

FRASERS PROPERTY (THAILAND) PLC

No. 169/2020
16 October 2020

CORPORATES

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

Last Review Date: 15/04/20

Company Rating History:

Date	Rating	Outlook/Alert
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:

Jutamas Bunyawanichkul

jutamas@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Hattayanee Pitakpatapee

hattayanee@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 senior unsecured debentures at "A-" with a "stable" outlook. The ratings reflect FPT's leading position as an integrated property development company, its growing brand recognition and revenue in the residential property market, and proven track record in ready-built factories (RBFs) and warehouses for rent. The ratings also take into consideration FPT's status as a strategically important member of Frasers Property Ltd. (FPL), a multinational property development company listed on the Singapore Stock Exchange.

However, the ratings are constrained by FPT's rising financial leverage as a result of the large debt-funded acquisition of a 99.44% stake in Golden Land Property PLC (GOLD), coupled with concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the residential property and hotel businesses in the short to medium term.

KEY RATING CONSIDERATIONS

Larger business scale and more diversified property portfolio

We hold the view that the acquisition of GOLD will help enlarge and diversify FPT's business portfolio. FPT's former business concentrated solely on industrial factories and warehouses for rent. The inclusion of residential property for sale, commercial, and hospitality businesses should help diversify its portfolio and mitigate earnings volatility during the down cycles of some businesses. In the first nine months of fiscal year (FY) 2020, the revenue contribution from the residential property business accounted for 79% of total operating revenues, followed by revenues from warehouse and RBFs (9%), and from other commercial properties (7%).

After consolidating GOLD, FPT's total operating revenue was boosted to THB19.6 billion in FY2019 from THB1.8-THB2 billion per annum during 2016-2017. Its earnings before interest, tax, depreciation, and amortization (EBITDA) soared to THB6 billion in FY2019, from THB1-THB3 billion annually during 2012-2017. Under our base case forecast, FPT's total operating revenue is expected to be THB17-THB21 billion annually during FY2020-FY2023. In the same period, its EBITDA margin is expected to stay in the 25%-30% range while its net profit margin should be maintained at around 10%.

Growing brand recognition and revenue in residential property market

We view that FPT's brand recognition in landed property segment, developed by GOLD, has strengthened during the past five years. Residential sales climbed to THB15.5 billion in FY2019 from THB7-THB9 billion per annum during 2015-FY2017. Despite the COVID-19 outbreak, FPT's residential sales dropped only slightly, by 5% y-o-y to THB11 billion during the first nine months of FY2020. Townhouses are the major product, contributing around 60% of residential sales during FY2017 through the first nine months of FY2020.

In our base-case forecast, we project FPT's residential sales to be THB14-THB18 billion per annum during FY2020-FY2023 based on its plan to launch new projects worth around THB15-THB20 billion per annum. We expect residential properties for sale to contribute 80%-85% of the company's total operating revenue over the forecast periods.

Proven track record in RBFs and warehouses for rent

We assess FPT's track record in RBFs and warehouses for rent to be acceptable. Its rental income grew to THB1.7 billion in FY2019 from THB1.4 billion in 2017 and THB1 billion in 2015. FPT's rental income was THB1.3 billion during the first nine months of FY2020. Around 70% of the rental income came from warehouses, while RBFs accounted for the rest. In the past, the company also earned revenues of THB3-THB4 billion from selling factory and warehouse rental space to the real estate investment trusts (REITs) from time to time. In the future, the company plans to sell its rental space to the REITs on a regular basis.

As of June 2020, FPT's industrial property portfolio included 361,185 square metres (sq.m.) of leasable factory area and 702,323 sq.m. of leasable warehouse area. Most of its factories and warehouses are located across three strategic industrial locations in Thailand, including the Eastern Economic Corridor (EEC), Eastern Bangkok, and Northern Bangkok. FPT's tenants are engaged in various sectors, ranging from logistics to automotive, electronics and electrical, and retail. The average occupancy rate (OR) of RBFs and warehouses was 63% and 87%, respectively. FPT's future secured leased area was 135,453 sq.m., which will be delivered to tenants during the fourth quarter of FY2020 through FY2021.

Going forward, we expect a net increase in FPT's leased area of RBFs and warehouses of 160,000-200,000 sq.m. per annum over the next three years. Due to the economic fallout from the COVID-19, ORs for RBFs and warehouses might decline to 50%-70% during FY2021-FY2023. We forecast rental income from industrial estates to range from THB1.4-THB1.5 billion annually and revenue from sales of assets to REITs of THB3-THB4 billion per annum.

Offices for rent less affected by COVID-19 than hotels

FPT's existing commercial properties for rent comprise three office buildings: "Sathorn Square", "FYI Center", and "Golden Land Building", and three hotels: "Mayfair Marriott", "The Ascott Sathorn", and "Modena". Its office buildings and hotels generated income of THB1 billion and THB0.5 billion per annum, respectively, during FY2018-FY2019. The office buildings had an average OR above 90% and an average rental rate of THB550-THB850 per sq.m. per month during FY2018 through the first nine months of FY2020. The OR and average room rate (ARR) of hotels have been severely affected by the COVID-19 since the beginning of 2020. Thus, rental income from hotels declined by 31% year-on-year (y-o-y) to THB0.29 billion during the first nine months of FY2020.

In our base-case scenario, we assume the OR of office buildings will remain above 90% with flat rental rate growth. We expect rental income from office buildings to stay around THB1 billion in FY2020, before decreasing to THB0.5-THB0.6 billion per annum during FY2021-FY2023. The decrease is due to the absence of unearned income amortization of Sathorn Square in FY2021 as a result of a change in accounting practices, and the expiration of leasehold rights on Golden Land Building in September 2022. For hotel operations, we project the OR of each hotel to remain low at 30%-50% during FY2020-FY2021, and gradually improve to 50%-70% during FY2022-FY2023. The ARR growth is forecast to turn negative in FY2020 then gradually increase by 3% per annum during FY2022-FY2023. Thus, we forecast that the income from hotel operations will range from THB0.25-THB0.3 billion per annum during FY2020-FY2021 and improve to THB0.4 billion per annum during FY2022-FY2023.

A prolonged COVID-19 outbreak to hurt profitability of residential property business

The residential property market closely follows trends in the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of the COVID-19 could cause a severe economic downturn and further suppress market demand. In addition, the number of non-performing mortgage loans (NPL) could rise further. The weakening purchasing power of homebuyers and stringent bank lending policies have been the key factors affecting the demand for residential properties, especially from buyers in the middle- to low-income segments which are FPT's target customers. Thus, the company needs to be more cautious in launching new projects.

Due to softening demand in the condominium segment from both local and foreign homebuyers, we foresee that several property developers will launch more landed property projects during the next few years. TRIS Rating forecasts that FPT's profitability could be pressured by more intense competition and rising land costs in the landed property segment. In any case, the average gross profit margin of the company's residential property business may decrease to 27%-31% during FY2020-FY2023, from above 31% during the past five years.

Elevated financial leverage

FPT's leverage rose sharply following the acquisition of GOLD. The large debt-funded acquisition pushed FPT's debt to capitalization ratio to 64% as of September 2019 and 67% as of June 2020, from 34% as of September 2018. The ratio of funds from operations (FFO) to total debt weakened to 8% in FY2019 and 4% in the first nine months of FY2020. Going forward, we expect the company to launch new residential projects worth THB15-THB20 billion per annum and spend THB5-

THB6 billion annually to purchase land plots during FY2020-FY2023. FPT's investment in the industrial estate business is projected to be THB2-THB3 billion per annum.

Based on the company's growth plan, we expect FPT's debt to capitalization ratio to stay at around 60% and the FFO to total debt ratio to be in the range of 5%-10% during FY2020-FY2023. We expect the company's net debt to EBITDA ratio not to exceed 8 times to maintain its ratings at the current level. FPT's recent capital increase of THB3.2 billion in July 2020 and asset sales worth THB2.8 billion to Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT) in September 2020 will help alleviate the strain on its capital. Going forward, FPT's plan to recycle its capital by regularly selling its assets to the REITs should also help keep its leverage at the target level.

Adequate liquidity

We assess FPT's liquidity to be adequate for the next 12 months. FPT's scheduled debt repayments over the next 12 months amount to THB17.3 billion, comprising THB9.1 billion in debentures, THB6.1 billion in short-term bills of exchange (B/Es) and promissory notes (P/Ns), and THB2.1 billion in long-term project loans. FPT's sources of funds (on a consolidated basis) consisted of THB4.2 billion in cash on hand plus undrawn committed credit facilities for project loans of THB3.6 billion and undrawn credit facilities for short-term loans of THB7.7 billion. FFO over the next 12 months is forecast at THB2.5 billion.

FPT plans to refinance some maturing bonds by new bond issuance. Its short-term B/Es and P/Ns will be converted to long-term project loans, rolled over, and/or repaid within the next 12 months. Project loans will be repaid by cash flow from each project. The financial covenants on its debentures require maintenance of its interest-bearing debt to equity ratio below 3 times. As of June 2020, the ratio was 1.93 times. We believe that FPT should have no problems complying with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in our base case forecast for FPT's operations during FY2020-FY2023:

- FPT to launch new residential projects worth THB15-THB20 billion per annum.
- Budget for land acquisition for residential projects is forecast to be THB5-THB6 billion per annum.
- Capital expenditures for industrial estates are forecast to be THB2-THB3 billion per annum.
- Total operating revenue to stay at THB17-THB21 billion per annum.
- Average EBITDA margin to stay at 25%-30% of total operating revenue and net profit margin to stay at 10%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that FPT will be able to sustain its competitive position and diversified property portfolio. The outlook also takes into account our expectation that FPT will successfully integrate GOLD and continue to deliver sound operating performance. We also expect FPT to keep the FFO to total debt ratio in the range of 5%-10%, and remain a strategically important member of FPL.

RATING SENSITIVITIES

A credit upside would materialize if FPT delivers significantly better-than-expected operating performance and improves its financial profile to the same level as its higher-rated peers, such that the debt to capitalization ratio stays below 50% and the net debt to EBITDA ratio stays below 5 times, for a sustained period. On the contrary, a downgrade scenario could emerge if FPT's operating performance and/or financial profile is materially weaker than our base case forecast, such that the FFO to total debt ratio stays below 5% or the net debt to EBITDA ratio stays higher than 8 times for a sustained period. Also, a material adverse change in the relation with FPL could lead to a downgrade scenario.

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, integrated portfolio of properties, acquired a majority share in TICON in early 2017. TICON was subsequently renamed FPT. As of July 2020, the Frasers Property Group held an 81.62% 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 99.44% shareholding. After the acquisition, FPT's business portfolio covers residential properties for sale, industrial properties for rent (including factories and warehouses), and commercial properties for rent (including offices, hotels, and serviced apartments). In addition, FPT has entered into several joint ventures (JVs) with its partners to develop industrial properties in Thailand, industrial properties in Indonesia, property

projects in Vietnam, a mixed-use project located on Bangna-Trad road, data centers, co-working space, solar energy, as well as automation and robotic systems.

FPT's revenue contribution from residential properties for sale amounted to around 80% of total operating revenues during FY2018 through the first nine months of FY2020. The revenue contributions from industrial properties and commercial properties for rent constituted 9% and 7%, respectively. Revenue from other businesses remained negligible.

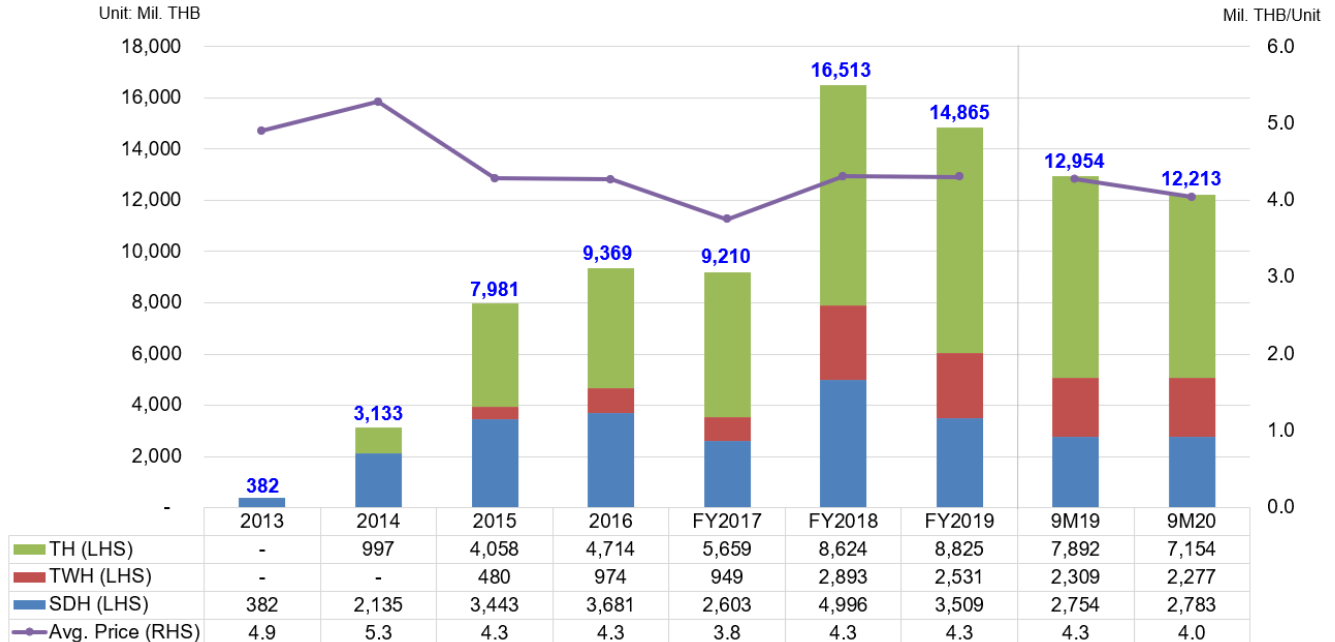
KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Business

Revenue Contribution	2016	2017	FY2018	FY2019	Oct 2019- Jun 2020
Residential sales			78	79	79
Industrial estate sales	14	10			
Industrial estate for rent	67	69	9	9	9
Office building for rent			5	5	5
Hotel operation			3	3	2
Management fee income			3	3	3
Other rental and services income	4	6	1		1
Other operating revenues	15	15	1	1	1
Total operating revenues	100	100	100	100	100
Total operating revenues (Mil. THB)	1,762	1,977	13,127	19,572	13,993

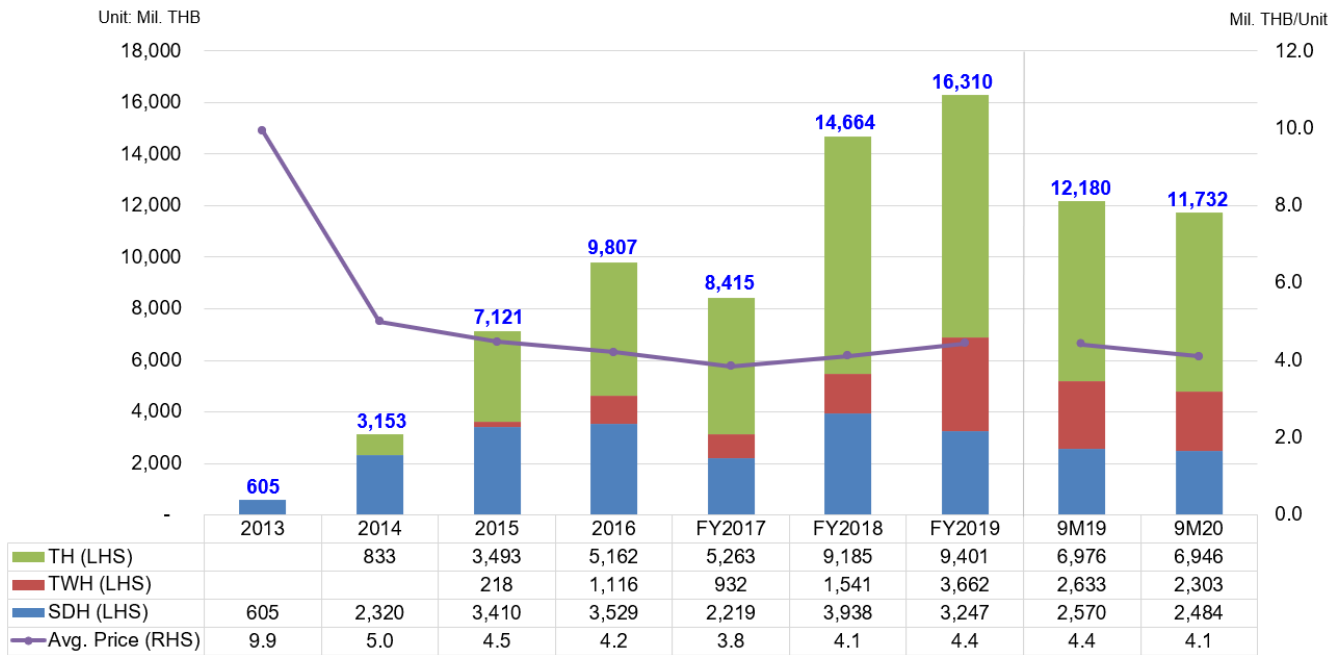
Source: FPT

Chart 1: Residential Presales Performance



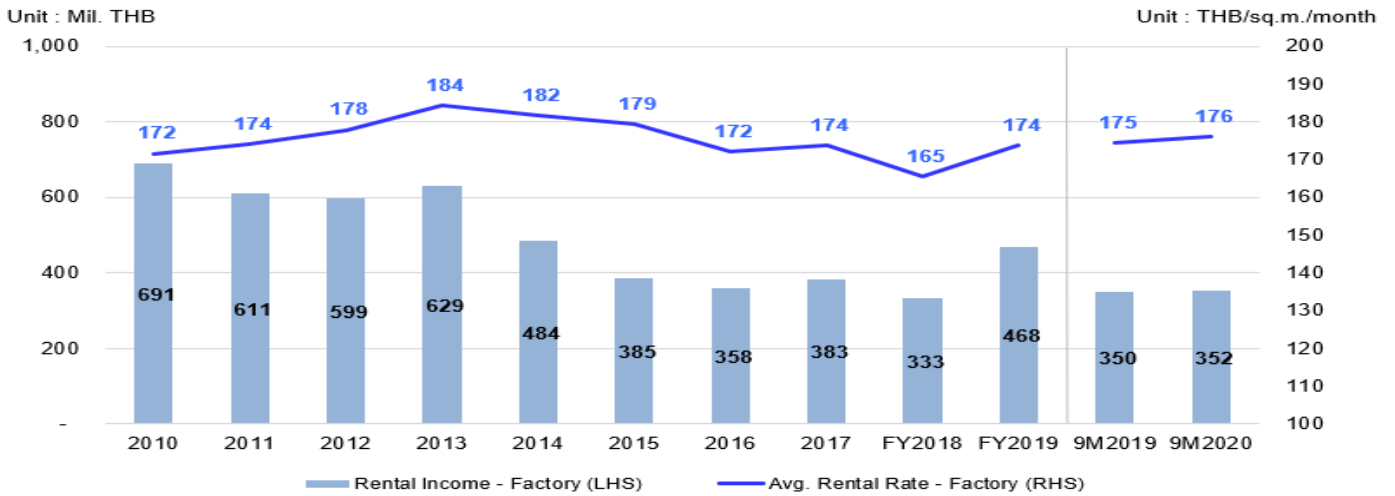
Source: FPT

Chart 2: Residential Transfer Performance

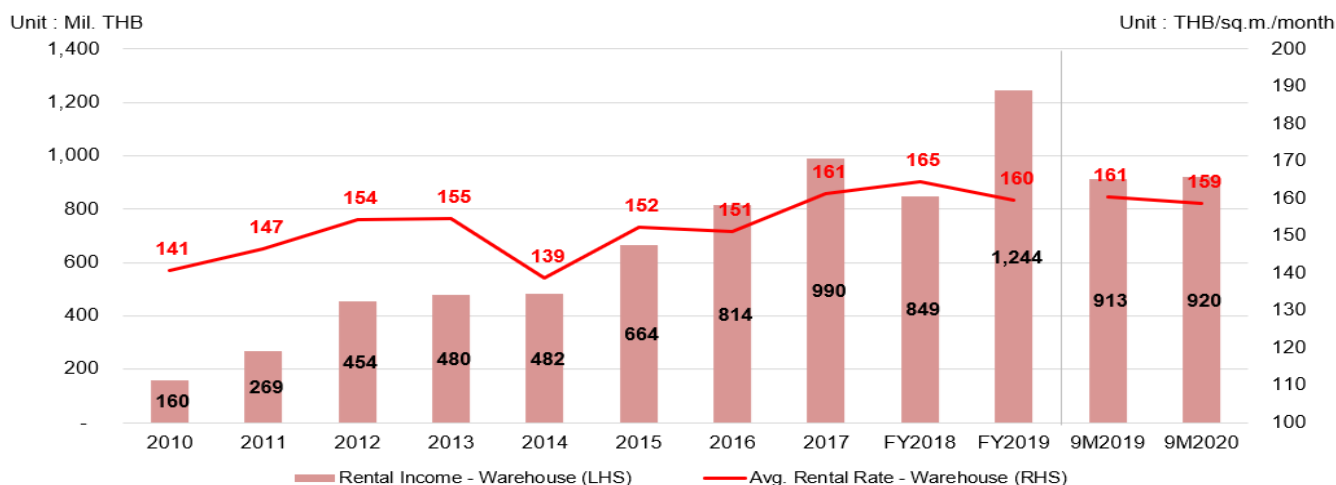


Source: FPT

Chart 3: Average Rental Rate and Rental Income of Factory



Source: FPT

Chart 4: Average Rental Rate and Rental Income of Warehouse


Source: FPT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct 2019- Jun 2020	---Year Ended 30 Sep---	----Year Ended 31 Dec----		
		FY2019	FY2018	2017	2016
Total operating revenues	13,993	19,572	13,127	1,977	1,762
Earnings before interest and taxes (EBIT)	2,409	4,964	3,126	1,001	807
Earnings before interest, tax, depreciation, and amortization (EBITDA)	3,299	6,097	4,385	1,641	1,343
Funds from operations (FFO)	1,146	4,093	3,404	1,054	395
Adjusted interest expense	1,836	1,304	520	592	841
Real estate development investments	34,308	31,078	23,512		
Investment properties	35,837	35,690	35,622	31,526	31,247
Total assets	96,750	92,386	82,650	40,982	36,093
Adjusted debt	56,345	50,308	21,513	11,227	22,289
Adjusted equity	28,350	27,870	41,397	24,934	11,418
Adjusted Ratios					
EBITDA margin (%)	23.57	31.15	33.40	82.97	76.22
Pretax return on permanent capital (%)	4.96 **	6.49	5.75	2.76	2.37
EBITDA interest coverage (times)	1.80	4.68	8.43	2.77	1.60
Debt to EBITDA (times)	11.81 **	8.25	4.91	6.84	16.59
FFO to debt (%)	4.13 **	8.14	15.82	9.39	1.77
Debt to capitalization (%)	66.53	64.35	34.20	31.05	66.13

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Frasers Property (Thailand) PLC (FPT)

Company Rating:	A-
Issue Ratings:	
TICON213A: THB1,500 million senior unsecured debentures due 2021	A-
TICON217A: THB800 million senior unsecured debentures due 2021	A-
TICON225A: THB1,000 million senior unsecured debentures due 2022	A-
TICON229A: THB1,000 million senior unsecured debentures due 2022	A-
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-
FPT213A: THB2,000 million senior unsecured debentures due 2021	A-
FPT222A: THB2,300 million senior unsecured debentures due 2022	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-
FPT271A: THB500 million senior unsecured debentures due 2027	A-
FPT275A: THB500 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-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2020, 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