

NOBLE DEVELOPMENT PLC

No.171/2020
19 October 2020

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB-
Outlook:	Stable

Last Review Date: 11/11/19

Company Rating History:

Date	Rating	Outlook/Alert
01/03/19	BBB	Negative
28/12/17	BBB	Stable
06/11/15	BBB	Negative
04/01/13	BBB	Stable
08/09/06	BBB+	Stable
12/07/04	BBB	Stable
14/10/03	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on Noble Development PLC (NOBLE) at “BBB” and the ratings on its senior unsecured debentures at “BBB-”. At the same time, TRIS Rating revises the rating outlook of NOBLE to “stable” from “negative”. The “stable” outlook reflects TRIS Rating’s expectation that NOBLE’s operating performance and financial profile will improve and become less volatile over the next three years.

The ratings continue to reflect NOBLE’s well-accepted brand name in the middle- to high-end segment of the condominium market and the company’s large backlog, which we believe will partly secure future revenue streams and lower the volatility of its performance. The ratings are, however, constrained by NOBLE’s relatively high leverage, and concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the demand for residential property and the profitability of property developers in the short to medium term.

KEY RATING CONSIDERATIONS

Leveraging brand strength to penetrate new market segments

We view that NOBLE’s strength in the condominium segment is underpinned by its well-recognized brands, prime project locations, and unique designs. Its condominium projects have attained widespread acceptance among middle- to high-income buyers. Most of the company’s condominiums have average selling prices in the range of THB5-THB10 million per unit. During the past three years, NOBLE introduced a new condominium brand “Nue” to tap into the more affordable condominium segment with unit prices below THB5 million. In addition, NOBLE plans to enlarge its residential property portfolio by developing more landed property projects and entering into more joint ventures (JVs) with partners in the coming years.

NOBLE is broadening its customer base among foreign buyers through the network of Fulcrum Global Capital, a major shareholder. Its presales reached a peak at THB9.9 billion in 2018 but then slowed to THB4.8 billion in 2019 following The Bank of Thailand’s implementation of new loan-to-value rules (LTV rules) and the economic impact of escalating U.S.-China trade tensions. The company also launched only one project, worth THB2.4 billion, in 2019. Presales during the first eight months of 2020 grew by 31% year-on-year (y-o-y) to THB5.2 billion despite the impact from the pandemic. We expect that NOBLE’s wider range of products and larger customer base should help sustain its operating performance in the long run. We expect NOBLE’s presales will improve to THB8-THB10 billion annually during 2021-2022 as the company plans more project launches in the next two years.

Large backlog supports earnings visibility over the next few years

In our base-case scenario, we project NOBLE’s total operating revenue to stay at THB8-THB10 billion per annum during 2020-2023 with earnings before interest, taxes, depreciation, and amortization (EBITDA) in the THB2-THB2.5 billion range. NOBLE’s future revenue and earnings are partly secured by its large backlog and topped up by sales of remaining units in existing projects.

As of August 2020, NOBLE’s existing project portfolio consisted of 16 owned condominium projects, one JV condominium project, and three landed property projects. The company’s backlog was worth THB14.5 billion. The backlog is expected to be delivered to customers during the remainder of

2020 through 2023. The ongoing revenue recognition from backlog could alleviate fluctuations in revenues and earnings. Total unsold project value (including built and un-built units) amounted to THB13.2 billion. Condominium projects accounted for 91% of total unsold project value while landed property projects accounted for the rest. Of the total unsold project value, NOBLE had remaining completed inventory worth THB4.2 billion which can be recognized as revenues immediately after sale.

Expected weakening profitability amid concerns over a lengthy pandemic

The residential property market closely follows trends in the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of COVID-19 could cause a severe economic downturn and further suppress market demand. In addition, the number of non-performing mortgage loans (NPL) could rise further. The weakening purchasing power of homebuyers and stringent bank lending policies have been the key factors affecting the demand for residential property.

Due to softening demand in the condominium segment from both local and foreign homebuyers, we expect condominium property developers will be more cautious in launching new projects. We foresee that price competition in the condominium segment will be heightened over the next few years. TRIS Rating forecasts that NOBLE's profitability will come under pressure as a result of the more intense competition and rising land costs. Its plan to develop more landed property projects, which normally yield a lower profit margin than condominiums, will also bring down its profit margin. However, capital needs for landed properties will be lower. Thus, we project NOBLE's average gross profit margin could drop from 36%-37% of total operating revenue during 2020-2021 to 32%-33% during 2022-2023. We expect the company to maintain its net profit margin above 10% over the forecast period.

Financial leverage to remain high

NOBLE's financial leverage has risen significantly since 2019 following a sizable special dividend payment of THB5.5 billion that year. The resulted drop in equity base pushed the debt to capitalization ratio to 63% as of December 2019, and 64% as of June 2020. The net interest-bearing debt to equity ratio was 1.6-1.7 times during 2019 through the first six months of 2020.

In our base-case forecast, we project NOBLE's financial leverage to remain high over the next three years as the company intends to expand its development projects portfolio for both condominiums and landed property through its owned projects and those under JVs. We assume NOBLE will launch new condominium projects (own and JV) worth THB10 billion in 2021 and THB7 billion per annum during 2022-2023, as well as new landed property projects worth THB6-THB7 billion in 2021. We expect the company to spend THB1.7-THB1.8 billion annually to purchase land plots during 2020-2023. Under our projection, NOBLE's debt to capitalization ratio will remain in the 61%-64% range. However, we expect NOBLE to keep its net interest-bearing debt to equity ratio below 2 times and the funds from operations (FFO) to total debt ratio above 10% on a sustained basis.

Adequate liquidity

We assess NOBLE to have adequate liquidity for the next 12 months. NOBLE's scheduled debt repayments over the next 12 months amount to THB4.7 billion, comprising THB2.6 billion in debentures and THB2.1 billion in long-term project loans. As of June 2020, NOBLE's sources of liquidity included cash on hand of THB2.1 billion plus undrawn unconditional credit facilities of THB1.4 billion. FFO over the next 12 months is forecast at THB1.8 billion. Project loans are expected to be repaid by cash flow from the transfers of condominium units. NOBLE plans to refinance its maturing bonds by new bond issuance. Due to the uncertainty concerning investor demand in the capital market, we expect NOBLE to be well-prepared for the refinancing to mitigate rollover risk.

The financial covenants on NOBLE's bonds and bank loans require maintenance of its net interest-bearing debt to equity ratio below 2.5 times. As of June 2020, the ratio was 1.66 times. We believe that NOBLE 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 TRIS Rating's base-case forecast for NOBLE during 2020-2023:

- NOBLE to launch new condominium projects (own and JV) worth THB10 billion in 2021 and THB7 billion per annum during 2022-2023, as well as new landed property projects worth THB6-THB7 billion in 2021
- Annual budget for land acquisition to be THB1.7-THB1.8 billion
- Total operating revenue to stay at THB8-THB10 billion per annum
- Average gross profit margin to stay in the range of 36%-37% of total operating revenue during 2020-2021, dropping to

32%-33% during 2022-2023. Net profit margin should be in the range of 10%-15%

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that NOBLE will be able to deliver its operating performance as targeted. We expect NOBLE to maintain its net interest-bearing debt to equity ratio below 2 times and its FFO to total debt ratio in the 10%-15% range on a sustained basis.

RATING SENSITIVITIES

NOBLE’s ratings and/or outlook could be revised downward if its operating performance and/or financial profile deteriorate from the target level. On the contrary, a credit upside scenario could emerge if NOBLE’s business scale enlarges significantly and its capital structure improves considerably from the current level, such that the FFO to total debt ratio remains above 20% and the debt to capitalization ratio stays below 60% on a sustained basis.

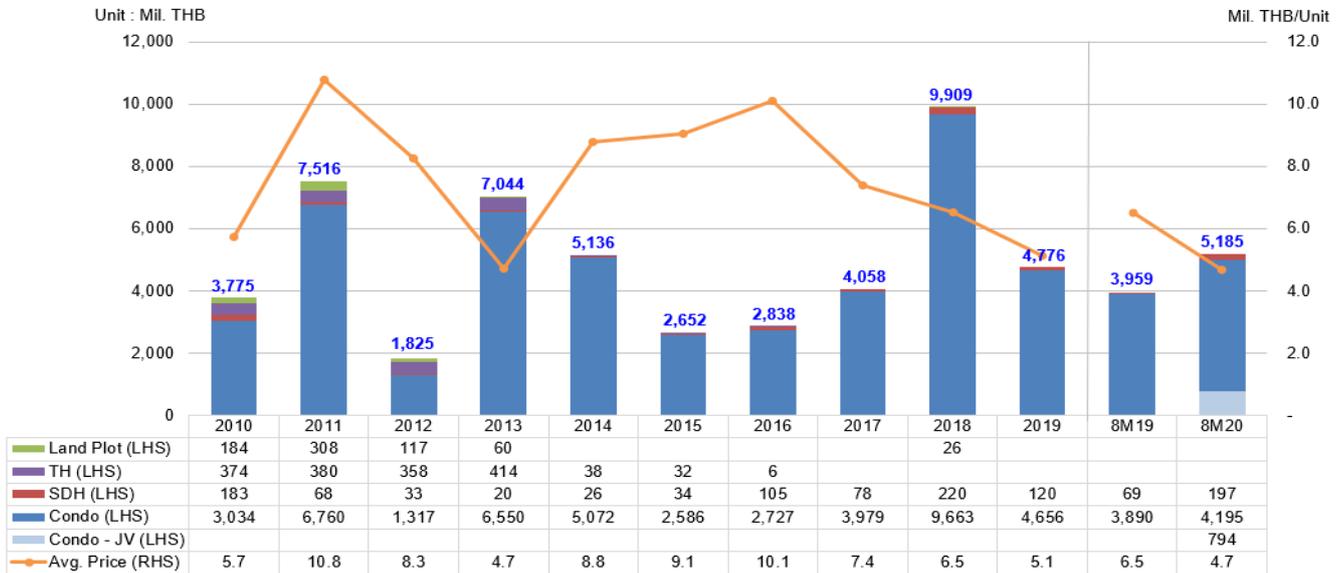
COMPANY OVERVIEW

NOBLE was founded in 1991 and was listed on the Stock Exchange of Thailand (SET) in November 1996. During 2018-2019, the company’s shareholding structure and management underwent some changes. Mr. Thongchai Busrapan, a former Vice Chairman and President of NOBLE, and Fulcrum Global Capital, a real estate investor and distributor based in Hong Kong, became the major shareholders. As of August 2020, Mr. Thongchai Busrapan and Fulcrum Global Capital (through nCrowne Pte. Ltd.) each held a 24.93% stake in NOBLE. Currently, Mr. Thongchai Busrapan and Mr. Frank Fung Kuen Leung, a representative from Fulcrum Global Capital, hold the positions of Co-Chief Executive Officers.

NOBLE focuses on the middle- to high-end condominium segment, with prices ranging from THB120,000-THB240,000 per sq.m. The company also offers single-detached houses (SDH), townhouses, and land plots for middle- to high-income customers. The average selling price for landed property units was THB6.8 million. Almost all of NOBLE’s condominium projects are located along mass transit lines, while its landed property projects are located near the expressways. NOBLE’s unique designs differentiate its products from other property developers.

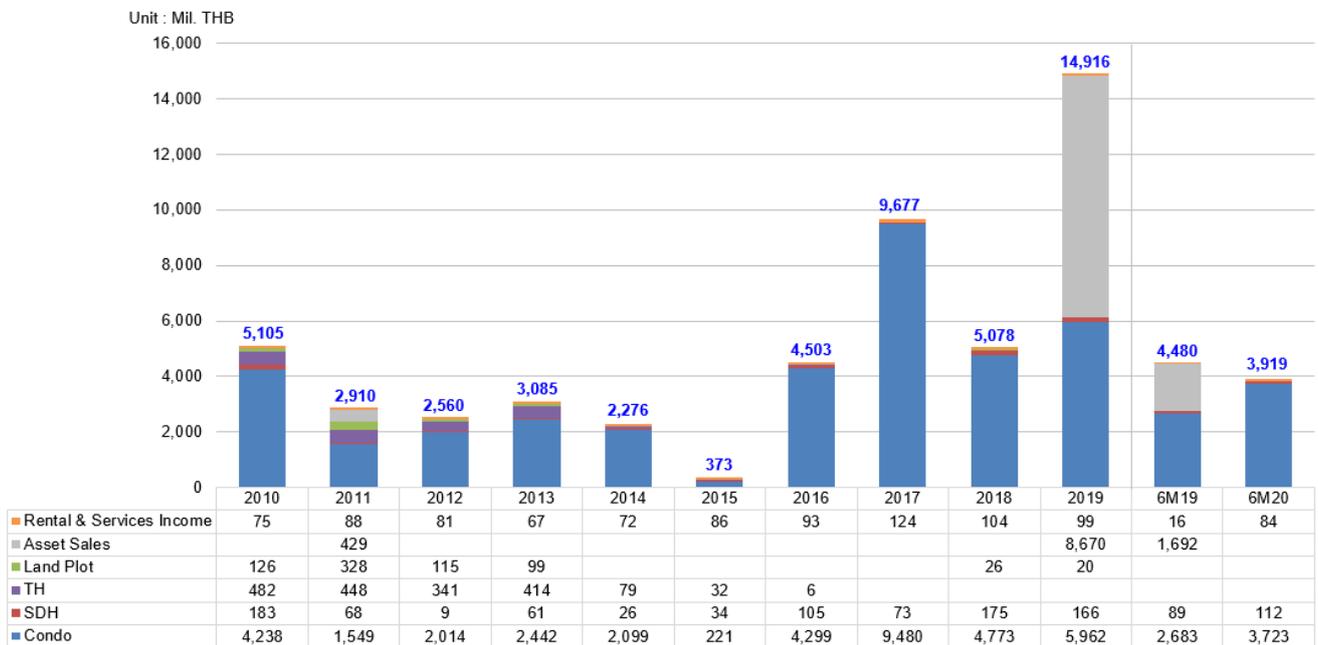
KEY OPERATING PERFORMANCE

Chart 1: Presales Performance



Source: NOBLE

Chart 2: Revenue from Sales and Services Breakdown



Source: NOBLE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	4,023	15,008	5,140	9,697	4,503
Earnings before interest and taxes (EBIT)	1,147	4,741	1,415	3,595	1,467
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,198	4,796	1,495	3,690	1,559
Funds from operations (FFO)	759	3,344	609	2,500	557
Adjusted interest expense	256	697	638	640	832
Real estate development investments	15,489	16,048	20,743	19,466	19,963
Total assets	21,604	21,631	25,953	23,071	23,269
Adjusted debt	9,246	9,216	11,602	11,755	13,305
Adjusted equity	5,195	5,479	7,948	7,039	4,433
Adjusted Ratios					
EBITDA margin (%)	29.78	31.95	29.09	38.05	34.63
Pretax return on permanent capital (%)	21.09 **	25.20	6.91	18.65	7.97
EBITDA interest coverage (times)	4.68	6.88	2.34	5.76	1.87
Debt to EBITDA (times)	2.35 **	1.92	7.76	3.19	8.53
FFO to debt (%)	29.87 **	36.28	5.25	21.27	4.18
Debt to capitalization (%)	64.03	62.71	59.34	62.55	75.01

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Noble Development PLC (NOBLE)

Company Rating:	BBB
Issue Ratings:	
NOBLE20NA: Bt1,050 million senior unsecured debentures due 2020	BBB-
NOBLE212A: Bt1,500 million senior unsecured debentures due 2021	BBB-
Rating Outlook:	Stable

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