TRIS RATING
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CreditNews ข่าวเครดิต

CENTRAL PATTANA PLC

No. 12/2019
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CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 18/09/18

Company Rating History:

Date	Rating	Outlook/Alert
18/09/18	AA	Alert Developing
22/09/17	AA	Stable
12/05/14	AA-	Stable
05/02/13	A+	Positive
23/05/07	A+	Stable
22/02/05	A	Stable
12/07/04	A-	Positive
04/10/02	A-	-
17/05/01	BBB+	-

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RATIONALE

TRIS Rating removes the “CreditAlert” with a “developing” implication placed on the company and issue ratings on Central Pattana PLC (CPN) since 18 September 2018. At the same time, TRIS Rating affirms the ratings on CPN and its senior unsecured debentures at “AA” with a “stable” outlook.

The ratings reflect our expectation that the acquisition of Grand Canal Land PLC (GLAND) will support CPN’s business profile. GLAND’s property portfolio consists of four office buildings and four land plots located in prime areas. Despite the debt funding for the whole transaction worth Bt13,000 million, CPN’s financial profile continues to be consistent with the “AA” rating.

The ratings continue to reflect CPN’s leading position in the retail property development industry in Thailand, proven track record of managing high-quality assets, and reliable cash flows from contract-based rental and service income. The ratings also take into consideration the large capital expenditures needed for business expansion during 2019-2022 and the intense competition in the retail property development business.

KEY RATING CONSIDERATIONS

GLAND acquisition strengthens CPN’s business platform

TRIS Rating views that the GLAND acquisition enlarges CPN’s recurring-income asset portfolio from existing rental assets in “The Grand Rama 9“ project and four land plots in prime locations. GLAND’s existing assets consist of four office buildings with net leasable area of 148,917 square meters (sq.m.), one condominium project with remaining unsold 38 units, and retail space with net leasable area of 24,061 sq.m. connected with office and condominium buildings. GLAND’s revenue from its existing assets was Bt1,483 million in 2017 and Bt1,102 million during the first nine months of 2018.

The key benefit from this acquisition is to develop four land banks located on Rama 9 road, Phaholyothin road, Kampangpetch 6 road, and Vipavadee Rangsit road. CPN plans to develop the land plots on Rama 9 and Phaholyothin roads into mixed-use projects including retail space, office building, and condominium. These two land plots also complement CPN’s existing portfolio in the Rama 9 and Ladprao areas. The land plots on Kampangpetch 6 and Vipavadee Rangsit roads will be developed as residential projects for sale. CPN set budgets for the development of these land plots at Bt700 million in 2019 and Bt2,000-Bt3,000 million per annum during 2020-2022.

Leading position in retail property in Thailand

As of September 2018, CPN managed 33 shopping centers, comprising 14 shopping centers in Bangkok and 19 shopping centers in big provinces. Across all its shopping centers and retail space from the GLAND assets, CPN held a total rentable area of 1.7 million sq.m. CPN’s leading position is also attributed to its largest market share in the industry and high occupancy rates (OR) at its shopping centers. CPN had a market share of around 20% in retail space in Bangkok and vicinity during the past five years, including department stores under Central Department Store Co., Ltd. The OR for its retail space was 92% as of September 2018.

Rental and service income from shopping centers grew by 3% year-on-year (y-o-y) to Bt25,364 million in 2017 and by 6% y-o-y to Bt20,093 million in the first nine months of 2018. The growth was due to the opening of new shopping centers during that period. Also, same-store rental and service income grew by 3% y-o-y in 2017 and 3.6% y-o-y in the first nine months of 2018.

Proven track record of managing high-quality shopping centers

CPN's overall asset quality is good, as a result of its diversified portfolio of income-generating properties, good locations, and a diverse and strong tenant base. Each shopping center usually undergoes renovation and remerchandising mix in order to enhance appeal and draw customer traffic. Magnet attractions, such as Central Department Stores, Robinson Department Stores, cinemas, supermarkets, brand name shops, and large multi-purpose halls, also stimulate traffic. A good mix of anchor tenants attracts other specialty retailers. The prime-quality shopping centers also attract a diverse mix of local and international branded retailers, which keep earnings stable through economic cycles. To mitigate the rollover risk of the tenant base, CPN closely manages its rent-expiry profile. Approximately 30% of its contracts with tenants expire every year.

Reliable cash flow stream from contract-based rental and service income, with high profitability

CPN rents most of the space in its shopping centers on three-year contracts. The portion of rental space on three-year rental contracts was 87% as of September 2018, while the portion of rental space on long-term lease contracts accounted for the rest. The higher the proportion of three-year rental contracts, the greater the flexibility for rate adjustments, refurbishment, and changes in the tenant mix.

Each rentable unit carries a different rental rate per sq.m. per month, depending on the location and the marketing policy of each shopping center. Across its shopping center portfolio, the average rental rate per sq.m. per month increased by 3% in the third quarter of 2018 from 2017.

CPN's operating margin held at 58%-59% during 2014-2018. The EBITDA (earnings before interest, tax, depreciation, and amortization) margin was high at 57%-60% during the past five years. CPN's ability to maintain its high OR, increase rental rates, and control operating costs has sustained high profitability. Going forward, CPN's profitability may be threatened by the intense competition among retail property developers. Nonetheless, CPN should be able to keep the operating margin and the EBITDA margin above 50%.

Large capital expenditures with expected financial leverage at around 45%

During 2019-2022, CPN plans to invest Bt22,000-Bt24,000 million per annum in several projects. This latest budget is higher than the previous budget of Bt17,000-Bt19,000 million per annum. CPN's business plan during the next four years will focus more on mixed-use development projects. Apart from the GLAND land plots, CPN is developing a mixed-use project with Dusit Thani PLC (DTC) on the corner of Silom and Rama 4 roads. The shopping center and office building in this joint venture project will complete and start operation by 2023. CPN plans to launch 2-3 new shopping centers and enhance 2-3 existing shopping centers per year. Also, the company plans to have more hotels in areas adjoining its shopping centers. CPN targets to launch 3-6 new residential projects, located nearby its shopping centers, per year.

Despite its aggressive business expansion, CPN's need for capital to pursue its growth plan remains moderate. The company's deleverage plan includes the subleasing of its assets to the real estate investment trust (REIT) during 2020-2021. Cash receipts from the sublease will partially help alleviate its debt funding. TRIS Rating expects CPN to keep its debt to capitalization ratio at around 45% and interest-bearing debt to EBITDA ratio at below 3.5 times during 2019-2022. We forecast that the ratio of funds from operations (FFO) to total debt over the next four years will stay in the range of 25%-28%.

Acceptable liquidity profile

CPN's liquidity is acceptable. At the end of September 2018, the company had around Bt2,700 million in cash and cash equivalents plus undrawn committed credit facilities from financial institutions of around Bt8,200 million. TRIS Rating forecasts CPN's FFO over the next 12 months will be Bt16,000 million. Debts due over the next 12 months will amount to Bt12,098 million, comprising Bt10,272 million in short-term bills of exchange (B/Es) and promissory notes (P/Ns), Bt1,326 million in long-term loans, and Bt500 million in debentures.

In the fourth quarter of 2018, CPN converted the Bt5,100 million short-term P/Ns for the GLAND acquisition to long-term loans with banks. Most of the Bt4,200 million short-term B/Es for the acquisition were rolled over. CPN has a policy to keep short-term debts at around 20% of its total debt. TRIS Rating expects CPN to maintain its undrawn credit facilities to cover all maturing debts over the next 12 months to avoid rollover risk.

BASE-CASE ASSUMPTIONS

- CPN will open 2-3 new shopping centers per year during 2019-2022. Thus, its retail space is forecast to increase to two million sq.m. by 2021 with expected overall OR at around 90% and the rental rate increasing by 3% per annum;
- Rental and service income from shopping centers during 2019-2022 will range from Bt27,000 million to Bt34,000 million per annum; and
- Capital expenditures will be around Bt22,000-Bt24,000 million per annum during 2019-2022.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that CPN will be able to sustain its strong operating performance. The company is expected to maintain its financial discipline by keeping the operating margin above 50%. With its business expansion over the next four years, we expect CPN to keep the debt to capitalization ratio at around 45% and the interest-bearing debt to EBITDA ratio below 3.5 times.

RATING SENSITIVITIES

CPN's credit upside would materialize if its business expansion strengthens its business position and financial profile. On the contrary, the ratings and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the current levels. Also, the interest-bearing debt to EBITDA ratio at above 3.5 times for certain periods may lead to a downward rating or outlook revision.

COMPANY OVERVIEW

CPN was incorporated in 1980 under the name "Central Plaza Co., Ltd." to develop and operate a shopping complex in Thailand. The company was listed on the Stock Exchange of Thailand (SET) in 1995. As of September 2018, the major shareholders of CPN were the Chirathivat family (27%) and Central Holding Co., Ltd. (26%). Central Holding, a wholly-owned holding company of Chirathivat family members, is engaged in real estate development, hotels, food retailing, department stores, hardline products, and online marketing. The ownership link with the Central Group is a benefit for CPN since many anchor tenants under the group have been strong magnets for shopping centers owned by CPN.

CPN is the largest retail property developers in Thailand. After the acquisition of GLAND in late 2018, CPN's property portfolio included 33 shopping centers and retail space with rentable area of 1.7 million sq.m., 11 office buildings with rentable area of 320,000 sq.m., two hotels, one apartment, 30 food centers, 10 residential projects, and two REITs, as well one property fund.

CPN's rental and service income from shopping centers constituted around 90% of total revenue from sales and services during 2014-2017. Revenue from office and hotel totally contributed 5%-7% during the past five years. Revenue from food and beverages constituted 4%-6% during the same period. Residential projects started generating revenue contribution of 9% in the first nine months of 2018.

KEY OPERATING PERFORMANCE

Table 1: CPN Property Portfolio

No. of Property	CPN	GLAND	Total
Shopping center	33		33
Total NLA – Retail space (sq.m.)	1,699,846	24,061	1,723,907
Office building	7	4	11
Total NLA – Office building (sq.m.)	171,992	148,917	320,909
Hotel	2 (561 rooms)		2 (561 rooms)
Food center	29	1	30
Residential			
- Condominium	8	1	9
- Landed property	1		1
REIT	CPNREIT (CPN holds 26.69%)	GLANDRT (GLAND holds 15%)	3
Property fund	CPNCG (CPN holds 25%)		

NLA = Net leasable area
Source: CPN

Table 2: CPN's Revenue from Sales and Services

Unit: %

Business	2014	2015	2016	2017	Jan-Sep 2018
Shopping centers	88.5	88.9	89.0	88.1	79.6
Office buildings	2.7	2.6	2.4	2.4	2.4
Hotels	4.3	4.1	3.6	3.8	3.3
Apartment	0.1	0.0	0.0	0.0	0.0
Food & beverages	4.4	4.4	5.0	5.7	5.3
Residential					9.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total revenue (Bt million)	**22,308**	**24,283**	**27,634**	**28,785**	**25,255**

Source: CPN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2018	------------- Year Ended 31 December ------------- 2017	2016	2015	2014
Total operating revenues	27,126	31,094	29,234	25,681	23,825
Operating income	15,634	18,373	17,343	14,822	13,811
Earnings before interest and taxes (EBIT)	11,234	13,507	12,747	10,793	10,431
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	15,537	18,760	17,760	15,230	14,395
Funds from operations (FFO)	12,293	15,008	14,006	11,936	11,091
Adjusted interest expense	1,583	1,957	2,067	1,864	1,926
Capital expenditures	6,897	10,358	5,410	15,265	10,025
Total assets	160,437	120,574	104,527	103,045	89,035
Adjusted debt	54,932	31,570	36,254	39,420	31,334
Adjusted equity	75,474	63,880	53,005	46,801	41,748
Adjusted Ratios					
Operating income as % of total operating revenues (%)	57.63	59.09	59.33	57.72	57.97
Pretax return on permanent capital (%)	12.12**	14.04	13.98	12.95	13.86
EBITDA interest coverage (times)	9.81	9.59	8.59	8.17	7.47
Debt to EBITDA (times)	2.75**	1.68	2.04	2.59	2.18
FFO to debt (%)	28.83**	47.54	38.63	30.28	35.40
Debt to capitalization (%)	42.12	33.08	40.62	45.72	42.88

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Central Pattana PLC (CPN)

Company Rating:	AA
Issue Ratings:	
CPN20DA: Bt800 million senior unsecured debentures due 2020	AA
CPN218A: Bt1,900 million senior unsecured debentures due 2021	AA
CPN21OA: Bt300 million senior unsecured debentures due 2021	AA
CPN21DA: Bt800 million senior unsecured debentures due 2021	AA
CPN221A: Bt1,000 million senior unsecured debentures due 2022	AA
CPN228A: Bt800 million senior unsecured debentures due 2022	AA
CPN22DA: Bt600 million senior unsecured debentures due 2022	AA
CPN258A: Bt1,000 million senior unsecured debentures due 2025	AA
Up to Bt7,100 million senior unsecured debentures due within 15 years	AA
Rating Outlook:	Stable

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