

CPN RETAIL GROWTH LEASEHOLD REIT

No. 18/2025
14 February 2025

CORPORATES

Issuer Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Outlook:	Stable

Last Review Date: 10/10/24

Company Rating History:

Date	Rating	Outlook/Alert
10/10/24	A+	Stable
12/09/23	AA-	Negative
22/07/20	AA	Negative
25/05/18	AA	Stable

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RATIONALE

TRIS Rating assigns a rating of "A+" to a proposed issue of up to THB2.1 billion senior unsecured debentures due within five years of CPN Retail Growth Leasehold REIT (CPNREIT or "trust"). The proceeds from the new debentures are intended to be used to refinance the debentures maturing in March 2025. At the same time, we affirm the issuer rating on CPNREIT and the ratings on CPNREIT's existing senior unsecured debentures at "A+", with a "stable" outlook.

The ratings on CPNREIT and its debentures reflect the high quality of the trust's assets and its stable cash flow from contract-based rental and service income. The ratings also highlight the growth prospects from the continued recovery in overall operating performance and potential new asset acquisitions, supported by its sponsor, Central Pattana PLC (CPN). However, the ratings are partially constrained by the expected significant increase in the trust's financial leverage starting from 2025.

CPNREIT's operating performance in the first nine months of 2024 (9M24) was in line with our forecast. The trust reported total operating revenue of THB4.5 billion and EBITDA of THB3.6 billion, achieving around three-fourth of our full-year forecast. The EBITDA margin remained consistent with our expectations at 80%. CPNREIT's revenue and earnings were primarily driven by the robust occupancy rate (OR) of shopping centers at around 95% and increased revenues from revenue-sharing contracts. The trust continued to receive the full amount of fixed and variable rents for its hotel, Hilton Pattaya, as its OR recovered to 93% in 2024 from 88% in 2023, with a 6% year-on-year (y-o-y) rental rate growth. However, the OR for office buildings continued to decline to 83%-84% in 9M24 from above 90% pre-pandemic.

Looking ahead, we anticipate that CPNREIT's operating performance will continue to improve. This improvement will be driven by increasing income from its retail and hotel businesses, supported by the ongoing recovery of customer traffic, rising tourist arrivals in Thailand, and growth prospects from potential asset acquisitions. We project that CPNREIT's total operating revenue will increase to THB6.0-THB6.5 billion per annum in 2024-2025, and will reach THB9 billion by 2026, as the trust plans to acquire a new shopping center in that year with a 30% increase in net leasable area (NLA). Its EBITDA is expected to grow to THB4.7 billion per annum in 2024-2025 before escalating to nearly THB7 billion in 2026. CPNREIT's EBITDA margin is expected to remain within the upper range of the industry average, which is between 40% and 80%.

Following the trust's lease term extension for Central Rama 2 Shopping Center, along with its investment and financing plans over the next couple of years, we project CPNREIT's debt to EBITDA ratio to rise to 11 times in 2025 from 4-5 times in 2024. However, with the planned equity injection in 2026, the debt to EBITDA ratio could decline to around 9 times after the projected surge in 2025. The trust's loan to fair value of total assets (LTV) ratio is expected to range between 50%-53% over the forecast period.

We expect the trust's liquidity to be manageable over the next 12-18 months. As of September 2024, CPNREIT's sources of liquidity included THB1.7 billion cash on hand and THB383 million investments in securities at fair value. Funds from operations (FFO) in the next 12 months are projected to be THB2.4 billion.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

Debts due over the next 12 months will amount to THB4.3 billion, comprising THB2 billion debentures, THB2 billion promissory notes (P/Ns), and THB0.3 billion bank loans. The maturing debentures will be refinanced by new debenture issuances. We expect the trust to be able to rollover P/Ns every two months and find a suitable source of fund to refinance it in December 2025. Maturing bank loans will be repaid with internally generated cash.

The financial covenants on CPNREIT's debt obligations require the trust to maintain its LTV ratio (excluding lease liabilities in loans) below 60% and the debt service coverage ratio (DSCR) above 1.2 times. As of September 2024, the trust's LTV ratio (excluding lease liability in loans) was 24% and DSCR was 2 times. We expect the trust to remain in compliance with these financial covenants over the next 12 to 18 months.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CPNREIT will be able to deliver operating results and maintain its financial profile in line with our base-case forecast.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward if the trust's operating performance and/or financial profile deviate considerably from our expectations. Conversely, a credit upward scenario may arise if the trust's operating performance remains strong, and its financial leverage is maintained at a moderate level. To attain a higher credit rating on a sustained basis, the trust would need to lower its debt (including lease liabilities) to EBITDA ratio to less than 7.5 times while its LTV ratio should remain below 50%.

RELATED CRITERIA

- Issue Rating Criteria, 26 December 2024
- Rating Methodology for Real Estate for Rent Companies, 16 December 2024
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

CPN Retail Growth Leasehold REIT (CPNREIT)

Issuer Rating:	A+
Issue Ratings:	
CPNREIT253A: THB2,060 million senior unsecured debentures due 2025	A+
CPNREIT262A: THB500 million senior unsecured debentures due 2026	A+
CPNREIT263A: THB1,500 million senior unsecured debentures due 2026	A+
CPNREIT268A: THB1,650 million senior unsecured debentures due 2026	A+
CPNREIT272A: THB2,000 million senior unsecured debentures due 2027	A+
CPNREIT272B: THB1,400 million senior unsecured debentures due 2027	A+
CPNREIT288A: THB7,390 million senior unsecured debentures due 2028	A+
CPNREIT318A: THB1,000 million senior unsecured debentures due 2031	A+
Up to THB2,100 million senior unsecured debentures due within 5 years	A+
Rating Outlook:	Stable

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