

L.P.N. DEVELOPMENT PLC

No. 232/2023
27 November 2023

CORPORATES

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

Last Review Date: 30/11/22

Company Rating History:

Date	Rating	Outlook/Alert
04/11/21	BBB	Stable
09/12/20	BBB+	Stable
19/12/19	A-	Negative
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 "BBB". At the same time, we assign the rating of "BBB" to LPN's proposed issue of up to THB2.5 billion senior unsecured debentures due within three years. The proceeds from the new debentures are intended to be used for debt repayments and working capital.

However, we revise the rating outlook to "negative" from "stable". The "negative" outlook reflects the company's lower-than-expected operating performance, coupled with our concerns over the uncertainty of forthcoming revenue and earnings.

The ratings take into consideration LPN's concentrated property portfolio in terms of product type and price range, its moderately high financial leverage, as well as the negative impacts of interest rate hikes and increased bank rejection rates of mortgage loan applications. The ratings continue to reflect LPN's well-recognized brands in the middle- to low-income condominium segment, good after-sales services, and manageable liquidity.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating results

LPN's operating performance in the first nine months of 2023 (9M2023) fell significantly below our expectation. The company reported a total operating revenue of THB5.6 billion in 9M2023, achieving only 66% of our prior full-year forecast of THB8.4 billion. Revenue from condominium projects achieved 70% of our prior full-year target, while revenue from landed property projects achieved 40%, reflecting LPN's limited competitive strength in the landed property segment.

In addition, LPN's profitability is also pressured by increasing development costs and intense competition among leading property developers. Rising land and construction material costs, coupled with the company's difficulty to pass through higher costs to price-sensitive customers, resulted in a declining profit margin. LPN's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin weakened to 12%-14% in 2021-9M2023 from 17%-18% in 2018-2020. Its bottom line was 5%-6% of total operating revenue in the past three years, much below the industry average of 10%.

Future revenue and earnings to remain challenging

We anticipate ongoing challenges for LPN's operating performance in the upcoming years due to the prospects of relatively high interest rates and increased bank rejection rates, particularly within the middle- to low-income segments. The slowdown in the domestic economy, coupled with the high-interest rate environment, will continue weakening the debt servicing capacity of LPN's main customer group. Homebuyers in the middle- to low-income segment are susceptible to adverse economic conditions and are likely to recover at a slower pace than higher-income segment.

Looking ahead, we project the company's total operating revenues in 2023-2025 to hover around THB8-THB10 billion per annum. We anticipate LPN's EBITDA margin remaining in the range of 12%-13% and the net profit margin may continue to stay below 10% of total operating revenue. Given its relatively

low backlog to be delivered in the next three years, LPN's projected revenue and earnings will depend largely on new sales from existing projects and planned future projects.

Concentrated residential property portfolio

LPN's portfolio remains highly concentrated in the mid- to low-priced condominium segment. As of September 2023, LPN had 46 existing projects with total remaining value of THB32.2 billion (including built and un-built units). Condominium projects comprised 70% of total unsold value, while landed property projects made up the rest. Residential units with prices below THB4 million accounted for nearly 80% of the total remaining value.

We view that LPN's efforts to diversify its product portfolio and broaden its customer base through the development of more landed property projects and the introduction of mid- to upper-priced products have shown limited progress. Both presales and revenue generated from landed property projects and high-priced projects have been slower than expected. Since LPN expands through these segments at a more gradual pace compared to other leading developers, the company needs time to establish its track record and competitive edge in these new segments.

Acceptable brand equity supported by quality after-sales services

We view LPN's brand recognition in the middle- and low-income segments to remain at an acceptable level. Its brands under "Lumpini" classic collection have long been firmly established in the residential market. However, LPN has launched several new brands under "168" stylish collection since 2022 to attract younger homebuyers. The success of new brands remains to be seen.

LPN's residential projects are well-known for its good after-sales services, including community management, brokerage services, and the provision of cleaning and security services catered to its own and other developers' projects. LPN's after-sales services are recognized for their quality and have helped build up the company's brand equity. Revenue from service businesses have grown consistently in the past five years, reaching THB1.5 billion in 2022. We expect revenues from services to soar to THB1.9-THB2.1 billion per annum in 2023-2025, with expected gross profit margin of 19%. LPN plans to list LPP Property Management Company (LPP) on the stock exchange in 2024.

Moderately high financial leverage

We view LPN's financial leverage is moderately high. LPN's debt to capitalization ratio increased to 51% as of September 2023 from 47%-48% in 2021-2022 amid the slower housing sales and more launches of new landed property projects. Looking forward, we expect LPN's debt to capitalization ratio to remain around 50% in 2023-2025. The ratio of funds from operations (FFO) to debt ratio is likely to fall below 5% in 2023-2024, but it should return to 5%-10% from 2025 onwards. The ratio dropped to 2% in 9M2023, well below our 5% target. This was due to lower-than-expected transfers of residential units and thinner profit margins.

Under our base-case scenario, we expect LPN to launch new projects worth THB8-THB12 billion per annum in 2023-2025. As LPN intends to balance between condominium and landed property portfolio, we assume that more than half of total new projects in 2024-2025 will be landed property projects. We project the budget for land acquisition will be THB2-THB3 billion and the capital expenditures for project construction will be THB3-THB4 billion annually.

The financial covenants on LPN's bank loans require maintenance of its interest-bearing debt to equity ratio below 1.25 times and its total liabilities to total equity ratio below 2 times. Also, the financial covenants on debentures obligations require the company's interest-bearing debt to equity ratio to remain below 2 times. As of September 2023, the interest-bearing debt to equity ratio was 1 times and the total liabilities to total equity ratio was 1.2 times. We believe that LPN should remain in compliance with the financial covenants over the next 12 to 18 months.

Liquidity should remain manageable

We assess LPN's liquidity to be manageable over the next 12 months. As of September 2023, LPN had debts due in the next 12 months totaling THB9.7 billion, comprising THB1.3 billion bills of exchange (B/Es), THB3.8 billion bridging-loan promissory notes (P/Ns), THB2.2 billion P/Ns for working capital, THB0.5 billion project loans, and THB1.9 billion in debentures. LPN normally uses B/Es and promissory notes (P/Ns) to finance land purchases and debentures to finance construction costs. We expect the B/Es and P/Ns for working capital to be either rolled over or repaid within the next 12 months, and the bridging-loan P/Ns for land acquisition to be converted to long-term project loans thereafter.

LPN's sources of funds included THB0.4 billion in cash on hand plus undrawn committed short-term loan facilities of THB0.7 billion and undrawn unconditional project loan facilities of THB1.3 billion. We project LPN's FFO in 2024 to be around THB0.5 billion. In addition, LPN had unencumbered land banks at book value of THB0.1 billion and remaining finished units in debt-free projects at cost value of THB6.8 billion, which can be pledged as collateral for bank loans, if needed.

As of September 2023, LPN had total debt of around THB12 billion. LPN's priority debt, including secured debt at the company and its subsidiaries, was around THB6 billion. This translates to a priority debt to total debt ratio of 49%. LPN should maintain the priority debt ratio below our trigger level of 50% to retain its issue ratings of senior unsecured debentures at the same level as issuer rating.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for LPN's operations during 2023-2025:

- LPN to launch new residential projects worth THB8-THB12 billion per annum
- Annual budget for land acquisition to be around THB2-THB3 billion
- Total operating revenue to wane to THB8 billion in 2023 but should reach the THB10 billion level in 2024-2025, with 70%-80% of revenue from residential sales
- EBITDA margin to stay in the 12%-13% range and net profit margin to stay 6%-8% of total operating revenue

RATING OUTLOOK

The "negative" outlook reflects LPN's weaker operating and financial performance than our previous forecast. In addition, we anticipate ongoing challenges for LPN's operating performance in the upcoming years due to the prospects of relatively high interest rates and increased bank rejection rates of mortgage loan applications, especially within the middle- to low-income segments.

RATING SENSITIVITIES

A rating downgrade could emerge if LPN's operating results and/or financial position deteriorate materially from our expectations. On the contrary, the outlook could be revised to "stable" if LPN is able to improve operating performance and financial profile, such that the FFO to debt ratio reverts to the 5%-10% range, while maintain the debt to capitalization ratio stays around 50% over the forecast period.

COMPANY OVERVIEW

LPN was founded in 1989 by Mr. Theerachai Panjasap, Mr. Sumet Techakraisri, and Mr. Sirichai Charoensakwattana. The company was listed on the Stock Exchange of Thailand (SET) in December 1994. As of September 2023, the founders and key executives held an approximate 8% stake in the company. LPN has recently restructured its group organization by combining project construction management services under Lumpini Project Management Service Co.,Ltd. (LPS) with LPP Property Management Co., Ltd. (LPP) and separating the research and development services under Lumpini Wisdom and Solution Co., Ltd. (LWS) from LPP to be directly controlled by LPN. As a result, LPP's services cover community management, engineering services, security services, and facility management. In July 2023, LPS invested a 60% stake in PW Group Engineering Co., Ltd. (PWG), an electrical, plumbing, and air-conditioning system contractor, in order to expand its scope of residential-related service business.

LPN offers condominium, SDH, semi-DH, and townhouse units in a limited range of prices and product categories. The company offers condominium units ranging in price from THB30,000 to THB130,000 per square meter (sq.m.). Landed property products range in price from THB5 million to THB35 million per unit for SDH and semi-DH and from THB2 million to THB20 million per unit for townhouse and home office. LPN's residential product portfolio focuses on the middle- to low-income condominium segments.

LPN's total operating revenue is mainly derived from condominium projects. Revenue from condominiums constituted more than 75% of total operating revenue in 2016-2018 but decreased to around 40% in 2021-2022 (excluding sales of Lumpini Tower Vibhavadi). The revenue contribution from condominium projects was 51% in 9M2023. Revenue from landed property contributed 5%-15% of total operating revenue in 2016-2018 but gradually increased to around 20% in 2022-9M2023. Revenue from residential units with prices below THB4 million has remained the major contributor accounting for around 50%-60% of total operating revenue in the past three years. Revenue from service business constituted 15%-25% of total operating revenue in 2021-9M2023, while revenue from rental properties remained negligible.

KEY OPERATING PERFORMANCE

Table 1: Product Portfolio of Condominiums

Segment	Classic Brand	Stylish Brand (168)	Price (THB/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	Place Park	50,000-130,000
Middle	Lumpini Ville Lumpini Seaview	Ville	40,000-80,000
Middle-to-low	Lumpini Center Lumpini Condotown		30,000-40,000
Low	Lumpini Township		30,000-35,000
Broad price range	Lumpini MegaCity Lumpini Mixx		40,000-140,000

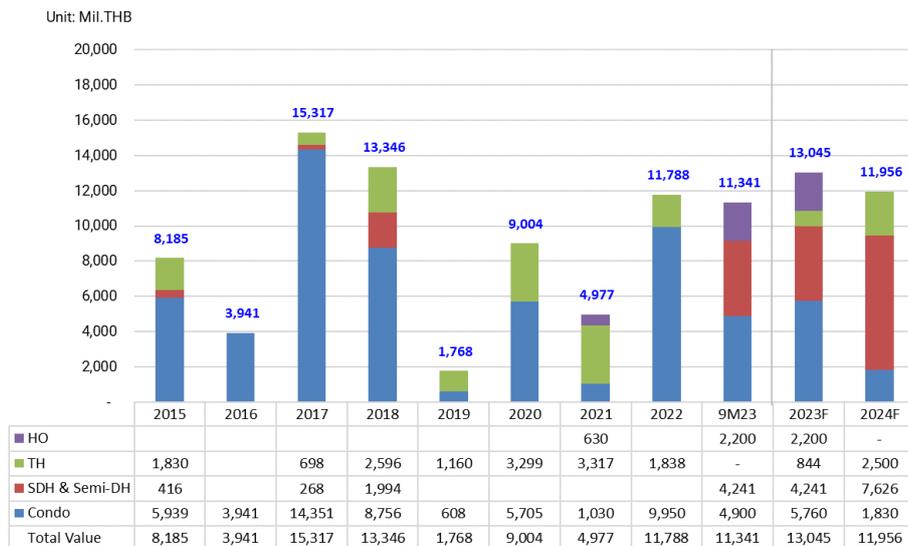
Source: LPN

Table 2: Product Portfolio of Landed Properties

Segment	Classic Brand	Stylish Brand (168)	Product Type	Price (Mil. THB/Unit)
Premium	BAAN 365 by LPN	Residence	3-storey SDH 4.5-storey TH	35-60 18-20
High	Baan Lumpini	Villa	2 & 3-storey SDH	10
High	Baan Lumpini Town Residence	Maison	4-storey HO 3-storey TH	8
Middle	Baan Lumpini Town Park / Town Place	Ville Haus	2-storey Semi-DH 3-storey TH 2-storey TH	6 4 3
Middle-to-low	Baan Lumpini Town Ville	Venue	2-storey TH	2-3

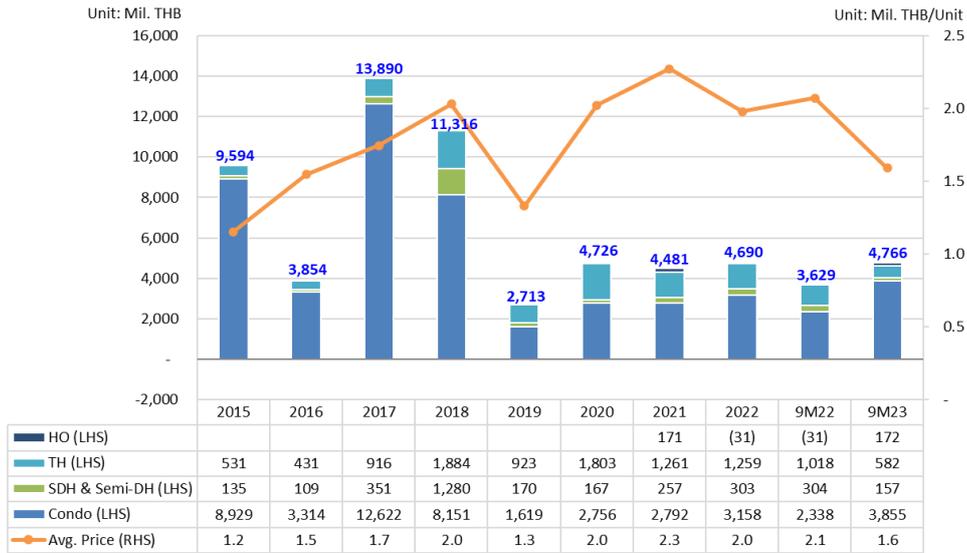
Source: LPN

Chart 1: New Residential Project Launches



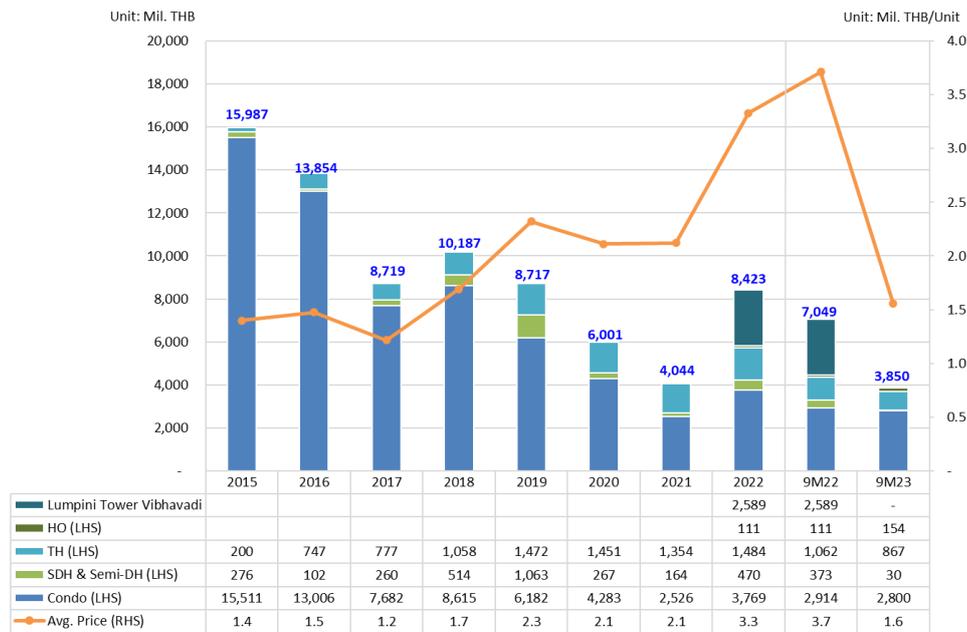
Source: LPN

Chart 2: Presales Performance



Source: LPN

Chart 3: Residential Sales



Source: LPN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	5,550	10,288	5,587	7,449	10,033
Earnings before interest and taxes (EBIT)	599	1,272	684	1,164	1,752
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	681	1,382	795	1,265	1,842
Funds from operations (FFO)	220	736	320	691	1,286
Adjusted interest expense	356	466	384	319	230
Real estate development investments	21,319	18,700	18,403	18,170	19,693
Total assets	26,466	24,114	23,777	23,619	23,473
Adjusted debt	12,445	10,616	10,690	9,328	7,696
Adjusted equity	11,921	11,868	11,397	11,822	13,159
Adjusted Ratios					
EBITDA margin (%)	12.26	13.43	14.24	16.98	18.36
Pretax return on permanent capital (%)	3.39 **	5.60	3.07	5.36	8.80
EBITDA interest coverage (times)	1.91	2.96	2.07	3.97	8.00
Debt to EBITDA (times)	13.95 **	7.68	13.44	7.37	4.18
FFO to debt (%)	2.21 **	6.93	2.99	7.41	16.71
Debt to capitalization (%)	51.08	47.22	48.40	44.10	36.90

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

L.P.N. Development PLC (LPN)

Company Rating:	BBB
Issue Ratings:	
LPN245A: THB1,500 million senior unsecured debentures due 2024	BBB
LPN255A: THB1,500 million senior unsecured debentures due 2025	BBB
Up to THB2,500 million senior unsecured debentures due within 3 years	BBB
Rating Outlook:	Negative

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