GRAND CANAL LAND PLC

No. 13/2024
19 February 2024

CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 27/01/23

Company Rating History:

Date	Rating	Outlook/Alert
25/07/19	BBB	Stable
18/09/18	BBB-	Positive
27/07/17	BBB-	Stable

Contacts:

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Jutamas Bunyawanichkul

jutamas_b@trisrating.com

RATIONALE

TRIS Rating downgrades the company rating on Grand Canal Land PLC (GLAND) to "BBB-" from "BBB" with a "stable" outlook. The downgrade reflects our expectation over a deterioration in the company's financial profile caused by projected higher financial leverage stemming from substantial planned investments, together with a softening profit margin.

The company rating incorporates a rating enhancement of one notch from GLAND's stand-alone credit profile (SACP) to reflect the company's status as a "strategic" subsidiary of Central Pattana PLC (CPN, rated "AA/stable"). We believe that CPN has a strong and long-term commitment as a major shareholder to provide timely support to GLAND, if needed.

GLAND's SACP of "bb+" reflects its small business scale with assets concentrated in a single location, tight but manageable liquidity, and predictable cash flow from contract-based income from office and retail space.

KEY RATING CONSIDERATIONS

Rating constrained by expected rise in financial leverage

We view that GLAND's substantial investment in two large mixed-use projects, comprising own project on Rama 9 Road (R9) and a joint-venture (JV) project on Phaholyothin Road (PHT), has caused a material deterioration in its financial risk profile. GLAND will have to shoulder sizable investment costs in 2025-2029, while the return from its existing and future completed assets will remain minimal during the development phase of R9 and PHT. This will likely result in a rise in financial leverage over the next three years. As of December 2023, GLAND's financial leverage, as measured by the debt to earnings before interest, tax, depreciation and amortization (EBITDA) ratio, stood at 8.8 times. Its EBITDA interest coverage ratio was 2.9 times.

Our base-case scenario projects capital expenditures for R9 and PHT totaling THB0.3 billion in 2024, before increasing to THB2-THB3 billion per annum in 2025-2026. We also assume that GLAND will launch one new landed residential project worth THB1 billion in 2025, with no new land plots acquired over the forecast period. As a result, GLAND's debt to EBITDA ratio will likely weaken to 9.3 times in 2024 and 11-12 times in 2025-2026, from 6-9 times in 2020 through 2023. GLAND's EBITDA interest coverage ratio should stay below 2.5 times in 2024-2026.

Small revenue base with portfolio concentration

We view GLAND's revenue and earnings base remain small compared with other rental property developers. The company's revenue comprises rental and service income from office and retail space in buildings concentrated on a single location of Rama 9 Road together with sales from a low-rise residential project in the Don Muang area. The rental business contributed 75%-85% of total revenue during 2018-2023, while the remainder was from real estate sales.

GLAND's rental and service income had relied heavily on office space, accounting for 80%-85% of total rental and service income in the past five years. Rental income from office space is derived from a single asset, G Tower, with net leasable office area of 67,520 square meter (sq.m.). Its occupancy rate (OR) declined to 85% in 2023 from above 90% in the past five years. An other two office buildings were leased out to Leasehold Real Estate Investment Trust in 2017 and divested to CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) in 2020.

GLAND also has small areas of retail space in Belle Grand Rama 9, The 9th Towers, Unilever House and G Tower with a combined net leasable area (NLA) of 25,202 sq.m. Although the OR of retail space improved to 65% in 2023 from 50%-58% in 2020-2022, it remained relatively low.

Looking forward, we expect the office-for-rent business to be affected to a certain degree by an influx of supply in 2024-2025 and sluggish demand caused by the hybrid working model. These factors could continue to pressure both OR and rental rates. We forecast OR of GLAND's office buildings to hover around 80%, while the rental rate will likely remain flat in 2024-2026. The OR of retail space is likely to stay in the 62%-72% range, with no growth in rental rates for existing assets. With the expected additional retail space from R9 to be completed in 2026, we anticipate GLAND's rental and service income to sustain at THB1.2 billion per annum in 2024-2025 and soar to THB1.6 billion in 2026. The company's residential sales should be around THB300-THB500 million per annum over the forecast period.

Softening profit margin anticipated

We view that GLAND's profit margin from rental assets in 2024-2026 could be under pressure from higher operating cost from on-progress mixed-use projects and rising utility costs, while raising rental rates may prove difficult. Its profit margin from residential property will likely continue to be challenged by sluggish demand and intense competition among the leading property developers.

Our base-case scenario forecasts a gross profit margin from the rental business to soften to 75%-77% in 2024-2026, down from 80%-83% in 2019-2023. We project the gross profit margin from the low-rise residential project to be 40%-45% over the forecast period. In addition, we estimate a selling, general, and administrative (SG&A) expenses of 18%-20% of total revenue in 2024-2026 and a share loss incurred from a JV of around THB500 million in 2026. Accordingly, GLAND's EBITDA is projected to stay in the THB700-THB900 million per annum range throughout the forecast period, equivalent to an EBITDA margin of 40%-45%.

Liquidity tight but manageable

We assess GLAND's liquidity to be tight but manageable over the next 12 months. At the end of December 2023, the company's maturing debts over the next 12 months amounted to THB4 billion, comprising THB2.6 billion long-term loans, THB800 million promissory note (P/N) and THB550 million bills of exchange (B/Es). GLAND plans to refinance most of its maturing long-term loans with new bank loans.

Meanwhile, GLAND's sources of funds comprised cash on hand of THB111 million plus undrawn committed credit facilities of THB500 million. We forecast funds from operations (FFO) over the next 12 months of around THB250 million. In addition, GLAND has a significant portfolio of unencumbered assets, comprising land plots worth THB3.7 billion at cost and a 50% stake in Bayswater Co., Ltd., which owns a 48-rai land plot on Phaholyothin Road. These assets can be used as collateral for new borrowings from banks, if needed.

As of December 2023, the company had secured debt of THB2.8 billion. The ratio of its secured debt to fair value of total assets was 9%, below the threshold of 35% according to TRIS Rating's "Rating Methodology for Real Estate for Rent Companies". We view that GLAND's unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

Support from CPN

We believe that CPN has a long-term commitment to provide both business and financial support to GLAND. As of September 2023, CPN held a majority stake of 67.53% in GLAND, while GLAND's office space and land plots are integral to the mixed-use strategy of CPN. We expect CPN's expertise in property development to benefit GLAND's new mixed-use projects on Rama 9 Road and Phaholyothin Road. These projects should become a major source of income and earnings base for GLAND in the future.

Apart from business operations, we see that CPN is also actively involved in leading GLAND's financial policy. GLAND has a policy to maintain its net interest-bearing debt to equity ratio below 1 time. CPN also provides long-term loan facilities to GLAND for use in business operation and to reduce funding costs. Our assessment of GLAND's "strategic" group status reflects the significant shareholding of Bangkok Broadcasting & Television Group (BBTV) in GLAND and the relatively small revenues and earnings contribution of GLAND to CPN.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for GLAND's operations during 2024-2026:

- Average OR of office buildings to hover around 80%, with no growth in rental rates.
- Average OR of retail space to stay in the 62%-72% range, with no growth in rental rates for existing assets.
- Additional retail space from mixed-use projects to be included in 2026
- Investments in its own and JV mixed-use projects of THB0.3 billion in 2024 and THB2-THB3 billion per annum in 2025-2026.
- Total operating revenue to range between THB1.6-THB1.7 billion per annum in 2024-2025 and THB2 billion in 2026.
- No assets sales to CPNREIT.

RATING OUTLOOK

The "stable" outlook reflects our expectation that GLAND's operating results and financial profile will remain in line with our targets.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward if GLAND's financial risk profile is heading towards a deeper-than-expected deterioration. On the contrary, an upward revision would materialize if GLAND is able to enlarge its revenue and earnings bases considerably and improve its financial position such that the net IBD/EBITDA ratio staying below 8.5 times and EBITDA interest coverage ratio keeping above 2.5 times on a sustainable basis. Any material change in the company's linkage with CPN could also lead to a change in the company rating on GLAND.

COMPANY OVERVIEW

GLAND, formerly known as Media of Medias PLC (MMP), was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1996. In 2009, Grand Canal Land Co., Ltd. completed a reverse takeover of MMP and changed its business from media and television to real estate development. MMP subsequently changed its company name to "Grand Canal Land PLC" or "GLAND".

In late 2018, the Charoenkij Group, a major shareholder with a 50.43% stake in GLAND, sold its shares to CPN Pattaya Co., Ltd., a wholly owned subsidiary of CPN. As of December 2023, GLAND's major shareholder, CPN Pattaya, held 67.53% of the company. The Rattanarak family was the second largest shareholder, holding a 29.9% stake in GLAND.

GLAND's existing rental assets are located on a 73-rai plot of land at the intersection of Rama 9 Road and Ratchadapisek Road. Rental and service income from office buildings and retail spaces contributed 75%-85% of GLAND's total revenue from sales and services during 2018 through 2023, while the remainder was from real estate sales.

KEY OPERATING PERFORMANCE

Table 1: GLAND's Revenue from Sales and Service Breakdown

Unit: %

Business	2018	2019	2020	2021	2022	2023
Rental and service income	81.6	79.4	84.9	74.1	79.7	80.1
Real estate sales	18.4	20.6	15.1	25.9	20.3	19.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total revenues from sales and services (mil. THB)	**1,491**	**1,591**	**1,469**	**1,555**	**1,515**	**1,552**

Source: GLAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	---------------------Year Ended 31 December ----------------				
	2023	**2022**	**2021**	**2020**	**2019**
Total operating revenues	1,562	1,539	1,568	1,485	1,597
Earnings before interest and taxes (EBIT)	717	705	787	1,010	896
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	726	715	791	1,122	902
Funds from operations (FFO)	378	438	479	761	403
Adjusted interest expense	251	177	203	269	384
Capital expenditures	42	33	69	47	21
Total assets	30,135	29,709	29,331	29,225	29,692
Adjusted debt	6,356	6,301	6,465	6,752	8,016
Adjusted equity	16,737	16,267	15,486	14,827	13,714
Adjusted Ratios					
EBITDA margin (%)	46.5	46.4	50.4	75.6	56.5
Pretax return on permanent capital (%)	3.1	3.2	3.6	4.6	4.2
EBITDA interest coverage (times)	2.9	4.0	3.9	4.2	2.3
Debt to EBITDA (times)	8.8	8.8	8.2	6.0	8.9
FFO to debt (%)	6.0	7.0	7.4	11.3	5.0
Debt to capitalization (%)	27.5	27.9	29.5	31.3	36.9

* *Consolidated financial statements*

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021

Grand Canal Land PLC (GLAND)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000