

L.P.N. DEVELOPMENT PLC

No. 67/2019
1 October 2019

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 18/04/19

Company Rating History:

Date	Rating	Outlook/Alert
16/01/19	A-	Stable

Contacts:

Jutamas Bunyanichkul

jutamas@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Tulyawat Chatkam

tulyawat@trisrating.com

Suchada Pantu, Ph. D.

suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on L.P.N. Development PLC (LPN) and the rating on LPN's existing senior unsecured debentures at "A-". At the same time, TRIS Rating assigns the rating to LPN's proposed issue of up to Bt1,000 million in senior unsecured debentures at "A-". The proceeds from the new debentures are intended to be used as working capital.

The ratings on LPN and its debentures reflect 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 ratings also take into consideration the company's relatively concentrated product portfolio in terms of product types and price ranges, and concerns over the slowdown in the residential property segment after the implementation of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019.

LPN's total operating revenues ranged between Bt10-Bt15 billion per annum during 2016-2018. Total operating revenues dropped by 6% year-on-year (y-o-y) to Bt4.5 billion in the first six months of 2019 due mainly to a slowdown in residential property market, especially in condominium segment, after the implementation of new LTV rules. Revenue from condominium projects decreased by 36% y-o-y in the first half of 2019. With the backlog worth Bt5.3 billion to be delivered during the second half of 2019, TRIS Rating expects LPN's total operating revenues in 2019 to be Bt9.8 billion. Total operating revenues during 2020-2021 will be Bt12-Bt15 billion per annum.

As of June 2019, LPN had 48 existing projects, with unsold project value (including built and un-built units) of Bt17.6 billion and total backlog of Bt7.6 billion. Condominium projects accounted for 87% of total remaining value and 85% of total backlog value, while landed property projects accounted for the rest.

LPN's operating margin held at 19%-20% during 2014-2016. The operating margin dropped to 15%-16% during 2017 through the first six months of 2019. The net profit margin was 14%-16% during 2014-2016, but decreased to 11%-12% during 2017 through the first half of 2019. Despite the drop, LPN's operating margin remained in line with the industry average of 15% and its net profit margin remained above the industry average of 10%. Going forward, LPN's profitability could be pressured by rising land cost and more intense competition in the residential property market. However, TRIS Rating expects the company to keep its operating margin around 15% and its net profit margin above 10% over the next three years.

LPN's financial leverage was relatively lower than other listed-property developers that focus on the condominium segment. Its debt to capitalization ratio stayed below 35%, or the interest-bearing debt to equity ratio below 0.6 times, over the past five years.

TRIS Rating assesses LPN's liquidity to be adequate. At the end of June 2019, LPN's sources of funds consisted of Bt0.4 billion in cash on hand plus undrawn unconditional project loans of Bt2.2 billion, undrawn conditional project loans of Bt2.2 billion, and undrawn short-term loans of Bt2.3 billion. TRIS Rating forecasts LPN's funds from operations (FFO) over the next 12 months to be

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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.

Bt1.4 billion. Debts due over the next 12 months amounts to Bt3.3 billion, comprising Bt3.1 billion in short-term bills of exchange (B/Es) and promissory notes (P/Ns), Bt0.2 billion in debentures, and Bt7 million in financial lease.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation 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 and slow market demand in the condominium segment, TRIS Rating expects LPN’s total operating revenues to be Bt9.8 billion in 2019 and Bt12-Bt15 billion per annum during 2020-2021. Its operating margin should stay around 15%. With its business expansion over the next three years, LPN’s financial leverage may be higher than the current level. However, TRIS Rating expects the company to keep its debt to capitalization ratio between 40%-45% and its FFO to total debt ratio between 12%-15%.

RATING SENSITIVITIES

LPN’s ratings 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 ratings 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.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

L.P.N. Development PLC (LPN)

Company Rating:	A-
Issue Ratings:	
LPN224A : Bt1,168 million senior unsecured debentures due 2022	A-
Up to Bt1,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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