

NOBLE DEVELOPMENT PLC

No. 237/2023
30 November 2023

CORPORATES

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

Last Review Date: 25/08/23

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	-

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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 THB2.1 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 2024.

The ratings reflect NOBLE’s relatively strong market presence in the affordable- to high-end condominium segment and its large backlog, which will partially secure future revenue streams. The ratings are, however, constrained by an expected softening of the profit margin and high financial leverage from aggressive project expansion. Nonetheless, we expect NOBLE’s financial leverage should improve in line with our targets in the following years. The ratings also incorporate our concerns over interest rate hikes and the reimposition of the loan-to-value (LTV) rules, which could negatively impact demand for residential property in the short to medium term.

KEY RATING CONSIDERATIONS

Well-recognized brands in the affordable to high-end segment

In our view, NOBLE’s competitive edge in the middle- to high-end condominium segment is underpinned by its well-recognized brands, prime project locations, and unique designs. Since 2018, NOBLE has expanded its product portfolio by adding the “Nue” brand to capture the affordably priced segment. “Nue” brand products are priced between THB2-THB6 million per unit. Projects under the “Nue” brand have received a good market response. As of September 2023, most projects under the brand have achieved presales exceeding 40%. “Nue” brand presales contributed 80% of total presales (excluding presales from two joint-venture (JVs) projects sold to Proud Real Estate PLC (PROUD)) in 2022 and around half in the first nine months of 2023 (9M2023).

Apart from tapping this new price segment, NOBLE has also launched more landed property projects, comprising single-detached houses (SDHs), townhouses, and land plots since 2021. Its products cover the affordable to high-end segments, with unit prices ranging from THB7 million to THB110 million. As of September 2023, landed property projects constituted around one-fourth of the total portfolio value, marking a significant rise from around 5% in 2021. The presales generated from these landed property projects increased to THB2.4 billion in 9M2023 from THB0.8-THB1.0 billion annually in 2021-2022. In our view, the expansion through various price segments of landed property, if successful, will help broaden NOBLE’s product offerings and enlarge its customer base. This should alleviate fluctuations in operating performance and strengthen NOBLE’s portfolio in the long run.

Large backlog partly secures future revenue

Given its substantial amount of backlog and a more diversified product portfolio, NOBLE’s operating performance should continue to grow with less of volatility compared to previous years. Our base-case scenario projects annual operating revenue in the range of approximately THB10-THB13 billion over the next three years, increasing from the range of THB7-THB9 billion in 2021-2022. Residential sales are expected to contribute around 60%-70% of the total operating revenue. Additionally, revenue from turnkey constructions

and marketing services provided to its JVs should rise to THB3.5-THB4.0 billion annually in 2023-2025, from THB1.5 billion in 2022, following progress in the construction of respective JV projects. We project NOBLE's earnings before interest, taxes, depreciation, and amortization (EBITDA) to hover around THB2.0-THB2.5 billion per annum over the forecast period.

NOBLE's projected revenue and earnings are based on our assumption that the company will be able to deliver its large backlog as scheduled. As of September 2023, NOBLE's total backlog amounted to THB17.3 billion, with roughly half originating from JVs. We expect the backlog to be transferred from the last quarter of 2023 through 2025. NOBLE's existing project portfolio consisted of 13 own condominium projects, four JV condominium projects, five own landed property projects, and five JV landed property projects. Total unsold project value (including built and unbuilt units) amounted to THB28 billion. NOBLE had unsold completed inventory worth THB9.8 billion, which can be recognized as either revenue or shared profit from JVs immediately upon sale.

Softening profit margin anticipated

We anticipate the growing revenue contribution from landed property projects and turnkey construction through JVs will temper the company's profit margin in 2023-2025. This is because landed property projects generally yield lower margins than condominium projects, while turnkey construction has relatively thin margins. NOBLE's profitability is also under pressure from rising development costs coupled with intense competition among the leading property developers.

Our base-case scenario forecasts a gross profit margin for residential sales of 30%-31% in 2023-2025, lower than the 35%-40% recorded in 2019-2021, as we project the revenue contribution from landed property projects will increase to 10%-20% of total operating revenue. We expect the gross profit margin from turnkey construction to be slim at 3%-5%. However, NOBLE gained a total profit of around THB700 million from share disposal and related fees from its divestment of two JV projects in the third quarter of 2023. This will help top up the company's profitability this year. Overall, we expect NOBLE's EBITDA margin to hold at 22%-23% in 2023, but it will likely decline to 17%-20% in 2024-2025. NOBLE's bottom line should remain in the 7%-10% range throughout the forecast period.

High financial leverage but a lower ratio expected

Although NOBLE's financial leverage, as measured by the debt to capitalization ratio, remained high at 73% as of September 2023, we expect the ratio to gradually decline from the final quarter of this year. NOBLE's aggressive project expansion coupled with lower-than-expected transfer volume has caused its financial leverage to hover at a high level. Nonetheless, we expect transfer volumes from both its own and JV projects to pick up, reaching THB8 billion in 2023 and THB12-THB15 billion annually in 2024-2025. This should bring the debt to capitalization ratio down to around 70% from the end of 2023 through 2024, before further dropping to 67% in 2025. NOBLE's funds from operations (FFO) to debt ratio strengthened to 7% in 9M2023 from 3% in 2022, thanks to a gain recorded from the divestment of two JV projects to PROUD. We expect NOBLE to sustain the FFO to debt ratio above 5% over the forecast period.

Under our base-case scenario, we assume NOBLE to launch new residential projects, both owned and under JVs, worth around THB19 billion in 2023 and THB15-THB17 billion per annum in 2024-2025. Around 60% of the new projects will be condominium projects. We estimate the yearly budget for land acquisition will range between THB1.5-THB3.0 billion with capital expenditures for the construction of its own projects of THB2.0-THB3.5 billion annually.

At the end of September 2023, NOBLE had total consolidated debt of THB14.4 billion. NOBLE's priority debt, including secured debt at the company and its subsidiaries, was THB5.3 billion. This translates to a priority debt to total debt ratio of 37%.

Manageable liquidity

We assess NOBLE's liquidity to be manageable over the next 12 months. As of September 2023, NOBLE had debts of THB4.4 billion coming due in the next 12 months, comprising THB3.2 billion debentures, THB800 million bridging-loan promissory notes (P/Ns), THB200 million bill of exchange (B/Es), and THB200 million long-term project loans. The company plans to refinance the maturing debentures with new debenture issues and internal cash. We expect the bridging-loan P/Ns for land purchases to be converted to long-term project loans thereafter and the B/Es to either be rolled over or repaid within the next 12 months. Project loans are normally repaid with cash received from the underlying projects' unit transfers. In addition, we estimate equity injections in JVs of around THB700 million to THB1 billion per annum in 2023-2025 and dividend payments of 40%-50% of net profit.

NOBLE's sources of liquidity included cash and cash equivalents of THB900 million, undrawn conditional credit facilities of THB3.5 billion, and expected FFO in the next 12 months of THB1 billion. Besides, NOBLE had unencumbered assets at book value of THB800 million and remaining finished units in debt-free projects with a total selling price of THB2.1 billion, which could be pledged as collateral for bank loans, if needed.

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. As of September 2023, the ratio was 2.2 times. We expect the company to remain in compliance 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 NOBLE's operations in 2023-2025:

- NOBLE to launch new condominium projects (own and JV) worth around THB12 billion in 2023 and THB8-THB10 billion per annum in 2024-2025
- NOBLE to launch new landed property projects (own and JV) worth THB6-THB7 billion per annum
- Budget for land acquisition of THB1.5 billion in 2023 and around THB3 billion per annum in 2024-2025
- Total operating revenue to hover in the THB10-THB13 billion per annum range, with 60%-70% of revenue from residential sales
- EBITDA margin to stay in the 22%-23% range in 2023, but weakening to 17%-20% in 2024-2025

RATING OUTLOOK

The "stable" outlook reflects our expectation that NOBLE will be able to deliver operating results and strengthen its financial profile in line with our targets. We expect NOBLE's debt to capitalization ratio to remain around 70% in 2023-2024 before improving to a level below 70% from 2025 onwards. NOBLE's FFO to debt ratio should remain above 5% over the forecast period.

RATING SENSITIVITIES

A downward revision of the ratings and/or outlook could emerge if the company's operating performance and/or financial profile deviate significantly from our expectations, in absence of signs of a near-term recovery. On the contrary, the ratings and/or outlook could be revised upward if NOBLE's business scale enlarges and its financial position improves substantially, such 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

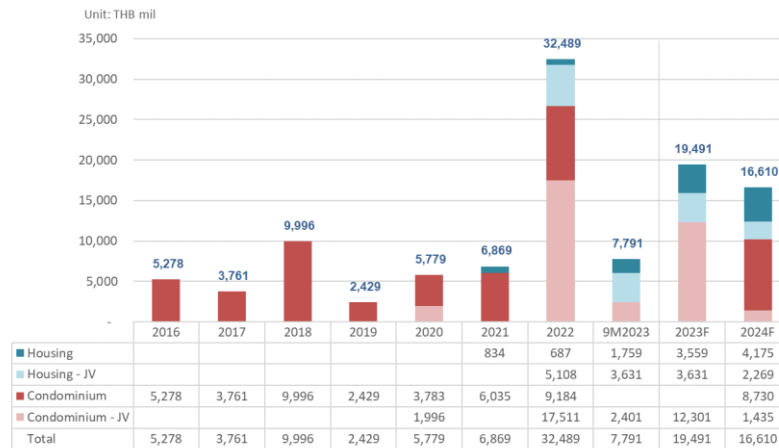
NOBLE was founded in 1991 and listed on the Stock Exchange of Thailand (SET) in November 1996. During 2018-2019, the company's shareholding structure and management underwent some changes. Mr. Thongchai Busrapan, a former Vice Chairman and President of NOBLE, and Fulcrum Global Capital, a real estate investor and distributor based in Hong Kong, became the major shareholders. As of September 2023, 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 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.

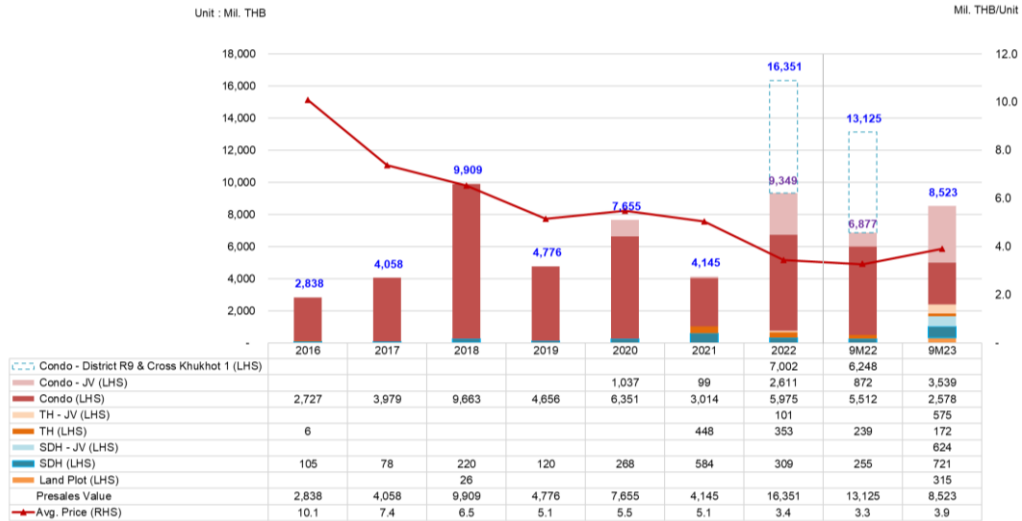
KEY OPERATING PERFORMANCE

Chart 1: New Project Launches



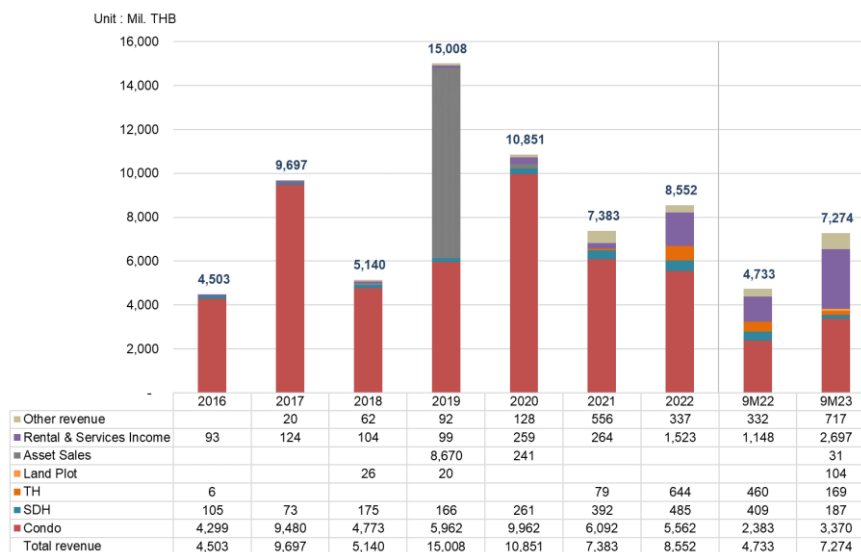
Source: NOBLE

Chart 2: Presales Performance



Source: NOBLE

Chart 3: Revenue Breakdown



Source: NOBLE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	7,274	8,552	7,383	10,851	15,008
Earnings before interest and taxes (EBIT)	1,501	1,134	1,699	3,065	5,004
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,627	1,341	1,840	3,153	5,059
Funds from operations (FFO)	866	492	987	2,236	3,667
Adjusted interest expense	569	640	435	472	671
Real estate development investments	15,497	14,037	13,992	13,565	16,048
Total assets	24,762	22,496	20,280	19,198	21,631
Adjusted debt	16,583	15,228	12,379	8,040	9,216
Adjusted equity	6,275	5,942	5,628	5,864	5,479
Adjusted Ratios					
EBITDA margin (%)	22.37	15.68	24.91	29.06	33.70
Pretax return on permanent capital (%)	8.97 **	5.34	9.64	19.06	26.60
EBITDA interest coverage (times)	2.86	2.09	4.23	6.68	7.54
Debt to EBITDA (times)	7.23 **	11.35	6.73	2.55	1.82
FFO to debt (%)	7.31 **	3.23	7.97	27.81	39.79
Debt to capitalization (%)	72.55	71.93	68.75	57.83	62.71

* 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:	
NOBLE242A: THB1,800 million senior unsecured debentures due 2024	BBB
NOBLE249A: THB700 million senior unsecured debentures due 2024	BBB
NOBLE251A: THB1,800 million senior unsecured debentures due 2025	BBB
NOBLE256A: THB1,200 million senior unsecured debentures due 2025	BBB
NOBLE264A: THB2,500 million senior unsecured debentures due 2026	BBB
Up to THB2,100 million senior unsecured debentures due within 3 years	BBB
Rating Outlook:	Stable

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