TRIS RATING
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CENTRAL PATTANA PLC

No. 16/2020
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CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 16/01/19

Company Rating History:

Date	Rating	Outlook/Alert
16/01/19	AA	Stable
18/09/18	AA	Alert Developing
22/09/17	AA	Stable
12/05/14	AA-	Stable
05/02/13	A+	Positive
23/05/07	A+	Stable
22/02/05	A	Stable
12/07/04	A-	Positive
04/10/02	A-	-
17/05/01	BBB+	-

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RATIONALE

TRIS Rating affirms the company rating on Central Pattana PLC (CPN) and the ratings on CPN's senior unsecured debentures at "AA" with a "stable" rating outlook. The ratings reflect CPN's leading position in the retail property development industry in Thailand, proven track record of managing high-quality assets, and reliable cash flow from contract-based rental and service income. The ratings also take into consideration the large capital expenditures needed for business expansion during 2020-2022.

KEY RATING CONSIDERATIONS

Leading position in retail property in Thailand

TRIS Rating considers CPN's competitive position to be the strongest among retail property developers in Thailand. As of September 2019, CPN managed 34 shopping centers, comprising 15 shopping centers in Bangkok, 18 shopping centers in provincial areas, and one shopping center in Malaysia, as well as retail space under the assets of Grand Canal Land PLC (GLAND). CPN held a net leasable area of 1.8 million square meters (sq.m.). CPN's leading position is attributed to its holding the largest market share, 20%, of the nationwide retail space market in combination with its high overall occupancy rate (OR) of above 90% for the past several years.

CPN's rental and service income from shopping centers grew by 6% year-on-year (y-o-y) to Bt27 billion in 2018 and by 8% y-o-y to Bt21.7 billion in the first nine months of 2019. TRIS Rating's base case scenario assumes that CPN will open six new shopping centers during 2020-2022. We forecast CPN's retail space will reach 2 million sq.m. by 2022. We expect CPN to keep its overall OR at around 90%, with rental rate growth of 2%-3% per annum. In our assumption, we forecast CPN's rental and service income from shopping centers to be in the range of Bt27-Bt30 billion per annum during 2019-2022.

Proven track record of managing high-quality assets

We assess CPN's overall asset quality as good. CPN has a diversified portfolio of income-generating properties, sited in good locations, and a diverse and strong tenant base. Each shopping center usually undergoes renovations and remerchandising mix in order to enhance its appearance and draw customer traffic. Magnet attractions, such as Central Department Stores, Robinson Department Stores, cinemas, supermarkets, brand name shops, and large multi-purpose halls, also stimulate traffic. A good mix of anchor tenants attracts other specialty retailers. The prime-quality shopping centers also attract a diverse mix of local and international branded retailers, which keep earnings stable through economic cycles. Although CPN remains exposed to the rollover risk of the tenant base, the company closely manages its rent-expiry profile. Approximately 30% of its contracts with tenants expire every year.

Recurring cash flows from contract-based rental and service income, with favourable profit margins

TRIS Rating expects CPN to continue generating solid operating performance. Approximately 60% of occupied leasable area is rented under fixed rent contracts (three-year and long-term lease contracts). The fixed rental rates provide the benefit of reliable cash flow under any conditions. However, 40% of occupied leasable area is leased under revenue sharing contracts plus minimum guarantee. CPN earns income from this type of contract according to the sales volume of the tenant, while the minimum guarantee helps mitigate the downside risk in the tenant's business activities.

CPN's earnings before interest, tax, depreciation, and amortization (EBITDA) margin was around 60% during 2014-2017, but decreased to 56% in 2018 and 58% in the first nine months of 2019. Despite the drop, the EBITDA margin remains in the industry average. Going forward, CPN's profitability may be threatened by the intense competition among retail property developers and from other types of retail channel. However, TRIS Rating believes that CPN's ability to maintain high OR, increase rental rates, and control operating costs will help sustain satisfactory profitability.

More contribution from mixed-use properties

CPN's business plan for the next three years focuses more on mixed-use developments. CPN will develop not only shopping centers but also other types of property, including office buildings, hotels, and residences, in areas adjoining its shopping centers. CPN is jointly developing a large mixed-use project, the "Dusit Central Park", with Dusit Thani PLC (DTC) on the corner of Silom road and Rama 4 road. In CPN's portion, the shopping center and office building are expected to be completed and start operations in late 2023. In addition, CPN plans to turn land plots at The Grand Rama 9 project and Phaholyothin road held by GLAND into various types of mixed-use property projects, consisting of shopping centers, office buildings, and residential projects. The land banks on Kampangpetch road and in the Don Muang area will be developed for residential projects. We also take into consideration CPN's investments in office buildings, hotels, residences, and other supportive businesses, in our assumptions.

Large capital expenditures with expected financial leverage at around 50%

In TRIS Rating's base case assumption, we forecast CPN to invest Bt22-Bt24 billion per annum during 2020-2022. We expect CPN to expand its shopping centers in Thailand and seek further opportunities overseas. The budget also covers the renovation and enhancement of existing shopping centers.

Despite CPN's aggressive business expansion, TRIS Rating holds the view that CPN's need for capital to pursue its growth plans remains moderate. CPN's funding plan includes the sale and sublease of its shopping centers to CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) in 2020. Cash received from the sale and sublease of assets will partially alleviate the burden of debt funding. We expect CPN to keep the debt to capitalization ratio at around 50% and the debt to EBITDA ratio below 4 times during 2020-2022. We forecast the ratio of funds from operations (FFO) to total debt to stay in the range of 20%-25%.

Acceptable liquidity profile

We assess CPN's liquidity to be adequate over the next 12 months. As of September 2019, CPN's sources of funds comprised cash on hand of Bt1.5 billion and short-term investments of Bt0.7 billion. In addition, CPN has undrawn term loan facilities of Bt1.5 billion plus undrawn short-term loan facilities of Bt11.4 billion. TRIS Rating forecasts CPN's FFO in 2020 to be Bt23 billion (including the sale and sublease of assets to CPNREIT). These sources of funds are sufficient to cover its uses of funds. Debt due over the next 12 months will include Bt6.4 billion in short-term obligations and Bt3.4 billion in long-term obligations. In 2020, CPN plans capital expenditures of Bt22 billion.

TRIS Rating believes that CPN will be able to comply with its debenture covenants over the next 12 to 18 months. The net interest-bearing debt to equity ratio at the end of September 2019 was 0.45 times, well below the debenture covenant of 1.75 times. Meanwhile, the total assets excluding secured loans to total debt excluding secured loans ratio as of September 2019 was 5 times, above the debenture covenant of 1.5 times.

BASE-CASE ASSUMPTIONS

- CPN to open six new shopping centers during 2020-2022 and retail space to increase to 2 million sq.m. by 2022, with expected overall OR of around 90% and rental rate growth of 2%-3% per annum.
- Total operating revenues to be Bt35-Bt40 billion per annum during 2019-2022.
- Capital expenditures to be Bt22-Bt24 billion per annum during 2020-2022.
- Debt to capitalization ratio to be around 50% and debt to EBITDA ratio to stay below 4 times during 2020-2022.
- CPN to sell and sublease its own assets and the GLANDRT assets to the CPNREIT in 2020.

RATING OUTLOOK

The "stable" rating outlook reflects TRIS Rating's expectation that CPN will be able to sustain its strong operating results. We expect CPN to maintain financial discipline by keeping its debt to capitalization ratio at around 50% and the debt to EBITDA ratio below 4 times.

RATING SENSITIVITIES

CPN's credit upside would materialize if its business expansion substantially further strengthens its business position and financial profile. On the contrary, the ratings and/or outlook could be revised downward should its operating performance and/or financial profile substantially deteriorate from the target levels.

COMPANY OVERVIEW

CPN was incorporated in 1980 under the name "Central Plaza Co., Ltd." to develop and operate a shopping complex in Thailand. The company was listed on the Stock Exchange of Thailand (SET) in 1995. As of December 2019, the major shareholders of CPN were the Chirathivat family (27%) and Central Holding Co., Ltd. (26%). Central Holding, a wholly-owned holding company of Chirathivat family members, is engaged in real estate development, hotels, food retailing, department stores, hardline products, and online marketing. The ownership link with the Central Group is a benefit for CPN since many anchor tenants under the Group have been strong magnets for shopping centers owned by CPN.

CPN is the largest retail property developers in Thailand. After the acquisition of GLAND in late 2018, CPN's property portfolio included 34 shopping centers and retail space with net leasable area of 1.8 million sq.m., 11 office buildings with net leasable area of 320,939 sq.m., two hotels, one apartment, 32 food centers, 10 residential projects, and two REITs, as well as one property fund.

CPN's rental and service income from shopping centers constituted 80%-90% of total revenue during 2015-2019. Revenue from the office and hotel segment totally contributed 5%-8% during the past five years. Revenue from food and beverage contributed 3%-6% during the same period. Residential projects started generating revenue, with contributions of 8% in 2018 and 5% in the first nine months of 2019.

KEY OPERATING PERFORMANCE

Table 1: CPN Property Portfolio

No. of Property	Unit	CPN	GLAND	Total
Shopping center				34
- BMA and vicinities		15		
- Provincial areas		18		
- Aboard		1		
Total NLA – Retail space	sq.m.	1,804,724	25,944	1,830,668
Office building		7	4	11
Total NLA – Office building	sq.m.	172,167	148,772	320,939
Hotel	Rooms	2 (561)		2 (561)
Apartment		1		1
Food center		31	1	32
Residential (available for sales as of Jan 2020)				
- Condominium		6	1	7
- Landed property		3		3
REIT		CPNREIT (CPN holds 26.69%)	GLANDRT (GLAND holds 15%)	3
Property fund		CPNCG (CPN holds 25%)		

NLA = Net leasable area
Sources: CPN and GLAND

Table 2: CPN's Revenue from Sales and Services

Unit: %

Business	2015	2016	2017	2018	Jan-Sep 2019
Shopping centers	88.9	89.0	88.1	79.7	84.7
Office buildings	2.6	2.4	2.4	3.1	4.7
Hotels	4.1	3.6	3.8	3.6	3.3
Apartment & others	0.0	0.0	0.0	0.0	0.0
Food & beverages	4.4	5.0	5.7	5.5	2.5
Residential				8.1	4.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total revenues from sales and services (Bt million)	**24,283**	**27,634**	**28,785**	**33,887**	**25,587**

Source: CPN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		-------------Year Ended 31 December ------------			
	Jan-Sep 2019	2018 ***	2017	2016	2015
Total operating revenues	27,330	36,458	31,094	29,234	25,681
Earnings before interest and taxes (EBIT)	10,981	14,587	13,507	12,747	10,793
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	15,874	20,557	18,760	17,760	15,230
Funds from operations (FFO)	12,071	16,344	15,008	14,006	11,936
Adjusted interest expense	2,052	2,156	1,957	2,067	1,864
Capital expenditures	7,650	9,021	10,568	5,410	15,265
Total assets	169,418	161,708	120,574	104,527	103,045
Adjusted debt	67,769	54,650	32,022	36,554	39,753
Adjusted equity	76,741	74,176	63,880	53,005	46,801
Adjusted Ratios					
EBITDA margin (%)	58.09	56.39	60.33	60.75	59.30
Pretax return on permanent capital (%)	10.23 **	12.55	13.99	13.93	12.93
EBITDA interest coverage (times)	7.73	9.53	9.59	8.59	8.17
Debt to EBITDA (times)	3.24 **	2.66	1.71	2.06	2.61
FFO to debt (%)	23.79 **	29.91	46.87	38.32	30.02
Debt to capitalization (%)	46.90	42.42	33.39	40.82	45.93

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
*** *CPN has consolidated GLAND since 12 September 2018.*

RELATED CRITERIA

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

Central Pattana PLC (CPN)

Company Rating:	AA
Issue Ratings:	
CPN20DA: Bt800 million senior unsecured debentures due 2020	AA
CPN218A: Bt1,900 million senior unsecured debentures due 2021	AA
CPN21OA: Bt300 million senior unsecured debentures due 2021	AA
CPN21DA: Bt800 million senior unsecured debentures due 2021	AA
CPN221A: Bt1,000 million senior unsecured debentures due 2022	AA
CPN225A: Bt1,500 million senior unsecured debentures due 2022	AA
CPN228A: Bt800 million senior unsecured debentures due 2022	AA
CPN22DA: Bt600 million senior unsecured debentures due 2022	AA
CPN235A: Bt2,000 million senior unsecured debentures due 2023	AA
CPN258A: Bt1,000 million senior unsecured debentures due 2025	AA
Up to Bt3,600 million senior unsecured debentures due within 15 years	AA
Rating Outlook:	Stable

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