

PROSPECT DEVELOPMENT CO., LTD.

No. 39/2024
26 March 2024

CORPORATES

Company Rating: BB-
Outlook: Stable

Last Review Date: 12/04/23

Company Rating History:

Date	Rating	Outlook/Alert
12/04/23	BB+	Stable
31/08/22	BBB-	Negative

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RATIONALE

TRIS Rating downgrades the company rating on Prospect Development Co., Ltd. (PD) to “BB-” from “BB+”. The rating outlook is “stable”. The downgrade follows the rating action on its parent company, M.K. Real Estate Development PLC (MK, rated “BB-/Stable”).

As a core subsidiary, the company rating on PD is equivalent to and moves in tandem with the company rating on MK. In our view, PD’s business aligns closely with the group’s strategy, and the company is expected to be a significant contributor to the group’s earnings in the long run. In addition, we expect PD to receive financial support from the group should the need arise.

KEY RATING CONSIDERATIONS

Core subsidiary of MK

TRIS Rating assesses PD as a core subsidiary of MK. PD is a wholly owned subsidiary of MK, focusing on the industrial property (IP) business. The company has contributed significantly to MK’s earnings over the past three years. Going forward, MK will focus only on the IP business. The wellness business will be transferred to FNS Holdings PLC (FNS) while the residential property business will be wound down in the next three to five years.

As a core subsidiary, PD is expected to continue receiving financial support from MK. At the end of 2023, approximately 30% of PD’s debt comprised loans from MK.

The rating on PD is constrained by the group credit profile (GCP)

As a core subsidiary of MK, the rating on PD is equivalent to and moves in tandem with the rating on MK. The downgrade of MK’s company rating reflects its weaker-than-expected operating performance and high financial leverage. A significant decline in residential property sales, coupled with a sluggish recovery in the wellness business, has led to MK reporting a net loss for the fourth consecutive year. MK’s debt to capitalization ratio has also risen to 69%, surpassing our projection of 66%.

Looking ahead, MK’s operating performance is expected to improve following the transfer of its wellness business to FNS. We forecast MK’s annual earnings before interest, taxes, depreciation, and amortization (EBITDA) to increase to THB1.3-THB1.4 billion during 2024-2026. However, adjusted debt is expected to increase to approximately THB15-THB16 billion due to substantial capital expenditures for the IP business expansion and the inclusion of debt from BFTZ Wangnoi Ltd. (BFTZW). Consequently, its debt to EBITDA ratio is forecast to range between 12-14 times over the forecast period.

In addition, the rating on MK reflects its group status as a “strategic” member of the FNS group after FNS became the single largest shareholder of MK with a 49.5% stake in August 2023. Thus, MK’s rating is capped by the “bb-” group credit profile (GCP).

Modest revenue and earnings base

PD’s revenue and earnings are considered modest. However, the company expects further expansion in operating revenues and earnings, driven by its strategic plan to develop and divest assets to Prospect Logistics and Industrial Freehold and Leasehold Real Estate Investment Trust (PROSPECT) and/or

investors over the next three years. However, PD's business scale is likely to remain modest in comparison to other rated industrial property developers.

In 2023, PD's operating revenue stood at only THB615 million. Excluding gains from asset sales to PROSPECT, PD's EBITDA amounted to THB432 million, a slight increase from THB347 million in 2022. As of December 2023, PD managed a total leasable area of around 0.63 million square meters (sq.m.), comprising its own leasable area, 0.29 million sq.m. of PROSPECT, and 0.07 mil. sq.m. of leasable area under its two joint ventures, BFTZ Wangnoi "BFTZW" and BFTZ Bangkok "BFTZB".

Looking forward, PD plans to develop around 0.05 to 0.15 million sq.m. of leasable area each year. The company aims to retain around 0.2 million sq.m. of its own leasable area to generate recurring income of approximately THB400 million per annum. Surplus rental space, including newly built warehouses and factories, and projects under JVs, will be divested to PROSPECT to bolster its earnings.

Exposure to portfolio concentration and renewal risk

In our view, PD's portfolio remains exposed to significant concentration risk in terms of locations, tenants, and lease tenures. With its own leasable area situated in Samut Prakarn Province, unfavorable local conditions could considerably affect the company's overall performance. Tenant concentration is notable, with the top-ten tenants contributing over 40% of total leasable area in 2023. Thus, any major tenant contract terminations could potentially have a significant negative impact on the company's operating results. In addition, the terms of its lease contracts are mostly less than three years, exposing the company to annual lease renewal risk. However, the company has demonstrated a relatively high renewal rate, surpassing 85% over the past five years.

Looking ahead, expected demand growth following the opening of several countries and as a result of geopolitical tensions should drive an increase in demand for industrial property in Thailand. Thus, PD expects its average occupancy rate (OR) to exceed 80% in the short to medium term. However, escalating competition from both existing and new players poses a challenge for PD. To mitigate this risk, the company is proactively enhancing brand awareness among target customers through various marketing channels.

Group's financial profile remains weak

TRIS Rating expects the financial profile of MK and PD to remain weak over the next few years. Despite the transfer of its wellness business to FNS, MK's capital structure remains fragile. MK's debt to capitalization ratio is expected to stay within the 70%-75% range, reflecting the ongoing need for significant capital expenditure to expand its IP business. With all future cash flow from residential property sales committed to loans from non-related company, MK will need to finance the construction of its IP business through bank loans, the sale of leased assets of PD to PROSPECT, and the sale of land plots.

At the end of December 2023, PD's own debts amounted to THB5.2 billion, comprising THB1.3 billion debentures, THB1.6 billion bank loans, THB1.6 billion short-term loans from the parent company, THB50 million short-term borrowings from banks, and THB577 million lease liability. PD's secured debts totaled THB1.7 billion, resulting in a priority debt to total debt ratio of 37%. A portion of the JV's debt, which is guaranteed by PD, amounted to THB1.2 billion.

Financial covenants on PD's bank loans require the company to maintain its interest-bearing debt to equity ratio below 2 times, total liabilities to total equity ratio below 1.5 times, and debt service coverage ratio above 1.2 times. As of December 2023, the ratios were 1.9 times, 2.3 times, and 0.9 times respectively. PD has already obtained waivers from its lenders for breaching its debt service coverage ratio covenant in 2023. However, considering its relatively high debt level, PD could potentially breach its financial covenants again this year.

Tight liquidity

We assess PD's liquidity to be tight over the next 12 months. Debt maturing within this period will amount to THB823 million, comprising THB600 million debentures, THB50 million short-term promissory notes (P/N), THB216 million long-term project loans, and THB10 million lease liability. As of December 2023, PD's sources of liquidity included cash on hand amounting to THB82 million. We forecast PD's funds from operations (FFO) to be approximately THB500 million in 2024. Typically, PD refinances its matured debentures through new debenture issuances and rolls over its matured short-term P/N. In addition, MK should support PD's liquidity if needed.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumes that PD will remain a core subsidiary of MK.

RATING OUTLOOK

The "Stable" outlook is aligned with the outlook revision on MK.

RATING SENSITIVITIES

As a core subsidiary of MK, the rating on PD is linked to MK's credit profile. Any change in MK's rating and/or outlook will affect the rating on PD accordingly.

COMPANY OVERVIEW

PD was established in 2010 as a wholly owned subsidiary of FNS (formerly Finansa PLC). PD developed and operated factories and warehouses for rent in the "Bangkok Free Trade Zone" (BFTZ) project located at Bangna-Trad Km. 23 in Samut Prakarn Province. In December 2015, MK acquired 100% of the equity of PD, partly through a share swap. In August 2023, FNS acquired additional shares in MK, becoming the single largest shareholder with a 49.5% shareholding. MK holds a 100% stake in PD.

In 2021, PD joined Sansiri PLC (SIRI) to set up BFTZ Bangpakong Co., Ltd. (BFTZB) to develop industrial property for rent in Chachoengsao province. PD also set up a JV with FNS, BFTZ Wangnoi Co., Ltd. (BFTZW), to develop warehouses for rent in Ayutthaya province. The total area of the development was 1,228 rai comprising 456 rai owned by PD and 772 rai owned by JVs.

At the end of December 2023, PD had freehold and leasehold rights in five developed and underdeveloped industrial estates located at Bangna-Trad Km. 10, Bangna-Trad Km. 19, Bangna-Trad Km. 23 and on Theparak Road in Samut Prakarn province.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: % of total operating revenue

Revenue Contribution	2018	2019	2020	2021	2022	2023
Residential sales		71				
Industrial estate for rent	92	27	81	79	61	64
Management fee income			7	19	20	28
Other operating revenues	8	2	12	2	19	8
Total operating revenues	100	100	100	100	100	100
Total operating revenues (Mil. THB)	254	1,306	455	411	539	615

Note: Consolidated financial statements from 2019 onwards

Source: PD

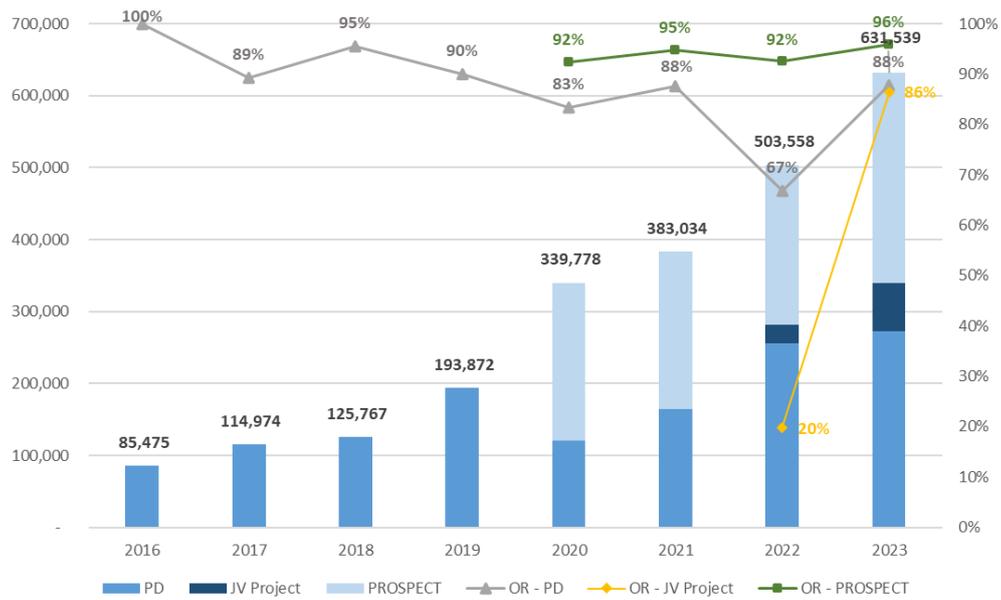
Table 2: Details of Assets

Project	Location		Land area (rai)	Total NLA (sq.m.)	Developed (sq.m.)	
PD						
- BFTZ1	Bangna-Trad Km.23	Leasehold	236	181,673	176,312	
- BFTZ2	Theparak Rd.	Leasehold	42	33,477	33,477	
- BFTZ3	Bangna-Trad Km.19	Leasehold	8	12,163	12,163	
		Freehold	132	100,015	100,015	
- BFTZ6	Bangna-Trad Km.19	Leasehold	50	50,004		
		Freehold	33	29,736		
- BFTZ7	Bangna-Trad Km.10	Leasehold	28	35,608	20,072	
Total			456	442,676	342,048	
JV						
- TPARK BFTZ (FPIT 60%)	Bangna-Trad Km.23	Leasehold	92	80,930	80,930	
- BFTZ4 (SIRI 50%)	Bangpakong	Freehold	Land for develop	323	184,348	46,356
			For sale	212		
- BFTZ5 (FNS 50%)	Wangnoi	Leasehold	145	109,355	20,932	
Total			772	374,633	148,218	

Note: All projects managed by PD except TPARK BFTZ

Source: PD

Chart 1: Occupancy and Leasable Area Owned and Managed by PD



Source: PD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	615	539	411	455	1,306
Earnings before interest and taxes (EBIT)	541	220	192	476	205
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	720	347	337	655	358
Funds from operations (FFO)	368	118	131	436	165
Adjusted interest expense	280	211	204	182	192
Capital expenditures	1,013	1,997	1,149	1,602	0
Total assets	8,831	8,220	6,662	6,615	6,040
Adjusted debt	6,229	5,990	4,045	4,356	3,852
Adjusted equity	2,688	2,445	2,433	2,203	1,944
Adjusted Ratios					
EBITDA margin (%)	117.2	64.3	82.0	144.0	27.4
Pretax return on permanent capital (%)	6.2	2.9	2.9	7.6	4.8
EBITDA interest coverage (times)	2.6	1.6	1.7	3.6	1.9
Debt to EBITDA (times)	8.6	17.3	12.0	6.7	10.8
FFO to debt (%)	5.9	2.0	3.2	10.0	4.3
Debt to capitalization (%)	69.9	71.0	62.4	66.4	66.5

* 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

Prospect Development Co., Ltd. (PD)

Company Rating:	BB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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