

SIAM PIWAT CO., LTD.

No. 125/2023
6 July 2023

CORPORATES

Company Rating:	A-
Issue Rating:	
Hybrid	BBB
Outlook:	Stable

Last Review Date: 30/06/22

Company Rating History:

Date	Rating	Outlook/Alert
30/06/22	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Siam Piwat Co., Ltd. (SPW) at “A-”, with a “stable” rating outlook. We also affirm the rating on SPW’s subordinated capital debentures (hybrid debentures) at “BBB”. The rating on SPW’s hybrid debentures is two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis.

The ratings continue to reflect the company’s acceptable market position in the retail property industry, reliable cash flow from contract-based income, improving operating and financial results, as well as adequate liquidity. However, the ratings are partially constrained by its portfolio concentration in terms of asset location.

KEY RATING CONSIDERATIONS

Acceptable market presence underpinned by high-quality assets

We expect SPW to sustain its market position in the retail property market over the next three years. We view SPW’s competitive edges as being driven by well-maintained assets located in prime areas of Bangkok.

SPW has three shopping centers and one office building located in the Siam Square area, a shopping center located on the Chao Phraya riverfront on Charoennakorn Road, and a premium outlet near Suvarnabhumi airport. SPW’s shopping centers are easily accessible by the Skytrain mass transit system and are popular among foreign tourists and Thai shoppers. Some of SPW’s shopping centers are undergoing renovations and remerchandising to enhance appearance and attract customer traffic. Anchor tenants, such as cinemas, luxury brand shops, international fashion brands, and large multi-purpose halls, continue to be the key magnets in drawing traffic. As a result, SPW’s overall occupancy rate of shopping centers has been maintained at around 90%, with high rental rates, in the past five years.

In January 2023, SPW launched a new mixed-use property named ICS, located on the opposite site of ICONSIAM. ICS consists of retail and office spaces, and a hotel. ICS’s anchor tenants include Lotus Prive, Siriraj H Solutions, and Hilton Garden Inn Hotel.

Looking forward, we view SPW’s ability to maintain its high-quality assets together with the attempt to diversify its asset locations should strengthen the company’s market position in the long run.

Predictable cash flows from contract-based income

SPW’s credit profile factors in its steady cash flow streams from contract-based rental and service income. We view the fixed-rent contracts to provide the benefit of stable cash flows. Nonetheless, revenue-sharing contracts provide more income during the economic upturn, while the minimum rental fee will limit downside risk in the case that tenant performances fall below expectations.

Around 60% of SPW’s occupied area is rented under fixed-rate contracts, while the rest are revenue-sharing contracts. SPW has been gradually converting its typical fixed-rate rental contracts to revenue-sharing contracts. These contracts are based on an agreed sharing of the tenant’s revenue on top of minimum rental fee. An increasing proportion of the revenue-sharing contracts should help support the company’s revenue and earnings growth.

Reviving operating performance from the return of shoppers

We expect SPW's operating performance to continue improving in 2023-2025 in tandem with the recovery of customer traffic and spending after the pandemic. We also expect the OR of each shopping center to be robust and the rental rate to improve with no discounts provided to tenants from 2023 onwards.

SPW reported total operating revenue growth by 59% y-o-y to THB10.7 billion in 2022. Revenue from rental and service income increased to THB8.1 billion in 2022 from THB4.6 billion per annum in 2020-2021. Revenue from retail sales also increased by 65% y-o-y to THB1.5 billion in 2022. SPW's earnings before interest, taxes, depreciation and amortization (EBITDA) jumped to THB4.8 billion in 2022 from THB2.0-THB2.6 billion in 2020-2021, thanks to the return of local shoppers and foreign tourists. The average OR of shopping centers was 93% in 2022. Its average rental rate (ARR) also increased in 2022, surpassing the 2019 pre-COVID level.

In our base-case forecast, we project the overall OR of shopping centers to remain above 92%, with ARR growth of around 5% per annum as we see evidence of traffic recovery from local and foreign customers. We expect SPW's rental and service income to reach the THB9-THB10 billion level in 2023-2025. Although SPW plans to downsize its own retail spaces and rent them out instead, we project revenue from retail sales to remain at THB1.4-THB1.5 billion per annum in the next three years. We forecast SPW's EBITDA to improve to THB4.8-THB5.0 billion, with an EBITDA margin of about 40% during 2023-2025.

Improving financial leverage and cash flow protection anticipated

We expect SPW's financial leverage, measured by the debt to EBITDA ratio, to continue to trend downwards in 2023-2025, while its EBITDA interest coverage ratio to rise from the anticipated improvement in operating performance. Our base-case scenario incorporates capital expenditures (CAPEX) of THB1.0-THB2.5 billion per annum in the next three years. These budgets include renovations, maintenance, and additional investments.

Given its performance revival and estimated CAPEX, we project SPW's debt to EBITDA ratio to decrease to around 6 times over the forecast period, from 6.2 times in 2022 and above 10 times in 2020-2021. Its EBITDA interest coverage ratio should soar to around 4 times in 2023-2025 from 3.9 times in 2022 and around 2 times in 2020-2021. A significant drop in the debt to EBITDA ratio below 6 times on a sustained basis should be positive for the rating or outlook.

The financial covenants on SPW's senior unsecured debentures require the company's interest-bearing debt to total equity (IBD/E) ratio to remain below 2.5 times and its EBITDA to interest expense ratio to remain above 3 times. As of December 2022, the IBD/E ratio was 1.5 times and the EBITDA to interest expense ratio was 4.8 times. We believe the company should have no problems complying with the financial covenants over the next 12 to 18 months.

Expected to maintain adequate liquidity

We assess SPW's liquidity as adequate over the next 12 months. SPW's sources of liquidity included cash on hand of THB6.2 billion, undrawn credit facilities from banks of THB3.5 billion, and short-term investments of THB1.1 billion. We forecast its funds from operations (FFO) in 2023 to be THB3.2 billion.

At the end of December 2022, the company had maturing debts over the next 12 months totaling THB3.7 billion, comprising THB2.2 billion in senior unsecured debentures, THB0.7 billion in short-term borrowings, THB0.6 billion in long-term loans, and THB0.2 billion in other obligations. SPW already paid the THB1.6 billion debentures due in May 2023 and THB0.4 billion debentures due in June 2023 using its internal cash flows. Also, we include the contemplated CAPEX and annual dividend payment as the uses of funds.

SPW had total debt of THB31.6 billion at the end of December 2022. The company's priority debt, including secured debts at the parent company and total debts of its subsidiaries, was THB17.2 billion. These translated to a priority debt to total debt ratio of 54%. As the priority debt ratio was higher than the threshold of 50%, we view that SPW's unsecured creditors could be disadvantaged with respect to the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for SPW's operations during 2023-2025 are as follows:

- Rental and service income from commercial properties to grow by around 10% per annum
- Revenue from retail sales to range between THB1.4-THB1.5 billion per annum
- EBITDA margin of about 40%
- Capital expenditure totaling around THB6 billion in the next three years

RATING OUTLOOK

The “stable” outlook reflects our expectation that SPW will sustain its operating performance and financial profile at current levels. We also expect SPW to retain its acceptable market position in the retail property business.

RATING SENSITIVITIES

An upward revision could materialize if SPW demonstrates sustainable improvements in its operating and financial performance, such that EBITDA rises above THB5 billion and the debt to EBITDA ratio stays below 6 times on a sustained basis.

Conversely, the ratings and/or outlook could be revised downward if SPW’s operating results and/or financial position deteriorate significantly from current levels or if the company incurs any aggressive debt-funded investments that materially weaken its financial profile.

COMPANY OVERVIEW

SPW is one of the leading retail property developers in Thailand. The company established its retail property business in 1973 with the opening of its first shopping center, Siam Center. SPW subsequently entered the retail business in 1997 when it opened its first specialty store, LoFt. As of December 2022, SPW’s largest shareholder was MBK PLC.

SPW’s property portfolio totals approximately 500,000 sq.m. The company owns and operates four shopping centers, one outlet, one office building, and one mix-used project. Its properties include the Siam Center and Siam Discovery shopping centers and an office building, Siam Piwat Tower. Siam Paragon shopping center was established as a joint venture (JV) between SPW and The Mall Group. Three shopping centers are located in the Siam Square area, the heart of Bangkok’s shopping district. In late 2018, the company opened the ICONSIAM project with its partner, the CP Group. The project consists of two retail buildings and two condominium buildings located on the riverfront on Charoennakorn road. SPW manages the retail space while CP Group is responsible for the condominium projects. In June 2020, the company opened the new luxury Siam Premium Outlet, located near Suvarnabhumi airport. This outlet was undertaken as a JV between SPW and Simon Property Group Inc., the largest premium outlet operator in the world. In January 2023, the company opened a new mixed-use project, ICS, located on the opposite site of ICONSIAM, under partnership with the CP Group. The project includes a retail space, an office space, and a hotel.

As a retailer, SPW offers a variety of products, including home decor, men’s and women’s apparel, plus accessories. Also, SPW holds a 49% stake in Siam Paragon Retail Co., Ltd., which operates the Paragon department store.

In 2022, rental and service income from its shopping centers constituted 85% of total revenue. The remainder came from the retail business.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	10,733	6,740	7,272	10,815	7,659
Earnings before interest and taxes (EBIT)	2,484	(118)	596	2,758	489
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,750	1,959	2,629	3,683	1,696
Funds from operations (FFO)	3,295	613	1,157	2,304	594
Adjusted interest expense	1,209	1,194	1,319	1,083	829
Capital expenditures	3,960	1,917	3,070	6,985	10,750
Total assets	57,136	54,664	52,380	46,824	40,321
Adjusted debt	29,351	30,946	29,688	25,518	19,807
Adjusted equity	17,208	14,339	14,735	14,900	13,100
Adjusted Ratios					
EBITDA margin (%)	44.26	29.06	36.15	34.06	22.15
Pretax return on permanent capital (%)	4.82	(0.24)	1.30	6.87	1.55
EBITDA interest coverage (times)	3.93	1.64	1.99	3.40	2.05
Debt to EBITDA (times)	6.18	15.80	11.29	6.93	11.68
FFO to debt (%)	11.22	1.98	3.90	9.03	3.00
Debt to capitalization (%)	63.04	68.34	66.83	63.13	60.19

* Consolidated financial statements

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

Siam Piwat Co., Ltd. (SPW)

Company Rating:	A-
Issue Rating:	
SPW22PA: THB4,000 million subordinated capital debentures	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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