FRASERS PROPERTY HOLDINGS (THAILAND) CO., LTD.

No. 211/2020
18 December 2020

CORPORATES

Issue Ratings:

Guaranteed	AA-
Outlook:	Negative

Last Review Date: 19/11/19

Issue Rating History:

Date	Rating	Outlook/Alert
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-”. At the same time, we assign a “negative” outlook to the ratings. 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-” with a “negative” outlook by TRIS Rating).

The “negative” outlook reflects our view that FPL’s leverage is likely to stay elevated, exceeding the threshold of adjusted debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio of below 12 times for the assigned ratings, at least over the next 12-18 months. We expect the company’s earnings to continue to be pressured by the lingering adverse impacts of the Coronavirus Disease 2019 (COVID-19) pandemic and weak macroeconomic backdrop, particularly in the hospitality and retail businesses. In addition, we expect a weakened contribution from residential sales due to a lack of new development projects in China and a slowdown in residential sales in Singapore.

The ratings continue to reflect FPL’s exceptional business profile, underpinned by its strong track record in the real estate business, well-diversified portfolio of quality assets across asset classes and geography, sizable recurring income base, and active management of capital. The ratings are weighed down by FPL’s high leverage as the company has been expanding its portfolio, particularly in recurring income-producing assets, over the past few years.

Under the terms of the guarantee agreement, FPL will provide 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 on equal footing with all other unsecured and unsubordinated obligations of FPL. The guarantee agreement is governed by the laws of Singapore.

FPL 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 approximately 87% of FPL’s outstanding shares. FPL has four strategic business units including Singapore, Australia, Industrial & logistics, and Hospitality, and two business units including Thailand & Vietnam and Others. The company’s portfolio ranges from property development, including residential and industrial properties, to recurring income-producing commercial properties, comprising retail malls, offices and business parks, industrial and logistics parks, and hotels and serviced residences.

KEY RATING CONSIDERATIONS

Well-diversified portfolio helps weather the impacts of COVID-19

FPL’s well diversified portfolio has helped the company weather the fallout of the COVID-19 pandemic. For the fiscal year (FY) 2020, FPL reported a 5% year-on-year (y-o-y) drop in revenue to SGD3.6 billion, from SGD3.8 billion in FY 2019. Profit before interest, fair value change, taxation, and exceptional items (PBIT) declined 3.6% y-o-y in FY2020 to SGD1.25 billion. The resilient performance of FPL's industrial and commercial portfolio helps mitigate the negative impacts of operational disruption caused by the COVID-19 in the hospitality and retail business. In addition, contributions from residential sales in Thailand under Golden Land Property Development PLC (GOLD) and from AsiaRetail Fund Limited (ARF) helped sustain earnings in FY2020.

Despite the impacts of the pandemic, our view on FPL's business fundamentals remains unchanged. We hold the view that FPL's strong track record in the real estate business and diversified portfolio of quality assets across geographic presence, asset class, and client base will continue to support its exceptional business profile. The mix of development and investment asset classes will continue to provide FPL with a good combination of cash flow stability and profitability, while geographic diversification will help mitigate downside risk from unfavorable market conditions in some markets at any given time. In addition, we view that FPL's enlarged portfolio of recurring income-producing assets secures its earnings base and cushions against volatility in the property development business. For FY2020, 73% of the company's PBIT was generated from recurring income assets with the remainder coming mainly from residential property development. In terms of geography, PBIT from Singapore accounted for 22% of the total, Australia 24%, China 22%, Europe 16%, Thailand and Vietnam 15%, and other countries 1%.

Gradual recovery in retail business

FPL's retail business is mainly based in Singapore and predominantly in the suburban mall segment. The retail business was materially affected by the virus containment measures in Singapore following the COVID-19 outbreak. In FY2020, PBIT generated from the retail segment declined by 23% y-o-y to SGD270 million. The drop in PBIT was due mainly to rental rebates of SGD70 million provided to tenants as part of the COVID-19 relief measures, plus a lower contribution from Northpoint City (South Wing), after the divestment of its 50% holding to a strategic partner. However, the drop in PBIT was partially offset by a full-year consolidation of ARF. We also view that the acquisition of ARF will strengthen FPL's position in the retail mall business, especially in the suburban mall segment, in terms of enlarged tenant and shopper bases, and operational synergies.

We expect FPL's retail business to recover to pre-COVID levels by the end of FY2021 as retail mall performance in Singapore gradually recovers along with improved economic activities. After the easing of the virus containment measures, tenant sales in suburban malls recovered strongly, close to the pre-pandemic level, although shopper traffic was only 60%. The vulnerable macroeconomic prospects and the rising trend of online shopping remain key threats to the retail business. However, given a high proportion of nondiscretionary tenant mix, we expect rental reversion and the lease expiry profile on FPL's retail mall portfolio to remain manageable in the next 1-2 years. Over the longer term, we expect FPL to be able to stay relevant to tenant and shopper demand and adapt to changing dynamics.

Industrial and commercial businesses remain resilient

We expect FPL's industrial and logistics portfolio to continue showing resilient operating performance over the medium term. The company's industrial and logistics assets are located mainly in Australia, Germany, the Netherlands, and Thailand. The assets in Australia and Europe show very strong occupancy rates of 99%-100% with weighted average lease expiries of 5-7 years at the end of FY2020. However, rental reversion is somewhat pressured by the related price index linked to rental rate adjustment. In Thailand, a decline in warehouse occupancy has been offset by an increase in factory occupancy take-up. Going forward, we expect the industrial and logistics segment to continue generating strong and resilient operating cash flow considering FPL's intention to continue growing its industrial and logistics portfolio, plus favorable business conditions supported by e-commerce activities.

FPL's commercial portfolio comprises mainly office and business parks in Singapore, Australia, Thailand, and the United Kingdom (UK). The immediate impact from the COVID-19 outbreak on FPL's commercial portfolio performance is minimal given the contractual nature of commercial assets. At the end of FY2020, occupancy rates of FPL's commercial properties remained healthy with an average of 93% in Singapore, 94% in Australia, and 89% in the UK. However, over the medium term, technological disruption accelerated by the pandemic, such as work-from-home and online meeting, coupled with weak economic prospects will create a downside risk to office space demand. We expect some negative pressure on rental reversions, occupancy rates, as well as lease expiry profiles over the medium term.

Hospitality business severely hit

Our base case forecasts FPL's earnings from the hospitality business to be minimal or negative in FY2021. We also expect that it will take at least 2-3 years for the hospitality business to recover to the pre-pandemic levels. Hospitality has been one of the businesses most severely affected by the COVID-19. For FY2020, PBIT from the hospitality business dropped by 85% y-o-y to SGD20 million, compared with SGD132 million in FY2019. Given FPL's fiscal year 2020 starting in October 2019, its hospitality business had absorbed the full adverse impacts of the pandemic for only 8 out of 12 months.

In our view, the ongoing high numbers of infections and travel restrictions imposed globally will keep FPL's hospitality business performance under tight pressure. Despite the encouraging progress in vaccine development, mass vaccination will take time. We expect some recovery in the hospitality business to be driven by domestic and regional demand in the initial stage. However, demand for leisure travel will likely continue to be affected by fragile economic conditions globally while recovery in demand for business travel could be, to some extent, affected by the accelerated adoption of virtual meetings.

Low residential sales in Singapore and China

We expect revenue from residential sales in Singapore and China to be low in FY2021. The revenue contribution from residential sales in Singapore in the next 1-2 years will be mainly from the "Riviere" project, which was launched in June 2019 and is scheduled for completion in FY2022. The development value is about SGD1 billion. Project sales were relatively slow during FY2020 due, in part, to the disruption caused by the COVID-19 pandemic. FPL has another residential project in the pipeline after it acquired an executive condominium (EC) site at Fernvale Lane, which will yield 496 residential units. In China, tapering of land bank replenishment may slow new project developments in the next 1-3 years. In Australia, while residential sales in terms of units remain resilient, the sales value has declined following an absence of high-value projects compared with recent years.

However, the consolidation of GOLD since August 2019 has helped sustain revenue from residential property development. Revenue from GOLD is expected to be in the range of SGD0.7-SGD1 billion per annum over the next 1-3 years. The higher contribution from residential sales in Thailand should help maintain overall revenues from residential sales of SGD1.7-SGD2.4 billion per annum during FY2021-FY2023. Strong and steady residential sales in Thailand will be the main driver to support FPL's development revenue in the next 1-3 years.

Weak earnings could cause FPL's debt to EBITDA ratio to spike

With weakening earnings and some lag time in asset recycling due to unfavorable market conditions, we expect FPL's leverage to spike with the ratio of adjusted debt to EBITDA remaining above 12 times over the next 12-18 months. FPL's earnings in FY2021 could be pressured by weak earnings from the hospitality segment and a lower contribution from residential sales, before recovering in FY2022-FY2023. Our base case projects FPL's EBITDA to range from SGD1-SGD1.05 billion in FY2021, down from SGD1.4-SGD1.5 billion in the past three years, before gradually recovering to around SGD1.3-SGD1.4 billion per annum during FY2022-FY2023. Funds from operations (FFO) are forecast to range from SGD400-SGD450 million in FY2021 and SGD650-SGD700 million per annum during FY2022-FY2023.

FPL's debt level may drop slightly if the company does not plan for major acquisitions in the next year. However, FPL's debt has increased steadily following its rapid expansion over the past several years. At the end of FY2020, FPL's adjusted debt, including lease liabilities and perpetual securities, was SGD18 billion. The adjusted debt to EBITDA ratio was 11.6 times. As its earnings are expected to decline in FY2021, FPL's adjusted debt to EBITDA ratio could jump to 16-17 times in FY2021. After that we expect the company to actively manage its capital and recycle assets, either through its REIT platforms or strategic partners, to bring down its leverage level and stay within the rating guidance of adjusted debt to EBITDA of below 12 times, in order to maintain its rating at the current level.

Manageable liquidity

We assess FPL's liquidity to be manageable over the next 12 months. Primary uses of funds are scheduled debt repayments of SGD4.1 billion, plus dividend payouts estimated at SGD350-SGD450 million. Based on our assumptions, we estimate that FPL will have capital expenditures of around SGD1.8 billion and a budget for residential development of around SGD1-SGD1.5 billion. Sources of funds are FFO, estimated to be at least SGD400-SGD450 million, cash and cash equivalents of SGD3.3 billion at the end of September 2020, and some unused bank facilities. The company usually funds its investments in part through asset recycling and new equity raised though its REIT platforms. We estimate that FPL has around SGD13-SGD14 billion of investment assets in the pipeline that can be monetized through its REITs or to strategic partners. We also hold the view that the company has proven ability to access the capital market and will receive support from the TCC Group if needed.

Currently, FPL is a sponsor and its subsidiaries are the managers of three REITs, including Frasers Centrepoint Trust (FCT, retail), Frasers Logistics & Commercial Trust (FLCT, industrial, logistics, office, and business parks REITs), and Frasers Hospitality Trust (FHT, hotel and serviced residence trust). Recycling assets can help improve FPL's financial position. Capital raised via its REIT platforms supports FPL's capital structure, while proceeds from divesting assets to REITs or third parties can be partly used to pay down debts. For FY2020, FPL's main capital management and asset recycling activities included divestment of a 50% interest in Northpoint City (South Wing) to a strategic partner with net proceeds of SGD174 million and deconsolidation of debt of SGD785 million. In October 2020, FPL completed divesting a 63% interest in ARF to FCT, raising SGD683 million in new capital.

BASE-CASE ASSUMPTIONS

- Revenues are expected to range from SGD3.5-SGD3.6 billion in FY2021 and SGD4.3-SGD4.6 billion per annum in FY2022-FY2023.
- EBITDA is expected to range from SGD1-SGD1.05 billion in FY2021 and SGD1.3-SGD1.4 billion per annum during FY2022-FY2023.
- Capital expenditures are estimated at SGD1.4-SGD1.8 billion per annum during FY2021-FY2023.
- Residential development budget estimated at around SGD1-SGD1.5 billion per annum during FY2021-FY2023.

RATING OUTLOOK

The “negative” outlook reflects our view that the performance of FPL, the guarantor, will likely come under pressure due mainly to the lingering adverse impacts of the COVID-19 pandemic, especially on the hospitality and retail business, lower contribution from residential sales due to a lack of new project developments in China, and a slowdown in residential sales in Singapore. FPL’s leverage is likely to stay elevated, exceeding its current rating threshold of adjusted debt to EBITDA ratio of below 12 times for at least the next 12-18 months.

RATING SENSITIVITIES

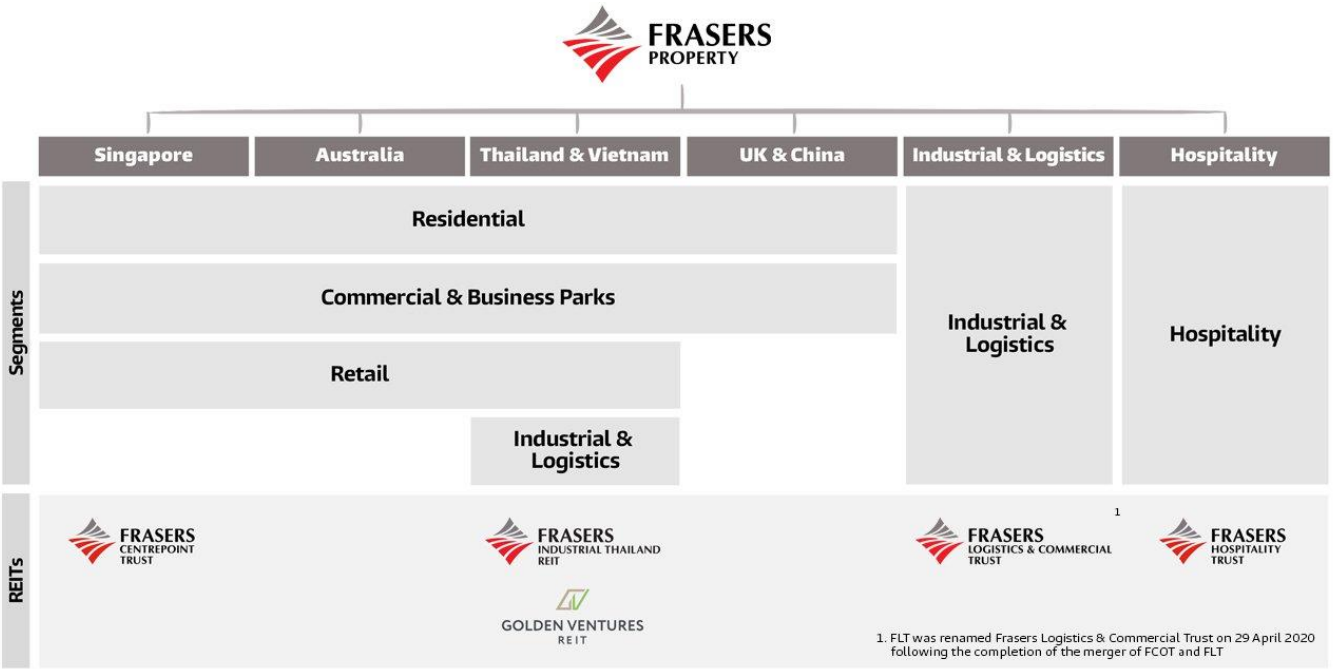
The issue ratings and/or outlook could change if the rating and/or outlook of the guarantor, FPL, changes. FPL’s rating could be downgraded if FPL’s leverage as measured by the ratio of adjusted debt to EBITDA exceeds 12 times on a sustained basis, either from deteriorating operating results or aggressive debt-funded acquisitions. The prospect of a rating upgrade is limited in the short term, considering FPL’s current financial profile. However, 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 SGX-ST in 2014. TCC Group is the major shareholder, holding approximately 87% of FPL’s outstanding shares. FPL has four strategic business units including Singapore, Australia, Industrial & logistics, and Hospitality, as well as Thailand & Vietnam and Others business units. The Singapore SBU and Australia SBU focus on residential development as well as commercial property development and investment, including retail malls and offices. Industrial & logistics SBU focuses on industrial and logistics platforms in Australia and Europe, plus commercial properties under FLCT. The Hospitality SBU operates over 18,000 serviced residences and hotel rooms in more than 80 cities across Asia, Australia, Europe, and the Middle East. The Thailand & Vietnam business unit engages in residential development and industrial and logistics properties. Others business unit engages mainly in residential development in China and residential and commercial businesses in the UK.

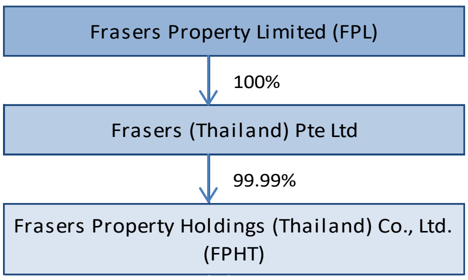
FPL is also a sponsor and its subsidiaries are the managers of three REITs listed on the SGX-ST including FCT (FPL holds 41.05%), FLCT (FPL holds 22.2%), and a stapled trust listed on the SGX-ST, FHT (FPL holds 25.7%). FLCT is the result of the merger of Frasers Commercial Trust (FCOT, office and business space REIT) and Frasers Logistics & Industrial Trust (FLT, industrial and logistics REIT) in April 2020.

Chart 1: FPL Group Structure



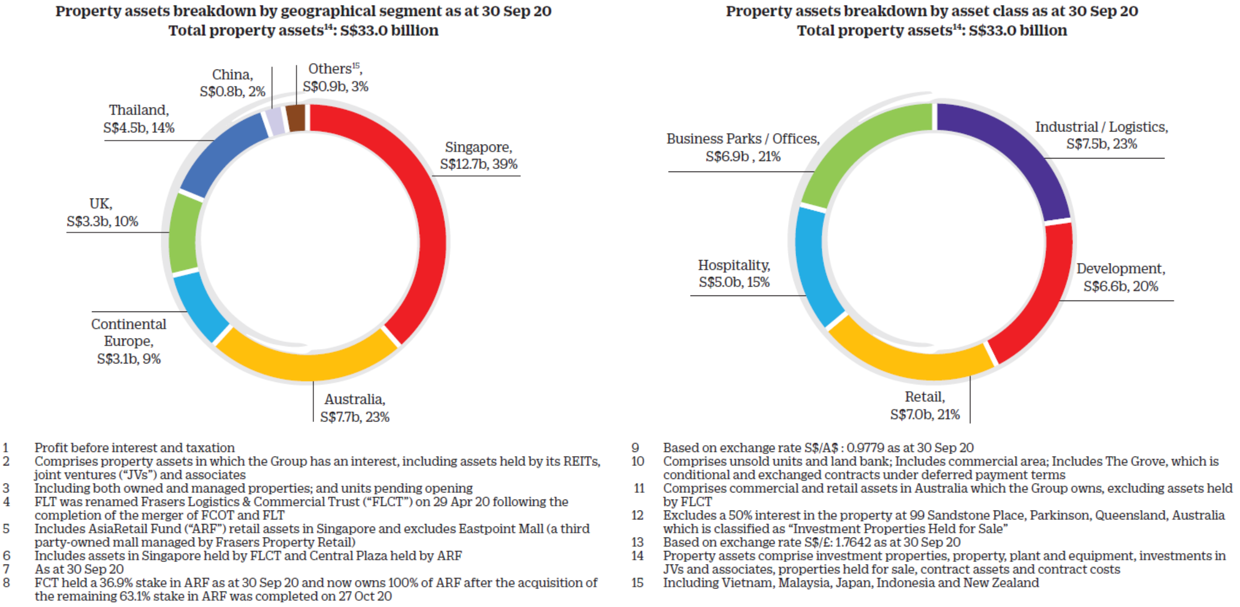
Source: FPL

Chart 2: FPHT Group Structure



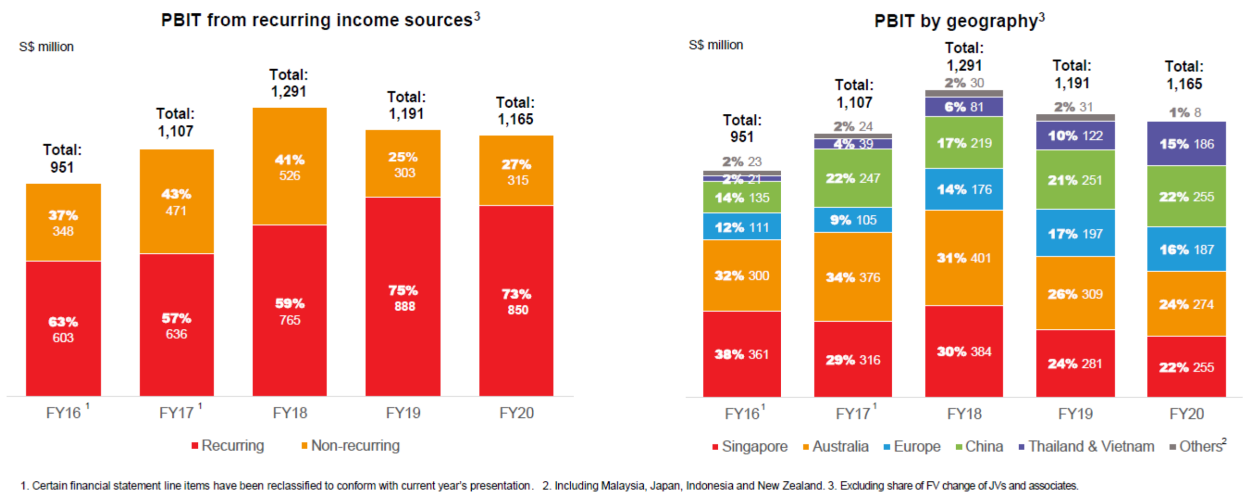
Source: FPL

Chart 3: Assets by Segment



Source: FPL

Chart 4: PBIT Breakdown



Source: FPL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. SGD

	-----------------------Year Ended 31 September				-------------------
	2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	3,597	3,792	4,321	4,027	3,440
Earnings before interest and taxes (EBIT)	1,436	1,514	1,397	1,148	987
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,552	1,372	1,415	1,192	1,071
Funds from operations (FFO)	674	517	629	729	623
Adjusted interest expense	592	569	444	247	254
Capital expenditures	384	570	1,430	894	780
Total assets	38,748	37,633	32,562	27,009	24,204
Adjusted debt	18,003	16,281	14,744	11,247	9,355
Adjusted equity	13,823	14,102	12,752	11,401	10,502
Adjusted Ratios					
EBITDA margin (%)	43.14	36.17	32.74	29.60	31.14
Pretax return on permanent capital (%)	4.16	4.73	5.07	4.88	4.57
EBITDA interest coverage (times)	2.62	2.41	3.19	4.83	4.22
Debt to EBITDA (times)	11.60	11.87	10.42	9.43	8.73
FFO to debt (%)	3.74	3.17	4.27	6.49	6.66
Debt to capitalization (%)	56.57	53.59	53.62	49.66	47.11

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Issue Ratings:	
THB25,000 million guaranteed debentures program:	
- FPHT213A: THB2,000 million guaranteed debentures due 2021	AA-
- FPHT228A: THB2,300 million guaranteed debentures due 2022	AA-
- FPHT233A: THB1,000 million guaranteed debentures due 2023	AA-
- FPHT24DA: THB2,500 million guaranteed debentures due 2024	AA-
- FPHT283A: THB2,000 million guaranteed debentures due 2028	AA-
- FPHT288A: THB1,200 million guaranteed debentures due 2028	AA-
Rating Outlook:	Negative

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