GRAND CANAL LAND PLC

No. 18/2021
3 March 2021

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date:21/02/20

Company Rating History:

Date	Rating	Outlook/Alert
25/07/19	BBB	Stable
18/09/18	BBB-	Positive
27/07/17	BBB-	Stable

Contacts:

Jutamas Bunyawanichkul
jutamas@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

RATIONALE

TRIS Rating affirms the company rating on Grand Canal Land PLC (GLAND) at "BBB" with a "stable" outlook. The rating reflects the reliable income streams the company receives from contract-based rental and service income from office and retail space, and its small business scale with assets concentrated in one location. The rating is partly enhanced by the support GLAND receives from its major shareholder, Central Pattana PLC (CPN), rated "AA/Stable" by TRIS Rating.

KEY RATING CONSIDERATIONS

Small and concentrated recurring income base

GLAND's property portfolio consists of office buildings and retail space for rent. The office buildings have a net leasable area of 145,453 square metres (sq.m.) plus retail space of 24,854 sq.m. located on Rama 9 road, Bangkok.

We view the rental and service income that GLAND receives from its rental properties to be quite small compared with other rental property developers. Its income base is also concentrated in terms of location and tenants. GLAND has developed three office buildings; tower A and tower B of "The 9th Towers", "Unilever House", and "G Tower", all situated at a single location on Rama 9 road.

GLAND leased the office space of The 9th Towers and Unilever House to GLAND Office Leasehold Real Estate Investment Trust (GLANDRT) in 2017 and divested its holding in GLANDRT to CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) in 2020.

At present, GLAND's rental and service income relies on a single asset, the office building of G Tower. G Tower has net leasable office area of 67,604 sq.m. It had an occupancy rate (OR) of above 95% during 2017-2020, with an average rental rate of THB730-THB830 per sq.m. per month. The three largest office tenants in G Tower occupied 55% of the total leasable area. GLAND also has small areas of retail space in each building with a combined net leasable area of 24,854 sq.m. The OR of retail space in Belle Grand Rama 9, The 9th Towers, and Unilever House was relatively low at 30%-60%, while the OR of retail space in G Tower was high at above 80%. We assess GLAND's revenue to be highly concentrated in a single asset. Rental and service income from G Tower contributed around 50% of total revenues from sales and services during 2018-2020.

Mild impact from the COVID-19 pandemic

GLAND's operations in 2020 were not significantly affected by the Coronavirus Disease 2019 (COVID-19) pandemic. The OR of its office building was 92% in 2020, decreasing from 97%-98% during 2018-2019. The OR of retail spaces dropped to 58% in 2020 from 68%-70% during 2017-2019.

In 2020, GLAND was able to increase the rental rate of its office building by 2%-7%, while the company had to provide a rent waiver or a 20%-25% discount on rental fees for its retail tenants. The revenue contribution from retail space was 20% of total revenue. GLAND's total operating revenues decreased by 7% year-on-year (y-o-y) to THB1.5 billion in 2020.

Reliable income from office and retail space

Although the demand for office space may slow due to the trend of working-from-home during and post COVID-19, we expect GLAND's existing assets to continue generating consistent revenue streams due to their good location at the Rama 9 junction. GLAND rents out most of its office and retail space on three-year fixed-rent contracts. The fixed-rent contracts make up the predictable cash flow the company receives as rental income.

In our base-case scenario, we expect GLAND to be able to keep the OR of its office building at around 90% and of its retail space above 55%. We assume that there will be no growth in rental rate for office buildings this year, but a 3% growth per annum during 2022-2023. We forecast the rental rate for retail space during 2021-2023 to be 15%-20% lower than that in 2019 as OR is likely to remain low. We expect GLAND's total operating revenues to stay at THB1.4 billion this year and improve to THB1.6-THB1.9 billion per annum during 2022-2023.

The company's margin of earnings before interest, taxes, depreciation, and amortization (EBITDA) increased to 76% in 2020, from 53%-56% during 2018-2019, as it recorded gains on the sale of investments in GLANDRT last year. We view that GLAND's profitability may be threatened by intense competition among rental property developers plus an increasing supply of office buildings and retail space in the future. We expect GLAND to keep its EBITDA margin from normal operations at 45%-50% during the forecast period.

Moderate financial leverage

We forecast GLAND to invest THB0.6-THB1.1 billion annually for its rental and residential property projects during 2021-2023. After taking a majority control in GLAND, CPN plans to develop four land plots for mixed-use property and residential projects. Land plots located on Rama 9 road and Phaholyothin road~~s~~ will be developed for various types of property, consisting of shopping centers, office buildings, a hotel, and a residential project. The land banks on Kampangpetch road and in the Don Muang area will be developed for residential projects. GLAND is in the process of developing residential units in the Don Muang area. This project will be launched and start revenue recognition within 2021. We expect GLAND to start development of other land plots next year. Other projects will gradually generate income from 2024 onwards. We foresee that GLAND will need capital, to some extent, to develop these projects during 2021-2023. GLAND's financing plan includes the sale of G Tower to CPNREIT by 2023. Cash received from the asset sale will partly alleviate the burden of debt funding. We expect GLAND to keep its net interest-bearing debt to equity ratio below 1 times and EBITDA interest coverage ratio above 3 times over the next three years.

Manageable liquidity

We assess GLAND's liquidity to be manageable over the next 12 months. As of December 2020, GLAND's sources of funds comprised cash on hand and short-term investments of THB0.1 billion plus undrawn committed short-term loan facilities of THB0.9 billion. CPN has also provided committed revolving short-term loan facilities of THB2.5 billion to GLAND. We forecast GLAND's funds from operations (FFO) over the next 12 months to be THB0.4 billion. Debt due over the next 12 months will amount to THB3.1 billion, comprising THB1.4 billion in short-term loans from CPN, THB0.6 billion in short-term bills of exchanges (B/Es), and THB1.1 billion in debentures. We project GLAND's capital expenditures to be THB0.6 billion in 2021.

GLAND also has a significant amount of unencumbered assets, comprising land plots worth THB4.9 billion at cost and a 50% stake in Bayswater Co., Ltd., which owns a 48-rai land plot on Phaholyothin road. These assets can be used as collateral for new borrowings from banks, if needed.

Support from CPN

We hold the view that CPN is willing to provide both business and financial support to GLAND. As of December 2020, CPN had a majority stake of 67.53% in GLAND. We expect CPN's expertise in property development will benefit GLAND's new mixed-use projects on Rama 9 road and Phaholyothin road~~s~~. We foresee these projects will become a major source of income and EBITDA for GLAND in the future.

Apart from business operations, we see that CPN is also actively involved in leading GLAND's financial policy. GLAND has a policy to maintain its net interest-bearing debt to equity ratio below 1 time. CPN also provides a short-term loan facility to GLAND to help reduce its funding costs and for use as working capital.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for GLAND's operations during 2021-2023:

- Overall OR of office buildings to stay around 90% and OR of retail spaces to stay above 55%.
- Rental rate growth for office buildings in 2021 to be flat from 2020 and to increase by 3% per annum during 2022-2023.
- Rental rate for retail spaces in 2021-2023 to be 15%-20% lower than that in 2019.
- Capital expenditures for rental and residential property to be THB0.6-THB1.1 billion annually.
- Total operating revenues to stay in the THB1.4-THB1.9 billion per annum range.
- Net interest-bearing debt to equity ratio to remain below 1 time.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that GLAND's operating and financial results should remain in line with our projections. We expect GLAND's existing assets to continue generating reliable cash flow. We believe that GLAND will follow CPN's prudent financial policy and maintain its net interest-bearing debt to equity ratio below 1 time.

RATING SENSITIVITIES

GLAND's rating and/or outlook could be revised upward should its revenue or cash flow base enlarge significantly, while its financial profile does not significantly deviate from our expectation. Increasing support from CPN or more business integration with CPN would have a positive impact on the rating. On the contrary, a weaker operating performance and/or financial profile would negatively impact the rating and/or outlook.

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. MMP subsequently changed its company name to "Grand Canal Land PLC" or "GLAND".

In late 2018, the Charoenkij Group, a major shareholder with a 50.43% stake in GLAND, sold its shares to CPN Pattaya Co., Ltd., a wholly owned subsidiary of CPN. As of December 2020, GLAND's major shareholder, CPN Pattaya, held 67.53% of the company. The Rattanarak family was the second largest shareholder, holding a 29.9% stake in GLAND.

GLAND's existing rental assets are located on a 73-rai plot of land at the intersection of Rama 9 road and Ratchadapisek road~~s~~. Rental and service income from office buildings and retail spaces contributed around 80% of GLAND's total revenue from sales and services during 2017-2020, while the revenue contribution from real estate sales declined to 15%-25%.

KEY OPERATING PERFORMANCE

Table 1: GLAND's Revenue from Sales and Service Breakdown

Unit: %

Business	2016	2017	2018	2019	2020
Rental and service income	36.4	76.0	81.6	79.4	84.9
Real estate sales	63.6	24.0	18.4	20.6	15.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total revenues from sales and services (Mil. THB)	**2,654**	**1,483**	**1,491**	**1,591**	**1,469**

Source: GLAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	----------------------Year Ended 31 December -------------------				
	2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	1,485	1,597	1,506	1,495	2,666
Earnings before interest and taxes (EBIT)	1,010	896	597	629	1,391
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,122	902	792	737	1,445
Funds from operations (FFO)	715	222	129	(44)	586
Adjusted interest expense	200	288	443	470	499
Capital expenditures	47	21	215	307	2,010
Total assets	29,225	29,692	29,263	29,056	26,398
Adjusted debt	6,752	7,976	8,166	7,974	11,678
Adjusted equity	14,827	13,714	12,360	11,899	11,322
Adjusted Ratios					
EBITDA margin (%)	75.59	56.48	52.56	49.30	54.19
Pretax return on permanent capital (%)	4.65	4.22	2.90	2.87	6.12
EBITDA interest coverage (times)	5.61	3.13	1.79	1.57	2.89
Debt to EBITDA (times)	6.02	8.84	10.32	10.82	8.08
FFO to debt (%)	10.59	2.78	1.57	(0.55)	5.02
Debt to capitalization (%)	31.29	36.77	39.78	40.12	50.77

* *Consolidated financial statements*

RELATED CRITERIA

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

Grand Canal Land PLC (GLAND)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000