FRASERS PROPERTY HOLDINGS (THAILAND) CO., LTD.

No. 224/2021
21 December 2021

CORPORATES

Issue Ratings:

Guaranteed	AA-
Outlook:	Negative

Last Review Date: 18/12/20

Issue Rating History:

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

Contacts:

Chanaporn Pinphithak

chanaporn@trisrating.com

Jutamas Bunyawanichkul

jutamas@trisrating.com

Suchada Pantu, Ph.D.

suchada@trisrating.com

WWW.TRISRATING.COM

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 "negative" 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-" with a "negative" outlook by TRIS Rating).

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 continuously expanding its portfolio. The "negative" outlook continues to reflect the headwinds from the protracted Coronavirus Disease 2019 (COVID-19) pandemic which could cause a slower-than-expected recovery in earnings.

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 an equal footing with all other unsecured and unsubordinated obligations of FPL. The guarantee agreement is governed by the law of Singapore.

KEY RATING CONSIDERATIONS

Well-diversified portfolio underpins FPL's exceptional business profile

We view that FPL's well-diversified portfolio of quality assets across geographic presence, asset class, and client base is a key contributing factor to FPL's 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 sizable portfolio of recurring income-producing assets secures its earnings base and cushions against its volatility in the property development business.

During the protracted pandemic, resilient performance of the company's industrial and commercial portfolio helps offset the adverse impacts of COVID-19 on its hospitality and retail business. Meanwhile, strong residential sales in Australia balanced out the slowdown in Singapore and Thailand. For fiscal year (FY) 2021, FPL reported a 4.6% year-on-year (y-o-y) rise in revenue to SGD3.76 billion, from SGD3.6 billion in FY2020. Profit before interest, fair value change, taxation, and exceptional items (PBIT) declined 14% y-o-y to SGD1.07 billion in FY2021 due mainly to weakened profitability of residential sales in Singapore, lower residential sales in Thailand, and a full-year impact of COVID-19 on the hospitality business. However, FPL's PBIT was still better than our previous forecast of SGD920 million.

Resilient industrial portfolio performance to continue supporting FPL's earnings profile

We remain positive toward FPL's industrial and logistics business, considering robust e-commerce activities and FPL's asset quality. Based on our assumptions, we estimate that FPL may prioritize capital to expand this business segment with a capital expenditure plan of SGD1-2 billion per annum during FY2022-FY2024. We expect the industrial and logistics business to continue generating strong and steady operating cash flow in the coming years.

The company's industrial and logistics assets are located mainly in Australia, Germany, the Netherlands, and Thailand. Despite the economic impact of the pandemic, the assets in Australia and Europe still show very strong occupancy rates of 98%-100% with weighted average lease expiries of 5-7 years at the end of FY2021. In Thailand, while there is improvement in both industrial warehouse and factory occupancy rate, weighted average lease expiries are shorter compared with FY2020. We view that the growth of e-commerce and supply chain relocation should help with demand for industrial warehouses and factories in Thailand going forward.

Threat from structural shift in retail and commercial business

FPL's retail business is mainly based in Singapore and predominantly in the suburban mall segment. In FY2021, PBIT generated from the retail segment increased 15% y-o-y to SGD310 million. The rise in PBIT was mainly due to higher fee income from the transfer of the Asia Retail Fund (ARF) Singapore properties to Frasers Centrepoint Trust (FCT) and divestment income from some of the retail properties. The high proportion of nondiscretionary tenant mix helps alleviate the impacts of virus containment measures. However, the lingering COVID-19 situation could hinder retail business recovery and eventually affect rental reversion and the lease expiry profile. Additionally, over the longer term, we view the rising popularity of online shopping and changing consumer behavior post-pandemic will pose challenges to the retail business and could dampen rental demand, given the trend of smaller space requirements and shorter lease periods.

FPL's commercial portfolio comprises mainly office and business parks in Singapore, Australia, Thailand, and the United Kingdom (UK). At the end of FY2021, occupancy rates of FPL's commercial properties remained healthy with an average of 92% in Singapore and 91% in the UK. However, the average occupancy rate of commercial assets in Australia declined from 94% in FY2020 to 79% in FY2021 due mainly to weak leasing conditions in New South Wales. While the contractual nature of commercial assets limits the short-term impacts of COVID-19, technological disruption and the trend toward hybrid working environments will be a major threat to the commercial business in the medium term. We expect increasing pressure on rental reversions, occupancy rates, as well as lease expiry profiles.

Residential sales to accelerate in FY2023-2024

In FY2021, FPL's revenue from residential sales was around SGD1.8 billion, thanks to strong sales in Australia which helped balance out the slowdown in Singapore and Thailand. Our base-case scenario projects FPL's revenue from residential sales to be SGD1.7 billion in FY2022, and around SGD2.3-SGD2.7 billion per annum during FY2023-FY2024. The projection takes into account projects in the pipeline, mainly in Singapore, Australia, Thailand, and the UK. We expect residential sales in China to remain minimal during the forecast period, following FPL's land bank replenishment and new project launch plan. We view the rising interest rate trend to be a key threat that could affect housing affordability and potentially slow down residential sales, particularly in Australia.

Hospitality takes time to recover to pre-pandemic levels

In FY2021, FPL reported PBIT of SGD4 million, compared to the FY2019 pre-pandemic level of SGD132 million. Despite signs of some improvement in hospitality demand in some regions, we view that the evolving COVID-19 situation and new variants will continue to weigh on the hospitality business in the coming quarters. Efforts to lift or ease travel restrictions in many countries are facing challenges from the emergence of new variants that tend to evade protection of currently available vaccines. Additionally, demand for leisure travel will likely continue to be affected by fragile economic conditions while recovery in demand for business travel could be, to some extent, affected by the adoption of virtual meetings. We expect that it will take another 2-3 years for the hospitality business to recover to the pre-pandemic levels.

Leverage to stay elevated

Our base-case scenario projects FPL's leverage to stay elevated with the ratio of adjusted debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) around 13.5 times in FY2022, based on our view that the fallout from COVID-19 will continue putting pressure on FPL's earnings capability in the coming quarters. However, the company is expected to bring down its leverage ratio to below 12 times from FY2023 onwards. We also expect FPL's leverage to stay within the rating guidance of adjusted debt to EBITDA of below 12 times on a sustained basis, in order to maintain its rating at the current level.

Our base-case forecast projects FPL's revenue to be SGD3.9-4.0 billion in FY2022 and SGD4.5-5.4 billion per annum in FY2023-FY2024. EBITDA is estimated to be SGD1.3-1.6 billion per annum during FY2022-FY2024, increasing from SGD1.2

billion in FY2021. Considering FPL's plan to continue expanding its portfolio, especially in the industrial and logistics segment, FPL's adjusted debt (including lease liabilities and perpetual securities) is expected to rise to around SGD17-18 billion, from 15.7 billion at the end of FY2021. We expect FPL to actively manage its capital and recycle assets, either through its real estate investment trust (REIT) platforms or strategic partners, in order to keep its leverage at the target level.

Asset recycling keeps capital structure at the target level

Under FPL's financial policy, the company aims to keep its debt to equity ratio below 1 times. As of September 2021, the ratio was 0.75 times and the tangible net worth was SGD18.5 billion. FPL optimizes its capital productivity and keeps its capital structure at the target level by actively recycling its matured assets to its REITs or a third party.

Currently, FPL is a sponsor of three REITs, including Frasers Centrepoint Trust (FCT, retail), Frasers Logistics & Commercial Trust (FLCT, industrial, logistics, office, and business parks trust), and Frasers Hospitality Trust (FHT, hotel and serviced residence trust). We estimate that FPL has approximately SGD14 billion of investment assets in the pipeline that can be monetized through its REITs or divested to third parties. With constant capital management, we expect FPL's adjusted debt to capitalization ratio to stay in the 47%-50% range, or the adjusted ratio of debt to equity to stay below 1 times, during FY2022-FY2024.

As of September 2021, FPL had SGD18.5 billion of debt in total. Of this, SGD2.9 billion was secured debt and SGD11.1 billion was unsecured debt at the subsidiaries' level. This means the ratio of priority debt to total debt was 75%, 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-".

Manageable liquidity

At the end of September 2021, we assess FPL's liquidity to be manageable over the next 12 months. Primary uses of funds are scheduled debt repayments of SGD4.8 billion, plus dividend payouts estimated at SGD450-550 million. We estimate that FPL will incur capital expenditures of around SGD1.8 billion and a budget for residential development of around SGD1-1.5 billion. Sources of funds are cash and cash equivalents of SGD3.8 billion at the end of September 2021, funds from operations (FFO) estimated at SGD600-650 million, and some unused bank facilities. The company is expected to refinance some of its debts and/or recycle some of its investment properties.

BASE-CASE ASSUMPTIONS

- Revenues to range from SGD3.9-SGD4.0 billion in FY2022 and SGD4.5-SGD5.4 billion per annum in FY2023-FY2024.
- EBITDA to range from SGD1.3-1.6 billion per annum during FY2022-FY2024.
- Capital expenditures are estimated at SGD1.8 billion in FY2022 and SGD2.5-2.9 billion per annum during FY2023-FY2024.
- Residential development budget estimated at around SGD1-1.5 billion per annum during FY2022-FY2024.

RATING OUTLOOK

The "negative" outlook continues to reflect the headwinds from the protracted COVID-19 situation, posing challenges to FPL's business performance and earnings. FPL's leverage is likely to stay elevated, exceeding its current rating threshold of adjusted debt to EBITDA ratio of below 12 times, in the next 12 months.

RATING SENSITIVITIES

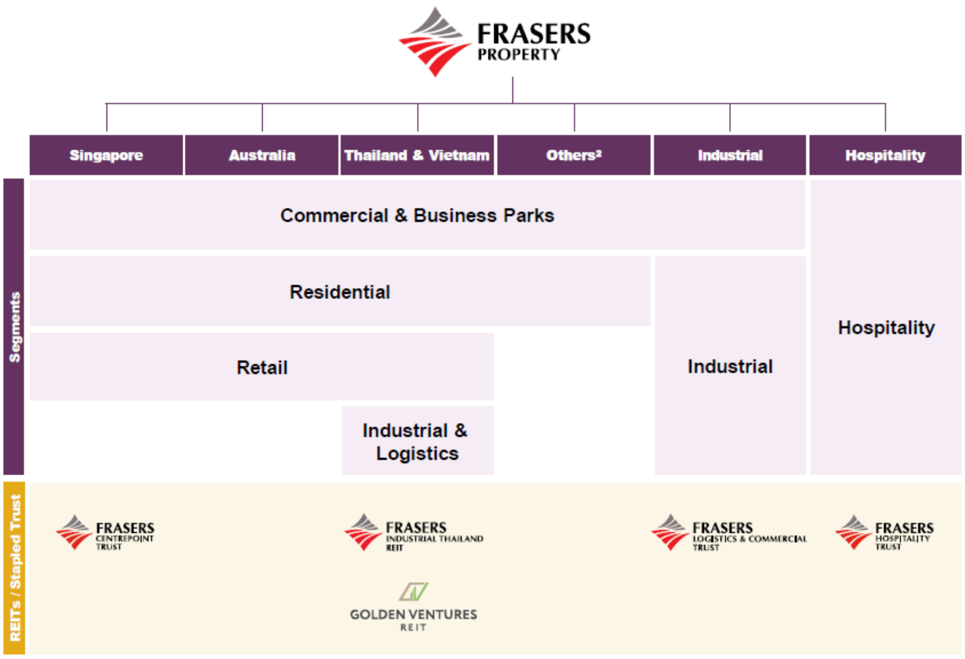
The issue ratings and/or outlook could change if the rating and/or outlook on the guarantor, FPL, changes. FPL's rating could be downgraded if FPL's leverage as measured by the ratio of adjusted debt to EBITDA exceeds 12 times on a sustained basis, either from deteriorating operating results or aggressive 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. 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 (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. Industrial & logistics SBU focuses on industrial and logistics platforms in Australia and Europe, plus commercial properties under 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 and industrial and logistics properties. Others business unit engages mainly in residential development in China and residential and commercial businesses in the UK.

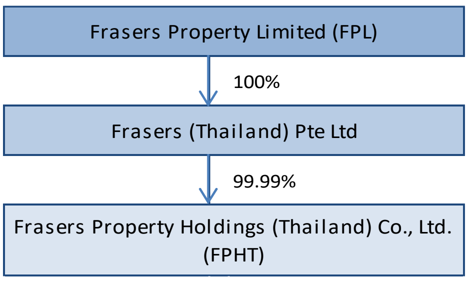
FPL is also a sponsor of three REITs listed on the SGX-ST including FCT (FPL holds 41.1%), FLCT (FPL holds 21.3%), and FHT (FPL holds 25.8%). All the REITs are managed by its subsidiaries.

Chart 1: FPL Group Structure



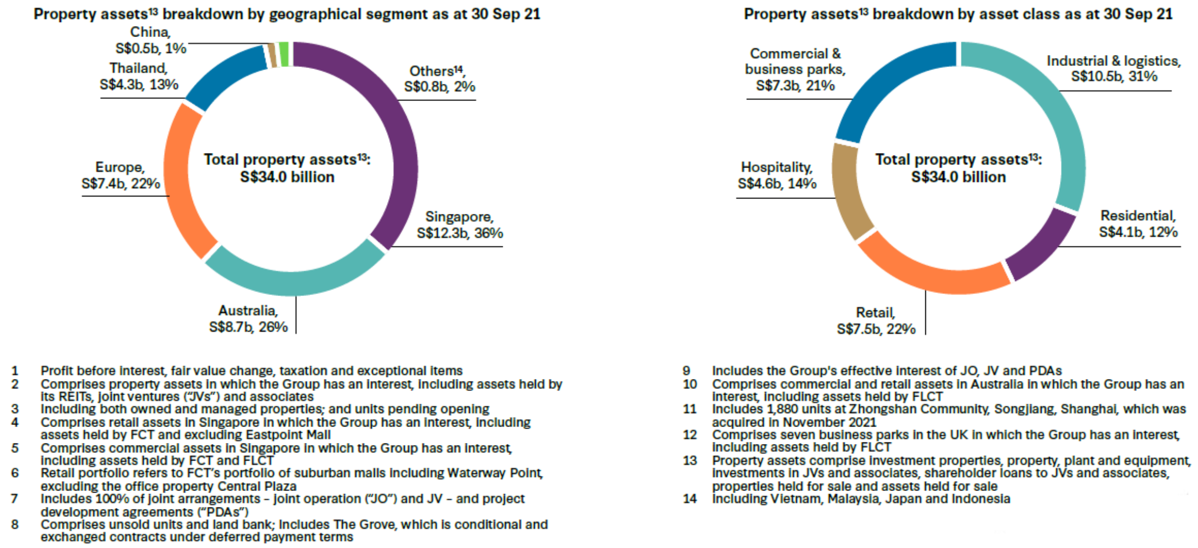
Source: FPL

Chart 2: FPHT Group Structure



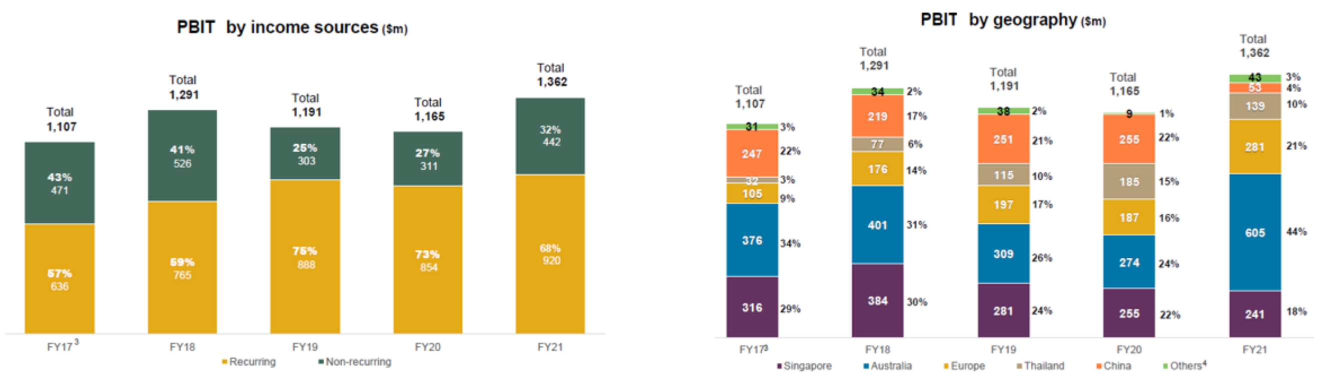
Source: FPL

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				
	2021	2020	2019	2018	2017
Total operating revenues	3,764	3,597	3,792	4,321	4,027
Earnings before interest and taxes (EBIT)	1,213	1,436	1,514	1,397	1,148
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,229	1,552	1,372	1,415	1,192
Funds from operations (FFO)	548	674	517	629	729
Adjusted interest expense	498	592	569	444	247
Capital expenditures	1,040	384	570	1,430	894
Total assets	40,257	38,748	37,633	32,562	27,009
Adjusted debt	15,676	18,003	16,281	14,744	11,247
Adjusted equity	17,086	13,823	14,102	12,752	11,401
Adjusted Ratios					
EBITDA margin (%)	32.66	43.14	36.17	32.74	29.60
Pretax return on permanent capital (%)	3.38	4.16	4.73	5.07	4.88
EBITDA interest coverage (times)	2.47	2.62	2.41	3.19	4.83
Debt to EBITDA (times)	12.75	11.60	11.87	10.42	9.43
FFO to debt (%)	3.50	3.74	3.17	4.27	6.49
Debt to capitalization (%)	47.85	56.57	53.59	53.62	49.66

RELATED CRITERIA

- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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

Issue Ratings:

THB25,000 million guaranteed debentures program:	
- 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

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000