
As a strategic partner with Fulcrum, NOBLE is expected to benefit from Fulcrum’s distribution network across Asia, covering Mainland China, Hong Kong and Macau, Taiwan, Singapore, and Malaysia. Sales to foreign buyers are expected to improve as a result.

NOBLE focuses on the middle- to high-end condominium segment, with the prices ranging from Bt120,000-Bt270,000 per sq.m. The company also offers detached and semi-detached houses (SDHs), townhouses, and land plots for middle- to high-income customers. The average selling prices for low-rise housing units were Bt8.2 million for an SDH unit, Bt6.5 million for a townhouse, and Bt15.9 million for a land plot. Almost all of NOBLE’s condominium projects are located along mass transit lines, while its housing projects are located near the expressways. NOBLE’s unique designs differentiate its products from other developers.

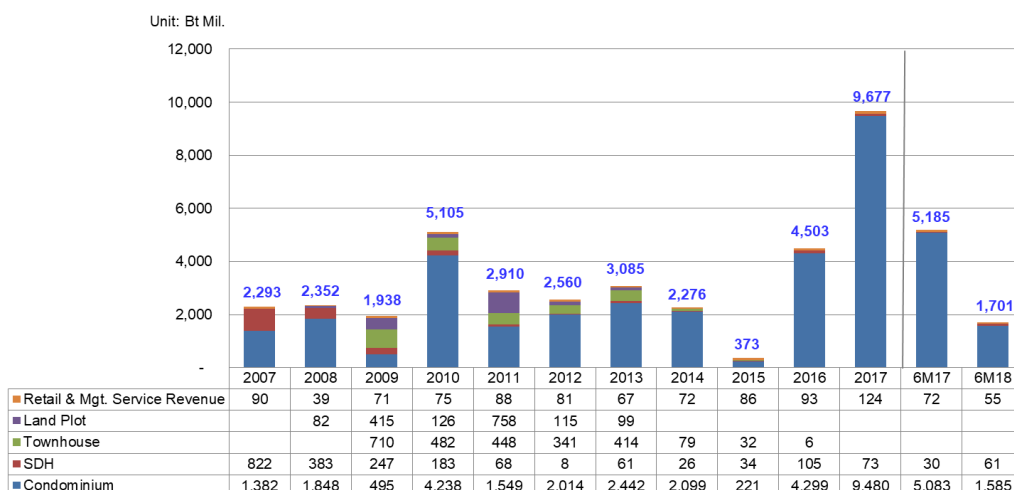
As of August 2018, NOBLE had 19 existing condominium projects and three housing projects, worth Bt62,834 million in total. Condominium projects comprised 92% of total project value across NOBLE’s portfolio, while housing projects accounted for the rest. The value of the remaining unsold units (including built and un-built units) across the entire portfolio was around Bt18,641 million. About 91% of the value was in condominium projects and the rest was in housing projects. The total backlog worth Bt17,368 million.

KEY OPERATING PERFORMANCE

Chart 1: Presales Performance



Source: NOBLE

Chart 2: Revenue Breakdown


Source: NOBLE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	1,701	9,677	4,503	373	2,276
Operating income	221	2,880	1,178	(420)	328
Earnings before interest and taxes (EBIT)	311	3,459	1,467	(420)	407
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	365	3,585	1,559	(339)	475
Funds from operations (FFO)	16	2,436	557	(947)	(138)
Adjusted interest expense	328	640	832	721	574
Capital expenditures	25	66	245	125	101
Total assets	23,548	22,501	23,269	22,942	19,796
Adjusted debt	12,695	11,755	13,305	12,953	8,894
Adjusted equity	6,486	6,477	4,433	3,758	4,272
Adjusted Ratios					
Operating income as % of total operating revenues (%)	12.97	29.76	26.15	(112.84)	14.40
Pretax return on permanent capital (%)	10.43 **	18.21	7.97	(2.49)	2.73
EBITDA interest coverage (times)	1.11	5.60	1.87	(0.47)	0.83
Debt to EBITDA (times)	5.87 **	3.28	8.53	(38.16)	18.73
FFO to debt (%)	8.71 **	20.72	4.18	(7.31)	(1.56)
Debt to capitalization (%)	66.19	64.48	75.01	77.51	67.55

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Noble Development PLC (NOBLE)

Company Rating:	BBB
Issue Ratings:	
NOBLE196A: Bt1,500 million senior unsecured debentures due 2019	BBB-
NOBLE205A: Bt1,500 million senior unsecured debentures due 2020	BBB-
NOBLE212A: Bt1,500 million senior unsecured debentures due 2021	BBB-
Rating Outlook:	Stable

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