

L.P.N. DEVELOPMENT PLC

No. 30/2019
18 April 2019

CORPORATES

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

Last Review Date: 11/03/19

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on L.P.N. Development PLC (LPN) at "A-". At the same time, TRIS Rating assigns the rating to LPN's proposed issue of Bt1,168 million in senior unsecured debentures at "A-" (LPN224A). The new issue rating replaces the issue rating previously assigned on 11 March 2019, following LPN's request to increase the issue size to Bt1,168 million, from up to Bt1,000 million. The proceeds from the debentures will be used to repay short-term debts and for 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, the cyclical and competitive environment in the residential property development business, the impact from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT), and the lingering high household debt which could impact housing demand in the short to medium term.

LPN's operating revenue ranged between Bt13,000-Bt17,000 million per annum during 2012-2016. Operating revenue dropped sharply to Bt9,648 million in 2017 due mainly to a slowdown in residential property market and rising bank's rejection rate. Operating revenue grew by 17% year-on-year (y-o-y) to Bt11,294 million in 2018. Revenue from condominium, LPN's major product, accounted for 80%-90% of total operating revenue. Under 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.

As of December 2018, LPN had 45 existing projects, with the remaining unsold units (including built and un-built units) worth Bt18,000 million. Condominium projects accounted for 84% of unsold value, while landed property projects accounted for the rest. LPN has a backlog worth around Bt10,000 million. Units in the backlog will be delivered to customers during 2019-2020.

LPN's operating margin held at 19%-20% during 2014-2016. The operating margin dropped to 15%-16% during 2017-2018 because LPN recognized less revenue during the period. The net profit margin was 14%-16% during 2014-2016, but decreased to 11%-12% during 2017-2018. 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.

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.

LPN's liquidity is adequate. At the end of December 2018, the company had Bt388 million in cash and deposits at banks plus undrawn unconditional credit facilities from financial institutions of Bt3,900 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 Bt3,246 million; comprising Bt2,629 million in short-term bills of exchange (B/Es), promissory notes (P/Ns), and bank overdrafts for land purchase and working capital; Bt610 million in debentures; and Bt7 million in financial lease.

RATING OUTLOOK

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, TRIS Rating expects the company will 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

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

L.P.N. Development PLC (LPN)

Company Rating:	A-
Issue Rating:	
LPN224A : Bt1,168 million senior unsecured debentures due 2022	A-
Rating Outlook:	Stable

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