

NOBLE DEVELOPMENT PLC

No. 225/2024
29 November 2024

CORPORATES

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

Last Review Date: 05/07/24

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 19/10/20 | BBB | Stable |
| 01/03/19 | BBB | Negative |
| 28/12/17 | BBB | Stable |
| 06/11/15 | BBB | Negative |
| 04/01/13 | BBB | Stable |
| 08/09/06 | BBB+ | Stable |
| 12/07/04 | BBB | Stable |
| 14/10/03 | BBB | - |

Contacts:

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Bundit Pommata
bundit@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 Noble Development PLC (NOBLE) and the ratings on its existing senior unsecured debentures at “BBB”, with a “stable” rating outlook. At the same time, we assign a rating of “BBB” to NOBLE’s proposed issue of up to THB1.8 billion senior unsecured debentures due within three years. The proceeds from the new debentures are intended to be used to repay debentures coming due in January 2025.

The ratings reflect NOBLE’s relatively strong market position in the affordable to high-end condominium segment, a substantial backlog that will partially secure future revenue and earnings, and adequate liquidity. However, the ratings are constrained by the company’s relatively high financial leverage, volatile performance, and declining profit margins amidst the intense competition and unfavorable market condition.

KEY RATING CONSIDERATIONS

Well-established brands in the affordable to high-end condominium segment

NOBLE’s competitive position in the middle- to high-end condominium segment is bolstered by its well-recognized brands, prime project locations, and distinctive designs. In 2023, NOBLE’s presales, including both its owned and joint venture (JV) projects, experienced a 20% year-on-year (y-o-y) increase, reaching THB11.1 billion. The momentum continued into the first nine months of 2024 (9M24), with presales surging to THB15.8 billion. Presales from condominium projects accounted for around 70% of the total presales in 2023 and nearly all of the presales in 9M24. Looking ahead, we expect the company to generate presales of around THB9-THB12 billion per annum in 2025-2026.

Diversifying into landed properties could reduce performance volatility

Given NOBLE’s focus on the condominium segment, its presales performance over the past five years has been quite volatile, fluctuating between THB4 billion and THB16 billion. Its EBITDA has also seen significant variations, ranging between THB1.3-THB5.0 billion. To mitigate these fluctuations and strengthen its portfolio in the long term, NOBLE has ventured into landed property projects, launching more single-detached houses (SDHs), townhouses, and land plots since 2021. As of September 2024, NOBLE’s project portfolio includes 18 condominium projects (13 owned and five JVs) and 14 landed property projects (nine owned and five JVs). The total value of unsold units, both built and unbuilt units, was THB39 billion, with 30% of the total being landed properties.

Despite these diversification efforts, NOBLE’s revenues and earnings remain concentrated on condominiums, accounting for more than 50% of its total revenues. Although the revenue contribution from landed property projects has been increasing, it has remained less than 15% of its total revenues in recent years. In our view, it will take time for the company to establish a stronghold in its landed property portfolio.

Future revenue and earnings partially secured by substantial backlog

Given its substantial backlog, we expect that NOBLE will achieve operating performance that aligns with our targets in 2024-2026. Our base-case scenario projects NOBLE’s total operating revenue to range approximately THB9-THB11 billion per annum during 2024-2026. Revenue from residential sales is

expected to contribute around 60%-70% of the total operating revenue. Additionally, revenue from turnkey constructions and marketing services provided to its JVs is likely to reach nearly the THB5 billion level in 2024, and maintain at THB2-THB3 billion per annum in 2025-2026, following the construction and presales progress from JV projects. We project NOBLE's EBITDA to range between THB1.5-THB2.0 billion throughout the forecast period.

As of September 2024, NOBLE's total backlog stood at THB27 billion, with approximately half stemming from JVs. We anticipate that NOBLE will deliver backlog totaling THB6 billion in the last quarter of this year, THB9 billion in 2025, and THB5.5-THB6.0 billion annually in 2027-2028. Despite there is no backlog scheduled to be delivered in 2026, we expect that revenue and earnings will come from sales from both upcoming new projects and unsold inventory in ready-to-move projects. As of September 2024, NOBLE had unsold completed inventory worth THB9.2 billion, which can be recognized as either revenue or shared profit from JVs immediately upon sale.

Profit margin recovery anticipated in 2025-2026

We assess that NOBLE's profitability has reached its lowest point this year. The gross profit margin from residential sales declined to 24% of total revenue in 9M24, down from over 30% in previous years. This decline is attributed to the intense competition and unfavorable market condition. Therefore, the company had to use pricing strategy to accelerate the sale of some ready-to-move condominium projects. Additionally, the increased revenue contribution from turnkey construction through JVs, which typically yields relatively low margins, further reduced the overall gross profit margin in 2024. NOBLE's EBITDA margin fell below the industry average of 15%-25%, and its net profit margin was only 3% in 9M24.

However, we anticipate that NOBLE's profit margin will begin to recover starting in 2025. The gross profit margin from residential sales is expected to improve to 28%-30% in 2025-2026, driven by higher profit margins from the scheduled transfer of condominium backlog and some landed property projects. The profit margin generated from turnkey construction is projected to hover around 10%. We foresee NOBLE continuing to incur shared losses from its investments in JVs, with a turnaround to profitability expected in 2026. Consequently, the EBITDA margin is projected to gradually increase to nearly 20% in 2026, up from a low of 14% in 2024. The pretax return on permanent capital (ROPC) is expected to recover to 7% in 2026 from 5% in 2024. We project the net profit margin to remain above 5% throughout the forecast period.

Relatively high financial leverage

Given its aggressive project expansion coupled with lower-than-expected transfer volumes in 2022-9M24, NOBLE's debt to capitalization ratio has remained above 70%. The funds from operations (FFO) to debt ratio declined to 1% in 9M24, down from 3%-6% in the past two years. Nonetheless, we anticipate that transfer volumes from both its own and JV projects will revive, reaching THB12-THB13 billion annually in 2025-2026, along with an expected improvement in profit margin. Consequently, these factors should bring the debt to capitalization ratio down to below 70% and improve the FFO to debt ratio to above 5% from 2025 onwards.

Our base-case scenario projects NOBLE to launch new residential projects, both owned and JVs, worth approximately THB40 billion over the period of 2024-2026. Around three-fourths of the total new projects will be allocated to condominium developments. We estimate the annual budget for land acquisition (for its own projects) to be THB2 billion and the annual capital expenditures for construction (for its own projects) to be THB2-THB3 billion. Additionally, we estimate equity injections into JVs to be around THB2 billion over 2024-2026 and dividend payments of 40%-60% of net profit.

Adequate liquidity

We assess NOBLE's liquidity to be adequate over the next 12 months. As of September 2024, NOBLE's sources of liquidity included THB2.1 billion cash and cash equivalents plus THB2.4 billion undrawn conditional credit facilities from banks. FFO over the next 12 months are forecast to be around THB1 billion. In addition, NOBLE had unencumbered assets at book value worth THB900 million and remaining finished units in debt-free projects with a total selling price of THB2.2 billion, which could be pledged as collateral for new credit facilities, if needed.

NOBLE's debts maturing in the next 12 months will amount to THB5.2 billion, consisting of THB4.3 billion debentures, THB0.8 billion bridging-loan promissory notes (P/Ns), and the remainder in long-term project loans and lease liabilities. The company normally refinances its maturing debentures by new debenture issuance, while the bridging-loan P/Ns for land purchases will be converted to long-term project loans thereafter. Project loans are normally repaid with cash received from the underlying projects' unit transfers.

The financial covenants on NOBLE's debentures and bank loans require the company to maintain its net interest-bearing debt to equity ratio below 2.5 times (excluding lease liabilities). As of September 2024, the ratio was 2.1 times. We expect the company to remain in compliance with the financial covenants over the next 12 months.

Debt structure

As of September 2024, NOBLE had total consolidated debts of THB14.9 billion. NOBLE's priority debt, including secured debt at the company and total debts at the subsidiaries, was THB6.1 billion. This translates to a priority debt to total debt ratio of 41%.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for NOBLE's operations in 2024-2026:

- New condominium project launches (including its own and JV projects) worth THB15 billion in 2024, THB3 billion in 2025, and THB12 billion in 2026
- New landed property project launches (including its own and JV projects) worth THB3-THB4 billion per annum
- Annual budget for land acquisition (for its own projects) of around THB2 billion
- Total operating revenue to hover around THB11 billion annually in 2024-2025, followed by a decline to THB9.5 billion in 2026
- EBITDA margin to recover to 17%-19% in 2025-2026 from the bottom of 14% in 2024

RATING OUTLOOK

The "stable" outlook reflects our expectation that NOBLE will achieve operational performance and strengthen its financial profile aligning with our targets. We expect NOBLE's debt to capitalization ratio to improve to a level below 70% and FFO to debt ratio to remain above 5% from 2025 onwards.

RATING SENSITIVITIES

A downward revision of the ratings and/or outlook may occur if the company's operating performance and/or financial profile significantly deviate from our expectations, particularly in absence of an imminent recovery. Conversely, the ratings and/or outlook could be revised upward if NOBLE's business scale enlarges and its financial position improves substantially, ensuring that the debt to capitalization ratio remains below 60% and the FFO to debt ratio stays in the 10%-15% range on a sustained basis.

COMPANY OVERVIEW

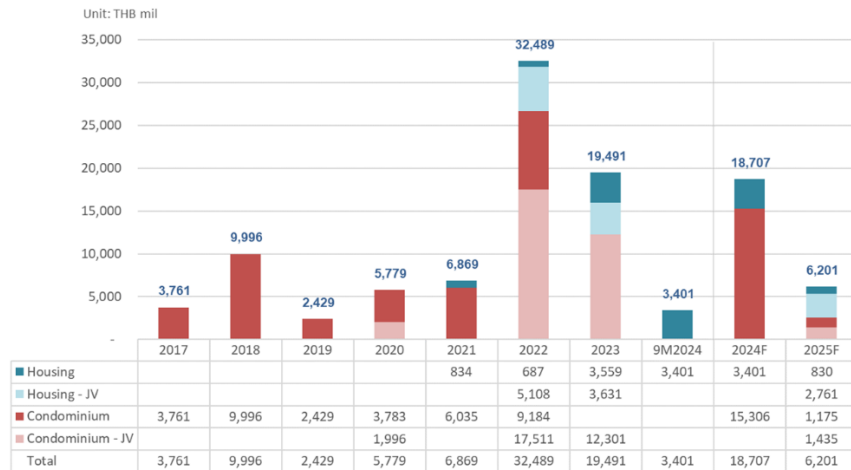
NOBLE was founded in 1991 and listed on the Stock Exchange of Thailand (SET) in November 1996. During 2018-2019, the company's shareholding structure and management underwent some changes. Mr. Thongchai Busrapan, a former Vice Chairman and President of NOBLE, and Fulcrum Global Capital, a real estate investor and distributor based in Hong Kong, became the major shareholders. As of September 2024, Mr. Thongchai Busrapan and Mr. Frank Fung Kuen Leung, a representative of Fulcrum Global Capital, each directly and indirectly held a 20% stake in NOBLE. Mr. Thongchai Busrapan and Mr. Frank Fung Kuen Leung are Co-Chief Executive Officers.

NOBLE highly focused on the middle- to high-end condominium segment, with prices ranging from THB120,000-THB260,000 per square meter (sq.m.). NOBLE launched the "Nue" brand to tap into the more affordably priced segment in 2018. The "Nue" brand targets the condominium segment with prices of THB60,000-THB160,000 per sq.m. In order to mitigate revenue and earnings volatility, NOBLE has steadily increased the number of landed property projects over the past three years. NOBLE targets the high-end SDH segment with selling prices above THB35 million per unit, the middle- to high-end SDH and townhouses segment with unit prices of THB15-THB25 million, and the affordable- to middle-priced semi-DH and townhouses segments with selling prices of THB7-THB18 million per unit.

Almost all of NOBLE's condominium projects are situated along mass transit lines, while most of its landed property projects are located in the outskirts of Bangkok. The company's unique designs differentiate its products from those of other property developers.

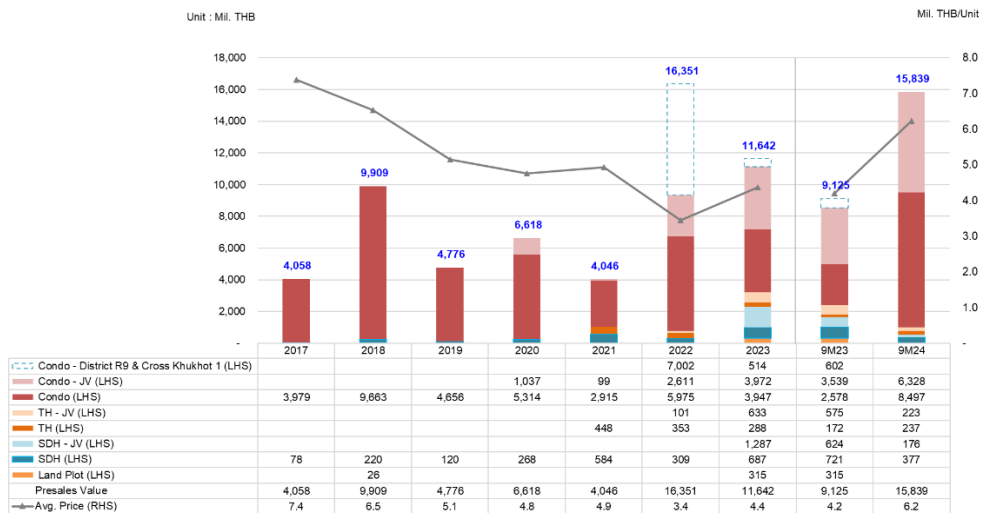
KEY OPERATING PERFORMANCE

Chart 1: New Project Launches



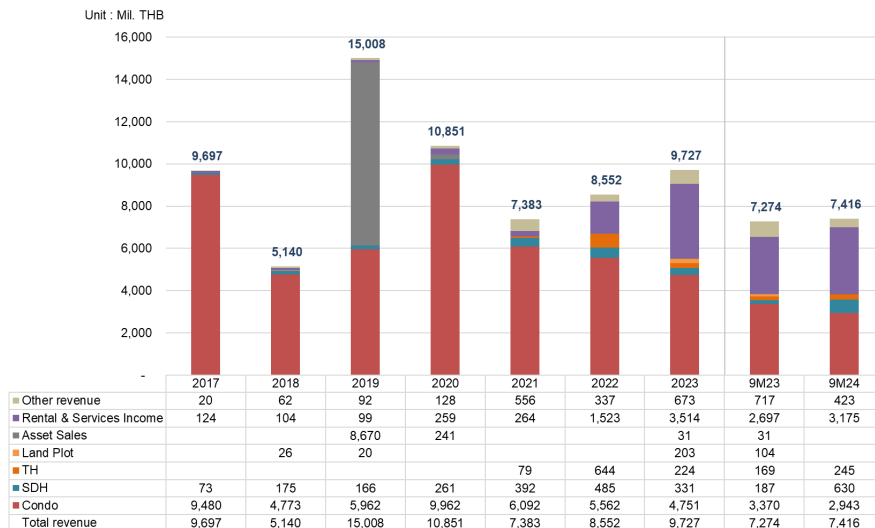
Source: NOBLE

Chart 2: Presales Performance



Source: NOBLE

Chart 3: Revenue Breakdown



Source: NOBLE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | Jan-Sep 2024 | -----Year Ended 31 December ----- | | | |
|---|-----------------|-----------------------------------|--------|--------|--------|
| | | 2023 | 2022 | 2021 | 2020 |
| Total operating revenues | 7,416 | 9,726 | 8,552 | 7,383 | 10,851 |
| Earnings before interest and taxes (EBIT) | 866 | 1,821 | 1,134 | 1,699 | 3,065 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 956 | 1,985 | 1,341 | 1,840 | 3,153 |
| Funds from operations (FFO) | 127 | 944 | 492 | 987 | 2,236 |
| Adjusted interest expense | 649 | 787 | 640 | 435 | 472 |
| Real estate development investments | 15,820 | 15,688 | 14,037 | 13,992 | 13,565 |
| Total assets | 26,949 | 26,269 | 22,496 | 20,280 | 19,198 |
| Adjusted debt | 16,934 | 16,749 | 15,228 | 12,379 | 8,040 |
| Adjusted equity | 6,216 | 6,456 | 5,942 | 5,628 | 5,864 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 12.9 | 20.4 | 15.7 | 24.9 | 29.1 |
| Pretax return on permanent capital (%) | 4.8 ** | 7.5 | 5.3 | 9.6 | 19.1 |
| EBITDA interest coverage (times) | 1.5 | 2.5 | 2.1 | 4.2 | 6.7 |
| Debt to EBITDA (times) | 12.9 ** | 8.4 | 11.4 | 6.7 | 2.5 |
| FFO to debt (%) | 1.2 ** | 5.6 | 3.2 | 8.0 | 27.8 |
| Debt to capitalization (%) | 73.1 | 72.2 | 71.9 | 68.7 | 57.8 |

* 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

Noble Development PLC (NOBLE)

| | |
|---|--------|
| Company Rating: | BBB |
| Issue Ratings: | |
| NOBLE251A: THB1,800 million senior unsecured debentures due 2025 | BBB |
| NOBLE256A: THB1,200 million senior unsecured debentures due 2025 | BBB |
| NOBLE256B: THB983.9 million senior unsecured debentures due 2025 | BBB |
| NOBLE264A: THB2,500 million senior unsecured debentures due 2026 | BBB |
| NOBLE269A: THB1,000 million senior unsecured debentures due 2026 | BBB |
| NOBLE26DA: THB807.6 million senior unsecured debentures due 2026 | BBB |
| NOBLE273A: THB300 million senior unsecured debentures due 2027 | BBB |
| Up to THB1,800 million senior unsecured debentures due within 3 years | 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 2024, 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