

CENTRAL PATTANA PLC

 No. 17/2021
 3 March 2021

CORPORATES

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

Last Review Date: 28/10/20

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+	-

Contacts:

Jutamas Bunyanichkul

jutamas@trisrating.com

Pramuanap Phonprasert

pramuanap@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Wiyada Pratoomsuwan, CFA

wiyada@trisrating.com

WWW.TRISRATING.COM

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" 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 stable cash flow from contract-based rental and service income. The ratings also take into consideration the large capital expenditures needed for business expansion during 2021-2023 as well as concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could affect consumer confidence and the demand for retail spaces.

KEY RATING CONSIDERATIONS

Market leader in retail property in Thailand

We assess CPN's competitive position as the strongest among retail property developers in Thailand. As of December 2020, CPN managed 34 shopping centers, 15 in Bangkok, 18 in provincial areas, and one in Malaysia, as well as retail space under Grand Canal Land PLC (GLAND). CPN held a net leasable area of 1.8 million square meters (sq.m.). CPN's dominant position is attributed to its leading market share of 20% of the nationwide retail space market, with occupancy rates (OR) of above 90% for the past several years.

Proven track record in high-quality asset management

We assess CPN's overall asset quality as good. CPN has a diversified portfolio of income-generating retail properties, sited in good locations, and a diverse and strong tenant base. Each shopping center regularly undergoes renovations and remerchandising 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 brand retailers.

2020 operations hit by two-month closure and rental rate discounts

CPN's operations in 2020 were hard hit by the COVID-19 lockdown measures, particularly the closure of all shopping centers during late-March to mid-May 2020. CPN's total operating revenues for 2020 declined by 24% to THB28.9 billion and its operating profit plummeted by 37% to THB8.4 billion in 2020. CPN offered its tenants a rent waiver during the 2-month lockdown period and discounts on rental fees throughout 2020. The gross profit margin from shopping centers dropped to 48% in 2020 from 50%-52% during 2017-2019. Revenue from food centers shrank by around half to THB0.4 billion in 2020, following the closure of shopping centers. Revenue from hotel operations plunged to THB0.3 billion in 2020, from THB1-THB1.2 billion per annum during 2017-2019, due to closures resulting from COVID-19 and renovations.

Gradual recovery expected in 2021

Although the second wave of COVID-19 infections emerged in Thailand in mid-December 2020, lockdown measures were only imposed in some provincial areas. In Bangkok, certain businesses were subject to restrictions or closures, but these measures were gradually relaxed from mid-January 2021 onwards. Customer traffic for CPN's shopping centers had recovered to 60%-70% in February 2021, from 40%-50% during the second half of December 2020 through the first half of January 2021. We expect that it will take 6-12

months for customer traffic to return to normal.

Due to the second wave of COVID-19 infections and fragile consumer confidence, in our base-case assumption, we believe CPN will continue to provide some discounts on rental fees to its tenants in 2021. Consequently, it might see no growth in rental and service income from shopping centers in 2021. We also assume that if the company continues to provide discounts on rental fees during 2022-2023, rental and service income from shopping centers will be still 5%-10% lower than that of 2019.

In addition, we project CPN to open 1-2 new shopping centers per annum during 2021-2023, increasing its retail space to around two million sq.m. by 2023. We expect CPN to keep its overall contracted OR above 90%. We forecast CPN's total operating revenues to stay at THB28 billion this year, reviving to THB33-THB36 billion annually during 2022-2023. We expect CPN to continue to generate reliable cash flow as approximately 60% of occupied leasable area is rented under fixed rent contracts (three-year and long-term lease contracts). In addition, CPN should continue to control its operating costs efficiently during the uncertain economic recovery. We foresee CPN's earnings before interest, taxes, depreciation, and amortization (EBITDA) (including the sale and sublease of CPN's assets to the real estate investment trust (REIT)) will be in the range of THB22-THB27 billion per annum during 2021-2023. CPN's net profit margin should stay at least 30% throughout the forecast period.

Leverage alleviated by asset sales and subleases to the REIT

We revised down CPN's investment budget during 2021-2023 by 10% from our previous projection to around THB20 billion per annum. We assume that CPN will postpone some investments for 6-12 months as the pandemic lingers. We also take into account CPN's investments in new shopping centers, as well as asset enhancement of existing shopping centers, office buildings, hotels, residences, and other supportive businesses of its own, GLAND, and joint venture projects in our base-case assumptions.

Despite the large capital expenditures needed for business expansion over the next three years, we expect CPN's need for capital to pursue its growth plans will remain moderate. CPN's funding plan includes the sale and sublease of assets to CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) during 2021-2023. Cash received from the sale and sublease of assets will partially alleviate the burden of debt funding. We expect CPN to keep its ratio of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) below 4.5 times during the forecast period. We forecast the ratio of funds from operations (FFO) to total debt to stay in the range of 18%-25%.

Acceptable liquidity profile

We assess CPN's liquidity to be adequate over the next 12 months. As of December 2020, CPN's sources of funds comprised cash on hand of THB7.2 billion and short-term investments of THB2 billion. In addition, CPN also had undrawn short-term and long-term loan facilities of THB18.1 billion. We forecast CPN's FFO over the next 12 months to be THB18 billion, including asset sales to CPNREIT. Debt due over the next 12 months will amount to THB20.2 billion, comprising THB12 billion in short-term obligations, THB6.2 billion in long-term obligations, and THB2 billion in financial lease. We project CPN's capital expenditures to be around THB20 billion in 2021.

The financial covenants on CPN's debentures require the company's net interest-bearing debt to equity ratio (excluding lease liability) to remain below 1.75 times and the total assets (excluding secured debt) to unsecured debt ratio to stay above 1.5 times. As of December 2020, CPN's net interest-bearing debt to equity ratio was 0.5 times and the total assets (excluding secured debt) to unsecured debt ratio was 4.25 times.

BASE-CASE ASSUMPTIONS

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

- There will be no nationwide mall shutdown in 2021.
- Rental and service income from shopping centers in 2021 will equal to 2020 and in 2022-2023 will stay at 5%-10% lower than that in 2019.
- CPN will open 1-2 new shopping centers annually during 2021-2023 and will increase retail space to around 2 million sq.m. by 2023, with overall contracted OR above 90%.
- Capital expenditures for all businesses will be around THB20 billion per annum.
- Total operating revenues will stay at THB28 billion in 2021 and will improve to THB33-THB36 billion annually during 2022-2023.
- CPN will sell and sublease its assets to the CPNREIT in 2021-2023.

RATING OUTLOOK

The “stable” rating outlook reflects TRIS Rating’s expectation that CPN will be able to deliver operating results as targeted despite the challenging business conditions and intense competition among retail property developers. With its strong balance sheet and prudent financial management, CPN should be able to weather the uncertain period of consumer confidence and the recovery of the domestic economy.

RATING SENSITIVITIES

A credit upside for CPN could emerge if its financial profile further strengthens while maintaining a strong business 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 or the debt to EBITDA ratio remains well above 4.5 times for a sustained period.

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 2020, 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 developer 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., 10 office buildings with net leasable area of 317,695 sq.m., two hotels, one apartment, 30 food centers, 12 existing residential projects, and two REITs/property funds.

CPN’s rental and service income from shopping centers constituted 80%-90% of total revenues from sales and services during 2016-2020. Combined revenues from the office and hotel segments contributed 6%-8% during the past five years. Revenues from food centers contributed 2%-6% during the same period. Revenues from residential projects contributed 8% during 2018-2020.

KEY OPERATING PERFORMANCE

Table 1: CPN Property Portfolio

Type of Property	Unit	CPN	GLAND	Total
NLA of retail space	sq.m.	1,806,786	24,854	1,831,640
NLA of office building	sq.m.	172,242	145,453	317,695
Hotel	rooms	561		561

*NLA = Net leasable area
Sources: CPN and GLAND*

Table 2: CPN’s Revenue from Sales and Services

Unit: %

Business	2016	2017	2018	2019	2020
Shopping centers	89.0	88.1	82.9	82.1	83.0
Office buildings	2.4	2.4	3.1	4.6	6.2
Hotels	3.6	3.8	3.6	3.1	1.1
Apartment & others	0.0	0.0	0.0	0.0	0.0
Food & beverages	5.0	5.7	2.2	2.3	1.6
Residential			8.2	7.9	8.1
Total	100.0	100.0	100.0	100.0	100.0
Total revenues from sales and services (Mil. THB)	27,634	28,785	33,728	36,719	27,862

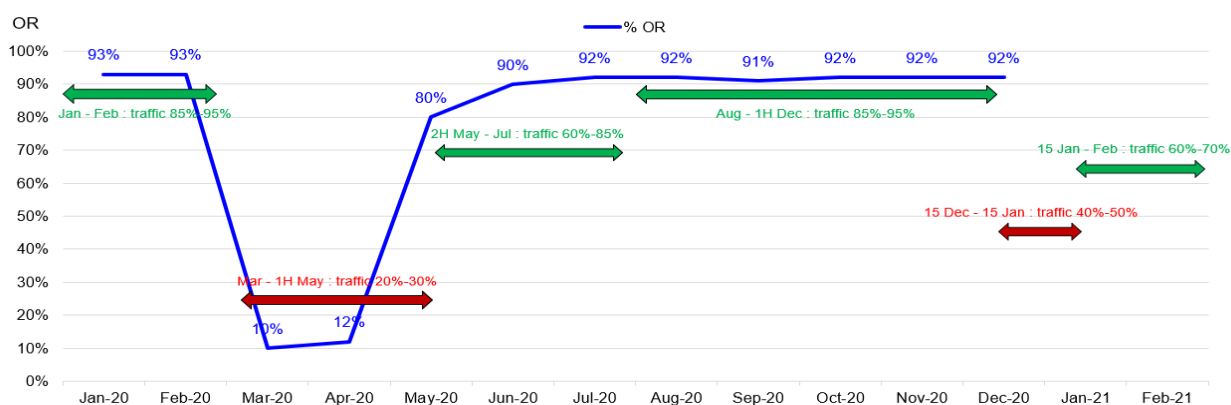
Source: CPN

Table 3: Average Occupancy Rate

Unit: %

Occupancy Rate	2016	2017	2018	2019	2020
Shopping centers/ Retail spaces					
- CPN	93.9	91.8	92.7	92.6	92.0
- GLAND			69.8	68.8	57.9
Office buildings					
- CPN	96.7	94.1	95.5	94.3	90.0
- GLAND			98.3	97.2	91.7
Hotels	82.6	85.9	86.2	76.9	34.0

Sources: CPN and GLAND

Chart 1: Occupancy Rate and Customer Traffic of CPN Shopping Centers


Note: % of traffic compared with the normal traffic level

Source: CPN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Year Ended 31 December				
	2020	2019	2018 **	2017	2016
Total operating revenues	28,924	38,093	35,317	31,094	29,234
Earnings before interest and taxes (EBIT)	9,313	15,381	14,562	13,507	12,747
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	17,219	22,498	20,533	18,760	17,760
Funds from operations (FFO)	13,187	17,406	16,320	15,008	14,006
Adjusted interest expense	1,884	2,756	2,156	1,957	2,067
Capital expenditures	7,179	10,434	9,021	10,568	5,410
Total assets	221,774	169,933	161,708	120,574	104,527
Adjusted debt	86,389	64,436	54,650	32,022	36,554
Adjusted equity	77,123	80,462	74,176	63,880	53,005
Adjusted Ratios					
EBITDA margin (%)	59.53	59.06	58.14	60.33	60.75
Pretax return on permanent capital (%)	5.82	11.00	12.53	13.99	13.93
EBITDA interest coverage (times)	9.14	8.16	9.52	9.59	8.59
Debt to EBITDA (times)	5.02	2.86	2.66	1.71	2.06
FFO to debt (%)	15.26	27.01	29.86	46.87	38.32
Debt to capitalization (%)	52.83	44.47	42.42	33.39	40.82

* Consolidated financial statements

** 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:	
CPN218A: THB1,900 million senior unsecured debentures due 2021	AA
CPN210A: THB300 million senior unsecured debentures due 2021	AA
CPN221A: THB1,000 million senior unsecured debentures due 2022	AA
CPN225A: THB1,500 million senior unsecured debentures due 2022	AA
CPN235A: THB2,000 million senior unsecured debentures due 2023	AA
CPN241A: THB2,000 million senior unsecured debentures due 2024	AA
CPN242A: THB3,000 million senior unsecured debentures due 2024	AA
CPN258A: THB1,000 million senior unsecured debentures due 2025	AA
CPN261A: THB1,250 million senior unsecured debentures due 2026	AA
CPN261B: THB750 million senior unsecured debentures due 2026	AA
Up to THB3,000 million senior unsecured debentures due within 15 years	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-202-098-3000

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