

L.P.N. DEVELOPMENT PLC

No. 224/2024
29 November 2024

CORPORATES

Company Rating:	BBB-
Issue Ratings:	
Senior unsecured	BB+
Outlook:	Stable

Last Review Date: 27/11/23

Company Rating History:

Date	Rating	Outlook/Alert
27/11/23	BBB	Negative
04/11/21	BBB	Stable
09/12/20	BBB+	Stable
19/12/19	A-	Negative
16/01/19	A-	Stable

Contacts:

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Bundit Pommata
bundit@trisrating.com

Jutamas Bunyawanchikul
jutamas_b@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on L.P.N. Development PLC (LPN) to “BBB-” from “BBB” and the ratings on its senior unsecured debentures to “BB+” from “BBB” as well as revised the rating outlook to “stable” from “negative”. The downgrades reflect the company’s lower-than-expected operating performance, which has led to elevated financial leverage and weakening cash flow protection. Although there are expectations of improving operating results and financial position, LPN’s credit profile will continue to face challenges due to unfavorable market conditions.

The rating on LPN’s senior unsecured debentures is one notch lower than its company rating. This reflects the priority debt ratio exceeding the 50% threshold according to TRIS Rating’s criteria. We assess that the company’s senior unsecured creditors could be significantly disadvantaged compared to its priority debt holders with respect to claims against the company’s assets.

The ratings take into consideration LPN’s concentrated property portfolio in terms of product type and price range, as well as its tight but manageable liquidity. However, the ratings continue to reflect LPN’s acceptable brand equity, which is bolstered by high-quality after-sales services, and growth prospects from property-related service businesses.

KEY RATING CONSIDERATIONS

Underperformed operating results

LPN’s operating performance in the first nine months of 2024 (9M24) fell below our expectations. Its residential sales in 9M24 were THB4.1 billion, achieving around half of our prior full-year targets. Revenue from condominium projects met our previous targets, primarily due to bulk sales in specific projects. However, revenue from landed property projects deviated significantly from the prior targets, reflecting LPN’s limited competitive strength in this segment.

LPN’s profit margin remained under significant pressure due to the high costs associated with newly acquired land plots. Additionally, the company faces challenges in passing through the rising costs to price-sensitive customers. Intense competition among leading property developers led LPN to adopt a pricing strategy aimed at boosting sales and clearing finished units. As a result, LPN’s gross profit margin declined to 20% of total operating revenue in 9M24 from 22%-25% in 2021-2023. Its EBITDA margin weakened to 11% in 2023-9M24 from 13%-14% during 2021-2022, remaining below the industry average of 15%-25%. LPN reported its bottom line of around THB200 million in 9M24, achieving only one-third of our prior full-year target. Its net profit margin of 4% remained much below the industry average of 10%.

Concentrated residential property portfolio

We view that LPN’s portfolio remains highly concentrated in the mid- to low-priced condominium segment. As of September 2024, LPN had 44 existing projects with total remaining value of THB27.5 billion (including built and unbuilt units). Condominium projects constituted 60% of the total unsold value, while landed property projects represented the remaining portion. Residential units priced below THB4 million comprised approximately 70% of the total remaining value.

Since 2023, LPN has made efforts to diversify its product portfolio into the mid- to upper-priced segments and introduce new product styles for both condominium and landed property projects. However, the sales performance from these initiatives has been slower than anticipated. In TRIS Rating's view, LPN's expansion into the upper segment and adjustment of its product offerings have progressed at a much slower pace compared to other leading developers. In our view, it will take time for the company to establish a track record and strengthen its competitive position within the upper-priced segments.

Reviving future performance to remain challenging

LPN's future performance remains challenging due to these unfavorable market conditions. In our view, persistently high interest rates and rising household debt levels will continue to adversely affect residential demand in the middle- to low-income segments, in the short to medium term. However, we expect LPN's operating performance to gradually recover from its current low point. Under TRIS Rating's base case, we project LPN's total operating revenue to remain between THB7.0-THB7.5 billion per annum in 2024-2025, with a recovery to nearly THB8 billion in 2026. Given its relatively small backlog, LPN's projected revenue will largely depend on new sales from existing projects and planned future projects.

However, due to its high-quality after-sales services, LPN's revenue from service businesses has grown steadily over the past five years, reaching around THB2 billion in 2023. As a result, we expect revenue from property-related services to grow by 5%-7% annually, accounting for around 30% of total operating revenue in 2024-2026. The gross profit margin from service businesses is expected to remain at a minimum of 20%.

Looking ahead, we expect LPN's gross profit margin to improve to 23% of total operating revenue in 2026, up from the low of 20% in 9M24, partly driven by the anticipated higher profit margin from condominium transfers. The EBITDA margin is projected to gradually increase to 13% in 2026, up from 11% in 9M24. As a result, LPN's EBITDA is expected to reach the THB1 billion level in 2026, compared to THB700-THB800 million per annum in 2023-2025. We project its net profit margin to remain above 3% throughout the forecast period.

Potential decline in financial leverage and improvement in cash flow protection

Given LPN's plan to prioritize accelerating the sales of completed stock and scale down its new projects launches, its debt to capitalization ratio improved to 49% as of September 2024 from 52% in 2023. However, LPN's debt to EBITDA ratio remained significantly high at 14-16 times and fund from operations (FFO) to debt ratio was relatively low at 2% in 2023-9M24. These were attributed to the company's weaker revenue and earnings.

Our base-case scenario anticipates that LPN will defer the budget for land acquisition in 2024-2025, allocating around THB 1 billion for new land plots in 2026. Capital expenditures for project construction are projected to range from THB1.5-THB2.5 billion annually in 2024-2026. In addition, we project LPN to launch new projects worth THB2-THB5 billion per annum. Given its more conservative approach to new investments and the anticipated recovery in operations, we project that LPN's debt to capitalization ratio will decrease to 40% and its debt to EBITDA ratio should gradually improve to 12 times in 2026. The FFO to debt ratio is expected to revive to above 5% from 2026 onwards.

The financial covenants on LPN's bank loans require maintenance of its interest-bearing debt to equity (IBD/E) ratio below 1.25 times and its total liabilities to total equity (D/E) ratio below 2 times. Also, the financial covenants on debentures obligations require the company's IBD/E ratio to remain below 2 times. As of September 2024, LPN's IBD/E ratio was 0.9 times and D/E ratio was 1.1 times. We believe that LPN should remain in compliance with the financial covenants over the next 12 to 18 months.

Tight liquidity but should be manageable

We assess LPN's liquidity as tight but should be manageable over the next 12 months. As of September 2024, LPN had debts due in the next 12 months totaling THB7.4 billion, comprising THB3.9 billion bridging-loan promissory notes (P/Ns) and project loans, THB1.5 billion debentures, THB1.4 billion P/Ns for working capital, THB0.5 billion long-term loans, and THB50 million bills of exchange (B/Es). We expect LPN to find appropriate sources of funds to either repay or refinance the THB1.5 billion debentures coming due in May 2025. The company normally uses B/Es and P/Ns for working capital and land purchases. We expect that the B/Es and P/Ns for working capital will either be rolled over or repaid within the next 12 months, while the bridging-loan P/Ns for land acquisition are expected to be converted into long-term project loans thereafter.

LPN's sources of liquidity included THB420 million cash on hand and THB1 billion undrawn committed short-term loan facilities. We project LPN's FFO in the next 12 months to be around THB100 million. In addition, LPN had unencumbered land banks at book value of THB140 million and remaining finished units in debt-free projects at cost value of THB5.2 billion, which can be pledged as collateral for new loans, if needed.

Debt structure

As of September 2024, LPN had total debt, excluding lease liabilities, of around THB11 billion. The company's priority debt, including secured debts at the company and its subsidiaries, was THB7 billion. This translates to a priority debt to total debt ratio of 64%. As its priority debt ratio exceeds the 50% threshold outlined in TRIS Rating's "Issue Rating Criteria", we assess that LPN's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets. Thus, the issue ratings on its senior unsecured debentures were downgraded to one notch below the company rating.

BASE-CASE ASSUMPTIONS

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

- New residential project launches worth THB2-THB5 billion per annum.
- The budget for land acquisition to be postponed in 2024-2025, with an allocated budget of around THB1 billion in 2026.
- Total operating revenue to hover around THB7-THB8 billion, with 60%-70% of revenue from residential sales.
- EBITDA margin to sustain in the 10%-13% range and net profit margin to stay above 3% of total operating revenue.

RATING OUTLOOK

The "stable" outlook reflects our expectation that LPN will be able to achieve operating results and maintain a financial profile in line with our base-case forecast. We expect that LPN's FFO to debt ratio will recover to above 5% starting from 2026.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward should LPN's operating performance and/or financial profile deteriorate from our expectations. On the contrary, LPN's credit upside is limited in near term. However, LPN's ability to deliver operating performance that exceeds expectations and enlarge its earnings base, while maintaining FFO to debt ratio above 10% for a sustained period, would be positive for the ratings and/or outlook.

COMPANY OVERVIEW

LPN was founded in 1989 by Mr. Theerachai Panjasap, Mr. Sumet Techakraisri, and Mr. Sirichai Charoensakwattana. The company was listed on the Stock Exchange of Thailand (SET) in December 1994. Since 2023, the Chatpiriyapan family has become the largest shareholder of the company. As of September 2024, the Chatpiriyapan family held around 18% stake in the company, while the founders and key executives held an approximate 8% stake.

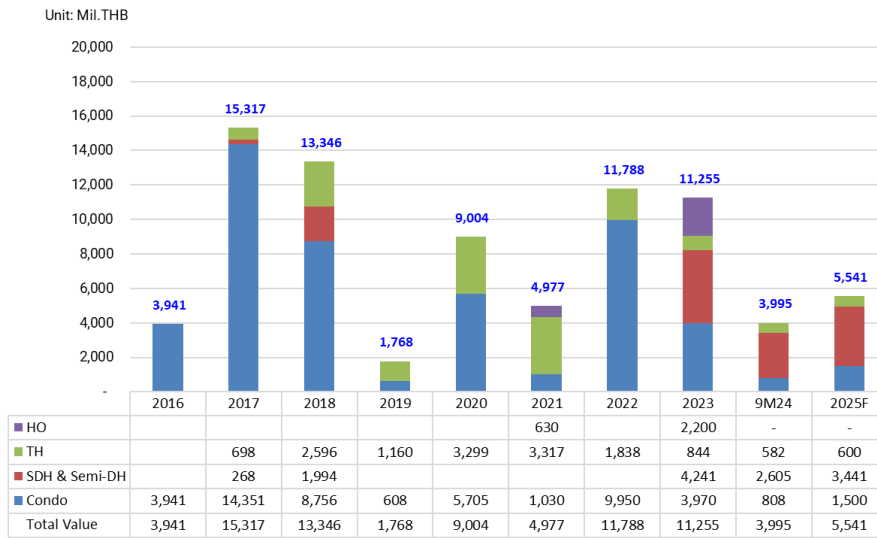
LPN has recently restructured its group organization by combining project construction management services under LPS Project Management Co.,Ltd. (LPS) with LPP Property Management Co., Ltd. (LPP) and separating the research and development services under LWS Wisdom and Solution Co., Ltd. (LWS) from LPP to be directly controlled by LPN. As a result, LPP's services cover community management, engineering services, security services, and facility management. In July 2023, LPS invested a 60% stake in PW Group Engineering Co., Ltd. (PWG), an electrical, plumbing, and air-conditioning system contractor, in order to expand its scope of residential-related service business.

LPN offers condominium, single detached house (SDH), semi-DH, and townhouse units in a limited range of prices and product categories. The company offers condominium units ranging in price from THB30,000 to THB130,000 per square meter (sq.m.). Landed property products range in price from THB5 million to THB35 million per unit for SDH and semi-DH and from THB2 million to THB20 million per unit for townhouse and home office. LPN's residential product portfolio focuses on the middle- to low-income condominium segments.

LPN's total operating revenue is mainly derived from condominium projects. Revenue from condominiums constituted more than 75% of total operating revenue in 2016-2018 but decreased to around 40% in 2021-2022 (excluding sales of Lumpini Tower Vibhavadi). The revenue contribution from condominium projects was 55% in 9M24. Revenue from landed properties contributed 5%-15% of total operating revenue in 2016-2018 but gradually increased to around 15%-20% in 2022-9M24. Revenue from residential units with prices below THB4 million has remained the major contributor accounting for around 50%-60% of total operating revenue in the past three years. Revenue from property-related service businesses constituted 27% of total operating revenue in 2023-9M24, while revenue from rental properties remained negligible.

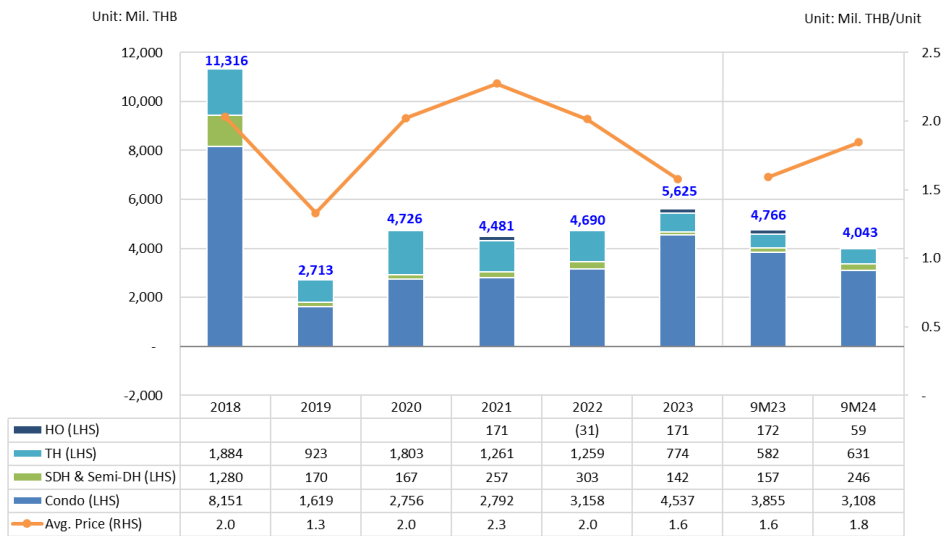
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



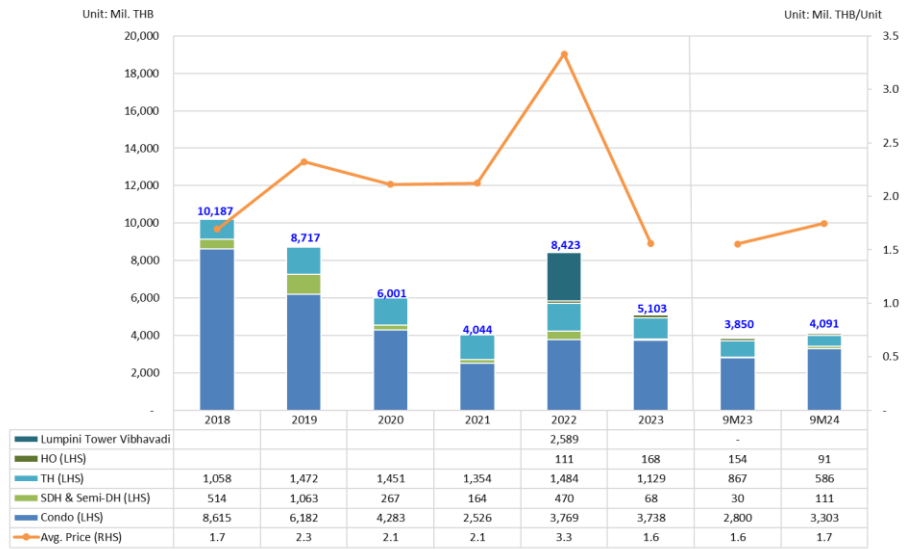
Source: LPN

Chart 2: Presales Performance



Source: LPN

Chart 3: Residential Sales



Source: LPN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	5,970	7,425	10,288	5,587	7,449
Earnings before interest and taxes (EBIT)	537	710	1,272	684	1,164
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	676	824	1,382	795	1,265
Funds from operations (FFO)	116	194	736	320	691
Adjusted interest expense	457	502	466	384	319
Real estate development investments	20,360	21,268	18,700	18,403	18,170
Total assets	25,107	26,566	24,114	23,777	23,619
Adjusted debt	11,369	12,854	10,616	10,690	9,328
Adjusted equity	12,042	11,959	11,868	11,397	11,822
Adjusted Ratios					
EBITDA margin (%)	11.3	11.1	13.4	14.2	17.0
Pretax return on permanent capital (%)	2.7 **	2.9	5.6	3.1	5.4
EBITDA interest coverage (times)	1.5	1.6	3.0	2.1	4.0
Debt to EBITDA (times)	13.9 **	15.6	7.7	13.4	7.4
FFO to debt (%)	1.5 **	1.5	6.9	3.0	7.4
Debt to capitalization (%)	48.6	51.8	47.2	48.4	44.1

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

L.P.N. Development PLC (LPN)

Company Rating:	BBB-
Issue Ratings:	
LPN255A: THB1,500 million senior unsecured debentures due 2025	BB+
LPN261A: THB682.4 million senior unsecured debentures due 2026	BB+
LPN271A: THB817.6 million senior unsecured debentures due 2027	BB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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