

L.P.N. DEVELOPMENT PLC

No. 204/2019
19 December 2019

CORPORATES

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

Last Review Date: 01/10/19

Company Rating History:

Date	Rating	Outlook/Alert
16/01/19	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on L.P.N. Development PLC (LPN) and the ratings on LPN's senior unsecured debentures at "A-". At the same time, we revise the rating outlook on LPN to "negative" from "stable". The "negative" outlook reflects LPN's lower-than-expected operating performance resulting from stagnant demand in the residential property market. LPN's revenues and profitability dropped below our prior expectations while its debt level increased. Thus, its ratio of funds from operations (FFO) to total debt could drop below 10% over the next 2-3 years, lower than our prior projection of 12%-15%.

The ratings continue to reflect LPN's well-accepted brand name in the middle-to low-priced condominium segments and good after-sales services. Its debt to capitalization ratio is on the rise but is still lower than rated peers. The ratings also take into consideration the company's relatively concentrated product portfolio in terms of product types and price ranges, and concerns over the slow growth in demand from both domestic and foreign homebuyers.

KEY RATING CONSIDERATIONS

Lower-than-expected operating performance

TRIS Rating expects LPN's operating performance to drop below our previous forecast. LPN's total operating revenues decreased by 16% year-on-year (y-o-y) to Bt5.9 billion in the first nine months of 2019. We revise down LPN's total operating revenues to Bt9-Bt10 billion per annum during 2019-2022, lower than our previous forecast of Bt12-Bt15 billion per annum. We foresee revenues from the condominium segment softening in the next two years, while the revenue contribution from landed property sales can only partly compensate for the drop in condominium sales.

In the first nine months of 2019, LPN's net presales shrank to only Bt2.3 billion as the company launched fewer projects than targeted amid concerns over the slowdown in the property market. LPN's net presales in 2019 are expected to be Bt3-Bt4 billion, dropping sharply from Bt13.9 billion in 2017 and Bt11.3 billion in 2018. Its backlog has also declined significantly. As of September 2019, LPN had a backlog worth Bt7.1 billion. The company expects to deliver Bt4.7 billion of its backlog to customers in the fourth quarter of 2019 and Bt2.4 billion in 2020. LPN's revenues in 2020-2021 will rely heavily on sales of completed condominium units worth around Bt10 billion as of December 2019 and new landed property projects.

LPN's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin held at 20%-21% during 2015-2016, but dropped to 16%-18% during 2017 through the first nine months of 2019. The net profit margin was 14%-15% during 2015-2016, but decreased to 11%-12% during the past three years. The declining operating performance plus the rising debt level caused its FFO to total debt ratio to drop to 14% in the first nine months of 2019 from 27% in 2018 and 18% in 2017. Going forward, higher competition and stagnant demand in the condominium segment could cause LPN's FFO to total debt ratio to drop to around 10% during 2019-2022, below our previous forecast of 12%-15%.

Concentrated residential property portfolio

LPN's product portfolio is quite concentrated in the middle- to low-priced

condominium segments. Condominium products contributed 80%-90% of total operating revenues during 2014-2018 and 50% in the first nine months of 2019. As of September 2019, LPN had 40 existing projects with total remaining project value of Bt19 billion (including built and un-built units). Condominium projects comprised 85% of total unsold value, while landed property projects accounted for the rest. Its major condominium brands comprise “Lumpini Park”, “Lumpini Place”, and “Lumpini Ville”, with unit prices below Bt4 million. Most of its townhouse projects are developed under the “Baan Lumpini Town Ville” brand, with prices of Bt2-Bt3 million per unit. Currently, LPN has only one single-detached house (SDH) project, “BAAN 365 by LPN”, with unit prices ranging from Bt35 million to Bt60 million. Residential units with a price below Bt4 million made up around 80% of LPN’s total remaining value.

A slowdown in the domestic economy and stringent bank lending policies are significantly affecting demand in the lower-priced segment, which includes the major products of LPN. Although the company has diversified towards landed property projects and higher priced products, condominium projects with units in the more affordable price range will continue to constitute the major source of revenue over the next 2-3 years. LPN’s diversification towards investments in recurring-income assets should help improve its revenues and income stability in the long run. However, it will take time to build a significant portion of income from recurring income properties.

Well-recognized brands in the middle- to low-end condominium segments

TRIS Rating views LPN’s brand recognition in the medium- to low-priced condominium segments as acceptable. The key selling points of its residential projects are the company’s ability to deliver projects on time and its good after-sales services. LPN has extensive experience in managing the construction of residential property projects, especially condominium projects. The company has enjoyed long-term relationships and worked as a team with its main contractors for several years. Thus, LPN is able to control the costs and manage the speed of construction in condominium projects effectively. The construction period of its condominium projects is relatively short at 12-18 months. LPN has consistently been one of the low-cost producers in the residential property market.

LPN is well known for its good after-sales services. The company has set up two subsidiaries; Lumpini Property Management Co., Ltd. (LPP) and LPC Social Enterprise Co., Ltd. (LPCSE), to take care of its after-sales services. LPP is responsible for the community management of many residential projects of both LPN and other developers. LPCSE is responsible for providing cleaning and security services. Revenues from both subsidiaries have increased gradually to Bt0.91 billion in 2018 and Bt0.78 billion in the first nine months of 2019. Despite the relatively small revenue contribution from the subsidiaries, we believe that these two businesses do help build LPN’s brand value.

Concerns over softening demand from both domestic and foreign buyers

The residential property market closely follows trends in the domestic economy. However, volatility in this market is much more pronounced than in the overall economy. The slowdown of the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers. In addition, the implementation of the new loan-to-value (LTV) rules by the Bank of Thailand (BOT) has also affected sales of residential units in the short to medium term. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans. TRIS Rating expects the implementation of the new LTV rules to impact the condominium segment more than the landed property segment. In response to the softening market demand, LPN may have to lengthen the down payment period for some homebuyers. Delays in title transfers to customers may in turn impact the company’s revenue recognition.

Leverage is on the rise, but still lower than rated peers

We expect LPN to maintain its conservative financial policy of keeping the interest-bearing debt to equity ratio below 1 times. In TRIS Rating’s base case forecast, LPN’s debt to capitalization ratio is expected stay between 40%-45% during 2019-2022. We assume the company will launch new residential projects worth Bt10-Bt15 billion per annum during 2020-2022. The budget for land acquisition is forecast to be Bt2-Bt3 billion per annum during 2019-2022. The company plans to launch more landed property projects than in the past to offset softening demand in the condominium segment. In addition, LPN plans to spend around Bt0.4 billion on three office building projects (including its own and joint venture projects) during 2020-2021.

Despite its plan to invest more in recurring income assets, the company expects to keep its debt to capitalization ratio lower than 50%, or the interest-bearing debt to equity ratio below 1 times. As of September 2019, the interest-bearing debt to equity ratio was 0.68 times and the total liability to total equity ratio was 0.91 times. According to the key financial covenants on its bank loans, LPN has to maintain its interest-bearing debt to equity ratio below 1.25 times and its total liability to total equity ratio below 2 times. Also, the financial covenants on bonds limit the company’s interest-bearing debt to equity ratio at lower than 2 times. Thus, LPN still has sufficient headroom for its financial covenants. TRIS Rating believes that LPN should have no problem complying with its financial covenants over the next 12 to 18 months.

Adequate liquidity

We assess LPN's liquidity to be adequate over the next 12 months. Debts due over the next 12 months will amount to Bt5.4 billion, comprising Bt5.3 billion in short-term bills of exchange (B/Es), promissory notes (P/Ns), and overdraft (O/D), as well as Bt0.1 billion in debentures. LPN normally uses short-term B/Es and P/Ns to finance land costs in order to lower its funding costs and uses debentures to finance construction costs in order to match development periods. Short-term loans will either be rolled over or repaid within the next 12 months.

As of September 2019, LPN's sources of funds consisted of Bt0.4 billion in cash on hand plus undrawn short-term loan facilities of Bt1.3 billion, undrawn unconditional project loan facilities of Bt1.2 billion, and undrawn conditional project loan facilities of Bt2.1 billion. LPN's FFO over the next 12 months is expected to be around Bt0.8 billion. The company also has unencumbered assets worth around Bt13 billion which can be sold or pledged as collaterals for bank loans, if needed.

BASE-CASE ASSUMPTIONS

- LPN to launch new residential projects worth Bt10-Bt15 billion per annum during 2020-2022
- Budget for land acquisition is forecast to be Bt2-Bt3 billion per annum during 2019-2022
- Total operating revenues to be Bt9-Bt10 billion per annum, and the EBITDA margin should stay around 15% during 2019-2022

RATING OUTLOOK

The "negative" outlook reflects LPN's lower-than-expected operating performance. Under TRIS Rating's base case, we expect LPN to keep its debt to capitalization ratio between 40%-45% while its FFO to total debt ratio is expected to drop to around 10% from 12%-15%.

RATING SENSITIVITIES

LPN's ratings and/or outlook could be revised downward should its operating performance and/or financial profile continue to deteriorate such that its FFO to total debt ratio drops below 10%. On the contrary, LPN's future outlook could be revised upward if the company is able to improve its revenues and profitability while maintaining its FFO to total debt ratio at 12%-15%.

COMPANY OVERVIEW

LPN was founded in 1989 by Mr. Theerachai Panjasap, Mr. Sumet Techakraisri, and Mr. Sirichai Charoensakwattana. Its first project was an office building for sale named "Lumpini Tower". The company was listed on the Stock Exchange of Thailand (SET) in December 1994. As of August 2019, the founders and key executives held an approximate 9% stake in the company in total. LPN has four major subsidiaries: Pornsanti Co., Ltd. (PST), which develops landed property projects for the middle- to low-income segments, LPP, which provides community management services and brokerage services, Lumpini Project Management Service Co., Ltd. (LPS), which provides project construction management services, and LPCSE, which provides community services.

LPN offers condominium, SDH, and townhouse units in a limited range of prices and product categories. The company offers condominium units ranging in price from Bt30,000 to Bt170,000 per square meter (sq.m.). The landed property products range in price from Bt10 million to Bt60 million per unit for SDHs and from Bt2 million to Bt20 million per unit for townhouses. LPN's residential product portfolio focuses on the middle- to low-income condominium segments.

LPN's total operating revenues mainly derive from condominium projects. Revenue from condominium constituted 80%-90% of total operating revenues during 2014-2018, but decreased to 50% in the first nine months of 2019. Revenue from landed properties contributed 5%-15% of the total during 2014-2018, but increased to 33% in the first nine months of 2019. Revenue from residential units with prices below Bt4 million has been the major contributor with 70%-80% of total operating revenues during 2016-2018 and 50% in the first nine months of 2019. The revenue contribution from the management business and recurring-income assets was 10%-15% during 2017 through the first nine months of 2019.

KEY OPERATING PERFORMANCE

Table 1: Product Portfolio of Condominiums

Segment	Brand	Price (Bt/Sq.m.)
Premium	The Lumpini 24	170,000
High	Lumpini Suite	120,000-130,000
Middle-to-high	The Selected Lumpini Place Lumpini Park Lumpini Park Beach	50,000-130,000
Middle	Lumpini Ville LumpiniSeaview	40,000-80,000
Middle-to-low	Lumpini Center LumpiniCondotown	30,000-40,000
Low	Lumpini Township	30,000-35,000
Broad price range	LumpiniMegaCity LumpiniMixx	40,000-140,000

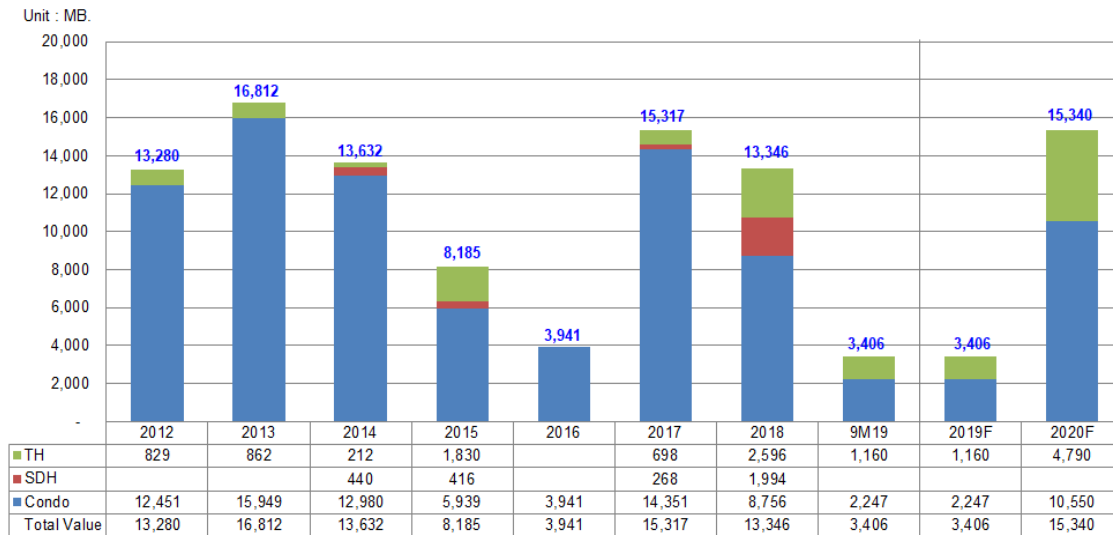
Source: LPN

Table 2: Product Portfolio of Landed Properties

Segment	Brand	Product Type	Price (Bt Mil./Unit)
Premium	BAAN 365 by LPN	3-storey SDH 4.5-storey TH	35-60 18-20
High	Baan Lumpini	2 & 3-storey SDH	10
High	Baan Lumpini Town Residence	4-storey HO 3-storey TH	8
Middle	Baan Lumpini Town Park / Town Place	2-storey Semi-DH 3-storey TH 2-storey TH	6 4 3
Middle-to-low	Baan Lumpini Town Ville	2-storey TH	2-3

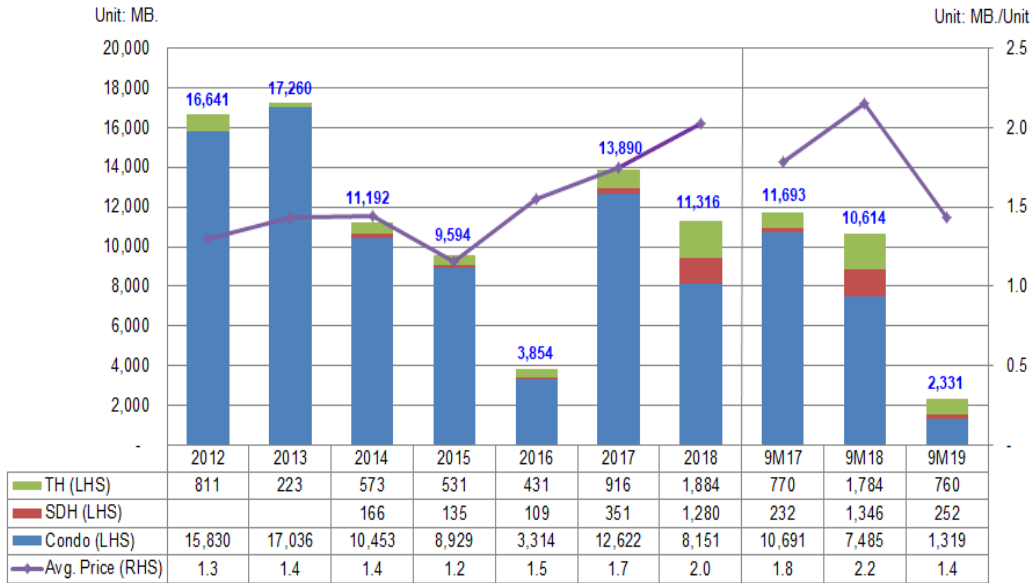
Source: LPN

Chart 1: New Residential Project Launches



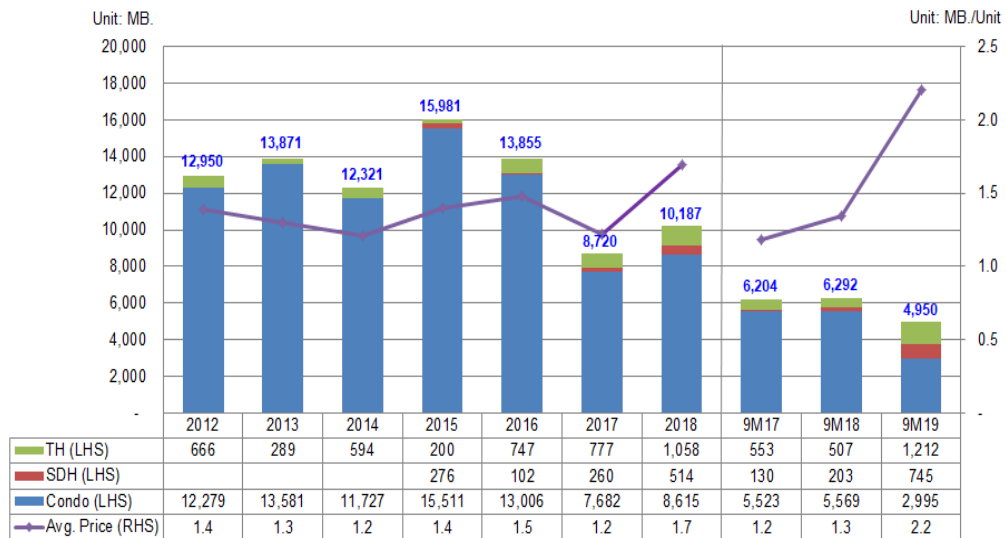
Source: LPN

Chart 2: Presales Performance



Source: LPN

Chart 3: Residential Sales



Source: LPN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	5,941	11,294	9,648	14,629	16,662
Earnings before interest and taxes (EBIT)	898	1,932	1,485	2,938	3,382
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	961	2,003	1,550	2,989	3,427
Funds from operations (FFO)	627	1,401	1,045	2,279	2,433
Adjusted interest expense	168	233	205	149	287
Real estate development investments	20,371	17,871	17,897	15,654	16,856
Total assets	24,064	21,250	21,007	18,558	19,625
Adjusted debt	8,720	5,112	5,937	3,926	4,563
Adjusted equity	12,582	12,935	12,414	12,411	11,581
Adjusted Ratios					
EBITDA margin (%)	16.18	17.74	16.07	20.43	20.57
Pretax return on permanent capital (%)	8.03 **	10.37	8.31	17.36	19.88
EBITDA interest coverage (times)	5.73	8.61	7.57	20.01	11.93
Debt to EBITDA (times)	5.02 **	2.55	3.83	1.31	1.33
FFO to debt (%)	13.94 **	27.41	17.61	58.04	53.31
Debt to capitalization (%)	40.94	28.32	32.35	24.03	28.26

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

L.P.N. Development PLC (LPN)

Company Rating:	A-
Issue Ratings:	
LPN224A: Bt1,168 million senior unsecured debentures due 2022	A-
LPN220A : Bt1,000 million senior unsecured debentures due 2022	A-
Rating Outlook:	Negative

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