TRIS RATING
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GRAND CANAL LAND PLC

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CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 18/09/18

Company Rating History:

Date	Rating	Outlook/Alert
18/09/18	BBB-	Positive
27/07/17	BBB-	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Grand Canal Land PLC (GLAND) to "BBB" from "BBB-". At the same time, TRIS Rating revises the outlook to "stable" from "positive". The upgrade reflects GLAND's improving business position and financial profile after it became a subsidiary of Central Pattana PLC (CPN; rated "AA/Stable" by TRIS Rating). GLAND's lines of business pair well with CPN's line of business. GLAND's owns real estate in prime areas, sites suitable for CPN to develop commercial real estate projects.

The rating continues to reflect the relatively stable income streams GLAND receives from its rental properties and the moderate use of leverage. However, the rating is constrained by the company's small size, the small number of rental properties, tenant concentration, and the commercial risk from the residential projects under development.

KEY RATING CONSIDERATIONS

Strengthened business position and financial profile

TRIS Rating holds the view that GLAND's business position and financial profile will strengthen now that it is a subsidiary of CPN. Currently, CPN holds a 67.5% stake in GLAND via CPN Pattaya Co., Ltd., a wholly-owned subsidiary of CPN. CPN is the largest retail property developer in Thailand. CPN is rated "AA/Stable" by TRIS Rating.

GLAND's business direction became clearer after CPN took control. Over the next five years, GLAND plans to develop mixed-use projects on land plots it owns on Rama 9 road and Phaholyothin road. The mixed-use projects will include retail space, office space, and condominiums. In addition, GLAND plans to develop residential property projects on 35 rai of land on Kampangpetch road, and 85 rai of land in the Don Mueang area. GLAND sets an investment budget of Bt20,000-Bt22,000 million during 2019-2024 to fund these projects.

TRIS Rating believes that GLAND will receive business and financial support from CPN since GLAND's business supports CPN's line of business. GLAND owns land plots in prime areas which, in our view, are suitable locations for CPN to develop projects in the future.

Small and concentrated revenue base

In TRIS Rating's view, the amounts of rental and service income GLAND earns from its commercial property segment are quite small, compared with other property developers, and are concentrated in terms of locations and tenant base. The company has developed three office buildings on Rama 9 road under the names "The 9th Towers", "Unilever House", and "G Tower". The three buildings have in total office area of 148,917 square meters (sq.m.) plus retail space of 26,052 sq.m. The company has subleased the 9th Towers and Unilever House to GLAND Office Leasehold Real Estate Investment Trust (GLANDRT) since 2017. Currently, GLAND holds 15% of GLANDRT.

As of March 2019, tenants occupied 66,577 sq.m. in G Tower or 99% of total office space. The average rental rate was Bt736 per sq.m. per month, slightly lower than the market rate. The three largest tenants in G Tower occupied around 60% of the total rentable area. However, the high level of tenant concentration risk is offset by the strong credit profiles of these tenants. GLAND also plans to sell G Tower to a real estate investment trust (REIT) in

2020. After the sale, GLAND's rental income will drop to around Bt500 million per annum during 2020 and 2021, down from around Bt1,200 million in 2019.

For the residential property development business, the company currently has only one project available for sale, "Belle Grand Rama 9". The company launched this condominium project in 2008. At the end of March 2019, the company sold and transferred 95% of the project to buyers. The value of the remaining units available for sale was only Bt772 million. The average selling price of the units available for sale was around Bt22.7 million per unit. Going forward, the company plans to launch new projects on two land plots, one located on Kampangpetch road and the other in the Don Mueang area. We forecast revenue from the Belle Grand Rama 9 condominium project will hold at around Bt200-Bt300 million per year for the next three years. The revenue streams from the new residential property projects are uncertain at this stage.

Stable streams of income

GLAND's commercial properties are in a single location: the intersection of Rama 9 road and Ratchadapisek road. This location is not far from the central business district, which helps boost occupancy rates and rental rates. At the end of March 2019, the office space at G Tower was 99% occupied. The retail space at The 9th Towers, Unilever House, G Tower, and Belle Grand Rama 9 were 52%, 58%, 89% and 74% occupied, respectively. GLAND has been able to increase rental rates by 2%-3% per annum on average over the past three years.

GLAND rents out most of its office space and retail space on three-year contracts. The one exception is the office space at Unilever House, which is leased to Unilever Co., Ltd. for 20 years. Generally, the company will adjust rental rates every three years. In addition, since its properties are relatively new, the company expects most tenants will renew their contracts. The rental contracts make it straightforward to predict the cash flows GLAND will receive as rental income and the dividend income it will receive from GLANDRT, the real estate income trust.

GLAND's financial performance in 2018 through the first quarter of 2019 was in line with TRIS Rating's expectation. Revenue in 2018 was Bt1,521 million and Bt418 million in the first quarter of 2019. The commercial property segment generated the majority 80% of revenue; the balance from the sales of the remaining condominium units in the Belle Grand Rama 9 project. The operating margin (operating income before depreciation and amortization as a percentage of revenue) has ranged from 43%-50% over the past three years. The operating margin was 58% in the first quarter of 2019.

Leverage moderate but expected to rise from its new investment

GLAND's financial leverage is moderate. Leverage improved substantially after it sublet two office buildings to GLANDRT in 2017. The debt to capitalization ratio decreased to 41% at the end of 2017 from 52% in the first quarter of 2017. This ratio stood at 39.0% in the first quarter of 2019.

Two mixed-use projects are planned, one on Rama 9 road and one on Phaholyothin road. The investment for both projects together, excluding the cost of land, will be around Bt20,000 million. The construction period will run from 2021 to 2026. The company plans to fund the construction of these projects by selling G Tower to GLANDRT. The selling price is expected to be around Bt6,300 million. The large investments and the lengthy construction periods will put a great pressure on GLAND's financial profile during the construction period. GLAND must keep the interest-bearing debt to equity ratio below 2 times in order to comply with the financial covenants of its bank loans and bonds.

Manageable liquidity

GLAND's liquidity profile is manageable. At the end of March 2019, the company had Bt176 million in cash, plus undrawn credit lines of Bt1,100 million. We forecast GLAND's funds from operations (FFO) over the next 12 months will be Bt300-Bt400 million. Debts coming due over the next 12 months will total Bt1,014 million, comprising Bt550 million in short-term loans and Bt464 million in project loans.

GLAND has a significant amount of unencumbered assets, comprising land worth around Bt3,800 million, a 50% stake in Bayswater Co., Ltd., which owns a 48 rai land plot worth around Bt8,000 million on Phaholyothin road, and a 15% stake in GLANDRT worth Bt750 million. These assets can be used as collateral for new bank borrowings, if needed.

TRIS Rating's base-case forecast assumes the FFO to debt ratio of GLAND to hold at around 4%-5% on average, while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio will stay above 2 times over the next three years.

BASE-CASE ASSUMPTIONS

These are the key assumptions for GLAND's operations in TRIS Rating's base case forecast:

- Revenue will be Bt1,500 million in 2019. Revenue will drop to Bt1,000-Bt1,100 million per annum in 2020 and 2021.
- The operating margin will be around 50% in 2019, then decrease to 31%-33% during 2020 and 2021.
- Revenue from residential projects will be Bt300-Bt500 million per annum.
- GLAND will sell the G Tower to REIT in 2020. The proceeds will be around Bt6,300 million.
- Capital expenditures for the mixed-use projects will be Bt20,000-Bt22,000 million during 2019-2024.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that GLAND's operating performance will be in line with our projection. Its commercial rental properties should continue to generate stable cash flows. The outlook is also based on the expectation that GLAND will continue to follow prudent financial policies and keep the interest-bearing debt to equity ratio below 2 times over the next three years.

RATING SENSITIVITIES

The rating upside is limited in the medium term because the large investments ahead will raise the level of leverage. However, the rating and/or outlook could be revised upward if revenue or cash flow rises to appropriate level that pushes the FFO to debt ratio up to 10% on a sustained basis. The rating and/or outlook could be revised downward should GLAND's operating performance fall short of expectation or if the aggressive investment plans cause the debt to capitalization ratio to climb above 60%.

COMPANY OVERVIEW

GLAND was formerly known as Media of Medias PLC (MMP). MMP was established in 1985 and listed on the Stock Exchange of Thailand (SET) in 1996. In 2009, Grand Canal Land Co., Ltd. completed a reverse takeover of MMP and changed its business from media and television to real estate development. After that, MMP changed its company name to "Grand Canal Land PLC" or "GLAND".

In late 2018, the Charoenkij Group, a major shareholder that held a 50.43% stake in GLAND, sold its stake in GLAND to CPN Pattaya, a wholly-owned subsidiary of CPN. As of March 2019, GLAND's major shareholder, CPN Pattaya, held approximately 67.5% of the company. The Rattanarak family was the second largest shareholder, holding (both directly and indirectly) 29.9% shares in GLAND.

GLAND's commercial rental properties are located on a 73-rai plot of land at the intersection of Rama 9 road and Ratchadapisek road. The commercial rental properties started generating income in 2014 but the contribution has remained small for several years. GLAND's revenue from the condominium segment comprised 80%-97% of total revenue during 2012-2015. Revenue from commercial rental properties and other services has gradually increased, climbing to more than 75% of revenue in 2018 from 7% in 2014.

KEY OPERATING PERFORMANCE

Table 1: GLAND's Revenue Breakdown by Line of Business

Unit: %

Revenue Breakdown	2013	2014	2015	2016	2017	2018	Mar 2019
Condominium	97	93	80	64	24	18	22
Rental & service	3	7	20	36	76	82	78
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total revenue (Bt million)	**3,385**	**4,680**	**3,952**	**2,654**	**1,483**	**1,493**	**387**

Source: GLAND

Table 2: GLAND's Rental Asset Details

Projects	Lettable Area (sq.m.)	2015	2016	2017	2018	Mar 2019
The 9th Towers						
Occupancy rate (%)						
- Office	62,950	71	81	*n.a.*	*n.a.*	*n.a.*
- Retail	5,702	33	48	55	49	52
Rental rate (Bt/sq.m./month)						
- Office		538	550	*n.a.*	*n.a.*	*n.a.*
- Retail		1,258	1,082	994	1,051	1,032
Unilever House						
Occupancy rate (%)						
- Office	18,527	100	100	*n.a.*	*n.a.*	*n.a.*
- Retail	3,866	14	41	74	58	58
Rental rate (Bt/sq.m./month)						
- Office		640	640	*n.a.*	*n.a.*	*n.a.*
- Retail		888	973	854	771	774
G Tower						
Occupancy rate (%)						
- Office	67,440	-	13	97	98	99
- Retail	6,196	-	2	77	86	89
Rental rate (Bt/sq.m./month)						
- Office		-	699	733	735	736
- Retail		-	1,395	1,390	1,340	1,350
Belle Grand Rama 9 (Retail)						
Occupancy rate (%)	10,288	54	67	76	75	74
Rental rate (Bt/sq.m./month)		615	635	640	667	675
Total Office	**148,917**					
Total Retail	**26,052**					

n.a. *Not available, GLAND set up GLANDRT to sublease office space of The 9th Towers and Unilever House in April 2017.*

Source: GLAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		-------------Year Ended 31 December -----------			
	Jan-Mar 2019	2018	2017	2016	2015
Total operating revenues	418	1,521	1,495	2,666	3,976
Operating income	243	768	642	1,207	1,672
Earnings before interest and taxes (EBIT)	268	597	629	1,391	1,657
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	272	791	737	1,445	1,716
Funds from operations (FFO)	132	133	(55)	531	819
Adjusted interest expense	94	439	481	554	348
Capital expenditures	2	253	307	2,010	1,335
Total assets	29,303	29,263	29,056	26,398	24,551
Adjusted debt	8,026	8,165	7,974	11,678	9,667
Adjusted equity	12,548	12,360	11,899	11,322	11,471
Adjusted Ratios					
Operating income as % of total operating revenues (%)	58.09	50.53	42.98	45.28	42.05
Pretax return on permanent capital (%)	3.44**	2.90	2.87	6.12	8.42
EBITDA interest coverage (times)	2.89	1.80	1.53	2.61	4.93
Debt to EBITDA (times)	9.35**	10.32	10.82	8.08	5.63
FFO to debt (%)	2.65**	1.62	(0.70)	4.55	8.47
Debt to capitalization (%)	39.01	39.78	40.12	50.77	45.73

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Grand Canal Land PLC (GLAND)

Company Rating:	BBB
Rating Outlook:	Stable

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