FRASERS PROPERTY HOLDINGS (THAILAND) CO., LTD.

No. 252/2023
28 December 2023

CORPORATES

Issue Ratings:

Guaranteed	AA-
Outlook:	Stable

Last Review Date: 23/12/22

Company Rating History:

Date	Rating	Outlook/Alert
23/12/22	AA-	Stable
18/12/20	AA-	Negative
23/11/17	AA-	Stable

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RATIONALE

TRIS Rating affirms the ratings on the outstanding guaranteed debentures of Frasers Property Holdings (Thailand) Co., Ltd. (FPHT or Issuer) at "AA-", with a "stable" rating outlook. The debentures are issued under FPHT's THB25 billion debenture program and fully guaranteed by Frasers Property Ltd. (FPL or Guarantor). FPHT is a wholly owned subsidiary of FPL. The issue ratings reflect the creditworthiness of the Guarantor (rated "AA-/stable").

The ratings reflect the resilient operating performance of FPL underpinned by its well-diversified portfolio across asset classes and geographies, the continued pace of recovery for the hospitality business, resilient retail operations, and expected solid industrial and logistics performance from high occupancies and sound rental growth. The ratings though are weighed down by a challenging environment for commercial and residential businesses as well as the company's high financial leverage from its portfolio expansion.

Under the terms of the guarantee agreement, FPL provides an unconditional and irrevocable guarantee for all amounts due under the terms of the debentures, including the principal, accrued interest, and other related expenses. The guaranteed debentures will rank pari passu with all other unsecured and unsubordinated obligations of FPL. The guarantee agreement is governed by the law of Singapore.

KEY RATING CONSIDERATIONS

Resilient performance from well-diversified portfolio

FPL's resilient operating performance is underpinned by its well-diversified portfolio across asset classes and geographies. Around 90% of FPL's portfolio is made up of recurring income asset classes (industrial and logistics, retail, commercial and business parks, and hospitality) and the rest is in the residential development asset class. In terms of geographical diversification, FPL's property assets are mainly located in Singapore, Australia, Europe and the UK, and Thailand. The satisfactory level of recurring-income-based asset classes provide FPL with revenue and cashflow stability while its geographical diversification helps mitigate against the downside risk from the downturn in some markets.

FPL demonstrated its resilient operating performance in fiscal year (FY) 2023, growing its revenue and profit before interest and taxes (PBIT) by 2% and 5% to SGD3.95 billion and SGD1.31 billion, respectively, despite several macroeconomic headwinds from rising interest rates, inflation, and geopolitical uncertainty. However, the company suffered the net fair value losses of SGD446 million related to its industrial and logistics assets in Australia, Europe and the UK, and commercial assets in the UK given higher capitalization rate. Its bottom line though remained resilient with a positive bottom line of SGD295 million. This was buoyed by improvement in FPL's operations especially in hospitality business on higher occupancy and room rates following the recovery of tourism as well as stronger contribution from residential projects in Singapore and China.

Continued sound performance for hospitality business with resilient retail business

The recovery in FPL's hospitality business performance will likely continue during FY2024-FY2026, driven by the ongoing recovery of international tourism. FPL reported its hospitality business's PBIT of SGD129 million in FY2023, compared with SGD101 million in FY2022 and SGD132 million in the pre-pandemic FY2019. The occupancies and room rates improved to near pre-pandemic levels in FY2023 and are expected to surpass these levels in FY2024.

For the retail business, the acquisition of the suburban mall, "NEX", helps strengthen FPL's leading market position in the suburban retail mall segment in Singapore. The demand for suburban retail malls in Singapore is fairly resilient given the unique characteristics, limited retail space, and its focus on nondiscretionary spending. In FY2023, FPL reported PBIT from the retail business at SGD377 million, a material increase from the previous year thanks to a high occupancy rate, stable portfolio valuation, and its strategic acquisitions in NEX. We expect the retail performance to continue to be resilient driven by satisfactory tenants' sales, shopper traffic, and the high proportion of nondiscretionary tenants. Higher contribution from NEX is also expected considering the full-year recognition of share of profits and its strong occupancies.

Softer industrial and logistics performance from valuation impact but improvement anticipated

FPL's industrial and logistics business was negatively impacted by higher capitalization rate amid a high interest rate environment. In FY2023, FPL reported PBIT from the industrial segment of SGD353 million, a 23% decrease from SGD460 million in FY2022. The decrease was mainly from the softened fair value of industrial and logistics assets while the sound rental growth helped partially offset the impact. Given the supply constraints from higher land prices and construction costs, assets in Australia and the EU reflected the very high occupancy rate of 97%-100% with weighted average lease expiries of 5-6 years at the end of FY2023. In Thailand and Vietnam, the factory for rent business continues to benefit from manufacturing relocation, especially from China; production capacity expansion; and the growth of e-commerce. The occupancy rate remains high at around 87% for Thailand and 100% for Vietnam.

Looking ahead, we expect FPL's industrial and logistics business to continue to generate stable and reliable revenue and cash flow buoyed by its diversified industrial and logistics assets, located mainly in Australia, Germany, the Netherlands, the UK, Thailand, and Vietnam. We expect the industrial and logistics business to continue benefiting from the megatrend driving demand, such as e-commerce, urbanization, and supply chain resilience. Sustained low vacancy continues to support rental growth in Australia and the EU assets. We expect FPL to prioritize its investments in industrial assets with FPL's total capital expenditure (CAPEX) of SGD2.3-SGD4.3 billion per annum during FY2024-FY2026.

Challenging prospect for commercial and residential assets

FPL's commercial portfolio comprises mainly offices and business parks in Singapore, Australia, Thailand, and the UK. Commercial properties in Singapore remain healthy with occupancy rates of around 96% thanks to strong demand given the country's status as a global financial hub. In Thailand, its commercial assets enjoy improved occupancy rates of around 92% supported by stronger demand for premium Grade A offices to improve workplace quality. In Australia, average occupancy rates remained subdued at around 55% in FY2023, mainly due to the company's voluntary non-renewal for the upcoming development of "Central Place Sydney". In the UK, average occupancy rates remain flat at around 88% with weighted average lease expiries of around six years. High interest rates and slower demand for office space continue to pressure leasing activities. We expect the performance of commercial assets to remain challenging in light of the recent economic uncertainties, high interest rates environment, and hybrid working trends. These headwinds could dampen the demand for office space, occupancy rates, rental revisions, and lease expiry profile.

For the residential property business, revenues slightly improved in FY2023 to SGD1.73 billion, compared with SGD1.69 billion in FY2022. The increase was mainly attributed to strong contributions from Australia and China. We expect stronger contributions from Australia and Singapore during FY2024-FY2026 while the residential markets in Thailand and China will remain challenging given interest rate hikes, slower housing demand, and uncertain macroeconomic conditions. We project the residential sales to be in the range of SGD1.75-SGD2.35 billion per annum during FY2024-FY2026. Its residential revenue considers the development pipeline in all operating markets of more than 12,000 units with unrecognized revenue of SGD2.6 billion as of September 2023.

Financial leverage remains high

FPL's financial leverage remained high in FY2023 due to its continued expansion in its asset classes and the acquisition of NEX. The company's adjusted debt, including lease obligations and perpetual securities, stood at SGD15.5 billion in FY2023, compared with SGD14.7 billion in FY2022. The adjusted debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio expanded to 10.5 times, from 9 times in FY2022. Our base-case assumption projects FPL's adjusted debt to EBITDA ratio to range between 10.6-11.4 times. The projection is based on a revenue forecast of SGD4.0-SGD4.5 billion per annum during FY2024-FY2026. EBITDA margin is projected to hover around 36%-41% over the forecast period underpinned by improved hospitality and resilient industrial and logistics performance. This will translate into EBITDA of SGD1.5-SGD1.8 billion per annum during FY2024-FY2026.

Given FPL's expansion plan, its adjusted debt is expected to increase to around SGD18-SGD20 billion over the forecast period. However, we expect the company to manage its financial leverage and capital structure to be in line within our targets through asset recycling as well as through capital partnerships. The company normally monetizes its investment properties through its real estate investment trusts (REITs) or divests them to third parties. Under FPL's financial policy, the company aims to keep its net debt to equity ratio below 0.8 times. As of September 2023, the ratio was 0.76 times. Its debt profile remained resilient with the average weighted debt maturity at 2.6 years and average cost of debt at 3.5% in FY2023, increasing from 2.7% in FY2022. Given the current interest rate environment, we expect the average cost of debt to further rise but only slightly to around 3.8%-4.0% over the forecast period considering the high proportion of fixed rate debt. EBITDA interest coverage ratio is projected to remain in the 2-3 times range during FY2024-FY2026.

High levels of priority debt mitigated by well-diversified portfolio

As of September 2023, FPL had a total of SGD17.4 billion of interest-bearing debt (including perpetual securities). Of this, SGD2.0 billion was secured debt and SGD14.4 billion was unsecured debt at the subsidiaries' level. The relatively higher proportion of subsidiaries' debt is because FPL has its majority of its assets with overseas subsidiaries. FPL hedges most of its foreign currency exposure of the overseas assets by borrowing overseas in the local currencies. The ratio of priority debt to total debt was 71%, exceeding our 50% threshold that generally indicates unsecured creditors' disadvantaged position to priority debtholders. However, FPL has multiple operating entities which are independent from each other with no single unit contributing more than 50% of total earnings or cash flow, which in our view should meaningfully mitigate the subordination risk of its unsecured creditors. We therefore rate FPL's guarantee obligations at the same level as the issuer rating on FPL at "AA-".

Adequate liquidity

We assess FPL's liquidity as adequate over the next 12 months from the end of September 2023. Primary uses of funds include scheduled debt repayments of SGD3.8 billion, a dividend payment estimated at around 50% of its core earnings per annum, CAPEX and investments of around SGD2.2 billion in FY2024. Sources of funds are cash and cash equivalents of SGD2.7 billion at the end of September 2023, funds from operations (FFO) estimated at SGD580-SGD810 million, and some unused bank facilities. With its capability to access capital markets, the company is poised to easily refinance its debts. Also, the company could also recycle some of its investment properties, if required.

BASE-CASE ASSUMPTIONS

- Revenues to range from SGD4.0-SGD4.5 billion per annum during FY2024-FY2026.
- EBITDA of SGD1.5-SGD1.8 billion per annum during FY2024-FY2026.
- CAPEX of SGD2.2-SGD4.3 billion per annum during FY2024-FY2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that FPL should be able to deliver an operating performance as targeted. We also expect an improving operating performance of hospitality business post pandemic. We further expect resilient operating results for the industrial and logistics assets to help cushion against economic headwinds and safeguard its earnings generation.

RATING SENSITIVITIES

The issue ratings and/or outlook could change if the rating and/or outlook on the guarantor, FPL, changes. FPL's rating could be downgraded if its leverage as measured by the adjusted debt to EBITDA ratio exceeds 12 times for an extended period, either from deteriorating operating results or aggressive debt-funded acquisitions. A rating upgrade could occur if FPL improves its leverage such that the adjusted debt to EBITDA ratio stays below 7 times on a sustained basis.

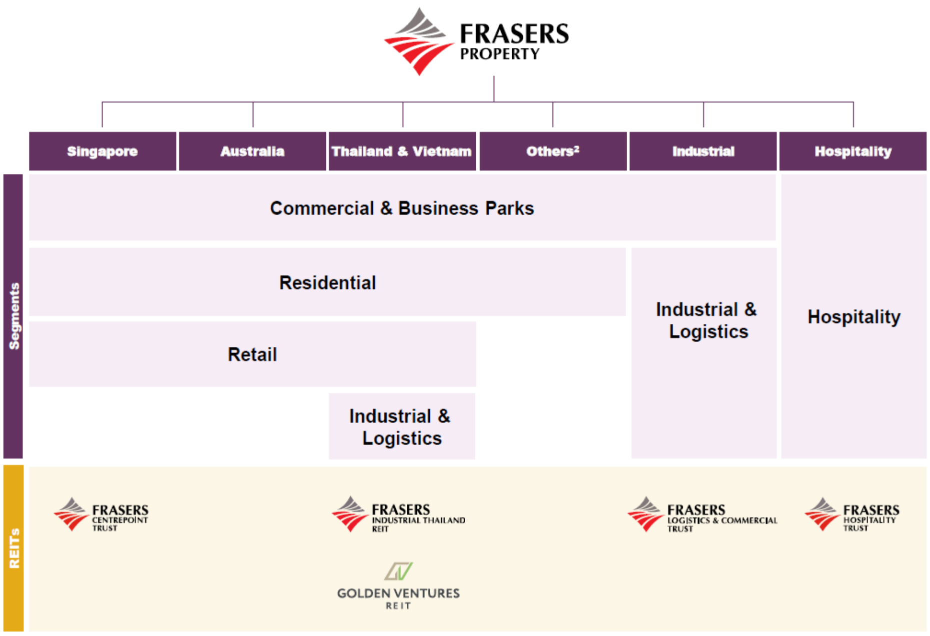
COMPANY OVERVIEW

FPL, the guarantor, is an integrated international real estate company based in Singapore. It was listed on the Mainboard of the Singapore Exchange Securities Trading Ltd. (SGX-ST) in 2014. Thai Charoen Corporation Group (TCC Group) is the major shareholder, holding around 87% of FPL's outstanding shares. FPL has four strategic business units (SBUs) including Singapore, Australia, Industrial & Logistics, and Hospitality, and two business units including Thailand & Vietnam and Others (UK and China). The Singapore SBU and Australia SBU focus on residential development as well as commercial property development and investment, including retail malls and offices. The Industrial & Logistics SBU focuses on industrial and logistics platforms in Australia and Europe, plus commercial properties under Frasers Logistics & Commercial Trust (FLCT). The Hospitality SBU operates over 19,500 serviced residences and hotel rooms in more than 70 cities across Asia, Australia, Europe, and the Middle East. The Thailand & Vietnam Business Unit engages in residential development as well as industrial and logistics properties. The Others Business Unit engages mainly in residential development in China as well as residential and commercial businesses in the UK.

FPL is also a sponsor of three REITs listed on the SGX-ST including Frasers Centrepoint Trust (FCT) – a retail trust in which FPL holds 41.4%, FLCT – an industrial, logistics, office, and business park trust in which FPL holds 22.3%, and Frasers Hospitality Trust (FHT) – a hotel and serviced residence trust in which FPL holds 25.8%. Also, FPL has two REITs listed on the Stock Exchange of Thailand (SET) including Frasers Property Thailand Industrial Freehold & Leasehold REIT (FTREIT) which focuses on industrial & logistics properties in Thailand in which Frasers Property (Thailand) PLC (FPT), FPL's subsidiary, holds 26.6%, and Golden Ventures Leasehold Real Estate Investment Trust (GVREIT) which focuses on commercial properties in Thailand in which FPT holds 23.6%.

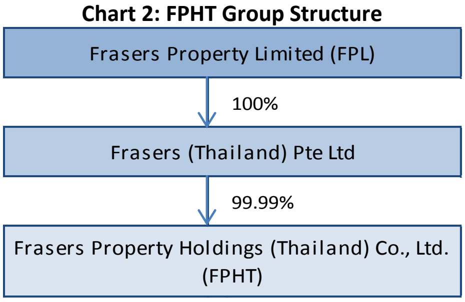
KEY OPERATING PERFORMANCE

Chart 1: FPL Group Structure



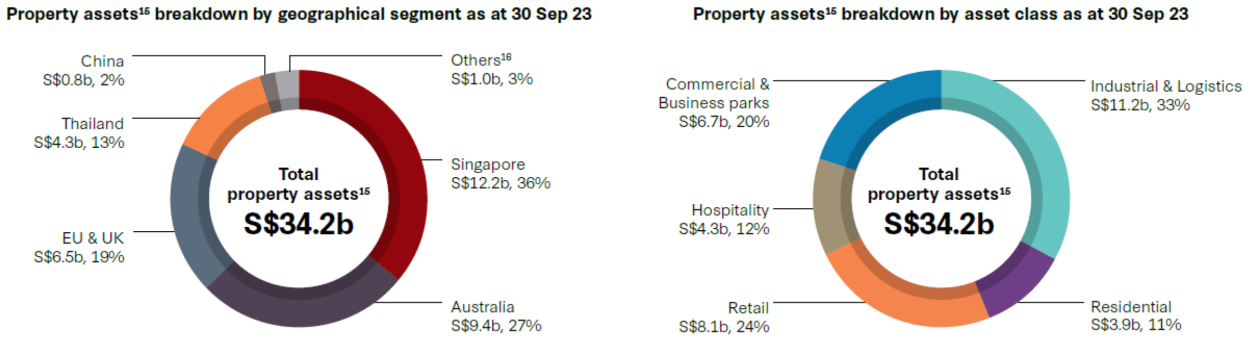
Source: FPL

Chart 2: FPHT Group Structure



Source: FPL

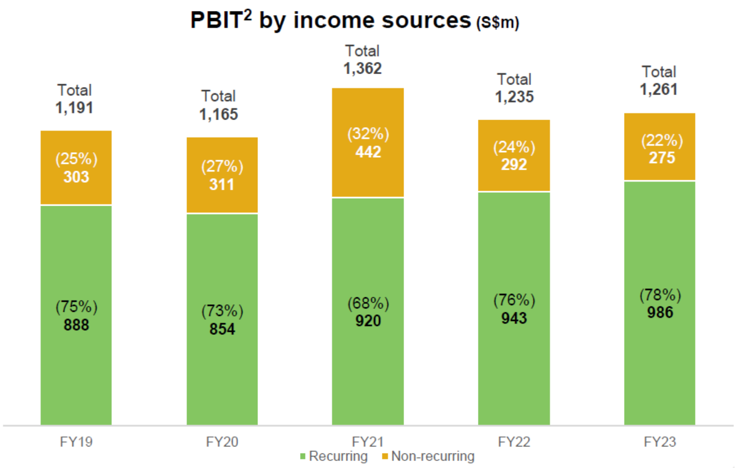
Chart 3: Assets by Segment

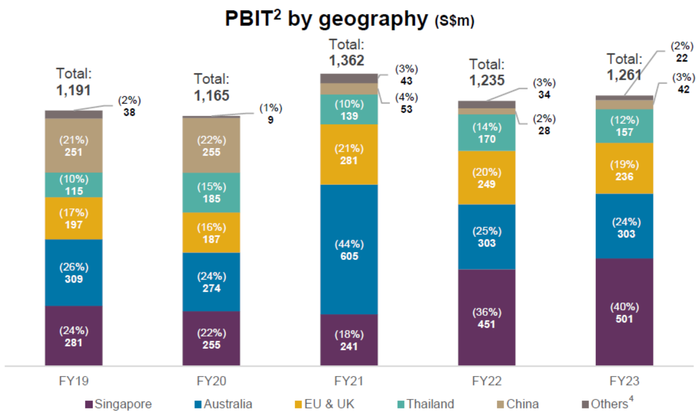


1 Profit before interest, fair value change, tax and exceptional items
2 Profit after interest, fair value change, tax and exceptional items attributable to owners of the Company
3 Comprises property assets in which the Group has an interest, including assets held by its REITs, Stapled Trust, joint ventures ("JVs") and associates
4 Including both owned and managed properties; and units pending opening
5 Including options signed
6 Includes subsidiaries at gross (100%) and equity-accounted JVs and associates, and JOs at their effective share
7 Comprises property assets in-market in which the Group has an interest, including assets held by its REITs, Stapled Trust, JVs and associates
8 Total assets of FCT's investment portfolio (including Central Plaza) as at 30 September 2023, including its 50.0% stake in Waterway Point's total assets, 25.5% effective stake in NEX's total assets and includes Changi City Point which has been reclassified to "Assets held for sale" as at 30 September 2023
9 Includes all retail malls in FCT's investment portfolio and includes Waterway Point (50.0%-owned by FCT) and NEX (25.5% effective interest owned by FCT) but excludes Central Plaza which is an office property
10 Gross – 14,091
11 Comprises unsold units and land bank
12 Real Utilities is a licensed energy business wholly owned by Frasers Property Australia
13 As at 30 September 2023, FPL holds approximately 38.3% through its wholly owned subsidiary, Frasers Property Holdings Thailand Co., Ltd. ("FPHT"), and 43.5% through Frasers Assets Co., Ltd, a 49:51 JV with TCC Assets Co., Ltd ("TCCAT")
14 TCCAT and FPHT have an effective economic interest of 80.2% and 19.8%, respectively, in the One Bangkok project
15 Property assets comprise investment properties, property, plant and equipment, investments in JVs and associates, shareholder loans to/from JVs and associates, properties held for sale and assets held for sale
16 Including Vietnam, Malaysia, Japan and Indonesia

Source: FPL

Chart 4: PBIT Breakdown





Note: PBIT = Profit before interest and taxes
Source: FPL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. SGD

	--------------------Year Ended 30 September ---------------				
	2023	**2022**	**2021**	**2020**	**2019**
Total operating revenues	3,947	3,877	3,764	3,597	3,792
Earnings before interest and taxes (EBIT)	1,427	1,438	1,213	1,436	1,514
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,482	1,636	1,229	1,552	1,372
Funds from operations (FFO)	800	1,074	612	732	517
Adjusted interest expense	576	451	498	592	569
Capital expenditures	1,056	1,035	1,040	384	570
Total assets	39,781	40,165	40,257	38,748	37,633
Adjusted debt	15,492	14,652	15,676	18,003	16,281
Adjusted equity	17,304	18,134	17,086	13,823	14,102
Adjusted Ratios					
EBITDA margin (%)	37.55	42.19	32.67	43.14	36.17
Pretax return on permanent capital (%)	3.99	3.96	3.39	4.16	4.73
EBITDA interest coverage (times)	2.57	3.62	2.47	2.62	2.41
Debt to EBITDA (times)	10.45	8.96	12.75	11.60	11.87
FFO to debt (%)	5.16	7.33	3.90	4.06	3.17
Debt to capitalization (%)	47.24	44.69	47.85	56.57	53.59

* *The fiscal year is the 12-month period beginning 1 October and ending 30 September of the following year.*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021

Frasers Property Holdings (Thailand) Co., Ltd. (FPHT)

Issue Ratings:	
THB25,000 million guaranteed debenture program:	
- FPHT24DA: THB2,500 million guaranteed debentures due 2024	AA-
- FPHT258A: THB500 million guaranteed debentures due 2025	AA-
- FPHT278A: THB2,000 million guaranteed debentures due 2027	AA-
- FPHT283A: THB2,000 million guaranteed debentures due 2028	AA-
- FPHT288A: THB1,200 million guaranteed debentures due 2028	AA-
Rating Outlook:	Stable

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