GRAND CANAL LAND PLC

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Company Rating: BBB-

Outlook: Stable

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Rating Rationale

TRIS Rating assigns the company rating of Grand Canal Land PLC (GLAND) at "BBB-". The rating reflects relatively stable income streams GLAND receives from its rental properties located at the Rama IX intersection, the good locations of its properties, and moderate use of leverage. However, these strengths are constrained by the fact that GLAND has very few rental properties and has only one property development project offering for sale. In addition, the company plans to build the tallest building in Thailand, the Super Tower. This massive project will cause leverage to rise, tighten liquidity, and reduce the company's ability to invest in other projects over the next four to five years.

GLAND was listed on the Stock Exchange of Thailand (SET) via a reverse takeover of Media of Medias PLC (MMP) in 2009. After the back-door listing, MMP changed its name to "Grand Canal Land PLC" or "GLAND" in 2010. As of March 2017, GLAND's major shareholder was Charoenkij Group, the founder of GLAND, which held approximately 51% of the company. GLAND has already developed three office buildings on Rama IX road: The 9th Towers, Unilever House, and G Tower. The three buildings hold a total lettable area of 148,749 square meters (sq.m.) plus a retail space of 25,397 sq.m. All of the office space at Unilever House is rented out to Unilever Co., Ltd. for 20 years. The office space at The 9th Towers and G Tower are 99% and 78% occupied, respectively. In April 2017, GLAND set up GLAND Office Leasehold Real Estate Investment Trust (GLANDRT) to sublease The 9th Towers and Unilever House from itself at the price of around Bt6,000 million. GLAND holds 15% of GLANDRT.

In the residential property development segment, GLAND has developed one condominium project, Belle Grand Rama 9. As of March 2017, this project was 96% sold and transferred to buyers. The value of the remaining units available for sale was around Bt1,500 million. The company has no plans to develop any new residential property projects in the near term. In addition, GLAND has set up Bayswater Co., Ltd., a joint venture (JV) with BTS Group Holdings PLC, to buy a 48-rai land plot worth around Bt8,000 million on Phaholyothin road. The JV plans to develop a mixed use project on this land plot.

GLAND's rental and service income is quite concentrated as the income comes from just a few properties. After subleasing the office space of Unilever House and The 9th Towers to GLANDRT, the only sources of rental and service income are the office space in G Tower and the retail space in all the three buildings. As of March 2017, tenants occupied 52,176 sq.m. in G Tower or 78% of the total amount of office space. The three largest tenants in G Tower occupied around 60% of the total lettable area. The average rental rate was Bt717 per sq.m per month, slightly lower than the market rate. However, the high level of tenant concentration risk is offset by the relatively strong credit profiles of these tenants.

After subleasing two office buildings to GLANDRT, GLAND's leverage has improved substantially. The company used the proceeds from the sublease transaction to repay its project loans and bills of exchange (B/E). The debt to capitalization ratio is expected to decrease from 52% in the first quarter of 2017 to around 40% at the end of June 2017. However, this ratio is expected to rise once the construction of the Super Tower starts. The investment in the Super Tower project, excluding the land cost, will be around Bt20,000 million. The construction period will run from 2018 to 2023. The Super Tower will have a total lettable area of 143,000 sq.m. The large investment and the long construction period will put a great pressure on GLAND's financial profile during the construction period. Thus, the company needs to manage liquidity prudently in order to maintain its rating at the current level. In addition, GLAND has to keep the interest bearing debt to equity ratio below 2 times, in order to comply with its financial covenants.

Under TRIS Rating's base case, GLAND's revenue is forecast to stay around Bt1,000 million per annum during the next three years. The operating margin (operating income before depreciation and amortization as a percentage of revenue) is expected to stay above 15%. Taking into account the investment in the Super Tower project, the ratio of the funds from operations (FFO) to total debt will deteriorate significantly from the current level of around 6.5% in 2016 to less than 5% during the construction period. However, the company plans to fund the investment in the Super Tower project with long-term project loans from banks. The company is expected to match the debt repayment schedule with the projected cash inflows from the project.

GLAND's liquidity profile is relatively tight. At the end of May 2017, the company had Bt500 million in cash, plus undrawn credit lines of Bt1,200 million. The FFO will be around Bt300 million per annum. The debts coming due over the next 12 months (excluding project loans) will be around Bt4,550 million, comprising Bt1,900 million in short-term loans and Bt2,650 million in debentures. GLAND plans to roll over the short-term loans and refinance most of the outstanding debentures. Its unencumbered assets comprise a land bank worth around Bt3,800 million, a 50% stake in Bayswater Co., Ltd. worth around Bt4,000 million, and a 15% stake in GLANDRT worth Bt750 million. These assets can be used as collaterals for new bank borrowings, if needed.

Rating Outlook

The "stable" outlook reflects the expectation that GLAND's operating performance will be in line with our projection. The rating upside is limited due to the plan to invest in the Super Tower project. The rating and/or outlook could be lower should GLAND's liquidity deteriorate from the target level in such a way that the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio stays below 1.5 times on a sustained basis.

Grand Canal Land PLC (GLAND)

Company Rating:	BBB-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios *

Unit: Bt million

	Jan-Mar 2017	------------------------- Year Ended 31 December ------------------- 2016	2015	2014	2013	2012
Revenues	392	2,654	3,952	4,680	3,385	1,092
Finance cost	151	550	344	490	314	392
Net income from operations	64	412	593	768	448	59
Funds from operations (FFO)	32	784	1,079	1,256	660	101
Inventory investment (-increase/+decrease)	20	719	1,427	1,806	999	(1,220)
Total assets	26,698	26,398	24,432	19,660	17,223	14,188
Total debts	12,230	12,056	10,430	7,065	7,304	4,641
Total liabilities	15,302	15,076	12,961	9,431	9,666	7,371
Shareholders' equity	11,396	11,322	11,471	10,229	7,557	6,817
Depreciation & amortization	4	18	22	17	49	32
Dividends	0	1,415	1,022	263	0	148
Operating income before depreciation and amortization as % of sales	48.31	44.79	41.59	37.86	27.25	15.81
Pretax return on permanent capital (%)	4.93 **	6.12	8.43	11.25	6.71	1.45
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	1.64	2.55	4.87	3.73	2.96	0.46
FFO/total debt (%)	4.04 **	6.50	10.34	17.77	9.03	2.17
Total debt/capitalization (%)	51.77	51.57	47.63	40.85	49.15	40.50

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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