

GOLDEN LAND PROPERTY DEVELOPMENT PLC

No. 146/2019

17 September 2019

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 01/03/19

Company Rating History:

Date	Rating	Outlook/Alert
01/03/19	BBB+	Alert Positive
08/09/16	BBB+	Stable
02/09/15	BBB	Stable

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RATIONALE

TRIS Rating removes the “CreditAlert” with a “positive” implication placed on the company rating on Golden Land Property Development PLC (GOLD) since 1 March 2019. At the same time, TRIS Rating upgrades the company rating on GOLD to “A-” from “BBB+” with a “stable” outlook.

The upgrade reflects the status of GOLD as a core subsidiary of Frasers Property (Thailand) PLC (FPT) after FPT made a tender offer and acquired a 94.5% stake in GOLD. GOLD’s existing businesses complement FPT’s business expansion into an integrated real estate company, covering industrial estate properties, residential properties for sale, commercial properties for rent, and other relevant real estate operations.

The rating reflects GOLD’s growing brand recognition and revenue in the landed property market, improving profitability, and reliable stream of income from rental properties. The rating also takes into consideration the company’s rising leverage, resulting from its aggressive business expansion, and concerns over the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT), which has caused a slowdown in the industry.

KEY RATING CONSIDERATIONS

GOLD’s rating is enhanced by its core status of FPT

Upon completion of the tender offer at the beginning of August 2019, FPT became the major shareholder of GOLD with a 94.5% stake. After consolidating GOLD, FPT’s business portfolio became more diversified. FPT’s business now integrates a broader portfolio of properties, including its existing industrial estate properties for factories and logistics warehouses as well as GOLD’s residential properties for sale and commercial properties for rent.

TRIS Rating views that GOLD is a core subsidiary of FPT as GOLD’s business is now a major contributor of FPT’s operating revenues and earnings before interest, taxes, depreciation, and amortization (EBITDA). In fiscal year (FY) 2020, GOLD’s operating revenue is forecast to account for around 80% of FPT’s total operating revenue while its EBITDA to account for around 50% of FPT’s total EBITDA.

Due to GOLD’s status as a core subsidiary of FPT, we expect that FPT will strongly support GOLD on business operations and financing activities. Despite the change of shareholding structure, GOLD’s board of directors and key executives remain unchanged. However, GOLD is in the process of delisting from the Stock Exchange of Thailand (SET), which is expected to be completed at the beginning of 2020.

Growing brand recognition and revenue in landed property segment

TRIS Rating views that GOLD’s landed property brand recognition has strengthened during the past five years. GOLD’s residential sales soared to Bt14.1 billion in FY2018 from Bt7-Bt9 billion per annum during 2015-FY2017 and Bt3 billion in 2014. Residential sales increased by 14% year-on-year (y-o-y) to Bt11.6 billion in the first nine months of FY2019.

GOLD’s residential projects offer single-detached house (SDH), semi-detached house, and townhouse units, with prices ranging from Bt2 million per unit to Bt40 million per unit. As of June 2019, GOLD had 44 existing landed property projects. Around 95% of the projects are located in Bangkok and its vicinity,

with the remainder located upcountry. Total unsold project value (including built and un-built units) was Bt21.6 billion and the total backlog was Bt4.5 billion. The backlog will be delivered to customers during the remainder of FY2019 through FY2020.

In our base case projection, we forecast GOLD's residential sales to be Bt14-Bt17 billion per annum during FY2019-FY2022. We expect GOLD's residential properties for sale to remain a major contributor accounting for around 90% of total operating revenues.

Improving profitability

TRIS Rating views that GOLD's profitability improved during the past three years. GOLD's operating income increased to 19%-20% during FY2017 through the first nine months of FY2019, from 17%-18% during 2014-2016. Its operating income remained above the industry average of 15%. The company's net profit margin was 12%-13% during FY2017 through the first nine months of FY2019, up from 8%-10% during 2014-2016. Its net profit margin was in line with the industry average of 10%-12%.

However, going forward, GOLD's profitability could be pressured by rising land costs and more intense competition in the landed property segment. In any case, we expect GOLD to keep its operating income around 15% and its net profit margin above 10% during FY2019-FY2022.

Reliable income stream from properties for rent

GOLD's existing rental property portfolio comprises three office buildings: Sathorn Square, FYI Center, and Golden Land Building, and three hotels: Mayfair Marriott, The Ascott Sathorn, and Modena. In FY2018, its office buildings and hotels generated income of Bt1 billion and Bt0.5 billion, respectively. Its office buildings had an average occupancy rate (OR) of 94% and an average rental rate of Bt714 per square meter (sq.m.) per month during FY2018 through the first nine months of FY2019. During the same period, its hotels had an average OR of 81% and an average room rate of Bt3,107 per room per night.

In our base case forecast, we assume the OR of each asset will be in the range as in FY2018 and the first nine months of FY2019 with a 3% rental rate growth each year during FY2019-FY2022. We also expect that rental properties will generate income of Bt1.2-Bt1.5 billion per annum, or around 10% of total operating revenues, during FY2019-FY2020. GOLD plans to sell FYI Center to the Golden Ventures Leasehold Real Estate Investment Trust (GVREIT) at the beginning of FY2021. Also, the leasehold right of Golden Land Building will expire in FY2022. Thus, we forecast that the income from rental properties will decrease to Bt0.7 billion per annum, or around 4% of total operating revenues, during FY2021-FY2022. GOLD will also recognize a share profit from the Samyan Mitrtown project, a joint venture mixed-use project, from FY2022 onwards once the ORs of office buildings and hotels improve and a larger portion of condominium units is transferred to customers.

Impact from a slowing domestic economy and implementation of new LTV rules

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. The slowdown of domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers. In addition, the implementation of the new LTV rules by the BOT should impact sales of residential units in the short term. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans. TRIS Rating expects the implementation of the new LTV rules to impact the condominium segment more than the landed property segment. In response to the softening market demand, GOLD may have to lengthen the down payment period for some homebuyers. The delay in transfers to customers may impact the company's revenue recognition.

Rising leverage resulting from aggressive business expansion

GOLD's total operating revenues grew sharply to Bt15.8 billion in FY2018 from Bt9.3 billion in FY2017. Its total operating revenues increased by 13% y-o-y to Bt13 billion in the first nine months of FY2019. Due to GOLD's rapid expansion, its debt to capitalization ratio rose to 56% as of June 2019 from 32% as of September 2017. The funds from operations (FFO) to total debt ratio also dropped to 10% in the first nine months of FY2019 from 21% in FY2017.

Going forward, GOLD aims to continuously increase its revenue from residential sales to Bt18-Bt22 billion per annum during FY2020-FY2022. To achieve the target, we expect the company to launch new residential projects worth Bt20-Bt25 billion per annum over the next three years. The company plans to spend Bt8-Bt9 billion annually to purchase land plots during FY2019-FY2022. Nearly all new projects are landed property projects. In addition, GOLD plans to launch a condominium project located in a central business district (CBD) area worth around Bt10 billion in FY2021. The company also plans to launch more projects in provincial areas.

Despite its continued growth plan, TRIS Rating expects GOLD's need for capital to remain moderate due to the shorter development period of landed properties than that of condominiums. We expect GOLD to maintain its debt to capitalization ratio below 55% and its FFO to total debt ratio to stay above 10% over the next three years.

Expected liquidity support from the parent company

As of June 2019, GOLD's sources of funds consisted of Bt1.1 billion in cash on hand plus undrawn committed credit facilities of project loans of Bt1.2 billion and undrawn credit facilities of short-term loans of Bt3.1 billion. TRIS Rating forecasts GOLD's FFO over the next 12 months will be around Bt2 billion. Debts due over the next 12 months will amount to Bt9.7 billion, comprising Bt4.6 billion in short-term bills of exchange (B/Es) and promissory notes (P/Ns), Bt4 billion in debentures, and Bt1.1 billion in project loans.

We expect short-term B/Es and P/Ns to be either rolled over or repaid within the next 12 months, and project loans to be repaid with cash flow from the transfers of residential units. The Bt3 billion in debentures coming due in November 2019 will likely be refinanced with new bond issuance. The remaining outstanding debentures may be refinanced by new bond issuance or loans from the parent company. According to its bond covenants, GOLD has to maintain its status as a listed company on the SET. As the company plans to delist from the SET, GOLD needs to get a waiver from its bondholders, otherwise, the company will need to redeem its remaining debentures worth Bt7 billion. In the case that GOLD has to redeem its existing debentures, TRIS Rating expects that GOLD should have no problems getting financial support from the Group.

In addition, the company has to maintain its total liability to total equity ratio (excluding deferred income) and its interest-bearing debt to equity ratio at the levels lower than 2 times, in order to comply with the financial covenants on its bank loans and bonds. As of June 2019, the company's total liability to total equity ratio was 1.8 times and the interest-bearing debt to equity ratio was 1.1 times. TRIS Rating believes that GOLD should have no problems complying with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

- GOLD to launch new residential projects worth Bt20-Bt25 billion per annum over the next three years
- Budget for land acquisition is forecast to be Bt8-Bt9 billion per annum during FY2019-FY2022
- Total operating revenue to stay at Bt15-Bt18 billion per annum during FY2019-FY2022, and the operating income should stay around 15%

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that GOLD will remain a core subsidiary of FPT. Despite more intense competition in the residential property market, TRIS Rating expects GOLD to keep its operating income around 15% during FY2019-FY2022. The company should maintain its debt to capitalization ratio below 55%.

RATING SENSITIVITIES

GOLD's rating and/or outlook will depend not only on its operating performance but also on the financial position of the Group. A stronger operating performance and/or financial profile of the Group will help support the rating of GOLD. On the contrary, a weaker operating performance and/or financial profile of the Group will negatively impact the rating of GOLD.

COMPANY OVERVIEW

GOLD was founded in 1978 by the Srivikorn family and listed on the SET in 1994. GOLD has changed major shareholders and key executives several times during the past decades. In late 2012, Univentures PLC (UV) acquired a 50.64% stake in GOLD and became the major shareholder. At the beginning of 2016, GOLD increased its capital under private placement to Frasers Property Holdings (Thailand) Co., Ltd. (FPHT). In August 2019, FPT acquired a 94.5% stake in GOLD and became the major shareholder. The ultimate shareholder of UV, FPHT, and FPT is the Sirivadhanabhakdi family.

GOLD became a core subsidiary arm of FPT, undertaking residential properties for sale and commercial properties for rent. Presently, GOLD's residential portfolio covers SDH, semi-detached house, and townhouse units, with the unit price ranging from Bt2 million to Bt40 million. Its commercial properties includes three office buildings; Sathorn Square, FYI Center, and Golden Land Building, as well as three hotels; Mayfair Marriott, The Ascott Sathorn, and Modena.

GOLD's revenue contribution from landed properties for sale was 90% of total operating revenues during 2016 through the first nine months of FY2019. Revenue contribution from rental assets constituted around 10%, while revenue from other businesses remained negligible.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Business

Unit: % of total operating revenue

Revenue Contribution	2015	2016	FY2017	FY2018	Oct. 2018- Jun. 2019
Real estate sales	85	88	87	89	89
Office building for rent	8	6	7	6	6
Hotel operation	6	4	4	4	3
Management fee income		1	1	1	1
Golf course operation					
Other operating revenues	1	1	1		1
Total operating revenues	100	100	100	100	100
Total operating revenues (Bt million)	8,579	10,831	9,252	15,782	12,989

Source: GOLD

Table 2: GOLD's Rental Property Portfolio as of Jun 2019

	Salable Area (Sq.m.)	Occupancy Rate (%)	Rental Rate (Bt/Sq.m./Month)
Office Building for Rent			
Sathorn Square	73,098	98	845
FYI Center	50,730	98	750
Golden Land Building	11,231	92	567
	No. of Room	Occupancy Rate (%)	Avg. Room Rate (Bt/room/night)
Serviced Apartment and Hotel			
Mayfair Marriott	164	88	4,458
The Ascott Sathorn	177	85	3,076
Modena	238	68	1,584

Source: GOLD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Oct 2018- Jun 2019	---Year Ended 30 Sep--		Year Ended 31 Dec	
		FY2018	FY2017	2016	2015
Total operating revenues	12,989	15,782	9,252	10,831	8,579
Operating income	2,552	3,229	1,750	1,892	1,447
Earnings before interest and taxes (EBIT)	2,113	2,622	1,366	1,445	1,369
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,538	3,130	1,831	1,941	1,702
Funds from operations (FFO)	1,665	2,205	1,427	1,476	989
Adjusted interest expense	464	353	168	245	581
Real estate development investments	29,462	23,509	15,553	13,768	10,521
Total assets	45,713	39,202	30,805	28,824	22,042
Adjusted debt	20,673	13,170	6,807	5,833	11,746
Adjusted equity	16,459	15,890	14,364	13,814	7,923
Adjusted Ratios					
Operating income as % of total operating revenues (%)	19.65	20.46	18.92	17.47	16.86
Pretax return on permanent capital (%)	8.46 **	10.05	6.45 **	7.19	6.99
EBITDA interest coverage (times)	5.47	8.87	10.92	7.93	2.93
Debt to EBITDA (times)	6.30 **	4.21	3.72 **	3.01	6.90
FFO to debt (%)	10.45 **	16.74	20.96 **	25.31	8.42
Debt to capitalization (%)	55.67	45.32	32.15	29.69	59.72

* Consolidated financial statements

** Annualized

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Golden Land Property Development PLC (GOLD)
Company Rating:

A-

Rating Outlook:

Stable

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