

L.P.N. DEVELOPMENT PLC

No. 222/2022
30 November 2022

CORPORATES

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

Last Review Date: 04/04/22

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

Contacts:

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Bundit Pommata

bundit@trisrating.com

Jutamas Bunyawanchikul

jutamas_b@trisrating.com

Suchada Pantu, Ph.D.

suchada@trisrating.com



WWW.TRISRATING.COM

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” with a “stable” rating outlook. The ratings reflect LPN’s well-recognized brands in the middle-to low-income condominium segment, its good after-sales services, and the prospect of lower financial leverage. The ratings are, however, constrained by LPN’s concentrated product portfolio in terms of product type and price range and its weakening profit margin. The ratings also incorporate our concerns over the persistently high household debt level and rising inflation which could impact the purchasing power of LPN’s target customers while pushing up the company’s development and financing costs.

KEY RATING CONSIDERATIONS

Concentrated residential property portfolio

LPN’s portfolio remains highly concentrated in the mid- to low-priced condominium segment. As a result, the company’s total operating revenue has been vulnerable to changes in market demand for specific products and segments. The shift in demand for residential property towards landed property coupled with more stringent bank lending policies during the pandemic had a severe impact on LPN’s performance. The company reported a drop in total operating revenue to THB7.4 billion in 2020 and THB5.6 billion in 2021 from THB10-THB11 billion per annum during 2018-2019.

LPN’s total operating revenue, excluding sales of Lumpini Tower Vibhavadi, revived by 46% year-on-year (y-o-y) to THB5.8 billion in the first nine months of 2022, thanks to increased transfers of condominium and landed property products. However, condominiums with unit prices below THB4 million have remained the major source of income, contributing 55% of total operating revenue during 2019-2020, 44% in 2021, and 49% in the first nine months of 2022.

LPN’s plan to diversify its product portfolio and widen its customer base by developing more landed property projects progressed more slowly than expected due to lockdowns and labor shortages during the pandemic. As of September 2022, LPN had 40 existing projects with total remaining value of THB21.7 billion (including built and un-built units). Condominium projects comprised 85% of total unsold value, while landed property projects made up the rest. Residential units with prices below THB4 million accounted for 88% of the total remaining value.

Expected revenue revival with weakening profit margin

Our base-case scenario forecasts LPN’s total operating revenue to rebound to the THB8-THB10 billion per annum range during 2022-2024. We project revenue from condominium projects to gradually recover to THB3.5-THB4.5 billion per annum or 45%-50% of total operating revenue over the forecast period. Revenue from landed property projects should increase to THB2.0-THB2.5 billion per annum during 2022-2023 and reach THB3.5 billion in 2024, accounting for 30%-35% of total operating revenue.

We anticipate LPN’s profit margin to contract as the company may have to resort to price campaigns to push sales and clear inventory for several completed condominium projects. In addition, LPN is likely to lower its profit margin in landed property projects to compete with well-recognized property

players in each segment. We also believe that LPN may not be able to fully pass through the rising costs to homebuyers as the company's target customers are price sensitive. This will likely drag down the overall profit margin of the company.

Going forward, we project LPN's gross profit margin in its residential property business will shrink to 21%-24% during 2022-2024 (taking into account the gross profit margin of 19% from sales of Lumpini Tower Vibhavadi in 2022), from 23% in 2021 and 29%-32% during 2018-2020. We forecast the gross profit margin from service businesses to be 38%-41%. As a result, LPN's overall gross profit margin may drop to 25%-27% during 2022-2024, from 29% in 2021 and 31%-33% during 2018-2020. We expect LPN's earnings before interest, taxes, depreciation, and amortization (EBITDA) to revive to the THB1.1-THB1.4 billion per annum range given an EBITDA margin of 13%-14% of total operating revenue over the next three years. Its net profit margin will likely remain below 10% of total operating revenue throughout the forecast period.

Well-accepted brands supported by strong after-sales services

We view LPN's brand recognition in the middle- and low-income segments as acceptable. The key selling points of LPN's residential projects are the company's ability to deliver projects on time and its good after-sales services. The company has extensive experience in managing the construction of residential property projects, especially condominium projects. LPN has established long-term relationships and worked as a team with its main contractors for several years. Thus, LPN has been able to manage the construction of its condominium effectively. Despite some construction delays in 2021 caused by the lockdown of construction sites, we expect the company to maintain its competitive strength in construction management over the medium term.

Apart from construction management, LPN's service businesses include after-sales services, such as 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. Revenues from service businesses have grown consistently during the last five years, reaching THB1.3 billion in 2021. We expect revenues from services to soar to THB1.5-THB1.6 billion per annum during the forecast period. The EBITDA margin of LPN's service businesses should remain around 10%.

Financial leverage expected to decline

With higher income and earnings recognition, LPN's adjusted debt to EBITDA ratio is expected to improve to 8-10 times during 2022-2024, from 13 times in 2021. The ratio of funds from operations (FFO) to adjusted debt should improve to around 5%-10% during 2022-2024, from 3% in 2021. Despite its aggressive project expansion over the next three years, we forecast LPN's debt to capitalization ratio to hover around 50% during 2022-2024. At the end of September 2022, the ratio stood at 43%.

Our base-case scenario assumes LPN will launch new condominium projects worth THB12 billion in 2022 and around THB4-THB5 billion per annum during 2023-2024 as well as new landed property projects worth THB1.8 billion in 2022, THB8.7 billion in 2023, and around THB5 billion in 2024. We assume the budget for land acquisition to be THB2-THB4 billion per annum and the capital expenditures for project construction to be THB2.3-THB4.3 billion per annum during the forecast period. We also incorporate LPN's investments in its associates of around THB100 million per annum during 2022-2023 in our projection.

As of September 2022, LPN had total debt of THB9 billion. LPN's priority debt, including secured debt at the company and its subsidiaries, was THB3.5 billion. This translates to a priority debt to total debt ratio of 38.8%.

Liquidity should remain manageable

We assess LPN's liquidity to be manageable over the next 12 months. As of September 2022, LPN had debts due in the next 12 months totaling THB5 billion, comprising THB3.5 billion in short-term loans, THB1.0 billion in debentures, and THB0.5 billion of liabilities under sales contracts that granted customers the rights to resell. LPN's sources of funds included THB0.7 billion in cash on hand plus undrawn committed short-term loan facilities of THB2.5 billion and undrawn unconditional project loan facilities of THB0.8 billion. We project LPN's FFO in 2023 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 THB6.4 billion, which can be pledged as collateral for bank loans, if needed.

LPN normally uses short-term bills of exchange (B/Es) and promissory notes (P/Ns) to finance land purchases and debentures to finance construction costs. We expect the short-term B/Es and P/Ns for working capital to be either rolled over or repaid within the next 12 months, and the short-term P/Ns for land acquisition to be converted to long-term project loans thereafter.

The financial covenants on LPN's bank loans require maintenance of an interest-bearing debt to equity ratio below 1.25 times and a total liability to total equity ratio below 2 times. Also, the financial covenants on debentures require the company's interest-bearing debt to equity ratio to remain below 2 times. As of September 2022, the interest-bearing debt

to equity ratio was 0.8 times and the total liability to total equity ratio was 0.9 times. We believe LPN 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 TRIS Rating's base-case forecast for LPN's operations during 2022-2024:

- LPN to launch new residential projects worth THB10-THB14 billion per annum
- Budget for land acquisition forecast to be THB2-THB4 billion per annum
- Total operating revenue to range from THB8-THB10 billion per annum with around 80% of revenue from residential sales
- Average gross profit margin to stay in the 25%-27% range and net profit margin to stay below 10% of total operating revenue

RATING OUTLOOK

The "stable" outlook reflects our expectation that LPN should be able to sustain its operating performance as targeted and deliver the units in its backlog as scheduled. We also expect the company to keep its FFO to adjusted debt ratio in the 5%-10% range and debt to capitalization ratio at around 50% over the forecast period.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward should LPN's operating performance and/or financial profile deteriorate considerably from our expectations. On the contrary, a credit upside would materialize if LPN delivers significantly better-than-expected operating results, such that the FFO to adjusted debt ratio stays above 10% for a sustained period, and successfully diversifies its product portfolio.

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 2022, the founders and key executives held an approximate 7% 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.

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 THB35 million to THB60 million per unit for SDH and from THB2 million to THB20 million per unit for semi-DH, 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 during 2016-2018 but decreased to around 60% during 2019-2020 and around 45% in 2021. The revenue contribution from condominium projects, excluding sales of Lumpini Tower Vibhavadi, was 50% in the first nine months of 2022. Revenue from landed property contributed 5%-15% of total operating revenue during 2016-2018 but increased to 25% in 2019 and 27% during 2021 through the first nine months of 2022 (excluding sales of Lumpini Tower Vibhavadi). Revenue from residential units with prices below THB4 million has remained the major contributor accounting for 57% of total operating revenue (excluding sales of Lumpini Tower Vibhavadi) in the first nine months of 2022. Revenue from the management business constituted 22% of the total in 2021 and 13% in the first nine months of 2022. Revenue from rental properties remained minimal.

KEY OPERATING PERFORMANCE

Table 1: Product Portfolio of Condominiums

Segment	Classic Brand	Stylish Brand	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 168 Park 168	50,000-130,000
Middle	Lumpini Ville Lumpini Seaview	Ville 168	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

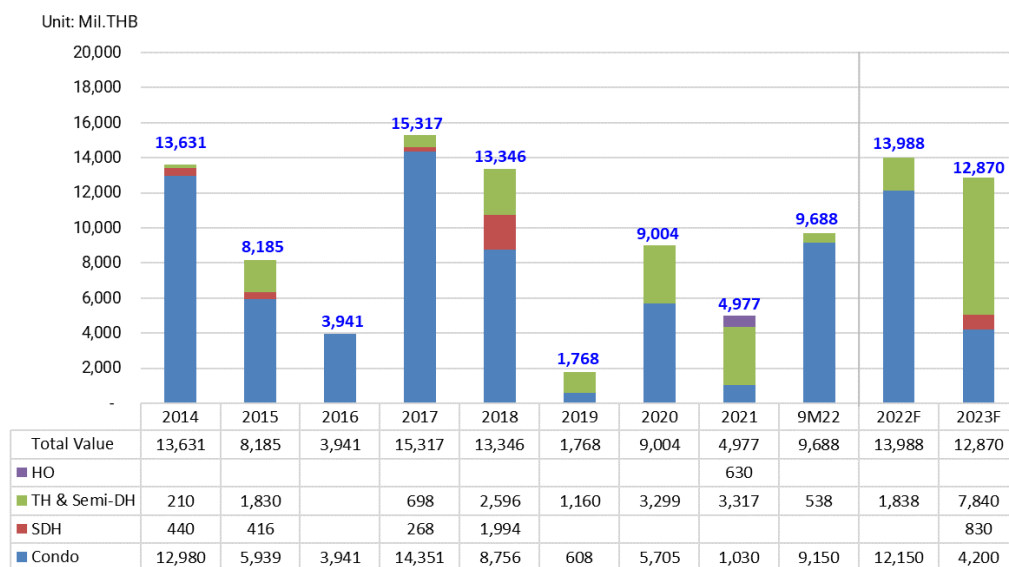
Source: LPN

Table 2: Product Portfolio of Landed Properties

Segment	Classic Brand	Stylish Brand	Product Type	Price (Mil. THB/Unit)
Premium	BAAN 365 by LPN	Residence 168	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	Ville 168	2-storey Semi-DH 3-storey TH 2-storey TH	6 4 3
Middle-to-low	Baan Lumpini Town Ville	Venue 168	2-storey TH	2-3

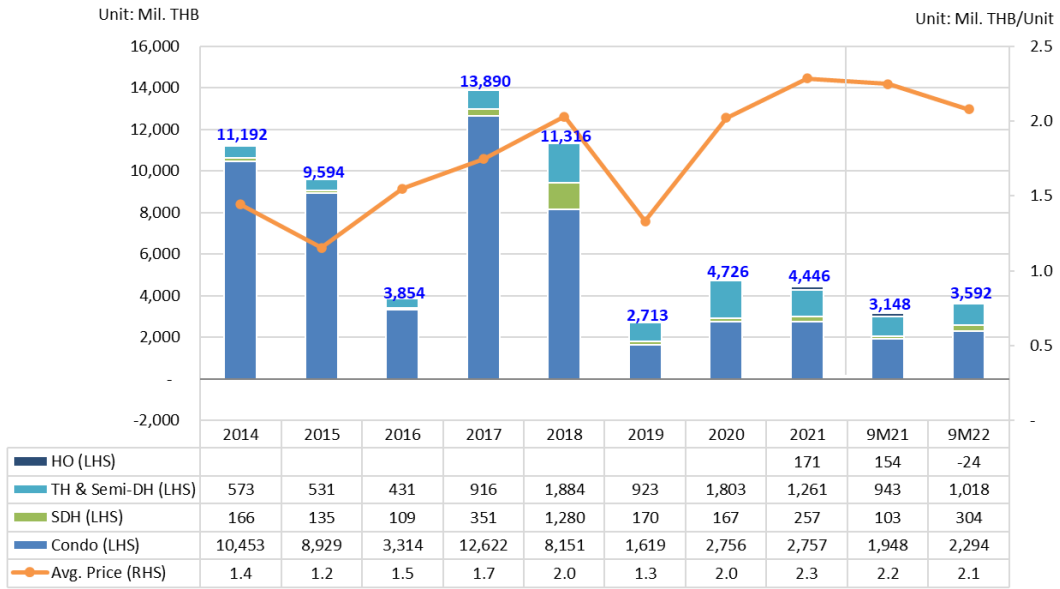
Source: LPN

Chart 1: New Residential Project Launches



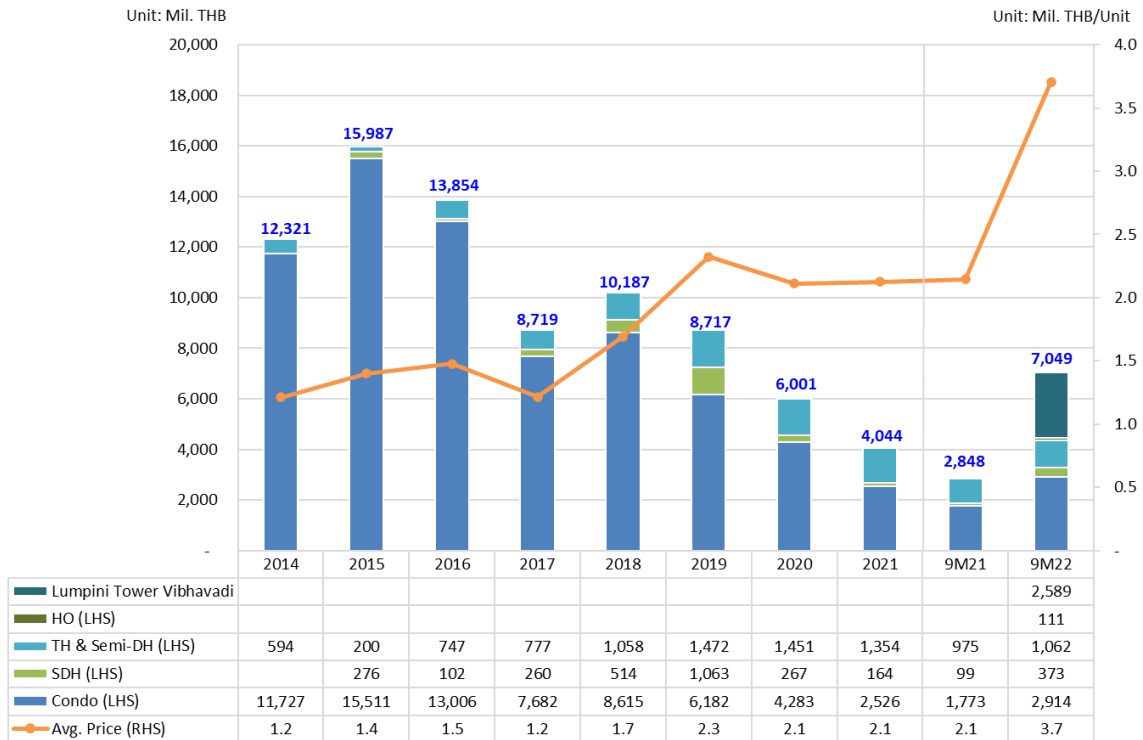
Source: LPN

Chart 2: Presales Performance



Source: LPN

Chart 3: Residential Sales



Source: LPN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	8,399	5,587	7,449	10,033	11,294
Earnings before interest and taxes (EBIT)	1,088	684	1,164	1,752	1,932
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,170	795	1,265	1,842	2,003
Funds from operations (FFO)	686	313	682	1,268	1,395
Adjusted interest expense	327	392	328	249	233
Real estate development investments	16,909	18,403	18,170	19,693	17,871
Total assets	22,729	23,777	23,619	23,473	21,250
Adjusted debt	8,889	10,690	9,328	7,696	5,112
Adjusted equity	11,754	11,397	11,822	13,159	12,935
Adjusted Ratios					
EBITDA margin (%)	13.93	14.24	16.98	18.36	17.74
Pretax return on permanent capital (%)	5.44 **	3.07	5.36	8.80	10.37
EBITDA interest coverage (times)	3.58	2.03	3.86	7.41	8.61
Debt to EBITDA (times)	6.73 **	13.44	7.37	4.18	2.55
FFO to debt (%)	7.99**	2.93	7.32	16.47	27.28
Debt to capitalization (%)	43.06	48.40	44.10	36.90	28.32

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- 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
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 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