

# SIAM PIWAT CO., LTD.

No. 118/2024  
10 July 2024

## CORPORATES

|                 |        |
|-----------------|--------|
| Company Rating: | A      |
| Issue Rating:   |        |
| Hybrid          | BBB+   |
| Outlook:        | Stable |

Last Review Date: 06/07/23

### Company Rating History:

| Date     | Rating | Outlook/Alert |
|----------|--------|---------------|
| 30/06/22 | A-     | Stable        |

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## RATIONALE

TRIS Rating upgrades the company rating on Siam Piwat Co., Ltd. (SPW) to “A”, with a “stable” rating outlook, from “A-”. We also upgrade the rating on SPW’s subordinated capital debentures (hybrid debentures) to “BBB+” from “BBB”. The rating on SPW’s hybrid debentures is two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis.

The rating upgrade reflects an anticipated continuous improvement in the company’s operating performance, which is expected to lead to a subsequent reduction in its financial leverage. The ratings continue to reflect the company’s solid market position in the retail property industry, reliable cash flow from contract-based income, and sufficient liquidity. However, the ratings are partially constrained by the company’s portfolio concentration in terms of asset location.

## KEY RATING CONSIDERATIONS

### Improvement in operating performance to continue

We anticipate that an ongoing recovery of local foot traffic, along with an expected rise in the number of tourist arrivals in Thailand, will continue to underpin the company’s operating performance over the next few years. We also expect that renovations of some of the company’s properties will support increases in average rental rates (ARR), thereby driving revenue and earnings growth in the coming years.

In our base-case forecast, we project the overall occupancy rate (OR) of shopping centers to stay around 94%-97%, with ARR growth of around 3%-7% per annum. The company’s rental and service income is expected to approach THB11 billion by 2026. We expect the company’s revenue from retail sales to stay around THB1.5-THB1.7 billion per annum in 2024-2026. With an anticipated EBITDA margin of around 40%-41%, EBITDA is projected to remain above the THB5-billion level over the forecast period and to reach THB5.9 billion by 2026.

In 2023, the company reported a 22% increase in total operating revenue to THB13.1 billion. The revenue growth was driven by a recovery of both local and foreign customer traffic post-pandemic. Continuing efforts to remerchandise its on-shelf products also supported the revenue growth of its retail trading business. The company’s EBITDA improved to THB5.2 billion in 2023 from THB4.7 billion in 2022 with an EBITDA margin of 40%.

### Competitive market presence underpinned by quality assets

We expect the company to maintain its market position in the retail property business over the next three years. We view that the company’s high-quality assets in prime locations will continue to support its competitive edge in the industry.

SPW has three shopping centers and one office building located in the Siam Square area, a shopping center and a mixed-use property located on Charoennakorn Road, and a premium outlet near Suvarnabhumi Airport. The company’s shopping centers are easily accessible by the Skytrain mass transit system and are popular among foreign tourists and Thai shoppers. Anchor tenants of the company’s shopping centers, such as cinemas, luxury brand

shops, international fashion brands, and large multi-purpose halls, continue to be the key magnets in drawing traffic. As a result, the average OR of the company's shopping centers has remained high at around 90%, with high rental rates, in the past five years.

Looking forward, we believe the company's ability to maintain its high-quality assets, along with its efforts to strategically diversify asset locations, will strengthen its resilience and market position in the long run.

#### **Predictable cash flows from contract-based income**

The company's stable cash flow from contract-based rental and service income continues to support its credit profile. In our view, fixed-rent contracts offer predictable cash streams, while revenue-sharing contracts provide the potential for higher earnings during market upswings. However, revenue-sharing comes with the risk of lower income if tenants underperform. This risk is mitigated by a minimum guaranteed rent included in the contracts.

Around 40% of the company's occupied area is rented under revenue-sharing contracts, while fixed-rate contracts make up the rest. The proportion of revenue-sharing contracts to total company's occupied area has gradually increased over the past few years. This strategic initiative involves converting certain areas previously under long-term lease to revenue-sharing contracts, particularly during Siam Paragon's ongoing renovation. In our view, an increased proportion of revenue-sharing contracts should help boost the company's revenue and earnings growth over the next few years.

#### **Financial leverage to decline**

We expect the company's financial leverage to decline over the next few years as operating performance improves. The company's adjusted debt to EBITDA ratio is projected to stay around 5 times in 2024-2025 and continue to drop to around 4.5 times in 2026. The EBITDA interest coverage ratio should improve over the forecast period, potentially approaching 5 times by 2026. Our base-case forecast projects capital expenditure of around THB2.9 billion in 2024 and around THB1.2-THB1.8 billion per annum in 2025-2026. The budgeted capital expenditures include renovations, maintenance, and additional investments.

The financial covenants on SPW's senior unsecured debentures require the company's interest-bearing debt to total equity (IBD/E) ratio to remain below 2.5 times and its EBITDA to interest expense ratio to remain above 3 times. As of December 2023, the ratios were 1.2 times and 4.3 times, respectively. We believe the company will remain in compliance with the financial covenants over the next 12 to 18 months.

#### **Liquidity to remain adequate**

We assess SPW's liquidity as adequate over the next 12 months. At the end of December 2023, the company's sources of liquidity included cash on hand and deposits of THB5.1 billion and undrawn credit facilities from banks of THB3.8 billion. We forecast its funds from operations (FFO) in 2024 to be THB3.4 billion.

At the end of December 2023, the company had maturing debts over the next 12 months totaling THB1.3 billion, comprising THB0.7 billion in short-term borrowings, THB0.5 billion in long-term loans, and THB0.2 billion in lease liabilities. Also, we include the contemplated capital expenditure and annual dividend payment as uses of funds.

#### **Debt structure**

SPW had total debt of THB28.0 billion at the end of December 2023. The company's priority debt, including secured debts at the parent company and total debts of its subsidiaries, was THB15.8 billion. These translated to a priority debt to total debt ratio of 56%. As the priority debt ratio was higher than the threshold of 50%, we view that SPW's unsecured creditors could be significantly disadvantaged with respect to the priority of claims against the company's assets.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's assumptions for SPW's operations during 2024-2026 are as follows:

- Rental and service income from commercial properties to range from THB9.6-THB11.0 billion per annum.
- Revenue from retail sales to range from THB1.5-THB1.7 billion per annum.
- EBITDA margin to stay around 40%-41%
- Capital expenditure totaling around THB6 billion over the next three years.

#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that the company's operating performance and financial profile will continue to improve in tandem with our forecast. We also expect the company to maintain its solid market position in the retail property business.

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**RATING SENSITIVITIES**

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An upward revision is unlikely in the near term. The ratings and/or outlook could be revised upward if the company's earnings enlarge and the debt to EBITDA ratio stays below 3 times on a sustained basis.

Conversely, the ratings and/or outlook could be revised downward if the company's operating performance falls short of expectation or the company undertakes any aggressive debt-funded investments that materially weaken its financial profile, resulting in a debt to EBITDA ratio higher than 6 times.

**COMPANY OVERVIEW**

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SPW is one of the leading retail property developers in Thailand. The company established its retail property business in 1973 with the opening of its first shopping center, Siam Center. SPW subsequently entered the retail business in 1997 when it opened its first specialty store, LoFt. As of December 2023, SPW's largest shareholder was MBK PLC.

SPW's property portfolio totals approximately 500,000 square meters (sq.m.) The company owns and operates four shopping centers, one outlet, one office building, and one mixed-used project. Its properties include the Siam Center and Siam Discovery shopping centers and an office building, Siam Piwat Tower. Siam Paragon shopping center was established as a joint venture (JV) between SPW and The Mall Group. Three shopping centers are located in the Siam Square area, the heart of Bangkok's shopping district. In late 2018, the company opened the ICONSIAM project with its partner, the CP Group. The project consists of two retail buildings and two condominium buildings located on the riverfront on Charoennakorn road. SPW manages the retail space while CP Group is responsible for the condominium projects. In June 2020, the company opened the new luxury Siam Premium Outlet, located near Suvarnabhumi Airport. This outlet was undertaken as a JV between SPW and Simon Property Group Inc., the largest premium outlet operator in the world. In January 2023, the company opened a new mixed-use project, ICS, located on the opposite site of ICONSIAM, in partnership with the CP Group. The project includes a retail zone, office space, and a hotel.

As a retailer, SPW offers a variety of products, including home decor, men's and women's apparel, plus accessories. Also, SPW holds a 49% stake in Siam Paragon Retail Co., Ltd., which operates the Paragon department store. In 2023, rental and service income from its shopping centers constituted 82% of total revenue. The remainder came from the retail business.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

|  | -----Year Ended 31 December ----- |        |        |        |        |
|--|-----------------------------------|--------|--------|--------|--------|
|  | 2023                              | 2022   | 2021   | 2020   | 2019   |
| Total operating revenues   | 13,077                            | 10,733 | 6,740  | 7,272  | 10,815 |
| Earnings before interest and taxes (EBIT)                                | 2,968                             | 2,484  | (118)  | 596    | 2,758  |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 5,241                             | 4,750  | 1,959  | 2,629  | 3,683  |
| Funds from operations (FFO)  | 3,540                             | 3,295  | 613    | 1,157  | 2,304  |
| Adjusted interest expense  | 1,463                             | 1,209  | 1,194  | 1,319  | 1,083  |
| Capital expenditures   | 1,234                             | 3,882  | 1,917  | 3,070  | 6,985  |
| Total assets   | 54,305                            | 57,136 | 54,664 | 52,380 | 46,824 |
| Adjusted debt  | 28,241                            | 29,079 | 30,943 | 29,402 | 25,300 |
| Adjusted equity  | 17,935                            | 17,208 | 14,339 | 14,735 | 14,900 |
| <b>Adjusted Ratios</b>   |                                   |        |        |        |        |
| EBITDA margin (%)  | 40.1                              | 44.3   | 29.1   | 36.1   | 34.1   |
| Pretax return on permanent capital (%)                                   | 5.6                               | 4.8    | (0.2)  | 1.3    | 6.9    |
| EBITDA interest coverage (times)   | 3.6                               | 3.9    | 1.6    | 2.0    | 3.4    |
| Debt to EBITDA (times)   | 5.4                               | 6.1    | 15.8   | 11.2   | 6.9    |
| FFO to debt (%)  | 12.5                              | 11.3   | 2.0    | 3.9    | 9.1    |
| Debt to capitalization (%)   | 61.2                              | 62.8   | 68.3   | 66.6   | 62.9   |

\* Consolidated financial statements

**RELATED CRITERIA**

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

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**Siam Piwat Co., Ltd. (SPW)**

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|   |        |
|---|--------|
| <b>Company Rating:</b>                                    | A      |
| <b>Issue Rating:</b>                                      |        |
| SPW22PA: THB4,000 million subordinated capital debentures | BBB+   |
| <b>Rating Outlook:</b>                                    | Stable |

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**TRIS Rating Co., Ltd.**

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