

FRASERS PROPERTY (THAILAND) PLC

No. 170/2021
14 October 2021

CORPORATES

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

Last Review Date: 16/10/20

Company Rating History:

Date	Rating	Outlook/Alert
17/09/19	A-	Stable
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 upgrades the company rating on Frasers Property (Thailand) PLC (FPT) and the ratings on FPT's senior unsecured debentures to "A" from "A-", with a "stable" rating outlook. The company rating incorporates a rating enhancement by three notches from its stand-alone credit profile (SACP) to reflect the company's status as a "strategically important" member of Frasers Property Ltd. (FPL, rated "AA-/Negative" by TRIS Rating), a multinational property development company listed on the Singapore Stock Exchange. The three-notch rating enhancement follows our latest revision of "Group Rating Methodology". We hold the view that FPT remains a strategically important member of FPL. We view FPT as an investment arm of FPL's real estate business in Thailand. FPT's earnings before interest, taxes, depreciation, and amortization (EBITDA) contribute around 15% of FPL's total EBITDA.

FPT's SACP of "bbb" reflects its leading position as an integrated property development company, its growing brand recognition in the residential property market, proven track record in the factory and warehouse for rent business, and its relatively high financial leverage. The ratings also incorporate our concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which continues to pressure the operating results and earnings of property developers for an extended period.

KEY RATING CONSIDERATIONS

Large business scale with diversified property portfolio

FPT's former business concentrated solely on industrial factories and warehouses for rent. The acquisition of Golden Land Property Development PLC (GOLD) in 2019 helped enlarge and diversify FPT's business portfolio through residential property for sale, commercial property for rent, and the hospitality businesses. Despite the impacts of the lengthy pandemic, we hold the view that FPT's business fundamentals remain unchanged. FPT's proven track record in the real estate business and its integrated property portfolio will continue to support its business profile.

In our base-case scenario, we expect FPT's total operating revenue to stay in the THB15-THB17 billion range during fiscal years 2021-2023 (FY2021-FY2023), down from THB19-THB20 billion per annum during FY2019-FY2020. We foresee sluggish demand in residential properties, intense competition in ready-built factories and warehouses for rent, and pressure on office space demand, will all tune down the revenue growth. We expect revenue from the residential property business will remain the major contributor, constituting around 80% of total operating revenue over the forecast period, with rental income from industrial properties for rent to contribute 10%, while office buildings and hotel operations to contribute 5%. Its EBITDA margin should remain above 30% and net profit margin should stay above 10% over the next three years.

Residential properties continue to be pressured by sluggish demand

We expect the residential property industry will continue to be affected by the ongoing COVID-19 situation during the remainder of FY2021 through the beginning of FY2022. We forecast demand for residential units from local homebuyers to remain inert and the rejection rate from banks for the middle-to low-income segment to continue to be high. In our base-case forecast, we project presales from landed property projects to grow by 5% year-on-year

(y-o-y) during FY2021-FY2022 and increase by 10% y-o-y to THB16 billion in FY2023, based on our assumption of new project launches worth THB17-THB22 billion per annum. We expect presales to be topped up by sales of low-rise condominium projects from FY2022 onwards.

FPT's backlog as of June 2021 was THB2.9 billion. We expect the company to deliver backlog worth THB1.9 billion in the fourth quarter of FY2021 and the rest in FY2022. Despite more intense competition in the THB2-THB5 million townhouse segment, FPT's core residential product, we expect revenue from the residential property business to sustain at THB12-THB14 billion per annum during FY2021-FY2023. Townhouses will remain a key contributor accounting for more than 50% of residential sales. FPT's gross profit margin from residential projects may drop to 26% this year but should rebound to 30% during FY2022-FY2023.

Sustained position in industrial properties for rent

We believe FPT's industrial properties for rent will continue performing acceptably over the forecast period. Our base-case scenario assumes FPT will build new leasable areas of 200,000-300,000 square meters (sq.m.) per annum during FY2021-FY2023. Around 90% of new leasable areas will be built-to-suit warehouses, with already-secured tenants. FPT plans to sell leasable areas of 150,000-180,000 sq.m. annually to the Frasers Property Thailand Industrial Freehold and Leasehold Real Estate Investment Trust (FTREIT). The proceeds from the asset sales are likely to be in the THB3.0-THB3.5 billion range, depending on market conditions. FPT will likely maintain its own leasable areas at around 1.2-1.3 million sq.m. over the forecast period.

Despite rapidly increasing demand for warehouses for rent supported by favorable business conditions from e-commerce activities, rising competition from existing and new players could be a challenge for the company. Looking forward, with its proven track record in built-to-suit warehouses, FPT is expected to maintain warehouse occupancy of at current level with a net increase in leased areas of 160,000-200,000 sq.m. per year during FY2021-FY2023. Factory occupancy rates should be around 50%-60% with a net increase in leased factory areas of 18,000-25,000 sq.m. per annum. We anticipate the weighted average lease expiry to increase to 3-4 years from 2-3 years, following increasing proportion of longer lease terms for built-to-suit warehouses. FPT's rental income from industrial properties for rent should remain in the THB1.6-THB1.8 billion per annum range during FY2021-FY2023. The rental income contribution from warehouses should increase to 80% over the next three years, from 72%-73% during FY2018-FY2020.

Hospitality business to gradually recover, but demand for office space remains under pressure

We anticipate the hospitality industry in Thailand will continue to experience unfavorable conditions in the wake of a drawn-out COVID-19 pandemic until the first half of FY2022. FPT's revenue from the hospitality business dropped to THB331 million in FY2020 and THB119 million during the first nine months of FY2021, from THB566 million in FY2019. We expect that it will take almost three years for the hospitality business to recover to the pre-pandemic level. The OR for each of its hotels is expected to steadily increase during the next couple of years and should reach the 2019 level in FY2024. The average room rate in FY2021 is expected to be 30%-40% below the 2019 level, before rebounding to 20%-30% below the 2019 level in FY2023 and approaching pre-COVID-19 levels in FY2024. We forecast revenue from the hospitality business will reach around 25% of the 2019 level this year. Revenue should improve to THB200-THB350 million per annum during FY2022-FY2023, by which time we expect to see signs of recovery in both local and foreign tourist arrivals.

The immediate impact of the COVID-19 pandemic on FPT's office buildings for rent is minimal given the contract-based nature of properties for rent. The ORs of "Sathorn Square" and "FYI Center" remained healthy with an average of 94% and 95%, respectively, as of June 2021. The average rental rate of these two office buildings has continued to increase over the past five years. The OR and rental rate of "Golden Land Building" has been in decline since FY2020 due to its shorter remaining lease period. However, affected from soften office space demand accelerated by the pandemic, together with expected excess office supply in the next few years, we foresee pressure on OR and rental rates over the next three years. But, thanks to its prime locations of office buildings, we project revenue from office buildings of FPT to stay in the THB500-THB600 million per annum range during FY2021-FY2023. From FY2023 onwards, revenue will include income from a new office building to be launched that year.

Rapid business expansion to elevate financial leverage

With its business expansion in the residential and industrial property businesses, we expect FPT's leverage to be elevated over the next 2-3 years. FPT's debt to EBITDA ratio could rise to around 9-11 times, from around 7-8 times during FY2019-FY2020. Thus, the ratio of its funds from operations (FFO) to total debt could further deteriorate to around 5%-7% during the forecast period, from around 8%-10% in FY2019-FY2020.

Our base-case scenario assumes capital expenditure for the residential property business to be THB8-THB11 billion per annum. We also assume investment in the industrial property segment to be THB3-THB4 billion per annum. Capital

expenditure for commercial properties is likely to be THB1.5 billion this year and THB2.6 billion in FY2022. FPT's earnings could be pressured by weaker operating results and a lower operating profit margin. Our base-case forecast projects FPT's EBITDA to subside to THB4.5-THB5.5 billion per annum during FY2021-FY2023, down from THB6-THB7 billion per annum during FY2019-FY2020. FFO is forecast to be THB2.5-THB3.5 billion annually. However, pressure on FPT's leverage may be alleviated by the asset recycling plan through asset sales to a REIT and revenue recognition from its investments.

As of June 2021, FPT had total debt of THB48.2 billion (per priority debt consideration), including THB15.4 billion of priority debt. FPT's priority debt included secured debt at the parent company and its subsidiaries as well as unsecured debt of subsidiaries. The ratio of priority debt to total debt was 32%. As FPT's priority debt ratio is less than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that its unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

Adequate liquidity

We assess FPT's liquidity to be adequate over the next 12 months. FPT's scheduled debt repayments during the next 12 months will amount to THB19.3 billion, comprising THB13.1 billion in debentures, THB5.1 billion in short-term loans, THB0.8 billion in long-term project loans, and THB0.3 billion in lease liability. As of June 2021, FPT's sources of funds (on a consolidated basis) consisted of THB1.1 billion in cash on hand plus undrawn committed credit facilities for project loans of THB6.3 billion and undrawn uncommitted credit facilities for short-term loans of THB8.2 billion. FPT had unencumbered land banks at book value of THB12.3 billion and remaining finished units in debt-free residential projects with a selling price of THB3.7 billion. FFO in FY2022 is forecast to be THB3.2 billion.

The financial covenants on FPT's debentures require maintenance of an interest-bearing debt to equity ratio below 3 times. As of June 2021, the ratio was 1.52 times. We believe FPT should have no problems complying with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in our base case forecast for FPT's operations during FY2021-FY2023:

- FPT to launch new residential projects worth THB17-THB22 billion per annum
- Budget for land acquisition for residential projects to be THB3 billion in FY2021 and THB5 billion per annum during FY2022-FY2023
- Capital expenditure for industrial properties to be THB3-THB4 billion per annum
- Capital expenditure for commercial properties to be THB1.5 billion this year and THB2.6 billion in FY2022
- Total operating revenue to be in the THB15-THB17 billion per annum range
- EBITDA margin to remain above 30% and net profit margin to stay above 10%

RATING OUTLOOK

The "stable" outlook reflects our expectation that FPT should be able to maintain its market position and deliver operating performance as targeted. We also expect FPT to keep its FFO to total debt ratio above 5% and ensure financial leverage does not exceed the target level. We expect FPT to remain a strategically important member of FPL.

RATING SENSITIVITIES

A credit upside would materialize if FPT delivers significantly better-than-expected operating results and improves its financial profile, such that the FFO to total debt ratio stays above 10%, for a sustained period. On the contrary, FPT's ratings and/or outlook could be revised downward if its FFO to total debt ratio deteriorates below 5%, either from weaker operating performance or aggressive debt-funded business expansion. A change in the company's relationship with FPL could also lead to a change in the company rating on FPT.

COMPANY OVERVIEW

FPT, formerly known as TICON Industrial Connection PLC (TICON), was incorporated in 1990 and listed on the Stock Exchange of Thailand (SET) in 2002. The Frasers Property Group, a multinational company that develops, owns, and manages a diverse portfolio of properties, acquired a majority share in TICON in early 2017. TICON was subsequently renamed FPT. As of August 2021, the Frasers Property Group held an 81.83% stake in FPT.

In early 2019, FPT announced a voluntary tender offer for all securities of GOLD. The acquisition was completed in early 2020 and FPT became a major shareholder of GOLD with a 99.48% shareholding. Since the acquisition, FPT's business portfolio has covered residential properties for sale, industrial properties for rent (including factories and warehouses), and

commercial properties for rent (including offices, hotels, and serviced apartments). In addition, FPT has entered into several joint ventures (JVs) with its partners to develop industrial properties in Thailand, Indonesia, and Vietnam, a mixed-use project located on Bangna-Trad road, data centers, co-working space, solar energy, as well as automation and robotic systems.

FPT's revenue from residential properties for sale contributed around 80% of total operating revenue during FY2018 through the first nine months of FY2021. The revenue contributions from industrial properties and commercial properties for rent were 10% and 5%-8%, respectively. Revenue from other businesses remained negligible.

KEY OPERATING PERFORMANCE

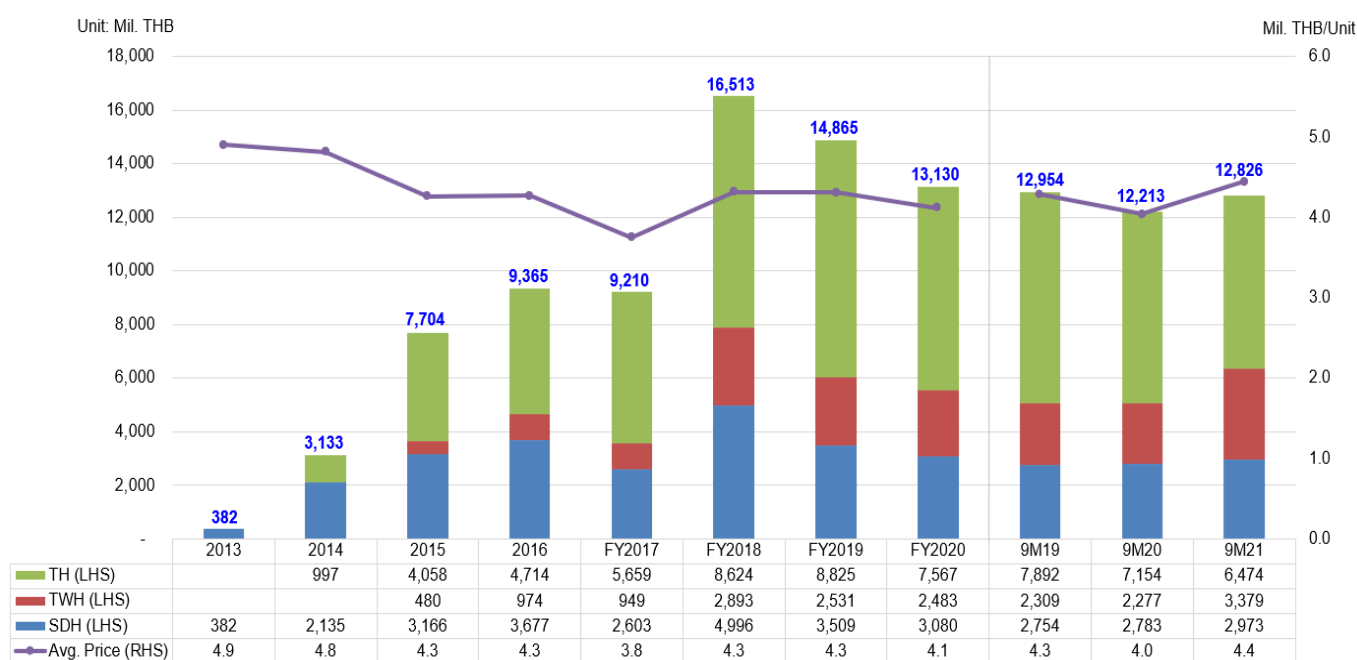
Table 1: Revenue Contribution by Business

Unit: % of total operating revenue

Revenue Contribution	2016	2017	FY2018	FY2019	FY2020	Oct 2020- Jun 2021
Residential sales			78	79	78	78
Industrial estate sales	14	10				
Industrial estate for rent	67	69	9	9	9	10
Office building for rent			5	5	5	4
Hotel operation			3	3	2	1
Management fee income			3	3	3	5
Other rental and services income	4	6	1		1	
Other operating revenues	15	15	1	1	2	2
Total operating revenues	100	100	100	100	100	100
Total operating revenues (mil. THB)	1,762	1,977	13,127	19,598	18,668	11,679

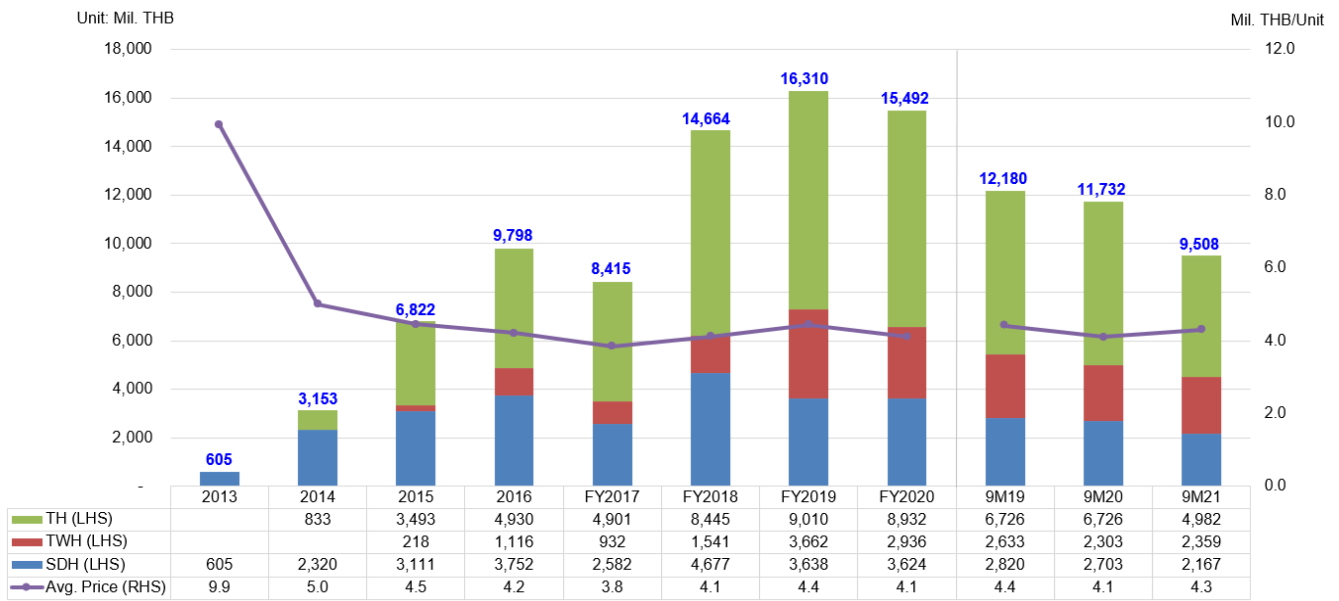
Source: FPT

Chart 1: Residential Presales Performance



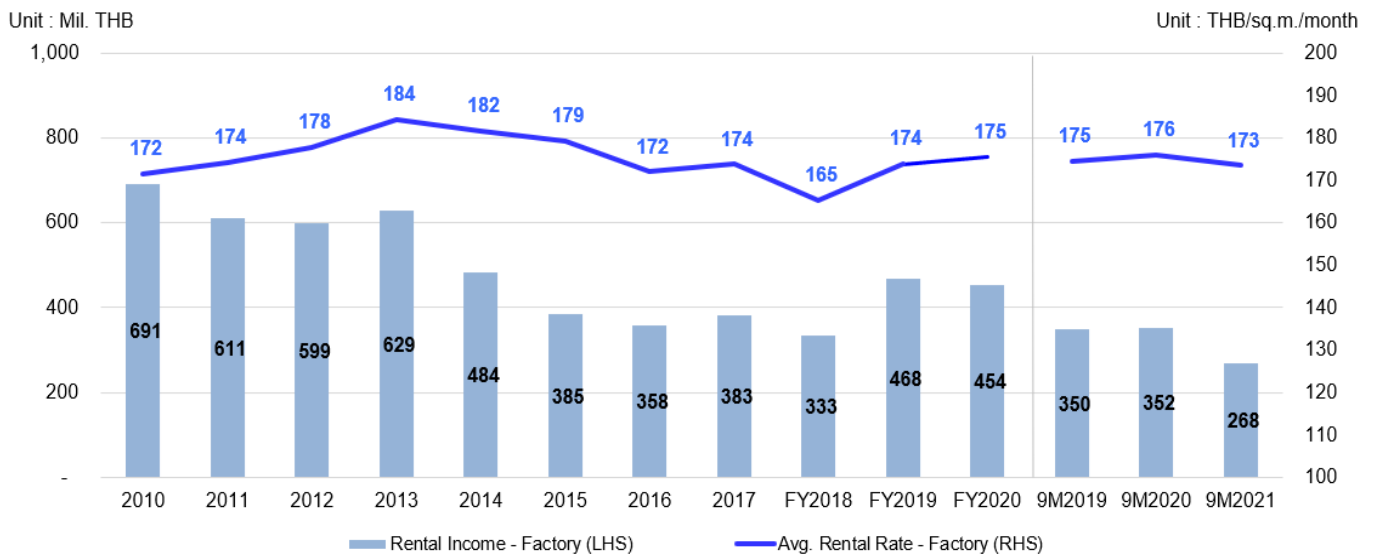
Source: FPT

Chart 2: Residential Transfer Performance

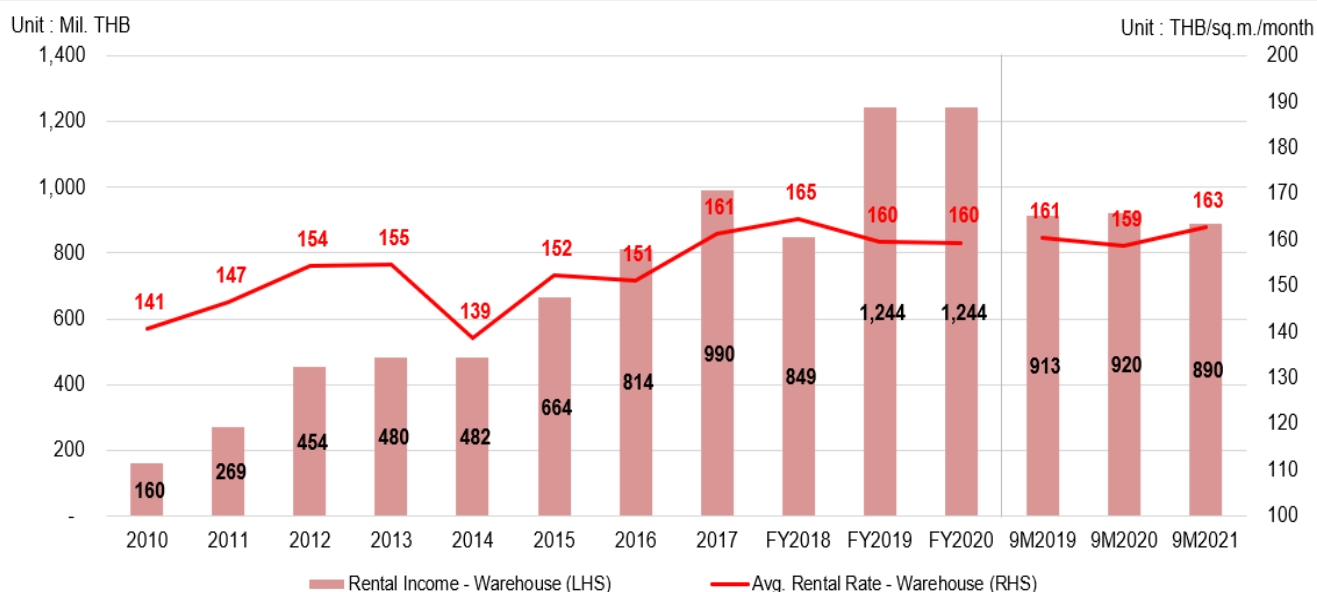


Source: FPT

Chart 3: Average Rental Rate and Rental Income of Factories



Source: FPT

Chart 4: Average Rental Rate and Rental Income of Warehouses


Source: FPT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct 2020- Jun 2021	-----Year Ended 30 September-----			2017
		FY2020	FY2019	FY2018	
Total operating revenues	11,679	18,668	19,598	13,127	1,977
Earnings before interest and taxes (EBIT)	2,657	4,331	5,069	2,969	1,001
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,945	6,328	6,962	4,228	1,641
Funds from operations (FFO)	2,536	3,834	4,853	3,075	1,054
Adjusted interest expense	1,160	1,862	1,318	692	592
Real estate development investments	32,567	32,878	31,078	23,512	-
Investment properties	36,309	34,364	35,690	35,622	31,526
Total assets	93,978	93,186	92,363	82,650	40,982
Adjusted debt	51,949	47,963	48,806	22,296	11,227
Adjusted equity	34,062	32,133	27,870	41,397	24,934
Adjusted Ratios					
EBITDA margin (%)	33.78	33.90	35.52	32.21	82.97
Pretax return on permanent capital (%)	5.27 **	5.29	6.66	5.42	2.76
EBITDA interest coverage (times)	3.40	3.40	5.28	6.11	2.77
Debt to EBITDA (times)	7.93 **	7.58	7.01	5.27	6.84
FFO to debt (%)	9.26 **	7.99	9.94	13.79	9.39
Debt to capitalization (%)	60.40	59.88	63.65	35.01	31.05

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology - Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Frasers Property (Thailand) PLC (FPT)

Company Rating:	A
Issue Ratings:	
TICON225A: THB1,000 million senior unsecured debentures due 2022	A
TICON229A: THB1,000 million senior unsecured debentures due 2022	A
TICON233A: THB2,500 million senior unsecured debentures due 2023	A
TICON235A: THB2,300 million senior unsecured debentures due 2023	A
TICON238A: THB700 million senior unsecured debentures due 2023	A
TICON283A: THB1,000 million senior unsecured debentures due 2028	A
FPT222A: THB2,300 million senior unsecured debentures due 2022	A
FPT231A: THB500 million senior unsecured debentures due 2023	A
FPT237A: THB1,000 million senior unsecured debentures due 2023	A
FPT242A: THB500 million senior unsecured debentures due 2024	A
FPT251A: THB1,800 million senior unsecured debentures due 2025	A
FPT271A: THB500 million senior unsecured debentures due 2027	A
FPT275A: THB500 million senior unsecured debentures due 2027	A
FPT292A: THB200 million senior unsecured debentures due 2029	A
FPT301A: THB1,200 million senior unsecured debentures due 2030	A
FPT305A: THB500 million senior unsecured debentures due 2030	A
Rating Outlook:	Stable

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