

FRASERS PROPERTY (THAILAND) PLC

No. 186/2022
20 October 2022

CORPORATES

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

Last Review Date: 15/06/22

Company Rating History:

Date	Rating	Outlook/Alert
14/10/21	A	Stable
17/09/19	A-	Stable
01/03/19	A	Alert Negative
25/05/17	A	Stable
27/04/16	A-	Stable
07/05/15	A	Negative
02/05/12	A	Stable
14/10/11	A	Alert Negative
21/11/05	A	Stable

Contacts:

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Jutamas Bunyawanichkul
jutamas_b@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Frasers Property (Thailand) PLC (FPT) and the ratings on FPT's existing senior unsecured debentures at "A", with a "stable" rating outlook. At the same time, we assign the rating of "A" to FPT's proposed issue of up to THB5 billion in senior unsecured debentures. The proceeds from the new debentures will be used for debt repayments and/or working capital.

The company rating incorporates a rating enhancement by three notches from its stand-alone credit profile (SACP) to reflect the company's status as a "strategically important" member of Frasers Property Ltd. (FPL, rated "AA-/Negative" by TRIS Rating), a multinational property development company listed on the Singapore Stock Exchange. We view that FPT remains a strategically important member of FPL and an investment arm of FPL's real estate business in Thailand. FPT's earnings before interest, taxes, depreciation, and amortization (EBITDA) contribute around 16% of FPL's total EBITDA.

FPT's SACP of "bbb" reflects its diversified real estate business portfolio, its solid industrial estate for rent business, its growing brand recognition in the residential property market, and its high financial leverage. The SACP also incorporates our concerns over high household debt and rising inflation which could pose a challenge for the company's residential property business.

KEY RATING CONSIDERATIONS

Diversified real estate business portfolio

In our view, FPT's diversified real estate business portfolio continues to support its business profile. The acquisition of Golden Land Property Development PLC (GOLD) in 2019 helped enlarge and diversify FPT's portfolio through residential property for sale, commercial property for rent, and the hospitality business. Prior to the acquisition, FPT's business focused solely on industrial factories and warehouses for rent.

Our base-case forecast projects FPT's total operating revenue to range from THB15-THB18 billion during fiscal year 2022-2024 (FY2022-FY2024). Total operating revenue is expected to remain flat in FY2022. Nonetheless, a gradual recovery of FPT's business lines should support revenue growth in FY2023-FY2024. We expect the residential property business to remain the main source of revenue, contributing around 80% of total operating revenue over the next three years. The revenue contributions from industrial estate rentals and from office buildings and hotels are expected to be around 12% and 6%, respectively. The company's EBITDA margin will likely sustain above 30% and the net profit margin above 10% throughout the forecast period.

Real estate sales pressured by challenging operating environment

We expect FPT's real estate sales to remain pressured by high levels of household debt and rising inflation, which are likely to drive up development and funding costs while eroding the purchasing power of homebuyers. In our base case forecast, we expect FPT's revenue from real estate sales to remain flat in FY2022 and gradually improve by 6%-10% per annum over the following two years with the revenue ranging from THB11-THB13 billion in FY2022-FY2024.

Our base-case forecast assumes new project launches worth THB17-THB22 billion per annum. As of June 2022, FPT's backlog stood at THB1.9 billion, all of

which is expected to be recognized as revenue in FY2022. We also expect FPT's gross profit margin from sales of residential properties to recover to around 31%-32% from below 30% in the past two years.

Industrial estate for rent business to remain solid

We expect FPT to continue to expand its industrial property for rent business over the next three years. Our base-case forecast assumes new builds of 150,000-250,000 square meters (sq.m.) per annum during FY2022-FY2024, around 90% of which are expected to be built-to-suit warehouses. We anticipate FPT's own leasable area to stay around 1.2-1.4 million sq.m. over the next three years, a slight increase from around 1.0 million sq.m. in FY2019-FY2020. We also expect the company to reduce the leasable areas sold to Frasers Property Thailand Industrial Freehold and Leasehold Real Estate Investment Trust (FTREIT) over the forecast period. Therefore, the proceeds from asset sales will only be THB1.0-THB1.7 billion per annum in FY2022-FY2024, a decrease from THB2-THB3 billion per annum in FY2019-FY2020.

Looking ahead, we expect FPT's warehouse occupancy rate to hover around 80%-85% with a net increase in leased areas of 140,000-240,000 sq.m. per year during FY2022-FY2024. Intense competition in the warehouse for rent business from both existing operators and new market entrants remains a challenge amidst increasing demand from e-commerce business expansions and supply chain disruptions. Factory occupancy rates are expected to stay around 60%-70% over the next three years with a net increase in leased factory areas of 20,000-40,000 sq.m. per annum. The factory for rent business is likely to benefit from manufacturing relocation induced by geopolitical disruptions. We anticipate FPT's rental income from industrial properties to be around THB1.7-THB2.1 billion per annum during FY2022-FY2024 with income from warehouses for rent to contribute around 80% of total rental income from industrial estates over the forecast period.

Gradual recovery of hospitality business while demand for office rentals may soften

We expect FPT's hospitality business to continue to recover thanks to pent-up demand and the easing of travel restrictions around the world. For the first nine months of 2022, the company's revenue from the hotel business increased to THB216 million, from THB119 million in the same period last year. We expect the occupancy rate of each of its hotels to gradually improve over the next three years, reverting to the pre-pandemic level by FY2025. We also expect the average room rate of each of its properties to remain at 20%-30% below the 2019 level over the next two years but to gradually revive to the normal level by 2025. Our base case projects revenues from hotel operations to range from THB300-THB400 million per annum in FY2022-FY2024 with the gross profit margin returning to the pre-pandemic level by 2025.

We expect FPT's office rentals to remain affected to a certain degree by sluggish demand for office space caused by the hybrid working model. In addition, the influx of new supply expected in 2023-2024 could pressure rental rates. Thus, we expect the rental rate of FYI Center to stay flat while the occupancy rate could slightly soften but should stay above 90% over the forecast period. Office rental income from FPT's new office building "Silom Edge" should also support the company's rental revenue base, replacing its "Golden Land Building", whose lease contract expired in August 2022. Our base-case forecast projects office rental revenue to range from THB500-THB600 million per annum during FY2022-FY2024.

High financial leverage

We expect FPT's leverage to remain relatively high due to expected continuous business expansion and gradual recovery of operating results. As of June 2022, FPT's adjusted debt (including guarantees on its joint ventures' debts) to capitalization ratio stood at around 60%. Looking ahead, its debt to capitalization ratio is expected to maintain at around this level over the next 2-3 years. Smaller proceeds from asset recycling are also expected to be available as an additional funding source. The adjusted debt to EBITDA ratio is, therefore, expected to stay around 10-11 times in FY2022-FY2024. The ratio of its funds from operations (FFO) to adjusted debt is expected to be around 6% over the forecast period. This is based on our assumptions that capital expenditure for the residential property business will be around THB8-THB10 billion per annum while investment in the industrial estate business to be around THB2.5-3.5 billion per annum over the forecast period.

The financial covenants on FPT's debentures require maintenance of an interest-bearing debt (excluding lease liability) to equity ratio below 3 times. As of June 2022, the ratio was 1.4 times. We believe FPT should have no problems complying with the financial covenants over the next 12 to 18 months. FPT's priority debt to total debt ratio was 30% at the end of June 2022.

Adequate liquidity

We assess FPT to have adequate liquidity over the next 12 months. As of June 2022, the company had maturing debt over the next 12 months totaling THB21.3 billion, comprising THB11.3 billion of debentures, THB8.6 billion of short-term loans, THB1.2 billion of long-term project loans, and THB0.2 billion in lease liability. As of June 2022, FPT's sources of funds included THB1.0 billion of cash on hand, THB5.4 billion of undrawn committed credit facilities, and THB3.3 billion of undrawn uncommitted credit facilities. FPT also had unencumbered land banks at book value of THB11.6 billion and remaining finished units in debt-free residential projects totaling THB3.5 billion. FFO is expected to be around THB3.1-THB3.5 billion per annum.

BASE-CASE ASSUMPTIONS

These are the key assumptions in our base case forecast for FPT's operations during FY2022-FY2024:

- FPT to launch new residential projects worth THB17-THB22 billion per annum.
- Budget for land acquisition for residential projects to be THB3.5-THB5.0 billion.
- Capital expenditure for industrial properties to be THB2.5-THB3.5 billion per annum.
- Capital expenditure for commercial properties to be THB2.2 billion in FY2022 and around THB200 million in FY2023.
- Total operating revenue to range from THB15-THB18 billion per annum.
- EBITDA margin to remain above 30% and net profit margin above 10%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that FPT should be able to maintain its market position and deliver operating performance as targeted and will keep its FFO to total debt ratio above 5%. We also expect FPT to remain a strategically important member of FPL.

RATING SENSITIVITIES

A credit upside would materialize if FPT delivers significantly better-than-expected operating results and/or its financial profile improves with a FFO to adjusted debt ratio of around 10% for a sustained period. On the contrary, FPT's ratings and/or outlook could be revised downward if we expect the company's FFO to adjusted debt ratio to fall below 5% for a prolonged period, either from weakening operating performance or aggressive debt-funded business expansion. A change in the company's linkage with FPL could also lead to a change in the company rating on FPT.

COMPANY OVERVIEW

FPT, formerly known as TICON Industrial Connection PLC (TICON), was incorporated in 1990 and listed on the Stock Exchange of Thailand (SET) in 2002. The Frasers Property Group, a multinational company that develops, owns, and manages a diverse portfolio of properties, acquired a majority share in TICON in early 2017. TICON was subsequently renamed FPT. As of June 2022, the Frasers Property Group held an 81.83% stake in FPT.

In early 2019, FPT announced a voluntary tender offer for all securities of GOLD. The acquisition was completed in early 2020 and FPT became a major shareholder of GOLD with a 99.48% shareholding. Since the acquisition, FPT's business portfolio has covered residential properties for sale, industrial properties for rent (including factories and warehouses in Thailand, Indonesia and Vietnam), and commercial properties for rent (including offices, hotels, and serviced apartments). In addition, FPT has entered several joint ventures (JVs) with its partners to develop several projects such as industrial properties in Thailand, a mixed-use project located on Bangna-Trad Road, data centers, and co-working space.

FPT's revenue from residential properties for sale contributed around 80% of total operating revenue during FY2018 through the first nine months of FY2022. The revenue contributions from industrial properties and commercial properties for rent were 10% and 5%-6%, respectively. Revenue from other businesses remained negligible.

KEY OPERATING PERFORMANCE

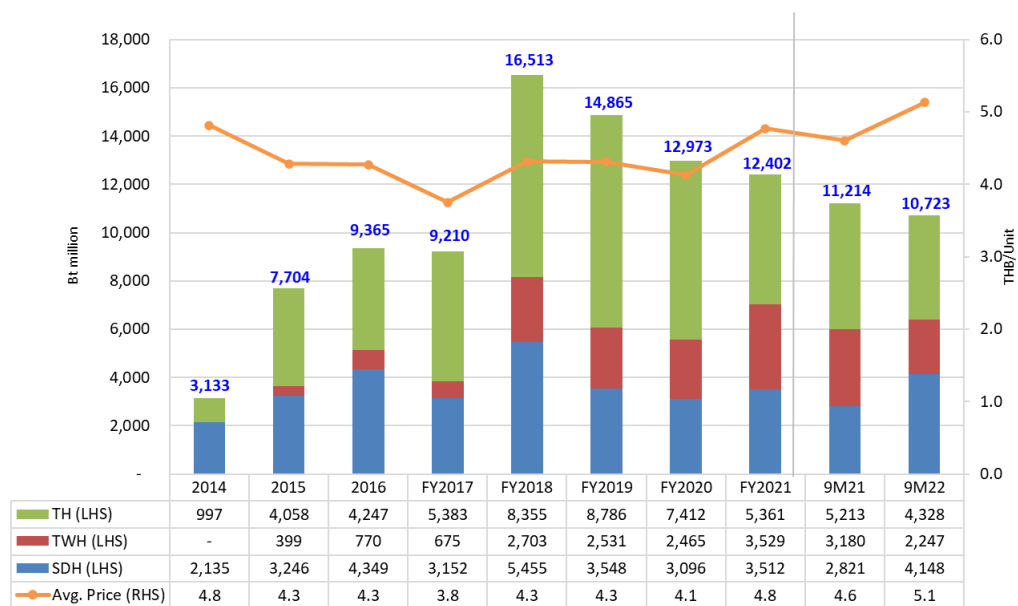
Table 1: Revenue Contribution by Business

Unit: % of total operating revenue

Revenue Contribution	2017	FY2018	FY2019	FY2020	FY2021	Oct 2021- Jun 2022
Residential sales		78	79	78	77	77
Industrial estate sales	10					
Industrial estate for rent	69	9	9	9	10	11
Office building for rent		5	5	5	4	4
Hotel operation		3	3	2	1	2
Management fee income		3	3	3	5	5
Other rental and services income	6	1		1	1	1
Other operating revenues	15	1	1	2	2	1
Total operating revenues	100	100	100	100	100	100
Total operating revenues (mil. THB)	1,977	13,127	19,598	18,686	14,766	11,049

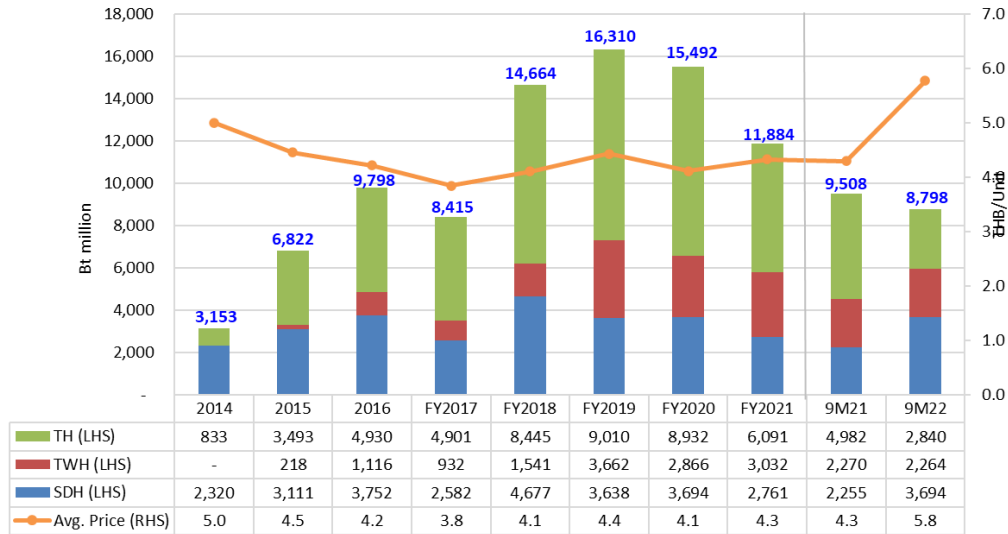
Source: FPT

Chart 1: Presales Performance



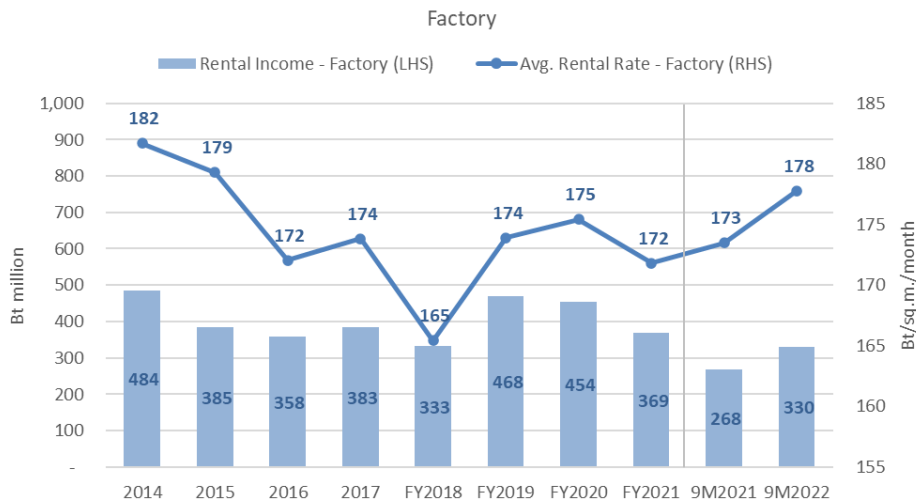
Source: FPT

Chart 2: Transfer Performance



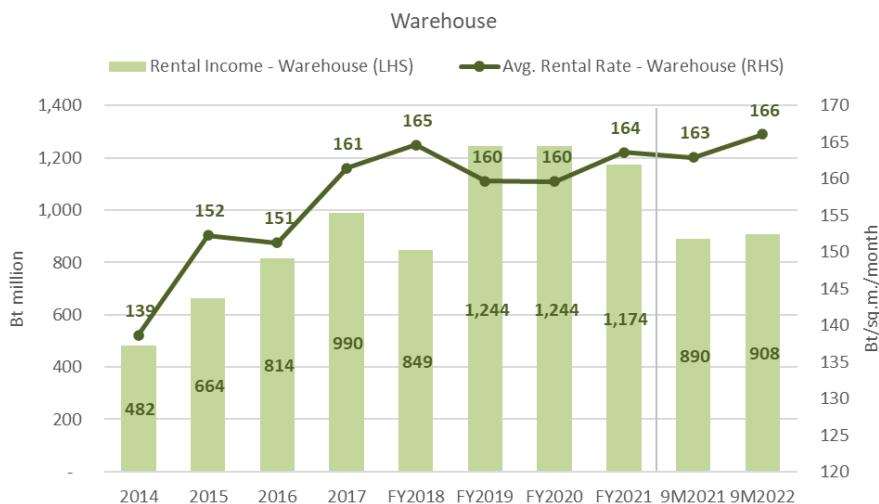
Source: FPT

Chart 3: Average Rental Rate and Rental Income of Factories



Source: FPT

Chart 4: Average Rental Rate and Rental Income of Warehouses



Source: FPT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 30 September-----				
	Oct 2021- Jun 2022	FY2021	FY2020	FY2019	FY2018
Total operating revenues	11,049	14,766	18,686	19,598	13,127
Earnings before interest and taxes (EBIT)	2,539	3,201	4,339	5,069	2,969
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,818	5,224	6,331	6,962	4,228
Funds from operations (FFO)	2,345	3,313	3,741	4,749	3,022
Adjusted interest expense	1,122	1,469	1,868	1,318	692
Real estate development investments	33,399	32,356	32,878	31,078	23,512
Investment properties	40,849	36,311	34,364	35,690	35,622
Total assets	98,707	92,637	93,186	92,363	82,650
Adjusted debt	54,876	51,248	48,729	48,861	22,296
Adjusted equity	35,843	34,253	32,133	27,870	41,397
Adjusted Ratios					
EBITDA margin (%)	34.56	35.38	33.88	35.52	32.21
Pretax return on permanent capital (%)	3.43 **	3.77	5.27	6.66	5.42
EBITDA interest coverage (times)	3.40	3.56	3.39	5.28	6.11
Debt to EBITDA (times)	10.84 **	9.81	7.70	7.02	5.27
FFO to debt (%)	5.63 **	6.47	7.68	9.72	13.55
Debt to capitalization (%)	60.49	59.94	60.26	63.68	35.01

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Frasers Property (Thailand) PLC (FPT)

Company Rating:	A
Issue Ratings:	
TICON233A: THB2,500 million senior unsecured debentures due 2023	A
TICON235A: THB2,300 million senior unsecured debentures due 2023	A
TICON238A: THB700 million senior unsecured debentures due 2023	A
TICON283A: THB1,000 million senior unsecured debentures due 2028	A
FPT231A: THB500 million senior unsecured debentures due 2023	A
FPT237A: THB1,000 million senior unsecured debentures due 2023	A
FPT242A: THB500 million senior unsecured debentures due 2024	A
FPT251A: THB1,800 million senior unsecured debentures due 2025	A
FPT256A: THB1,000 million senior unsecured debentures due 2025	A
FPT271A: THB500 million senior unsecured debentures due 2027	A
FPT275A: THB500 million senior unsecured debentures due 2027	A
FPT276A: THB2,000 million senior unsecured debentures due 2027	A
FPT292A: THB200 million senior unsecured debentures due 2029	A
FPT301A: THB1,200 million senior unsecured debentures due 2030	A
FPT305A: THB500 million senior unsecured debentures due 2030	A
Up to THB5,000 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria