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CPN RETAIL GROWTH LEASEHOLD REIT

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CORPORATES

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

Last Review Date: 21/04/21

Company Rating History:

Date	Rating	Outlook/Alert
22/07/20	AA	Negative
25/05/18	AA	Stable

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RATIONALE

TRIS Rating affirms the company rating on CPN Retail Growth Leasehold REIT (CPNREIT) and the ratings on CPNREIT's existing senior unsecured debentures at "AA", with a "negative" rating outlook. At the same time, we assign the rating of "AA" to CPNREIT's proposed issue of up to THB2.65 billion in senior unsecured debentures. The proceeds from the new debentures are intended to be used to refinance debentures coming due in August 2021.

The ratings on CPNREIT and its debentures reflect the trust's high-quality assets, its predictable cash flow from contract-based rental and service income, and its conservative financial policy. The ratings also take into consideration CPNREIT's adequate liquidity and future growth opportunities, supported by assets from its sponsor, Central Pattana PLC (CPN), rated "AA" with a "negative" CreditAlert by TRIS Rating.

The "negative" outlook reflects the effect of the prolonged Coronavirus Disease 2019 (COVID-19) outbreak which raises concerns over delays in the trust's asset acquisitions and equity injections as well as our expectation of weak operating results for 2021.

KEY RATING CONSIDERATIONS

Largest REIT in Thailand

CPNREIT is the largest real estate investment trust (REIT) in Thailand, with total investment properties worth THB74.6 billion as of March 2021. The trust's leasable area totaled 357,539 square meters (sq.m.), consisting of 245,186 sq.m. from seven shopping centers and 112,353 sq.m. from four office buildings. The average occupancy rate (OR) of the shopping centers was 95% at the end of March 2021, while the average OR of office space decreased to 86% as of March 2021 from 89% at the end of 2019.

Impacts from COVID-19 to continue for prolonged period

We expect the real estate for rent industry in Thailand will continue to be affected by the ongoing COVID-19 pandemic throughout 2021, with high numbers of daily infections, especially from new COVID-19 variants, and a slow pace of vaccination. In addition, the government has imposed lockdown measures in maximum control provinces, including Bangkok and Chonburi, since mid-July 2021. The measures have forced the trust to close nearly all of Central Rama 2, Central Rama 3, Central Pinklao, Central Pattaya, and Central Marina. The trust has provided rental waivers to affected tenants during the closure period. We foresee that the trust may continue to provide either rental waivers, if the closure is extended, or some form of rental discount, if the lockdown measures are eased during the remainder of 2021.

Our base-case forecast assumes the trust will provide average rental discounts of 50%-60% from the 2019 level for shopping centers located in maximum control areas and around 40% discounts for other shopping centers in 2021. Thus, rental and service income from same shopping centers is likely to be 50% below the 2019 level this year. We also project 20% discounts on rental fees for two office buildings situated in the Pinklao area in 2021. As a result, the trust's rental and service income in 2021 is expected to decline by 30% from the 2019 level, to THB3.7 billion. We forecast the trust's earnings before interest, taxes, depreciation, and amortization (EBITDA) to shrink by 40% from the 2019 level, to THB2.5 billion in 2021. However, compared to 2020 figures, we expect the trust's rental and service income for 2021 to decline by 10% and EBITDA to decline by 20%.

Retail property recovery expected in 2022

We foresee the operations of all shopping centers deteriorating in 2021 as a result of the rental discounts provided to tenants. We expect to see signs of a recovery at the beginning of 2022 assuming the outbreak will have abated by late 2021. Once the relaxation of lockdown measures occurs, we believe that customer traffic and spending will gradually rebound. Nonetheless, we still expect the trust to continue providing some discounts on rental rates in 2022. We assume a 5%-10% discount on rental rates for shopping centers located in Bangkok, Chiangmai, and Lampang and a 15% discount for those located in Pattaya. We expect the rental rate to revert to something near the 2019 level in 2023. We project rental and service income from same shopping centers to reach 10% below the 2019 level in 2022 and recover to the 2019 level in 2023.

We forecast that the trust's rental and service income will improve to THB6.5-THB8.0 billion per annum and its EBITDA will soar to THB5.0-THB6.5 billion per annum during 2022-2023, when we believe that the pandemic should have been largely contained and travel restrictions eased. The projected revenue growth in 2022 is partly derived from the contribution of new assets to be acquired in mid-2022.

Expected absence of rental income from hotel asset throughout 2021

The operation of Hilton Pattaya has been weakening following a fall in the number of Chinese tourists since the second half of 2019. Successive waves of COVID-19 outbreaks and slow vaccination rates have hindered plans to ease travel restrictions and reopen the country to foreign travelers. We expect demand for Hilton Pattaya to remain inert throughout 2021. We foresee that hotels situated in tourist destinations outside Bangkok may begin to recover sooner than hotels in the capital, possibly in the first half of 2022, as they rely on both local and foreign travelers rather than solely on foreign tourists.

The adverse operating results of the hotel caused by the prolonged COVID-19 situation have triggered a force majeure clause under the rental agreement between the trust and the sublessee. This has allowed the sublessee to waive the rental fee payment to the trust since late December 2020. The situation continued to trigger the rental fee waiver in the first quarter of 2021. We assume the rental income from hotel to be waived for the entire year of 2021 through the first quarter of 2022. The trust is likely to earn only fixed rental income during the second through the fourth quarters of 2022, as we expect hotel operations to remain weak in 2022. This will also affect the variable portion of the rental fee. We forecast a recovery of the hotel's operations in 2023 by which time the trust should receive a full-year of fixed rental income and some of the variable portion.

Pending assets and capital increase to be executed in 2022

CPN, as a sponsor of the trust, normally adds mature properties with high OR and rental rates to the trust portfolio. Based on the trust's original plan, CPNREIT intended to acquire a bulk of new assets within the first half of 2020, including four shopping centers from CPN and two office buildings from GLAND Office Leasehold Real Estate Investment Trust (GLANDRT), worth THB30.4 billion. The trust aimed to raise funds for the acquisitions using 65% equity and 35% debt. However, the COVID-19 induced risk-off sentiment in the capital market forced the trust to curtail its plans, acquiring only two office buildings from GLANDRT in March 2020 with full debt funding. The trust postponed its acquisition of Central Marina and Central Lampang until February 2021, totally funded by equity. We view that the ongoing COVID-19 pandemic will continue to pressure pending asset acquisitions and the capital increase plan for longer than previously expected.

Our revised base-case scenario assumes the trust will acquire two pending shopping centers worth THB17.3 billion by mid-2022 using both equity and debt. If the acquisitions go ahead as targeted, the trust's leasable area will increase by 51,400 sq.m. and its annual income will be topped up by THB1 billion. The growing size of the quality property portfolio should help boost rental income as well as diversify the trust's sources of cash flow in the future.

Elevated leverage as capital increase is postponed

We view the trust's financial policy to be conservative as it aims to keep its loan-to-fair value of total assets (LTV) ratio, below 35%. However, unfavorable sentiment in the capital market driven by the recent wave of COVID-19 outbreaks has forced the trust to postpone its capital increase for two pending assets. As a result, the trust's LTV ratio (excluding lease liability in loans and assets) stayed at 37% as of March 2021. We expect the LTV ratio to decrease below the trust's policy level of 35% once it acquires the pending assets following fund raising, possibly in mid-2022.

Our base-case scenario assumes an equity injection, totaling THB14 billion, by 2022. The proceeds are expected to be used for the acquisition of two shopping centers from CPN. The LTV ratio should then stay below 35% and the debt to EBITDA ratio should remain below 5 times.

We view the renewal obligation of Central Rama 2, worth THB18.1 billion, to be temporary during the pre-lease period from 2020 to 2025. We expect this obligation will ultimately be financed by 65% equity and 35% debt in 2025 once the lease term is executed.

The financial covenants on CPNREIT's bonds and bank loans require the trust's LTV ratio (excluding lease liability in loans) to remain below 60% and the debt service coverage ratio (DSCR) to stay above 1.2 times. As of March 2021, the trust's LTV ratio (excluding lease liability in loans) was 29% and DSCR was 1.99 times. We expect the trust should have no problem keeping the LTV ratio and DSCR in compliance with the debenture and bank loan covenants.

Adequate liquidity

Although we forecast deteriorating operating results in 2021, we expect the trust will be able to manage its liquidity adequately throughout this difficult period. We forecast funds from operations (FFO) in 2021 to be THB1.8 billion. As of March 2021, CPNREIT's sources of liquidity included cash on hand of THB1 billion and investments in securities worth THB1.1 billion at fair value. The trust also had undrawn committed credit facilities from banks worth THB1.5 billion. Debts due during the remainder of 2021 amounted to THB2.7 billion, comprising THB2.65 billion in debentures and the rest in bank loans. The trust's maturing debts in 2022 comprise bank loans amounting to THB4.2 billion. The trust plans to refinance maturing debentures by new debentures issuances. Bank loans will be either repaid or refinanced by back-up facilities. CPNREIT's liquidity uses include planned capital expenditures for the renovation of Central Rama 2 of THB1.1 billion during 2020-2021 as well as dividend payments of at least 90% of adjusted net investment income. We forecast operating expenses at the REIT level to be THB1.0-THB1.5 billion annually during 2021-2023.

As of March 2021, the trust had THB22.4 billion in debt (per priority debt consideration), including THB15.3 billion in senior unsecured debentures and THB7.1 billion in unsecured bank loans. All debts were unsecured debts with pari passu ranking.

BASE-CASE ASSUMPTIONS

- CPNREIT to provide rental fee discounts of 40%-60% in 2021, from the 2019 level, and 5%-15% in 2022 for shopping centers. Rental fees will revert to near the 2019 level in 2023.
- Rental and service income of the trust to plunge by 30% in 2021, from the 2019 level. We forecast CPNREIT's rental and service income will improve to THB6.5-THB8.0 billion per annum during 2022-2023.
- New asset acquisitions together with fund raising to be executed by mid-2022

RATING OUTLOOK

The "negative" outlook reflects the uncertainty of recovery of CPNREIT's operations amid the ongoing COVID-19 pandemic. A prolonged COVID-19 pandemic raises our concerns over the trust's operating performance and delays in asset acquisitions and equity injections.

RATING SENSITIVITIES

CPNREIT's ratings could be revised downward should the ongoing COVID-19 pandemic evolve in a way that leads us to believe that the trust's operating performance and/or financial profile are heading for a deeper deterioration than expected. On the contrary, CPNREIT's outlook could be revised back to "stable" if the trust's financial leverage improves with the LTV ratio staying below 35% and the debt to EBITDA ratio staying below 5 times on a sustained basis.

COMPANY OVERVIEW

CPNREIT was founded as part of the process to convert CPN Retail Growth Leasehold Property Fund (CPNRF), a property fund, into a real estate investment trust or "REIT". CPNRF was established and listed on the Stock Exchange of Thailand (SET) in 2005. Upon the conversion in December 2017, CPNREIT acquired CPNRF's entire property portfolio, including Central Rama 2, Central Rama 3, Central Pinklao, Central Chiangmai Airport, and two office buildings of Central Pinklao. At the same time, CPNREIT invested in Central Pattaya and Hilton Pattaya. The trust acquired two office buildings, The 9th Towers and Unilever House, from GLANDRT in March 2020 and also invested in Central Marina and Central Lampang in February 2021. As of May 2021, CPN was the trust's largest unit holder with a 30.28% stake.

The property portfolio of the trust currently comprises seven shopping centers, with net leasable area (NLA) of 245,186 sq.m., four office buildings, with NLA of 112,353 sq.m., and one hotel, with 304 rooms. The assets are located in Bangkok, Chiangmai, Chonburi, and Lampang provinces. CPN REIT Management Co., Ltd., a wholly-owned subsidiary of CPN, acts as the REIT manager of the trust. CPN is the property manager of assets acquired from itself. Grand Canal Land PLC (GLAND) is the property manager of The 9th Towers, and Sterling Equity Co., Ltd., a wholly-owned subsidiary of GLAND, is the property manager of Unilever House. The trust subleases the hotel to CPN Pattaya Hotel Co., Ltd., a subsidiary of CPN, as a special purpose vehicle (SPV). Hilton Hotels and Resorts acts as the hotel manager.

The trust's rental and service income reached THB5 billion per annum during 2018-2019, before decreasing by 21% y-o-y to THB4 billion in 2020. Its rental and service income dropped by 13% y-o-y to THB1 billion in the first three months of 2021.

KEY OPERATING PERFORMANCE

Table 1: CPNREIT's Property Portfolio

	Central Rama 2	**Central Rama 3**	**Central Pinklao**	**Central Chiangmai Airport**	**Central Pattaya**	**Central Marina**	**Central Lampang**
Type	Shopping center	Shopping center	Shopping center	Shopping center	Shopping center	Shopping center	Shopping center
Location	Bangkok	Bangkok	Bangkok	Chiangmai	Chonburi	Chonburi	Lampang
Net leasable area (sq.m.)	83,453	36,476	27,689	37,405	29,388	14,695	16,080
OR (%) (as of 31 Mar 2021)	95.1	93.6	99.8	97.2	92.3	93.7	94.3
Investment at fair value (Mil. THB) (as of 31 Mar 2021)	24,578	11,888	4,226 (incl. office buildings)	10,287	7,145	2,635	3,260
Remaining leasehold period (years)	4	14+30+30	4	23	16	14	21

	Office Tower A at Pinklao	**Office Tower B at Pinklao**	**The 9th Towers**	**Unilever House**	**Hilton Pattaya**
Type	Office	Office	Office	Office	Hotel
Location	Bangkok	Bangkok	Bangkok	Bangkok	Chonburi
Net leasable area (sq.m.)	22,762	11,627	59,437	18,527	304 rooms
OR (%) (as of 31 Mar 2021)	81.4	90.1	81.7	100.0	19.7
Investment at fair value (Mil. THB) (as of 31 Mar 2021)			5,704	1,347	3,546
Remaining leasehold period (years)	4	4	26	14	16

Source: CPNREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2021		---------------Year Ended 31 December 2020	2019	2018	2017-----------
Total operating revenues	1,024		4,062	5,131	4,923	3,522
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	692		3,012	4,208	3,984	2,825
Funds from operations (FFO)	525		2,420	3,704	3,581	2,727
Adjusted interest expense	166		592	505	403	98
Investments in leasehold properties at fair value	74,617		68,270	44,472	44,750	44,310
Total assets	78,022		71,577	46,687	46,850	47,056
Adjusted net debt (excluding lease liability)	20,762		21,068	13,367	13,441	12,695
Lease liability	18,095		17,727	-	-	-
Adjusted equity	34,409		28,044	29,701	29,995	29,462
Adjusted Ratios						
EBITDA margin (%)	67.53		74.14	82.02	80.92	80.20
Pretax return on permanent capital (%)	5.07	**	6.32	9.47	9.00	7.44
EBITDA interest coverage (times)	4.16		5.09	8.34	9.88	28.97
Debt to EBITDA (times)	7.49	**	6.99	3.18	3.37	4.49
FFO to debt (%)	10.33	**	11.49	27.71	26.64	21.48
Debt to capitalization (%)	37.63		42.90	31.04	30.94	30.11
Loan to fair value of total assets (%) (according to bond covenants)	28.80		32.18	31.11	30.95	30.72
Loan to fair value of total assets (%) (excluding lease liability from loan and total assets)	37.49		42.78	31.11	30.95	30.72

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

RELATED CRITERIA

- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

CPN Retail Growth Leasehold REIT (CPNREIT)

Company Rating:	AA
Issue Ratings:	
CPNREIT218A: THB2,650 million senior unsecured debentures due 2021	AA
CPNREIT232A: THB1,795 million senior unsecured debentures due 2023	AA
CPNREIT243A: THB2,000 million senior unsecured debentures due 2024	AA
CPNREIT263A: THB1,500 million senior unsecured debentures due 2026	AA
CPNREIT288A: THB7,390 million senior unsecured debentures due 2028	AA
Up to THB2,650 million senior unsecured debentures due within 10 years	AA
Rating Outlook:	Negative

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