NOBLE DEVELOPMENT PLC

No. 189/2019
11 November 2019

CORPORATES

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

Last Review Date: 01/03/19

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 NOBLE’s senior unsecured debentures at “BBB-” with a “negative” outlook. The “negative” outlook reflects TRIS Rating’s concern over Noble’s sizable dividend payments and the sluggish domestic demand for residential property. The company’s sources of dividend payments came from divestments of several land plots and commercial properties, and sales of completed inventory. Although the company has been able to keep its debt to equity ratio below 2 times, as targeted, TRIS Rating is concerned that the company’s leverage may rise again once the company launches more new projects.

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 partly secures its future revenue stream and lowers the cyclicality of its operating performance. The ratings also take into consideration the negative impact of the new loan-to-value rules (LTV rules) implemented by the Bank of Thailand (BOT), and the cyclical and highly competitive nature of the residential property development business.

KEY RATING CONSIDERATIONS

Leverage expected to remain high

NOBLE’s financial leverage deteriorated in 2019 due to sizable, more-than-expected dividend payments in 2019. NOBLE paid dividends twice in 2019, once in March and then again in October. The total dividend payment was around Bt5.5 billion, including Bt3.15 billion in March and Bt2.37 billion in October. Following the dividend payments, TRIS Rating expects NOBLE’s equity base to fall to Bt5.44 billion in 2019, from Bt7.95 billion in 2018. The debt to capitalization ratio is expected to be around 65% or an adjusted net debt to equity ratio of 1.9 times.

NOBLE’s financial leverage could rise further during 2020-2022 due to the high capital expenditure needs for its new property projects. We expect NOBLE to spend around Bt2.5 billion per annum during 2020-2022 to replenish its land bank. Funds from operations (FFO) are expected to be around Bt1.0-Bt1.4 billion per annum during 2020-2022. As a result, we expect NOBLE’s debt to equity ratio to stay at around 2 times and its FFO to total debt to remain above 10%.

In TRIS Rating’s view, the divestment of non-core assets and sales of land plots are not the normal operations of the company. Besides, some uncertainties remain as difficult market conditions are expected to continue in the property development sector. NOBLE may not deliver satisfactory operating performance as expected which will derail the plan to keep the adjusted net debt to equity ratio below 2 times over the next 2-3 years. FFO to total debt could drop below 10%.

Acceptable brand recognition in the middle- to high-price segments

NOBLE’s strength in the condominium segment is underpinned by its well-recognized brand, prime project locations, and unique designs. Its condominium projects have attained widespread acceptance among middle- to high-income buyers. Most of the company’s condominium projects have average unit prices ranging between Bt5-Bt10 million.

The company recently introduced a new condominium brand “Nue” which is intended to tap into the more affordable condominium segment with unit prices below Bt5 million. The first project “Nue Noble Chaengwattana” was launched in 2018. The project has achieved satisfactory presales, with 89% of total project value sold as of June 2019. In 2019, the company continued with the launch of “Nue Noble Srinakarin-Lasalle”. TRIS Rating views the company’s move to broaden its product range favorably. However, the long-term success of this brand remains to be proven.

Large backlog and consistent project launches should lessen earnings volatility

TRIS Rating’s base case forecast assumes NOBLE’s revenue to be around Bt14.2 billion in 2019 (including land plot sales of around Bt8.7 billion). Revenue is forecast to range Bt7.5-Bt8.2 billion per annum during 2020-2022, backed by the transfer of its large backlog and sales of the remaining units on hand. At the end of June 2019, NOBLE had a backlog of Bt18.2 billion. The backlog should be recognized as revenues of Bt3.8 billion in the second half of 2019, Bt8.5 billion in 2020, Bt2.1 billion in 2021, and Bt3.8 billion in 2022. NOBLE had 17 existing condominium projects, with a remaining value (including built and unbuilt units) of Bt15 billion available for sale. Completed inventory accounted for around 27% of remaining value while projects under construction made up the rest.

Despite sluggish domestic demand and no new project launches, the company managed to secure Bt3.1 billion in presales in the first half of 2019, driven by overseas sales support from Fulcrum Global Capital Ltd., a strategic shareholder which now holds a 24.93% stake in NOBLE. Overseas bookings accounted for around 70% of total presales in the first half of 2019, increasing from around 25% in 2018. The sustainability of overseas sales efforts remains to be seen. Going forward, NOBLE plans to launch new projects worth around Bt10 billion per year during 2020-2022. The continuation of new project launches should help alleviate potential fluctuations in revenues and earnings.

Exposure to cyclical and highly competitive industry

The residential property market closely follows trends in the economy. However, volatility in this market is much more pronounced than in the overall economy. A sluggish domestic economy and a high level of household debt nationwide have raised concerns over the purchasing power of middle- to low-income homebuyers. In addition, the implementation of new LTV rules by the BOT will likely impact sales of residential units in the short term. Under the new rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans.

TRIS Rating does not expect the implementation of the new LTV rules to significantly affect NOBLE’s operating performance as its main customers are in the middle- to high-end segments where demand is quite resilient. Besides, NOBLE’s policy requiring a 20%-30% down payment for most of its condominium projects partly offsets the impact of the new LTV rules. However, as the company is expanding toward the lower-end condominium segment, it will need to focus more on customer screening since bank rejection rates for buyers in this segment are generally higher than in the mid- to high-end segment.

Acceptable liquidity

TRIS Rating is of the view that NOBLE should be able to manage liquidity to match its needs over the next 12 months. As of June 2019, NOBLE’s sources of liquidity included cash on hand of Bt1.18 billion and undrawn unconditional project loans of around Bt4.5 billion. The FFO are expected to be around Bt1.4 billion per annum during 2020-2021. NOBLE has debt of around Bt4.4 billion coming due in 2020, comprising bank loans of Bt1.9 billion and debentures of Bt2.5 billion. Project loans will be repaid by the cash received from housing unit transfers. The company plans to refinance most of its maturing debentures by new debenture issuances. The FFO to debt ratio is forecast at 28% in 2019 and 12% in 2020 and the EBITDA (earnings before interest, taxes, depreciation, and amortization) interest coverage ratio is forecast to stay above 3 times.

Under its financial covenant, the company has to maintain its net interest-bearing debt to equity ratio below 2.5 times. At the end of June 2019, NOBLE’s net interest-bearing debt to equity stood at around 2 times. We expect the company to prudently manage its capital structure so as to comply with the financial covenant at all times.

BASE-CASE ASSUMPTIONS

- Operating revenue to be around Bt14 billion in 2019 and in the range of Bt7.7-Bt8.3 billion per annum during 2020-2022.
- Gross profit margin to stay at around 37%-39% and EBITDA margin to stay around 25%-29%.
- Land acquisition budget is forecast to be Bt1.5 billion in 2019 and Bt2.5 billion per annum during 2020-2022.

RATING OUTLOOK

The "negative" outlook reflects TRIS Rating's concern over NOBLE's high financial leverage, resulting from a smaller equity base and projected capital expenditure needs for its new property projects. The adjusted net debt to equity ratio could rise above 2 times and its FFO to total debt could drop below 10% if the company fails to deliver its projects as planned.

RATING SENSITIVITIES

A rating downgrade would occur if NOBLE's adjusted net debt to equity ratio rises beyond 2 times or the FFO to total debt ratio drops below 10%, which could be a result of weaker operating performance or a more aggressive financial policy. On the other hand, we would revise the rating outlook back to "stable" should the company demonstrate the ability to deliver normal operating performance as expected. We expect NOBLE to maintain the adjusted net debt to equity ratio below 2 times and the FFO to total debt ratio above 10% on a sustained basis.

COMPANY OVERVIEW

NOBLE was founded in 1991 by Mr. Kitti Thanakitamnuay, Mr. Chali Sophonpanich, and Mrs. Panida Teapkarnjana. The company 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. Kitti Thanakitamnuay, the company's founder and major shareholder, sold his 43.76% stake in NOBLE. Fulcrum Global, a real estate investor and distributor based in Hong Kong, and Mr. Thongchai Busrapan, a former Vice Chairman and President of NOBLE, became the major shareholders. Mr. Thongchai also returned to NOBLE in the position of co-CEO and chairman, replacing Mr. Kitti. As of October 2019, Mr. Thongchai Busrapan and Fulcrum Global (through nCrowne) each held a 24.93% stake in NOBLE.

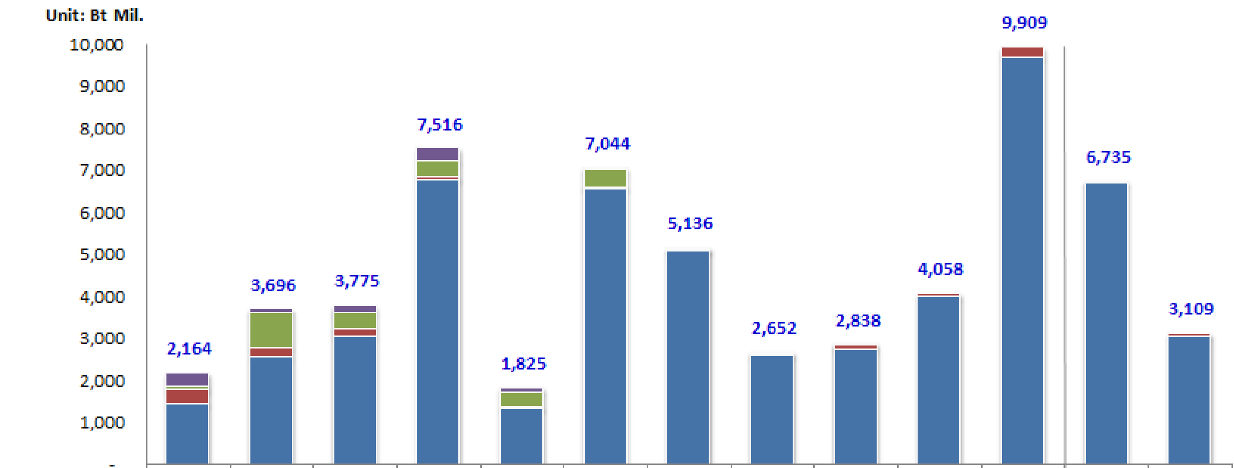
As a strategic partner with Fulcrum, NOBLE is expected to benefit from Fulcrum's distribution network across Asia, covering Mainland China, Hong Kong, Taiwan, Singapore, and Malaysia. Sales to foreign buyers are expected to improve as a result.

NOBLE focuses on the middle- to high-end condominium segment, with prices ranging from Bt120,000-Bt270,000 per sq.m. The company also offers detached and semi-detached houses (SDHs), townhouses, and land plots for middle- to high-income customers. The average selling prices for low-rise housing units were Bt8.2 million for an SDH unit, Bt6.5 million for a townhouse, and Bt15.9 million for a land plot. Almost all of NOBLE's condominium projects are located along mass transit lines, while its housing projects are located near the expressways. NOBLE's unique designs differentiate its products from other developers.

As of June 2019, NOBLE had 17 existing condominium projects and 3 housing projects, worth Bt66.47 billion in total. Condominium projects comprised 92% of total project value across NOBLE's portfolio, while housing projects accounted for the rest. The value of unsold units (including built and unbuilt units) across the entire portfolio was around Bt16.47 million. About 91% of the value was in condominium projects and the rest was in housing projects.

KEY OPERATING PERFORMANCE

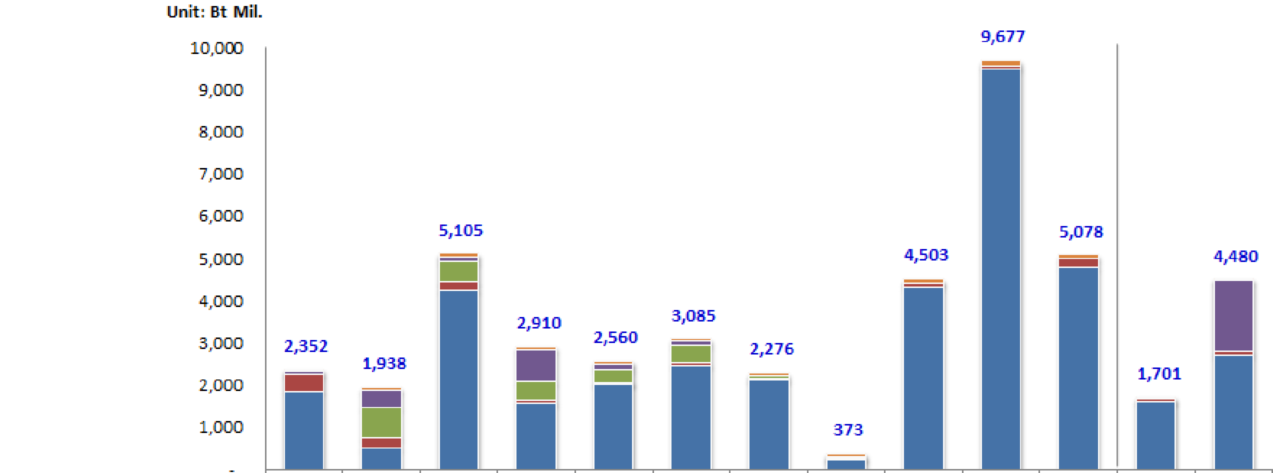
Chart 1: Presales Performance



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	6M18	6M19
Land Plot	313	102	184	308	117	60							
Townhouse	86	824	374	380	358	414	38	32	6				
SDH	341	224	183	68	33	20	26	34	105	78	246	60	56
Condominium	1,424	2,545	3,034	6,760	1,317	6,550	5,072	2,586	2,727	3,979	9,663	6,675	3,052
Presales Value	2,164	3,696	3,775	7,516	1,825	7,044	5,136	2,652	2,838	4,058	9,909	6,735	3,109

Source: NOBLE

Chart 2: Revenue Breakdown



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	6M18	6M19
Retail & Mgt. Service Revenue	39	71	75	88	81	67	72	86	93	124	104	55	16
Land Plot	82	415	126	758	115	99							1,682
Townhouse		710	482	448	341	414	79	32	6				
SDH	383	247	183	68	8	61	26	34	105	73	201	61	90
Condominium	1,848	495	4,238	1,549	2,014	2,442	2,099	221	4,299	9,480	4,773	1,585	2,692
Total Revenue	2,352	1,938	5,105	2,910	2,560	3,085	2,276	373	4,503	9,677	5,078	1,701	4,480

Source: NOBLE

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2019	-----Year Ended 31 December 2018	2017	2016	2015 -----
Total operating revenues	4,518	5,140	9,697	4,503	373
Earnings before interest and taxes (EBIT)	2,014	1,415	3,595	1,467	(420)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,051	1,495	3,690	1,559	(339)
Funds from operations (FFO)	1,341	609	2,500	557	(947)
Adjusted interest expense	342	638	640	832	721
Real estate development investments	21,340	20,743	19,466	19,963	19,546
Total assets	24,911	25,953	23,071	23,269	22,942
Adjusted debt	12,718	11,602	11,755	13,305	12,953
Adjusted equity	6,273	7,948	7,039	4,433	3,758
Adjusted Ratios					
EBITDA margin (%)	45.40	29.09	38.05	34.63	(91.11)
Pretax return on permanent capital (%)	14.85 **	6.91	18.65	7.97	(2.49)
EBITDA interest coverage (times)	6.00	2.34	5.76	1.87	(0.47)
Debt to EBITDA (times)	4.16 **	7.76	3.19	8.53	(38.16)
FFO to debt (%)	14.40 **	5.25	21.27	4.18	(7.31)
Debt to capitalization (%)	66.97	59.34	62.55	75.01	77.51

* *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:	
NOBLE205A: Bt1,500 million senior unsecured debentures due 2020	BBB-
NOBLE20NA: Bt1,050 million senior unsecured debentures due 2020	BBB-
NOBLE212A: Bt1,500 million senior unsecured debentures due 2021	BBB-
Rating Outlook:	Negative

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