

CENTRAL PATTANA PLC

No. 22/2022
4 March 2022

CORPORATES

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

Last Review Date: 29/12/21

Company Rating History:

Date	Rating	Outlook/Alert
29/12/21	AA	Stable
12/07/21	AA	Alert Negative
16/01/19	AA	Stable
18/09/18	AA	Alert Developing
22/09/17	AA	Stable
12/05/14	AA-	Stable
05/02/13	A+	Positive
23/05/07	A+	Stable
22/02/05	A	Stable
12/07/04	A-	Positive
04/10/02	A-	-
17/05/01	BBB+	-

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RATIONALE

TRIS Rating affirms the company rating on Central Pattana PLC (CPN) and the ratings on CPN's existing senior unsecured debentures at "AA", with a "stable" outlook. At the same time, we assign the rating of "AA" to CPN's proposed issue of up to THB10 billion in senior unsecured debentures. The proceeds from the new debentures will be used to refinance CPN's existing debentures, repay outstanding debts, and fund business expansion.

The ratings reflect CPN's leading position in the retail property development industry in Thailand, proven track record of managing high-quality assets, and reliable cash flow from contract-based rental and service income. The ratings also take into consideration the company's large capital expenditures needed for business expansion during 2022-2024 as well as concerns over the recurrence of Coronavirus Disease 2019 (COVID-19) pandemic, which continues to affect consumer confidence and demand for retail space.

We expect CPN to retain its leading market position in the retail property development market amid continuing threat from COVID-19. After the Siam Future Development PLC (SF) acquisition, CPN's total net leasable area of retail space increased by 20% to 2.3 million sq.m. With the inclusion of the 18 community malls and one super regional mall under SF, CPN has strengthened its leading position in most types of retail properties in Thailand. As of December 2021, CPN managed 55 shopping centers and community malls, 33 in Bangkok, 21 in provincial areas, and one in Malaysia, as well as retail space under Grand Canal Land PLC (GLAND). CPN's dominant position is attributed to its leading market share of 22% of the nationwide retail space market, with an occupancy rate (OR) above 90% for the past several years.

CPN's operating performance in 2021 was hindered by successive waves of the COVID-19 pandemic, particularly during the mandatory closure of shopping centers from mid-July to the end of August 2021. CPN provided rent discounts to its tenants during months affected by the pandemic in 2021. CPN reported its total operating revenue as having contracted by 31% from the 2019 level to THB26.2 billion in 2021. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased by 21% from the pre-pandemic level to THB17.7 billion in 2021.

We expect the whole year traffic of 2022 to recover to 75%-85% of the pre-pandemic level. However, with weak consumer spending and the emergence of new COVID-19 variants, we view that CPN will continue to provide rent discounts to affected tenants throughout 2022. We forecast a 3% year-on-year (y-o-y) growth in rental rates in 2023. We expect CPN to open one to three new shopping centers annually over the forecast period. Overall OR should stay around 90%. Our base-case scenario projects CPN's total operating revenue from all businesses to be in the THB28-THB32 billion range annually during 2022-2024. We expect CPN to control its operating costs efficiently amid the uncertain pandemic situation and economic recovery. We project CPN's EBITDA to revive to THB19-THB25 billion per annum during 2022-2024, including gains on the subleasing of assets to the real estate investment trust (REIT). CPN's net profit margin should remain at least 27% of total operating revenue throughout the forecast period.

Our base-case assumptions incorporate CPN’s aggregate capital expenditures from all businesses of around THB20 billion annually during 2022-2024. We expect CPN to be able to execute its deleveraging plan following the debt-financed SF acquisition. We project the two shopping centers under CPN to be sold to the CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) in late 2022. We also project the sublease of assets to the REIT in late 2023. Cash received from the sale and sublease of assets of around THB20-THB25 billion during 2022-2023 should partly alleviate the company’s debt burden. We expect CPN to keep its net debt to EBITDA ratio, excluding lease liability, below 4.5 times over the forecast period. We project the ratio of EBITDA interest coverage to be around 8 times.

We assess CPN to have adequate liquidity over the next 12 months. As of December 2021, CPN’s debt maturing over the next 12 months will amount to THB33 billion, comprising THB18 billion short-term obligations, THB6.1 billion long-term loans, THB6 billion debentures, and THB2.8 billion lease liability. We project CPN’s capital expenditures to amount to THB20 billion annually during 2022-2024. At the end of December 2021, CPN’s sources of funds consisted of THB3.1 billion in cash plus THB2.9 billion in short-term investments. CPN had undrawn committed credit facilities of THB11.6 billion. Funds from operations (FFO) is forecast to be around THB15 billion in 2022. In addition, CPN had unencumbered assets at book value of around THB165 billion, which can be pledged as collateral for new loans, if needed.

At the end of December 2021, CPN had secured debt of THB5.1 billion. As the ratio of its secured debt to cost value of total assets was only 2%, below the threshold of 35% according to TRIS Rating’s “Rating Methodology for Real Estate for Rent Companies”, we view that CPN’s unsecured creditors are not significantly disadvantaged with respect to claims against the company’s assets.

RATING OUTLOOK

The “stable” outlook reflects our expectation that CPN will be able to deliver operating results as targeted amidst the challenging business environment. Despite more aggressive business expansion, we expect CPN to sustain its strong financial profile and keep the net debt to EBITDA ratio, excluding lease liability, below 4.5 times.

RATING SENSITIVITIES

A credit upside could occur if CPN strengthens its financial position while maintaining a strong business profile. On the contrary, the ratings and/or outlook could be revised downward should its operating performance and/or financial profile significantly deviate from our expectation or the net debt to EBITDA ratio, excluding lease liability, stays well above 4.5 times on a sustained basis.

RELATED CRITERIA

- Key Financial Ratio 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
- Rating Methodology – Corporate, 26 July 2019

Central Pattana PLC (CPN)

Company Rating:	AA
Issue Ratings:	
CPN225A: THB1,500 million senior unsecured debentures due 2022	AA
CPN235A: THB2,000 million senior unsecured debentures due 2023	AA
CPN241A: THB2,000 million senior unsecured debentures due 2024	AA
CPN242A: THB3,000 million senior unsecured debentures due 2024	AA
CPN248A: THB5,000 million senior unsecured debentures due 2024	AA
CPN258A: THB1,000 million senior unsecured debentures due 2025	AA
CPN261A: THB1,250 million senior unsecured debentures due 2026	AA
CPN261B: THB750 million senior unsecured debentures due 2026	AA
CPN268A: THB4,000 million senior unsecured debentures due 2026	AA
Up to THB4,000 million senior unsecured debentures due within 15 years	AA
Up to THB10,000 million senior unsecured debentures due within 15 years	AA
Rating Outlook:	Stable

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