

# L.P.N. DEVELOPMENT PLC

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## CORPORATES

**Company Rating:** A-  
**Outlook:** Stable

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## RATIONALE

TRIS Rating assigns the company rating to L.P.N. Development PLC (LPN) at “A-”. The rating reflects the company’s proven track record with well-accepted brand name in the middle- to low-priced condominium segments, cost competitiveness derived from efficient construction management, and conservative financial policy. The rating also takes into consideration the company’s relatively concentrated product portfolio in terms of product types and price ranges, the cyclical and competitive environment in the residential property development business, and the concern over the high level of Thailand’s household debt, which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

## KEY RATING CONSIDERATIONS

### Proven track record with well-accepted brand name

LPN’s proven track record is underpinned by its acceptable operating performance and strong brand recognition in the middle- to low-priced condominium segments. The key selling points of its projects are the company’s ability to deliver the projects on time and good after-sales service. LPN emerged from the 1997 financial crisis as one of the top ten property developers. Its revenue improved continuously and ranged between Bt12,000-Bt16,000 million per annum during 2012-2016. Net profit held fairly steady, ranging around Bt2,000-Bt2,400 million per annum over the same period. The company was one of the top ten property developers that had strong net profit margins.

However, LPN’s revenue dropped sharply in 2017 to below Bt10,000 million. A slowdown in residential property market and rising bank’s rejection rate affected the sale of its largest project, “Lumpini Township Rangsit-Klong 1”. LPN purchased less land during 2014-2015 and launched very few projects during 2015-2016. The value of the new projects launched dropped to Bt8,258 million in 2015 and Bt3,941 million in 2016 from more than Bt13,000 million in 2014. This affected the revenue recognition in 2017.

TRIS Rating forecasts that LPN’s operating revenues will improve to around Bt11,000 million in 2018. In TRIS Rating’s base case forecast, LPN’s operating revenues during 2019-2021 will range from Bt12,000 million to Bt15,000 million per annum. LPN has a backlog worth around Bt13,000 million. Units in the backlog will be delivered to customers from the fourth quarter of 2018 through 2020.

### Concentrated product portfolio

LPN’s product portfolio is concentrated in terms of product types and price ranges. As of September 2018, LPN had 45 existing projects with total remaining project value of Bt19,000 million (including built and un-built units). Condominium projects comprised around 80% of total unsold value, while landed property projects accounted for the rest. In terms of price range, low priced units of below Bt4 million per unit made up around 85% of the remaining value. Condominium projects contributed around 90% of total operating revenues during 2014-2016 and around 80% during 2017 through the first nine months of 2018.

Condominium products cover mainly the middle- to low-priced segments. Its major brands comprise “Lumpini Park”, “Lumpini Place”, and “Lumpini Ville”,

with unit prices below Bt4 million. Townhouse products cover the low- to high-income segments, with unit prices from Bt2 million to Bt20 million. Despite the wide price range, most townhouse projects are developed under the “Baan Lumpini Town Ville” brand, with prices of Bt2-Bt3 million per unit. Currently, the company has only two single-detached house (SDH) projects, comprising “Baan Lumpini”, with unit prices averaging Bt10 million, and “BAAN 365 by LPN”, with unit prices ranging from Bt35 million to Bt60 million. Although the company diversifies its products towards the landed property projects and the higher priced products, condominium projects with units at affordable prices will continue to be the major source of revenue over the next three years. LPN plans to develop more products in luxury segment. However, we expect that the revenue contribution from this segment will be less than 20% of total portfolio.

#### **Cost competitiveness from efficient construction management**

LPN has extensive experience in managing the construction of residential property projects, especially in the condominium projects. The company has had long-term relationships and worked as the same team with its main contractors for several years. Thus, LPN is able to control the cost and manage the speed of construction in condominium project effectively. The construction period of its condominium projects was relatively short at around 12-18 months. LPN has been one of the low-cost producers in the residential property market. Therefore, the company can offer residential property units at competitive prices while maintaining a favorable operating margin.

LPN’s operating margin held at 19%-20% during 2014-2016. The operating margin dropped to 15%-16% during 2017 through the first nine months of 2018 because LPN recognized less revenue during the period. The net profit margin was 14%-16% during 2014-2016, but decreased to 11%-12% during 2017 through the first nine months of 2018. Despite the drop, LPN’s net profit margin remained higher than the industry average of 10%. Going forward, LPN’s profitability may be affected by the intense competition among large property developers and rising land costs. Nonetheless, the company should be able to keep its operating margin at around 15% and net profit margin above 10% over the next three years.

#### **Exposure to cyclical and highly competitive residential property business**

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of the middle- to low-income homebuyers, the main customers of LPN. Thus, LPN has to carefully manage its new project launch to match the demand in each segment.

The Bank of Thailand will implement a new macro prudential policy in April 2019. The new measure is expected to affect demand for residential property in the short to medium term. The company may have to lengthen the down payment period of some homebuyers. This may impact the company’s revenue recognition in the second half of 2019.

#### **Conservative financial policy**

LPN’s financial leverage was relatively lower than other listed-property developers that focus on the condominium segment. Its adjusted debt to capitalization ratio stayed below 35%, or the interest-bearing debt to equity ratio below 0.6 times, over the past five years. Under the company’s financial policy, the interest-bearing debt to equity ratio will be kept below 1 times. Despite a drop in revenue in 2017 and in the first nine months of 2018, LPN’s debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio held at around 4 times.

Due to its low financial leverage, LPN still has sufficient headroom for its financial covenants. According to the key financial covenants on its bank loans, LPN has to maintain the interest-bearing debt to equity ratio at lower than 1.25 times and the total liability to total equity ratio at lower than 2 times. As of September 2018, the interest-bearing debt to equity ratio was 0.54 times and the total liability to total equity ratio was 0.79 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that LPN should have no problem complying with its financial covenants over the next 12 to 18 months.

#### **Adequate liquidity profile**

LPN’s liquidity is adequate. At the end of September 2018, the company had Bt401 million in cash and deposits at banks plus undrawn unconditional credit facilities from financial institutions of Bt5,300 million. TRIS Rating forecasts LPN’s funds from operations (FFO) over the next 12 months will be around Bt1,500 million. Debt due over the next 12 months amounts to Bt4,981 million; comprising Bt4,464 million in short-term bills of exchange (B/Es), promissory notes (P/Ns), and bank overdrafts for land purchase and working capital; Bt510 million in debentures; and Bt7 million in financial lease. Most of the short-term loans were backed up by project loans. Due to the short life cycle of its projects, LPN normally uses short-term B/Es and P/Ns in order to lower its financing costs.

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## BASE-CASE ASSUMPTIONS

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These are the key assumptions in TRIS Rating's base case forecast:

- LPN will launch 10-12 residential property projects worth around Bt15,000 million per annum over the next three years;
- Revenue will grow by 10%-15% per annum, and the operating margin is forecast to hold at around 15%;
- Land acquisition is budgeted at Bt4,000-Bt6,000 million per year; and
- Capital expenditures for its recurring-income assets will be around Bt900 million during 2018-2021

## RATING OUTLOOK

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The "stable" outlook reflects the expectation of TRIS Rating that LPN will be able to sustain its operating performance over the next three years. The company should be able to deliver the units in its backlog as scheduled. Despite more intense competition in the residential property market, LPN's operating revenues should range between Bt12,000-Bt15,000 million per annum during 2019-2021. Its operating margin should stay at around 15%. With its business expansion over the next three years, LPN's financial leverage may be higher than the current level. However, the company is expected to keep its debt to capitalization ratio between 40%-45% and its FFO to total debt ratio between 12%-15%.

## RATING SENSITIVITIES

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LPN's rating and/or outlook could be upgraded if the company successfully diversifies into various segments of both condominiums and landed properties while keeping profitability and leverage at the current levels. In contrast, the rating and/or outlook could be revised downward should LPN's operating performance and/or financial position deviate from the target levels for a sustained period.

## COMPANY OVERVIEW

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LPN was founded in 1989 by Mr. Theerachai Panjasap, Mr. Sumet Techakraisri, and Mr. Sirichai Charoensakwattana. Its first project was an office building for sale named "Lumpini Tower". The company was listed on the Stock Exchange of Thailand (SET) in December 1994. As of August 2018, the founders and key executives held around a 10% stake of the company in total. LPN has three major subsidiaries: Pornsanti Co., Ltd., which develops the landed property projects for middle- to low-income segments, Lumpini Property Management Co., Ltd., which provides community management services and brokerage services, and Lumpini Project Management Service Co., Ltd., which provides project construction management services.

LPN offers condominium, SDH, and townhouse units through a limited range of prices and product categories. The company offers condominium units with the price range from Bt30,000 to Bt170,000 per square meter (sq.m.). The landed property products range in price from Bt10 million to Bt60 million per unit for SDHs and from Bt2 million to Bt20 million per unit for townhouses. LPN's residential product portfolio focuses on the middle- to low-income condominium segments.

LPN's revenue from sales and services mainly derive from condominium projects. Revenue from condominium constituted 90%-95% of total revenue from sales and services during 2012-2016, but decreased to 80% during 2017 through the first nine months of 2018. Revenue from condominium units with the price below Bt4 million has been the major contributor with around 70% during 2016 through the first nine months of 2018. Revenue from landed properties contributed 10% during 2017 through the first nine months of 2018. Revenue contribution from management business and recurring-income assets was around 10%.

**KEY OPERATING PERFORMANCE**

**Table 1: Product Portfolio of Condominium**

Segment	Brand	Price (Bt/Sq.m.)
Premium	The Lumpini 24	170,000
High	Lumpini Suite	120,000-130,000
Middle-to-high	The Selected Lumpini Place Lumpini Park Lumpini Park Beach	50,000-130,000
Middle	Lumpini Ville Lumpini Seaview	40,000-80,000
Middle-to-low	Lumpini Center Lumpini Condotown	30,000-40,000
Low	Lumpini Township	30,000-35,000
Broad price range	Lumpini MegaCity Lumpini Mixx	40,000-140,000

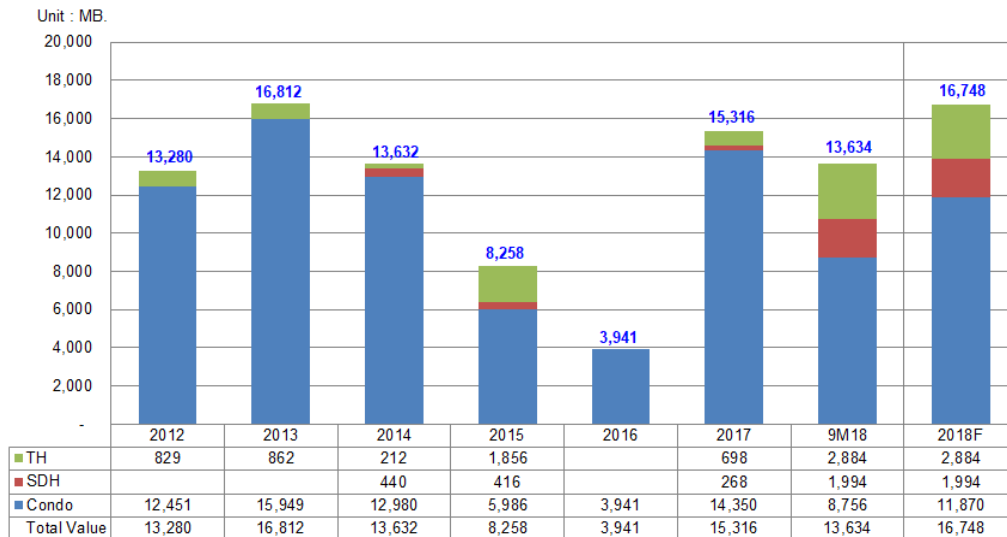
Source: LPN

**Table 2: Product Portfolio of Landed Property**

Segment	Brand	Product Type	Price (Bt Mil./Unit)
Premium	BAAN 365 by LPN	3-storey SDH 4.5-storey TH	35-60 18-20
High	Baan Lumpini	2 & 3-storey SDH	10
High	Baan Lumpini Town Residence	4-storey HO 3-storey TH	8
Middle	Baan Lumpini Town Park	2-storey Semi-DH 3-storey TH 2-storey TH	6 4 3
Middle-to-low	Baan Lumpini Town Ville	2-storey TH	2-3

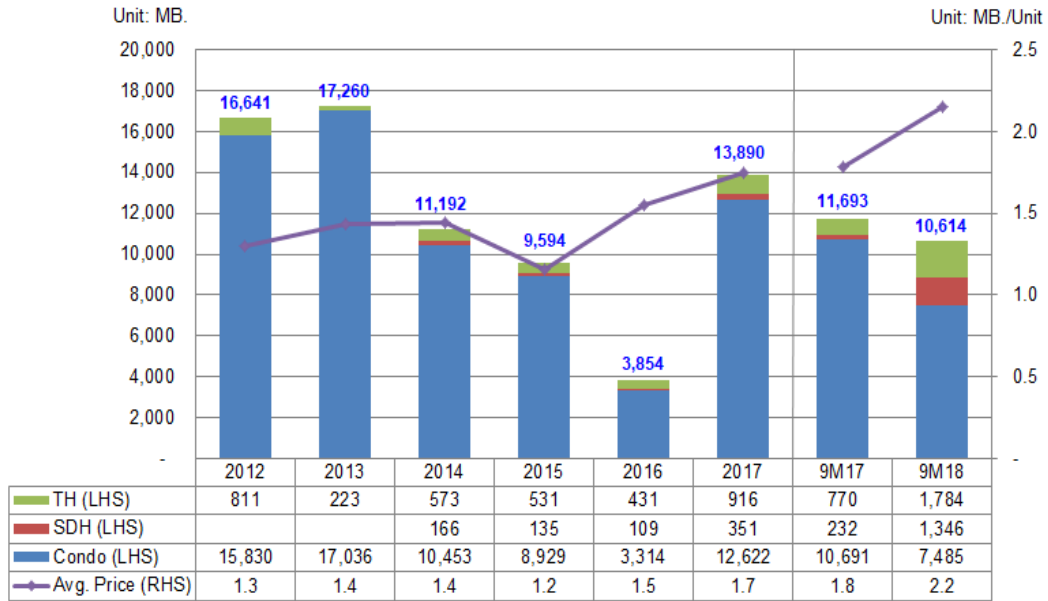
Source: LPN

**Chart 1: New Residential Project Launches**



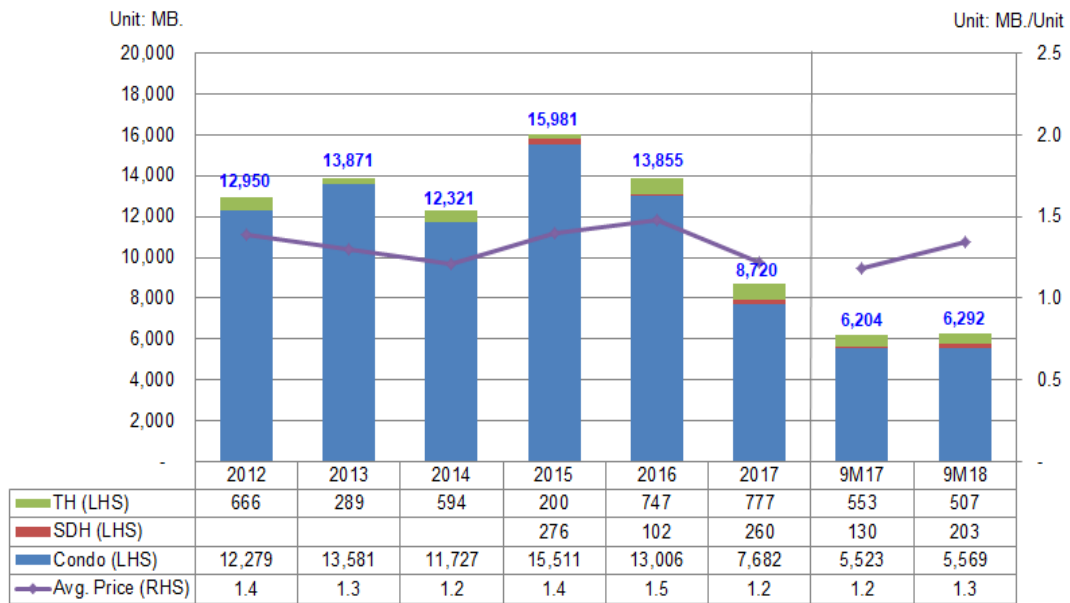
Source: LPN

**Chart 2: Presales Performance**



Source: LPN

**Chart 3: Residential Sales**



Source: LPN

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	7,103	9,648	14,629	16,662	12,945
Operating income	1,130	1,426	2,778	3,172	2,606
Earnings before interest and taxes (EBIT)	1,175	1,485	2,938	3,382	2,705
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,226	1,550	2,989	3,427	2,744
Funds from operations (FFO)	812	1,045	2,279	2,433	1,906
Adjusted interest expense	183	205	149	287	304
Real estate development investments	(1,158)	(2,114)	1,294	380	(1,964)
Total assets	22,219	21,007	18,558	19,625	19,784
Adjusted debt	6,626	5,937	3,926	4,563	5,629
Adjusted equity	12,447	12,414	12,411	11,581	10,408
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	15.91	14.78	18.99	19.03	20.13
Pretax return on permanent capital (%)	8.45 **	8.31	17.36	19.88	16.81
EBITDA interest coverage (times)	6.70	7.57	20.01	11.93	9.03
Debt to EBITDA (times)	4.01 **	3.83	1.31	1.33	2.05
FFO to debt (%)	16.69 **	17.61	58.04	53.31	33.86
Debt to capitalization (%)	34.74	32.35	24.03	28.26	35.10

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

**L.P.N. Development PLC (LPN)**
**Company Rating:**
**A-**
**Rating Outlook:**
**Stable**
**TRIS Rating Co., Ltd.**

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