

FRASERS PROPERTY (THAILAND) PLC

No. 84/2019
12 June 2019

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
CreditAlert:	Negative

Last Review Date: 01/03/19

Company Rating History:

Date	Rating	Outlook/Alert
01/03/19	A	Alert Negative
25/05/17	A	Stable
27/04/16	A-	Stable
07/05/15	A	Negative
02/05/12	A	Stable
14/10/11	A	Alert Negative
21/11/05	A	Stable

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RATIONALE

TRIS Rating maintains CreditAlert with a “negative” implication for the “A” company rating and issue ratings on Frasers Property (Thailand) PLC (FPT). The “negative” CreditAlert implies that the rating on FPT could be resolved once voluntary tender offer (VTO) to acquire all securities of Golden Land Property Development PLC (GOLD) has already been finalized and the impact from this transaction on FPT’s creditworthiness has been thoroughly analyzed by TRIS Rating.

CREDIT ALERT

The CreditAlert assignment follows the announcement made by FPT on 25 February 2019 that FPT will make the VTO to acquire 100% of GOLD at the offering price of Bt8.5 per share, totaling Bt19,751.62 million. An acquisition will be funded by internal cash flow, bank loan, and debenture issuance. The tender offer period will end in the beginning of August 2019.

The acquisition will affect FPT’s financial risk and business risk profiles. The acquisition may raise FPT’s leverage significantly and weaken its financial risk profile because the acquisition is largely debt-funded financing. In addition, the cyclical and competitive nature of the residential property development industry, GOLD’s main line of business, could have a negative impact on FPT’s business profile.

Currently, Frasers Property Holdings (Thailand) Co., Ltd. (FPHT) owns 39.92% of GOLD, along with Univentures PLC (UV), owning 39.28%, and the minority shareholders, owning 20.8%. FPHT is also the largest shareholder of FPT, direct holding 40.95% of the outstanding shares.

The percentage of FPT’s shareholding in GOLD at the end of the transaction is still unclear at this point of time. If FPT manages to acquire more than 90% of GOLD, it may proceed with the delisting of GOLD from the Stock Exchange of Thailand (SET). However, TRIS Rating expects that FPT should be able to acquire at least 39.92% stakes in GOLD from FPHT.

KEY RATING CONSIDERATIONS

Acquisition of GOLD provides entry into residential and commercial businesses

The purpose of this acquisition is to expand FPT’s business into an integrated real estate company, covering industrial, commercial, and residential properties and other relevant types of real estate purposes.

GOLD is engaged in the residential property development, focusing mainly on landed property development, detached houses, semi-detached houses, and townhouses. Acquiring stakes in GOLD should immediately boost FPT’s current and future earnings.

Improvement in occupancy rate (OR)

As of December 2018, FPT added 134,144 square meters (sq.m.) of leased area (before selling to Frasers Property Thailand Industrial Freehold and Leasehold Real Estate Investment Trust (FTREIT)), 73% of the total was from warehouses.

The leased area in FPT’s warehouses rose by 97,644 sq.m. as of December 2018. Demand is growing in the logistics, consumer products, and food

industries. While, the leased area in ready-built factories (RBFs) increased by 36,500 sq.m. as of December 2018. Demand rebounded in some industries such as electronics and automotive.

FPT's OR improved to 80% during the first six months of fiscal year 2019 (FY2019), from 75% in FY2018. An improvement in OR was driven by moving into built-to-suit platform for warehouses and initiating asset enhancement program for RBFs, including resizing, combination, modification, and renovation. TRIS Rating forecasts FPT's OR remains healthy at 80% during FY2019-FY2021.

Asset sales became the largest source of revenue in FY2018. FPT sold assets to FTREIT, formerly known as TICON Freehold and Leasehold Real Estate Investment Trust (TREIT). Revenue from asset sales was Bt2,025 million during the first six months of FY2019, much more than Bt638 million sold during the first six months of FY2018. Rental income grew by 12% year-on-year (y-o-y) to Bt791million. Adjusted operating margin (operating income before depreciation and amortization as a percentage of sales) slightly improved to 47.4% during the first six months of FY2019 from 46.9% during the same period.

Rising financial leverage

The acquisition debt will boost FPT's leverage and weaken its financial risk profile. Under TRIS Rating's base case scenario, the total debt to capitalization ratio of FPT will jump to 60%-65% during FY2019-FY2021, from 26%-31% in FY2017-FY2018. Currently, FPT has cash on hand and marketable securities totaling Bt8,763 million to partially support the acquisition and the planned capital expenditures in FY2019-FY2021.

BASE-CASE ASSUMPTIONS

- FPT's revenues will grow to around Bt24,000-Bt30,000 million after the acquisition.
- FPT's gross profit margins will stay at 35%-37% and operating margins will stay around 20% in FY2019-FY2021.
- FPT's capital spending and investment will be around Bt25,000 million in 2019, which is mainly from the acquisition, and Bt2,000-Bt3,500 million in 2020-2021.

COMPANY OVERVIEW

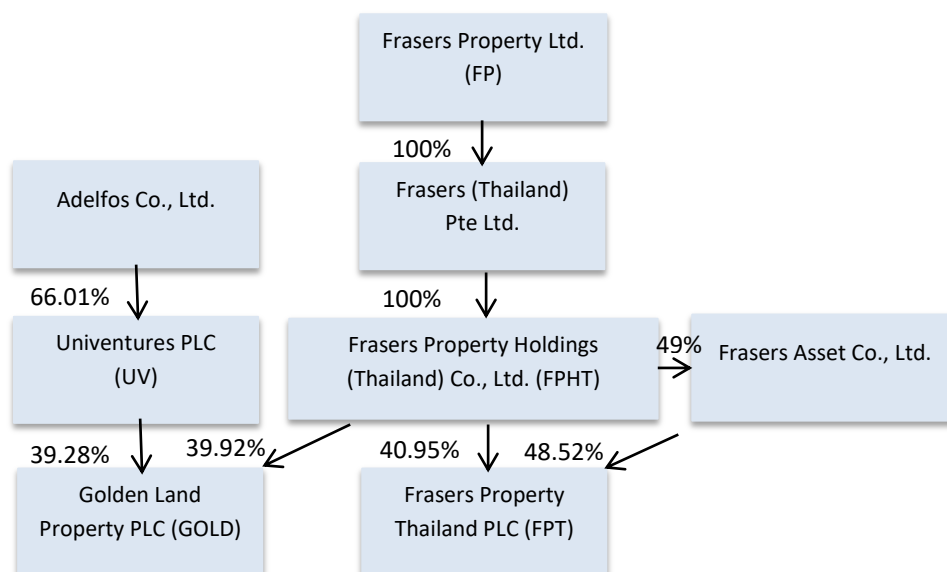
FPT, formerly known as TICON Industrial Connection PLC (TICON), was incorporated in 1990 and listed on SET in 2002. As of March 2019, FPT was 89.5% held by the Frasers Property Group, a multi-national company that develops, owns, and manages a diverse, integrated portfolio of properties. The Frasers Property Group was listed on the Singapore Exchange Securities Trading Ltd.; the Group had total assets of approximately S\$33.2 billion as at 31 March 2019.

Currently, FPT is recognized as the largest developer of industrial properties for factories and logistics warehouses across Thailand.

Major customers classified by industry are general logistics (39%), automotive (18%), and consumer products (12%). Major customers classified by country are Germany (23%), Thailand (22%), Japan (16%), China (8%), and Europe (7%).

Recent Development:

- In April 2018, Frasers Property Technology (Thailand) Co., Ltd., a subsidiary of FPT, held a 51% stake in Technology Asset Co., Ltd., a joint venture, while STT Thailand DC Pte. Ltd. held a 49% stake in Technology Asset Co., Ltd. to invest in data center business and other technology-based business.
- In August 2018, FPT set up a joint venture with JustCo (Thailand 2) Pte. Co., Ltd., namely JustCo (Thailand) Co., Ltd., for engaging in the business of co-working space, which FPT held a 51% stake and JustCo held a 49% stake.
- In October 2018, FPT held a 50% stake in TRA Development Co., Ltd. (TRA), while Rojana Industrial Park PLC (ROJNA) and Asia Industrial Estate (AIE) each held a 25% stake of the total shares in TRA, won the auction of 4,315 rai of land plots, which are located on Bang Na-Trad road, KM. 32, Samut Prakan province, with the total bidding amount of Bt8,914 million. In January 2019, TRA paid Bt4,267 million for the land auction, while FPT paid Bt2,133 million for this transaction.
- In January 2019: FPT set up a joint venture company with Sahathai Terminal PLC, namely Bangkok Logistics Park Co., Ltd., in order to develop industrial parks, warehouses, and industrial properties in Thailand, which FPT held a 75% stake and Sahathai Terminal held a 25% stake.

FPT's Group Structure


Source: FPT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Oct 2018 - Mar 2019	Year Ended Sep 2018	----- Year Ended Dec 31 -----		
			2017	2016	2015
Total operating revenues	3,066	3,733	1,977	1,762	4,721
Operating income	1,453	1,383	1,184	1,012	1,795
Earnings before interest and taxes (EBIT)	1,388	1,209	1,001	807	1,437
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,729	1,970	1,641	1,343	2,178
Funds from operations (FFO)	1,313	1,507	1,054	395	1,253
Adjusted interest expense	287	421	592	841	835
Capital expenditures	866	450	1,277	1,879	7,012
Total assets	47,127	42,999	40,982	36,093	36,287
Adjusted debt	11,105	8,905	11,228	22,289	21,165
Adjusted equity	25,665	25,380	24,934	11,418	11,689
Adjusted Ratios					
Operating income as % of total operating revenues (%)	47.39	37.04	59.86	57.46	38.01
Pretax return on permanent capital (%)	4.23	3.06	2.76	2.37	4.55
EBITDA interest coverage (times)	6.03	4.68	2.77	1.60	2.61
Debt to EBITDA (times)	4.66	4.52	6.84	16.59	9.72
FFO to debt (%)	15.80	16.92	9.38	1.77	5.92
Debt to capitalization (%)	30.20	25.97	31.05	66.13	64.42

* Consolidated financial statements

** Annualized with trailing 12 months

Note FPT has changed its financial year end from 31 December to 30 September since financial year 2018 onwards. Consequently, the financial statements for FY2018 comprise only nine months.

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Frasers Property (Thailand) PLC (FPT)

Company Rating:	A
Issue Ratings:	
TICON190A: Bt620 million senior unsecured debentures due 2019	A
TICON205A: Bt500 million senior unsecured debentures due 2020	A
TICON205B: Bt100 million senior unsecured debentures due 2020	A
TICON208A: Bt600 million senior unsecured debentures due 2020	A
TICON213A: Bt1,500 million senior unsecured debentures due 2021	A
TICON217A: Bt800 million senior unsecured debentures due 2021	A
TICON225A: Bt1,000 million senior unsecured debentures due 2022	A
TICON229A: Bt1,000 million senior unsecured debentures due 2022	A
TICON233A: Bt2,500 million senior unsecured debentures due 2023	A
TICON235A: Bt2,300 million senior unsecured debentures due 2023	A
TICON238A: Bt700 million senior unsecured debentures due 2023	A
TICON283A: Bt1,000 million senior unsecured debentures due 2028	A
FPT213A: Bt2,000 million senior unsecured debentures due 2021	A
FPT222A: Bt2,300 million senior unsecured debentures due 2022	A
FPT242A: Bt500 million senior unsecured debentures due 2024	A
FPT292A: Bt200 million senior unsecured debentures due 2029	A
CREDIT ALERT:	Negative

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