

SIAM PIWAT CO., LTD.

No. 106/2022
30 June 2022

CORPORATES

Company Rating:	A-
Issue Rating:	
Hybrid	BBB
Outlook:	Stable

RATIONALE

TRIS Rating assigns a company rating of “A-” with a “stable” outlook to Siam Piwat Co., Ltd. (SPW) and also assigns an issue rating of “BBB” to SPW’s proposed issue of up to THB4 billion in subordinated capital debentures (hybrid debentures). The rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupon payments on a cumulative basis. The proceeds from the hybrid debentures will be used for the company’s investments.

The ratings reflect the company’s proven record in managing shopping centers, the stable cash flows it receives from contract-based rental and service income, and the prime locations of its retail properties. We also expect SPW’s operating results will recover from 2022 onwards. These strengths are partially offset by its high financial leverage resulting from large-scale investments.

KEY RATING CONSIDERATIONS

Owning high-quality shopping centers in Bangkok

Currently, SPW owns and operates five shopping centers and an office building in Bangkok and vicinities. The company has three shopping centers in the Siam Square area, a shopping center located on the Chao Phraya riverfront on Charoennakorn road, and a luxury premium outlet near Suvarnabhumi airport. The properties are easily accessible by the Skytrain mass transit system and are popular among foreign tourists and Thai shoppers. Despite the impacts of the Coronavirus Disease 2019 (COVID-19) pandemic, SPW has managed to maintain occupancy rates (OR) of around 90% and correspondingly high rental rates during 2020-2021.

Recurring cash flows from contract-based rental and service income

Approximately 60% of SPW’s rentable area is rented under fixed-rate contracts. The fixed rental fees provide the benefit of stable cash flow. However, the company has adopted the strategy of converting some typical fixed-rate rental contracts into revenue-sharing contracts. These contracts are based on an agreed sharing of tenant revenue on top of a minimum rental fee. This new type of contract provides more income during an economic upturn, while the minimum rental fee limits downside risk if tenant performance falls below expectations.

Strong recovery in 2022

After being hard hit by successive outbreaks of COVID-19 in 2020 and 2021, we expect SPW’s operating performance to start to recover from 2022 onwards. We project SPW’s revenues from shopping centers and office buildings to revive to nearly 100% of the 2019 pre-COVID-19 level in 2022, then increase by around 10% per annum in 2023 and 2024. The anticipated improvement is based on the assumption that the company will no longer provide discounts on rental fees for its tenants in 2022 coupled with a strong recovery of customer traffic following the relaxation of COVID-19 lockdown measures. We also expect a significant resumption of foreign tourist arrivals in the second half of 2022 following the government’s revocation of travel restrictions in July 2022. In addition, the company plans to open another new shopping mall, the “ICS” project, opposite “ICONSIAM”, in late 2022. This will help enlarge SPW’s

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revenue base and alleviate concentration risk tied to its existing properties in the Siam Square area.

We also expect revenue from the retail business to recover by 15%-25% in 2022-2024. The growth will likely derive from the full year of operations of its stores in 2022 and a recovery in local consumption and foreign tourist numbers.

Financial leverage to gradually improve

We forecast the company's financial leverage to decline significantly over the next several years. In 2021, the ratio of adjusted debt to earnings before interest, taxes, depreciation and amortization (EBITDA) drastically shot up to 12 times due mainly to the drastic drop of its EBITDA during the COVID-19 pandemic. We project SPW's EBITDA to double to around THB5 billion in 2024, from THB2.5 billion in 2021. This should result in a significant decline in the adjusted debt to EBITDA ratio to around 7-8 times during 2022-2024. Over the next three years, SPW plans investments totaling around THB7.5 billion.

Acceptable liquidity profile

We assess SPW will have adequate liquidity for the next 12 months. As of December 2021, SPW's sources of funds comprised cash on hand of THB2.4 billion and marketable securities worth THB1.1 billion. In addition, the company has undrawn credit facilities available from commercial banks of THB2.9 billion. We forecast its funds from operations (FFO) in 2022 to be around THB2.3 billion. In 2022, the company will secure funds from the issuance of subordinated capital debentures of THB4 billion. These sources of cash should be sufficient for the company's uses of funds. The debt repayment schedule over the next 12 months consists of THB290 million in long-term obligations and THB1.2 billion in short-term obligations. The company's investment budget for 2022 is around THB4.5 billion.

Financial covenants on the company's debentures require maintenance of an EBITDA interest coverage ratio above 3 times and a net interest-bearing debt to total equity ratio below 2.5 times. Due to the impact of COVID-19 on the company's financial performance, SPW breached the EBITDA interest coverage covenant in 2020 and 2021. However, the company has complied with the covenant on net interest-bearing debt to equity ratio. The company has obtained waivers from the debenture holders on the financial ratio covenants for the period 2020-2022.

As of December 2021, SPW had debt of THB28 billion, including THB17.6 billion in priority debt. Almost all of SPW's priority debt was secured debt. The company's priority debt to total debt ratio was about 63% at the end of 2021 and its secured debt to total asset ratio was 31% in 2021. As its priority debt ratio is more than 50%, we view that SPW's unsecured creditors could be significantly disadvantaged with respect to the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for SPW's operations during 2022-2024 are as follows:

- Revenue to revive to nearly 100% of the 2019 pre-COVID-19 level in 2022, then increase by around 10% per annum in 2023 and 2024.
- EBITDA margin in the 40%-43% range.
- Total investment of THB7.5 billion.
- Adjusted debt to capitalization ratio to stay in the 65%-70% range.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SPW's operating results will recover in line with our projections. We expect SPW's performance to gradually improve from 2022 onwards following the post-pandemic return to normalcy and the lifting of travel restrictions.

RATING SENSITIVITIES

The ratings or outlook could be revised downward if SPW's operating performance deteriorates further or if the company makes any aggressive debt-funded investments that materially weakens its financial profile. On the other hand, the ratings or outlook could be revised upward if the company is able to quickly revive its operating performance and/or if its adjusted net debt to EBITDA ratio stays below 6 times on a sustained basis.

COMPANY OVERVIEW

SPW is one of the leading retail property developers in Thailand. The company established its retail property business in 1973 with the opening of its first shopping center, "Siam Center". SPW subsequently entered the retail business in 1997 when it opened its first specialty store, "Loft". As of December 2021, SPW's largest shareholder was MBK PLC.

SPW's property portfolio totals approximately 500,000 sq.m. The company owns and operates four shopping centers, one outlet, and one office building in Bangkok. Its properties include the "Siam Center" and "Siam Discovery" shopping centers

and an office building, “Siam Piwat Tower”. “Siam Paragon” shopping center was established as a joint venture (JV) between SPW and The Mall Group. Three shopping centers are located in the Siam Square area, the heart of Bangkok’s shopping district. In late 2018, the company opened the ICONSIAM project with its partner, the CP Group. The project consists of two retail buildings and two condominium buildings located on the riverfront on Charoennakorn road. SPW manages the retail space while CP Group is responsible for the condominium projects. In June 2020, the company opened the new luxury “Siam Premium Outlet”, located near Suvarnabhumi airport. This outlet was undertaken as a JV between SPW and Simon Property Group Inc., the largest premium outlet operator in the world.

As a retailer, SPW offers a variety of products, including home decor, men’s and women’s apparel, plus accessories. In addition, SPW holds a 49% stake in Siam Paragon Retail Co., Ltd., which operates the “Paragon” department store.

In 2021, rental and service income from its shopping centers constituted 84% of total revenue. The remainder came from the retail business.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	6,710	7,272	10,815	7,659	6,191
Earnings before interest and taxes (EBIT)	603	906	3,077	747	1,299
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,549	2,939	4,003	1,954	2,107
Funds from operations (FFO)	998	1,467	2,623	853	1,294
Adjusted interest expense	1,399	1,319	1,083	829	594
Capital expenditures	1,732	3,070	6,985	10,750	6,793
Total assets	52,007	52,380	46,824	40,321	28,778
Adjusted debt	30,470	29,688	25,518	19,807	15,149
Adjusted equity	14,022	14,735	14,900	13,100	8,057
Adjusted Ratios					
EBITDA margin (%)	37.98	40.41	37.01	25.52	34.04
Pretax return on permanent capital (%)	1.25	1.97	7.67	2.36	5.59
EBITDA interest coverage (times)	1.82	2.23	3.70	2.36	3.55
Debt to EBITDA (times)	11.96	10.10	6.37	10.13	7.19
FFO to debt (%)	3.27	4.94	10.28	4.30	8.54
Debt to capitalization (%)	68.48	66.83	63.13	60.19	65.28

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Hybrid Securities Rating Criteria, 28 June 2021
- Rating Methodology – Corporate, 26 July 2019

Siam Piwat Co., Ltd. (SPW)

Company Rating:	A-
Issue Rating:	
Up to THB4,000 million subordinated capital debentures	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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