

GOLDEN LAND PROPERTY DEVELOPMENT PLC

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CORPORATES

Company Rating: BBB+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
08/09/16	BBB+	Stable
02/09/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Golden Land Property Development PLC (GOLD) at “BBB+”. The rating reflects GOLD’s growing sales and brand recognition in the landed property segment, improving profitability, reliable streams of income from its rental assets, and support from its ultimate major shareholder. The rating also takes into consideration the expected rise in GOLD’s financial leverage due to its rapid expansion, its exposure to the cyclical and competitive environment in the residential property development business, and concern over the high level of Thailand’s household debt which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

KEY RATING CONSIDERATIONS

Growing sales and brand recognition in landed property segment

GOLD’s operating performance in landed property has improved steadily during the past four years. Its presales increased to Bt11,736 million in the first nine months of fiscal year 2018 (FY2018), up from around Bt10,000 million per annum during 2016-FY2017 and Bt8,204 million in 2015. Residential sales grew by 36% year-on-year (y-o-y) to Bt10,196 million in the first nine months of FY2018. TRIS Rating expects GOLD’s residential sales to be around Bt13,000 million in FY2018, in line with our projection.

Revenue from landed property projects contributed around 90% of total revenue during 2015 through the first nine months of FY2018. Its residential projects offer single detached house (SDH), twin house, and townhouse units, with prices ranging from Bt2 million per unit to Bt40 million per unit. Its market share in landed property sales was around 10% of total sales in Bangkok and vicinity. As of June 2018, GOLD had 37 existing landed property projects, with a total unsold project value of Bt15,000 million (including built and un-built units) and a total backlog worth Bt5,000 million. The backlog will be transferred to homebuyers during the remainder of FY2018 through FY2019. Under TRIS Rating’s base case scenario, GOLD’s revenue base is expected to grow to around Bt15,000-Bt20,000 million per annum during FY2019-FY2021.

Improving profitability

GOLD’s operating profit margin, as measured by operating income before depreciation and amortization as a percentage of revenue, improved to 19%-21% during FY2017 through the first nine months of FY2018, from 15%-17% during 2014-2016. Its operating profit margin is above the ratio of rated peers at 15%-17%. The company’s net profit margin was in the range of 10%-14% during 2016 through the first nine months of FY2018, which was in line with the levels between 10%-12% of rated peers.

Going forwards, GOLD’s profitability may be threatened by rising land costs and more intense competition in the landed property market. However, we expect GOLD to keep its operating profit margin above 15% during FY2019-FY2021.

Reliable income stream from rental property

GOLD’s existing rental property portfolio comprises three office buildings, two serviced apartments for rent, and one hotel. As of June 2018, the occupancy rate (OR) of each office building was above 94%. The operating performance of its serviced apartments remained sound with an OR above 80%. The OR of the

hotel, Modena, improved to 67% in the first nine months of FY2018, from 56% in FY2017. GOLD's rental assets generated recurring income of around Bt1,000 million per annum, accounting for 10% of its total revenues, during the past three years.

GOLD is currently in the development stage of a mixed-use property in the "Samyan Mitrtown" project, a joint venture project with TCC Assets (Thailand) Co., Ltd. (TCC Assets). The project includes an office building for rent, hotel, condominium, and retail space. The project will be completed and ready for operation in FY2020. The company's share of profit from this project should be realized from FY2021 onwards. In addition, GOLD plans to sublease an office building in FYI Center to Golden Ventures Leasehold Real Estate Investment Trust (GVREIT) in FY2020. Cash receipts from the sublease will be the major source of funds for developing another rental property project. A higher portion of recurring income base will be a plus for its rating.

Support from the ultimate shareholder

After Univentures PLC (UV) took majority control of GOLD in late 2012, there was a significant change in the management team and the board members of the company. The Sirivadhanabhakdi family and some key executives from the TCC Group, which have extensive experience in the property development sector, are on the board of directors of GOLD. Its top management team also has a strong background in the residential property sector. GOLD's landed property portfolio under its current executives has expanded rapidly. The company has launched several projects during the past five years.

As a member of the TCC Group, GOLD is able to negotiate the terms and conditions of loans with financial institutions. Its cost of funds dropped to around 3% from 6% previously. In addition, the capital injection of Bt4,971 million by Frasers Property Holdings (Thailand) Co., Ltd. (FPHT) in the beginning of 2016 helped support GOLD's growth plan. The larger capital base drives not only the growth in the residential property business but also the investment in the mixed-use property development project, Samyan Mitrtown.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows trends in the overall economy. However, the volatility in this market is much more pronounced than in the general economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of the middle- to low-income homebuyers. Thus, several property developers have shifted their focus towards the higher-income segment, intensifying competition in this segment due to increased supply. Thus, GOLD has to carefully manage its new project launches to match the demand in each area. The slower absorption rate and higher post-financing rejection rate may cause its leverage to hang at a high level for a longer period.

Expected rise in leverage

We expect GOLD's leverage will rise due to its increasing budget for land accumulation and increasing value of new project launches each year. In FY2018, GOLD plans to spend Bt10,000 million to purchase land plots and launch 28 landed property projects worth Bt34,000 million. The budget for land acquisition will be Bt12,000 million per annum during FY2019-FY2020, much higher than the value of land purchases in the past. GOLD aims to open 28 projects per year in order to achieve its residential sales target of Bt18,000-Bt25,000 million per annum during FY2019-FY2021.

Despite its rapid growth plan, TRIS Rating expects GOLD's need for capital to remain moderate due to the shorter development period of landed property than that of condominium. However, we expect GOLD's financial leverage will rise during FY2019-FY2021, but the company's debt to capitalization ratio should be kept at 55%-60% or the interest-bearing debt to equity ratio at 1-1.2 times. The ratio of funds from operations (FFO) to total debt may drop but should not be lower than 10% from 18%-19% currently, since the debt level may increase faster than earnings.

Acceptable liquidity profile

GOLD's liquidity is acceptable. As of June 2018, the company had Bt986 million in cash plus undrawn committed credit facilities of bank loans of Bt400 million. TRIS Rating forecasts GOLD's FFO over the next 12 months will be around Bt2,300 million. Debts due over the next 12 months amount to Bt2,384 million, comprising Bt2,336 million in short-term bills of exchange (B/Es) and promissory notes (P/Ns) and Bt48 million in project loans.

Short-term B/Es and P/Ns will either be rolled over or repaid within the next 12 months. Project loans will be repaid with cash flow from the transfers of residential units. However, TRIS Rating expects GOLD to maintain its undrawn credit facilities to cover all maturing debts over the next 12 months in order to avoid rollover risk.

According to the key financial covenants on its bank loans, the company has to maintain its total liability to total equity ratio (excluding deferred income) at lower than 2 times. The ratio as of June 2018 was 0.94 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that GOLD should have no problem complying with its

financial covenants over the next 12 to 18 months.

RATING OUTLOOK

The “stable” outlook reflects our expectation that GOLD’s operating performance will be in line with its projection. TRIS Rating expects the company to keep its operating profit margin above 15% during FY2019-FY2021. Due to the company’s expansion plan, we expect its debt to capitalization ratio to rise but should stay at 55%-60% or the interest-bearing debt to equity ratio at 1-1.2 times.

RATING SENSITIVITIES

GOLD’s rating and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the target levels. Also, the debt to capitalization ratio at above 60% for certain periods may lead to a downward rating or outlook revision. On the other hand, GOLD’s future outlook could be revised upward if the company is able to improve its competitive position in terms of market share and brand equity to the same level as higher-rated peers while its financial leverage does not deteriorate from the current level.

COMPANY OVERVIEW

GOLD was founded in 1978 by the Srivikorn family and listed on the Stock Exchange of Thailand (SET) in 1994. GOLD has changed major shareholders and key executives several times during the past decades. In late 2012, UV acquired a 50.64% stake in GOLD and became the major shareholder. In the beginning of 2016, GOLD increased its capital under private placement to FPHT. The ultimate major shareholder of UV and FPHT is the Sirivadhanabhakdi family. As of March 2018, UV and FPHT held 39.28% and 39.92% stakes, respectively, in GOLD.

GOLD became an investment arm of UV for the middle-end segment of the landed property market. GOLD offers SDH, twin house, and townhouse units. Its products are priced at Bt2-Bt10 million per unit. In late 2014, GOLD purchased a total stake in Krungthep Land PLC (KLAND). As a result, GOLD’s product line has extended to the high-end segment. KLAND’s products focus on the segment with unit prices above Bt10 million. Apart from residential property, GOLD also operates three office buildings, two serviced apartments for rent, and one hotel.

The company’s revenue contribution from landed property for sale was around 90% of total revenue during 2015 through the first nine months of FY2018. Revenue contribution from rental assets constituted around 10%, while revenue from other businesses remained negligible. However, the company also earns dividend income from its 22.64% shareholding in GVREIT.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Business

Unit: % of total revenue

Revenue Contribution	2014	2015	2016	FY2017	Oct 17- Jun 18
Real estate sales	75.7	85.7	88.8	87.7	89.0
Rental and services	13.3	8.4	6.1	6.9	6.2
Hotel business	10.5	5.7	4.2	4.3	3.6
Management fee income			0.7	0.9	1.0
Golf course operation	0.5	0.2	0.2	0.2	0.2
Total revenue	100.0	100.0	100.0	100.0	100.0
Total revenue (Bt million)	4,058	8,520	10,676	9,197	11,454

Source: GOLD

Table 2: GOLD's Rental Property Portfolio as of Jun 2018

	Salable Area (Sq.m.)	Occupancy Rate (%)	Rental Rate (Baht/Sq.m./Month)
Office Building for Rent			
Sathorn Square	73,098	96	825
FYI Center	50,730	94	750
Golden Land Building	11,231	94	565
	No. of Room	Occupancy Rate (%)	Avg. Room Rate (Baht/room/night)
Serviced Apartment and Hotel			
Mayfair Marriott	164	84	4,343
The Ascott Sathorn	177	81	2,998
Modena	238	66	1,956

Source: GOLD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Year Ended 30 September		----- Year Ended 31 December ----		
	Oct 2017- Jun 2018	FY2017	2016	2015	2014
Revenue	11,454	9,197	10,676	8,520	4,058
Gross interest expense	201	93	170	501	304
Net income from operations	1,585	1,004	1,046	660	106
Funds from operations (FFO)	1,772	1,069	1,044	929	460
Inventory investment	(5,073)	(1,684)	(3,131)	984	(2,809)
Total assets	36,596	30,805	28,824	22,042	21,270
Total debts	12,298	7,812	6,551	12,093	11,862
Shareholders' equity	15,360	14,364	13,814	7,923	7,362
Operating income before depreciation and amortization as % of sales	21.06	18.56	16.63	16.18	14.79
Pretax return on permanent capital (%)	9.89 **	8.23 **	8.24	7.12	3.00
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.90	11.07	7.44	2.76	1.78
FFO/total debt (%)	19.22 **	18.24 **	15.96	7.68	3.88
Total debt/capitalization (%)	44.46	35.23	32.17	60.42	61.70

* Consolidated financial statements

** Annualized

Golden Land Property Development PLC (GOLD)

Company Rating:	BBB+
Rating Outlook:	Stable

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