

GRAND CANAL LAND PLC

No. 6/2023
27 January 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 29/12/21

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Grand Canal Land PLC (GLAND) at “BBB” with a “stable” outlook. The company rating incorporates a rating enhancement of one notch from its stand-alone credit profile (SACP) to reflect the company’s status as a “strategic” subsidiary of Central Pattana PLC (CPN, rated “AA/Stable”). We believe that CPN has a strong and long-term commitment as a major shareholder to provide timely support to GLAND, if needed.

GLAND’s SACP of “bbb-” reflects the reliable cash flow from contract-based rental and service income from office and retail space. However, the company’s strengths are partly offset by its small business scale with assets concentrated in a single location.

KEY RATING CONSIDERATIONS

Small revenue base with limited location

GLAND has small earnings compared to other rental property developers. GLAND’s revenue comprises rental and service income from office and retail space for rent from its buildings in the Rama 9 Road area and sales of a low-rise residential project in the Don Muang area.

As of September 2022, the company owned three office buildings, “The 9th Towers”, “Unilever House”, and “G Tower”, with a net leasable area (NLA) of 148,112 square meters (sq.m.). The small retail space for rent is situated inside these three office buildings and a condominium project, with total NLA of 20,257 sq.m.

Currently, GLAND’s rental income from office space relies mainly on a single asset, G Tower. The other two office buildings were leased out to Leasehold Real Estate Investment Trust in 2017 and divested to CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) in 2020.

G Tower has net leasable office area of 67,604 sq.m. It had an occupancy rate (OR) of above 90% in the first nine months of 2022.

GLAND also has small areas of retail space in each building. The OR of retail space was 60% as of September 2022, lower than the 2019 pre-pandemic level of almost 70%.

Rental and service income from office and retail space at G Tower amounted to THB700-THB800 million per annum during 2018-2021.

Increasing revenue contributions from residential sales

GLAND also generates earnings from residential projects for sales. All units of its condominium in the Rama 9 area were sold out in 2022. As of 30 November 2022, its low-rise residential project at the Don Muang area has already transferred more than 27% of total project value of THB1.8 billion to-date. We expect residential sales of THB300-THB400 million per year from this project during the forecast period.

We expect the new low-rise residential project on Kamphaeng Phet Road to launch in 2024 with a project value of approximately THB2 billion. The project will generate sale revenues for GLAND from 2025 onwards.

Office income hit in 2024 by assets transfer to CPNREIT

GLAND's office buildings for rent generate predictable earnings. GLAND rents out most of its office space on three-year fixed-rent contracts. These contracts make up the predictable cash flow the company receives as rental income. However, the expected over supply situation for the office spaces together with the work from-home trend will put downward pressure on office space demand and OR over the next three years.

During 2022-2024, we project no rental rate growth and the average OR of office buildings to drop slightly to 88%, from above 90% during 2017-2021. GLAND plans to sublease G Tower's office space to CPNREIT in late 2023, leading to a drop in rental and service revenue of THB750 million per annum from 2024 onwards. For retail space in the office buildings, we expect the average OR to remain close to current level at around 60% over the forecast period with a 5% year-on-year (y-o-y) growth in rental rates in 2023. Rental revenue from retail space should remain around THB200 million annually.

Our base-case scenario projects GLAND's total operating revenue from all businesses of THB1.6 billion per annum during 2022-2023, before decreasing to THB900 million in 2024. GLAND's profitability may be threatened by intense competition among retail property developers coupled with an increasing supply of office in the next few years. However, the impact should be tolerable given its strong asset quality in prime location, coupled with support from CPN's expertise in managing mixed-use projects. We expect GLAND to generate earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB700 million annually during 2022-2023, and around THB200 million in 2024.

Moderate financial leverage

We expect GLAND's financial leverage to remain moderate since the company needs to invest in mixed-use property and residential projects to build up its portfolio. GLAND plans to develop remaining land plots on Rama 9 and Phaholyothin Roads for various types of property, including shopping centers, office buildings, and hotels, as exemplified by many of CPN's existing and future projects. The company's land plots on Kamphaeng Pet Road and in the Don Muang area next to the existing low-rise residential project will be developed into residential projects.

In our base-case scenario, GLAND's capital expenditures for commercial property and residential projects are anticipated to total THB300 million in 2022, THB900 million in 2023, and THB1.7 billion in 2024. Cash received from the sublease of G Tower to CPNREIT will partly relieve the company's debt burden. The net debt to EBITDA ratio, except in 2023, should be in the range of 7-9 times. We expect GLAND to keep its net interest-bearing debt to equity ratio below 1 times over the forecast period.

Manageable liquidity

We assess GLAND's liquidity as manageable over the next 12 months. As of September 2022, GLAND's debt due over the next 12 months will amount to THB2.6 billion, comprising THB1.1 billion in short-term loans from CPN, and THB1.5 billion in short-term bills of exchange (B/Es). At the end of September 2022, GLAND's sources of funds comprised cash on hand and short-term investments of THB31 million plus undrawn committed short-term loan facilities of THB1.4 billion. Funds from operations (FFO) over the next 12 months are forecast to be around THB350 million. In addition, GLAND has a significant portfolio of unencumbered assets, comprising land plots worth THB3.6 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.

At the end of September 2022, GLAND had secured debt of THB3.8 billion. The ratio of its secured debt to fair value of total assets was 13%, significantly below the threshold of 35% according to TRIS Rating's "Rating Methodology for Real Estate for Rent Companies". We view that GLAND's unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

Support from CPN

We hold the view that CPN has a long-term commitment to provide both business and financial support to GLAND. As of September 2022, CPN held a majority stake of 67.53% in GLAND. GLAND's office space and land plots are integral to the mixed-use strategy of CPN. We expect CPN's expertise in property development to benefit GLAND's new mixed-use projects on Rama 9 and Phaholyothin Roads. These projects should 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 times. CPN also provides short-term loan facilities to GLAND for use as working capital and to reduce funding costs.

BASE-CASE ASSUMPTIONS

- Average OR of office buildings to drop slightly to 88% during 2022-2023, with zero growth in rental rates.
- Average OR of retail space to stay around 60%, with a 5% y-o-y growth in rental rates in 2023.
- Capital expenditure for commercial and residential projects to total THB300 million in 2022, THB900 million in 2023, and THB1.7 billion in 2024.
- Total operating revenue to stay around THB1.6 billion per year in 2022-2023, before declining to THB900 million in 2024.
- GLAND to sublease G Tower to CPNREIT in late 2023.

RATING OUTLOOK

The “stable” rating outlook reflects our expectation that GLAND’s operating performance and financial position should remain in line with targets. We view that GLAND will continue to follow CPN’s prudent financial policy and sustain its net interest-bearing debt to equity ratio below 1 times.

RATING SENSITIVITIES

An upward credit revision could occur if GLAND’s revenue and earnings bases enlarge significantly, while its financial profile does not deviate from our expectations. On the contrary, materially weaker operating and/or financial results would negatively impact the rating and/or outlook. Any material change in the company’s linkage with CPN could also lead to a change in the company rating on GLAND.

COMPANY OVERVIEW

GLAND, formerly known as Media of Medias PLC (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 September 2022, GLAND’s major shareholder, CPN Pattaya, held 67.53% of the company. The Rattanak 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 and Ratchadapisek Roads. Rental and service income from office buildings and retail spaces contributed 75%-85% of GLAND’s total revenue from sales and services during 2017 through the first nine months of 2022, while the revenue contribution from real estate sales was 15%-25%.

KEY OPERATING PERFORMANCE

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

Unit: %

Business	2017	2018	2019	2020	2021	Jan-Sep 2022
Rental and service income	76.0	81.6	79.4	84.9	74.1	85.0
Real estate sales	24.0	18.4	20.6	15.1	25.9	15.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total revenues from sales and services (mil. THB)	1,483	1,491	1,591	1,469	1,555	1,061

Source: GLAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	1,082	1,568	1,485	1,597	1,506
Earnings before interest and taxes (EBIT)	513	787	1,010	896	597
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	520	791	1,122	902	792
Funds from operations (FFO)	297	525	830	499	287
Adjusted interest expense	103	157	200	288	443
Capital expenditures	15	69	47	21	215
Total assets	29,435	29,331	29,225	29,692	29,263
Adjusted debt	6,415	6,465	6,752	8,016	8,166
Adjusted equity	15,953	15,486	14,827	13,714	12,360
Adjusted Ratios					
EBITDA margin (%)	48.04	50.44	75.59	56.48	52.56
Pretax return on permanent capital (%)	3.40 **	3.60	4.65	4.22	2.90
EBITDA interest coverage (times)	5.03	5.04	5.61	3.13	1.79
Debt to EBITDA (times)	8.38 **	8.17	6.02	8.89	10.32
FFO to debt (%)	8.10 **	8.12	12.30	6.22	3.52
Debt to capitalization (%)	28.68	29.45	31.29	36.89	39.78

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- 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

Grand Canal Land PLC (GLAND)

Company Rating:	BBB
Rating Outlook:	Stable

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