

# NOBLE DEVELOPMENT PLC

No. 204/2021  
10 November 2021

## CORPORATES

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
Senior unsecured	BBB
<b>Outlook:</b>	Stable

Last Review Date: 03/02/21

### Company Rating History:

Date	Rating	Outlook/Alert
19/10/20	BBB	Stable
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” with a “stable” rating outlook. At the same time, we upgrade the rating on its existing senior unsecured debentures to “BBB” from “BBB-” and assign the rating of “BBB” to NOBLE’s proposed issue of up to THB1.5 billion in senior unsecured debentures. The proceeds from the new debentures are intended to be used to support NOBLE’s working capital and investments in real estate development. The rating upgrade on its senior unsecured debentures reflects NOBLE’s priority debt to total debt ratio remaining at 43% as of June 2021, below the threshold of 50% that indicates its senior unsecured creditors are not significantly disadvantaged with respect to claims against the company’s assets according to TRIS Rating’s “Issue Rating Criteria”.

The ratings continue to reflect NOBLE’s well-accepted brand name in the affordable- to high-end condominium segment and its large backlog, which will partly secure future revenue streams. The ratings are, however, constrained by an expected rise in financial leverage from the company’s aggressive business expansion, and concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could put more pressure on the demand for residential property and the profitability of property developers for an extended period.

## KEY RATING CONSIDERATIONS

### Well-recognized brands, covering the affordable- to high-end segment

We view that NOBLE’s strength in the middle- to high-end condominium segment is underpinned by its well-recognized brands, prime project locations, and unique designs. During the past three years, NOBLE has also introduced a new condominium brand “Nue”, tapping the affordably priced segment with unit prices below THB5 million, compared with THB5-THB10 million per unit for its Noble brand. Condominium projects under the Nue brand recorded acceptable presales of THB2.8 billion in 2020 or around 40% of total presales.

NOBLE plans to diversify its residential property portfolio and broaden its customer base by developing more landed property projects, which could be its own projects or under joint ventures (JV). Since the company has a limited track record in landed property, the success of its future landed property projects remains to be seen. We expect that NOBLE’s wider range of products and larger customer base should help relieve the volatility of its operating results in the long run.

### Large backlog to support revenue in coming years, despite sharp drop in presales this year

NOBLE’s net presales from its own and JV projects during the first eight months of 2021 contracted by 61% year-on-year (y-o-y) to THB2 billion. The economic fallout caused by the prolonged pandemic has eroded the purchasing power of local and foreign homebuyers since 2020. NOBLE has delayed six out of nine planned project launches from 2021 to 2022. With sizable project launches slated for 2022 coupled with the company’s plan to broaden its product range, we expect NOBLE’s net presales to revive to the THB12-THB13 billion per annum range during 2022-2024.

Our base-case scenario assumes NOBLE's total operating revenue to be THB9-THB13 billion per annum during 2021-2024, with revenue from sales of real estate to be in the THB7-THB9 billion per annum range or around 70%-80% of total operating revenue. We expect revenue from turnkey constructions and marketing services provided to the company's joint ventures to increase to around THB400-THB500 million in 2021 and soar to THB2.5-THB4.0 billion per annum during 2022-2024. Earnings before interest, taxes, depreciation, and amortization (EBITDA) is expected to be in the THB1.5-THB2.5 billion range over the forecast period. NOBLE's future revenue and earnings are partly secured by its large backlog. As of June 2021, the company's backlog was worth THB10.3 billion. The transfer of backlog is expected to span over the second half of 2021 to 2024. Ongoing revenue recognition from backlog could partly alleviate fluctuations in revenues and earnings.

As of June 2021, NOBLE's existing project portfolio consisted of 17 own condominium projects, one JV condominium project, and one landed property project. Total unsold project value (including built and unbuilt units) amounted to THB16.4 billion. Condominium projects accounted for 95% of the total unsold project value while landed property projects accounted for the rest. Of the total unsold project value, NOBLE had remaining completed inventory worth THB3.5 billion, which can be recognized as revenue immediately after sale.

### Profitability likely to soften

We expect NOBLE's profit margin in residential sales will come under pressure over the next three years. In our view, the residential property market will continue to be affected by the drawn-out COVID-19 situation during the remainder of 2021 through 2022 as demand in the condominium segment from both local and foreign homebuyers is likely to remain weak. Several property developers will continue to resort to price campaigns to boost sales. In addition, NOBLE's plan to develop more landed property projects, which normally yield a lower profit margin than condominiums, may also bring down its profit margin.

Looking forward, NOBLE's residential gross profit margin could drop from above 35% during the past five years to 29%-31% over the next three years. NOBLE's revenue contribution from landed property is expected to increase to 8% of total residential revenue in 2021, 20%-25% in 2022-2023, and 40% in 2024, compared with below 5% previously. We also expect the revenue contribution from turnkey construction through JVs to increase to 20%-30% of total operating revenue during 2022-2024. The profit margin from turnkey construction is likely to be relatively thin. Its EBITDA margin could sink to 15%-20% and net profit margin may subside to 7%-11% of total operating revenue over the forecast period.

### Financial leverage expected to rise

With its aggressive business expansion, we expect NOBLE's financial leverage to rise over the next three years. We forecast NOBLE's debt to capitalization ratio to rise to 65%-70% over the forecast period, from 61% as of June 2021. The adjusted net debt to equity ratio will hover around 2 times, rising from 1.4-1.5 times during 2020 through the first six months of 2021. We foresee the ratio of funds from operations (FFO) to total debt falling to the 5%-10% range, from above 20% during 2019 through the first six months of 2021. As of June 2021, NOBLE had total debt of THB8.7 billion, of which THB3.7 billion was priority debt. NOBLE's priority debt comprised project loans at the parent company and its subsidiaries. As the ratio of priority debt to total debt was 43%, we view that the company's unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

In our base-case forecast, we assume NOBLE will launch new condominium projects (both own and JV) worth THB6 billion in 2021, THB19 billion per annum in 2022-2023, and THB5 billion in 2024. We also assume NOBLE will launch new landed property projects worth THB0.8 billion in 2021, THB13.5 billion in 2022, and THB3 billion per annum in 2023-2024. The budget for land will be around THB1.5-THB2.3 billion per annum. In addition, the company plans to invest around THB1.2-THB1.4 billion per annum in its affiliates during 2022-2023.

NOBLE invested in a 20% stake in SWP Asset Management Co., Ltd. (SWP) for a cost of THB300 million in February 2021. The remaining equity is controlled by Srisawad Corporation Public Company Limited (SAWAD) and the management and directors of SAWAD Group. SWP engages in non-performing loan (NPL) and non-performing asset (NPA) management business. In addition, NOBLE together with Fulcrum Global Investment Limited (Fulcrum) jointly invested in Fulcrum Noble Holdings Limited, with NOBLE holding a 45% stake and Fulcrum a 55% stake. The joint venture will acquire properties with permitted development rights (rights that allow certain building works and changes of use from commercial to residential properties without having to make a planning application) in the UK market. The JV intends to hold the assets for one to two years before selling them to customers in the Greater China and Thailand market via the JV distribution network once it can achieve target yields. As of July 2021, NOBLE had injected equity of around GBP3 million into the joint venture.

### Adequate liquidity

We assess NOBLE's liquidity to be adequate over the next 12 months. As of June 2021, NOBLE's sources of liquidity included cash and cash equivalents of THB1.7 billion, undrawn unconditional credit facilities of THB750 million, and expected FFO over the next 12 months of around THB1.1 billion. In addition, NOBLE had unencumbered land banks at

book value of around THB0.9 billion and remaining finished units in debt-free projects with a selling price totaling THB1.3 billion, which can be pledged as collateral for bank loans, if needed. NOBLE's uses of funds include debts coming due in the next 12 months amounting to THB1.6 billion, working capital requirements of around THB0.8-THB1.0 billion per annum, and investments in affiliates of around THB1.2-THB1.4 billion per annum during 2022-2023. Its dividend payment is expected to be around 40% of net profit. NOBLE plans to refinance maturing debentures by new debenture issuance.

The financial covenants on NOBLE's debentures and bank loans require maintenance of its net interest-bearing debt to equity ratio below 2.5 times. As of June 2021, the ratio was 1.29 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 2021-2024:

- NOBLE to launch new condominium projects (own and JV) worth THB6 billion in 2021, THB19 billion per annum during 2022-2023, and THB5 billion in 2024.
- NOBLE to launch new landed property projects (own and JV) worth THB0.8 billion in 2021, THB13.5 billion in 2022, and THB3 billion per annum in 2023-2024.
- Annual budget for land acquisition to be THB1.5-THB2.3 billion.
- Total operating revenue to stay in the THB9-THB13 billion per annum range with revenue from sales of residential property of around THB6-THB9 billion per annum.
- Average residential gross profit margin to decline to 36% in 2021 and 29%-31% in 2022-2024.

#### RATING OUTLOOK

The "stable" outlook reflects our expectation that NOBLE should be able to sustain its operating performance as targeted and deliver the units in backlog as scheduled. We also expect NOBLE to maintain its FFO to total debt ratio at around 5%-10% and its adjusted net debt to equity ratio below 2 times on a sustained basis.

#### RATING SENSITIVITIES

NOBLE's ratings and/or outlook could be revised downward if its operating performance and/or financial profile significantly deteriorate from the target level. On the contrary, a credit upside scenario could emerge if NOBLE's business scale enlarges and its capital structure improves considerably from the current level, such that the debt to capitalization ratio remains below 60% or the adjusted net debt to equity ratio remains below 1.5 times on a sustained basis.

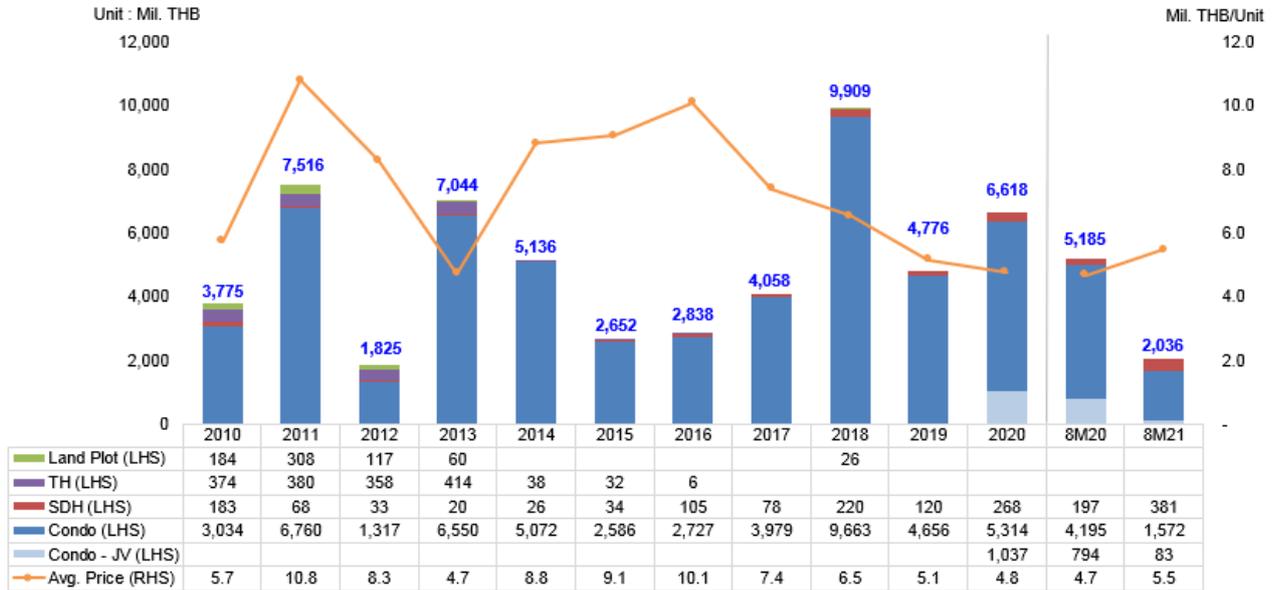
#### COMPANY OVERVIEW

NOBLE was founded in 1991 and 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 2021, Mr. Thongchai Busrapan and Mr. Frank Fung Kuen Leung, a representative of Fulcrum Global Capital, each directly and indirectly held a 20% stake in NOBLE. Mr. Thongchai Busrapan and Mr. Frank Fung Kuen Leung are 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. NOBLE has launched several new condominium projects under the "Nue" brand, tapping the more affordably priced segment, with unit prices below THB5 million. The company also offers single-detached houses (SDH), townhouses, and land plots for middle- to high-income customers. Almost all of NOBLE's condominium projects are situated along mass transit lines, while its landed property projects are located near the expressways. NOBLE's unique designs differentiate its products from those of other property developers.

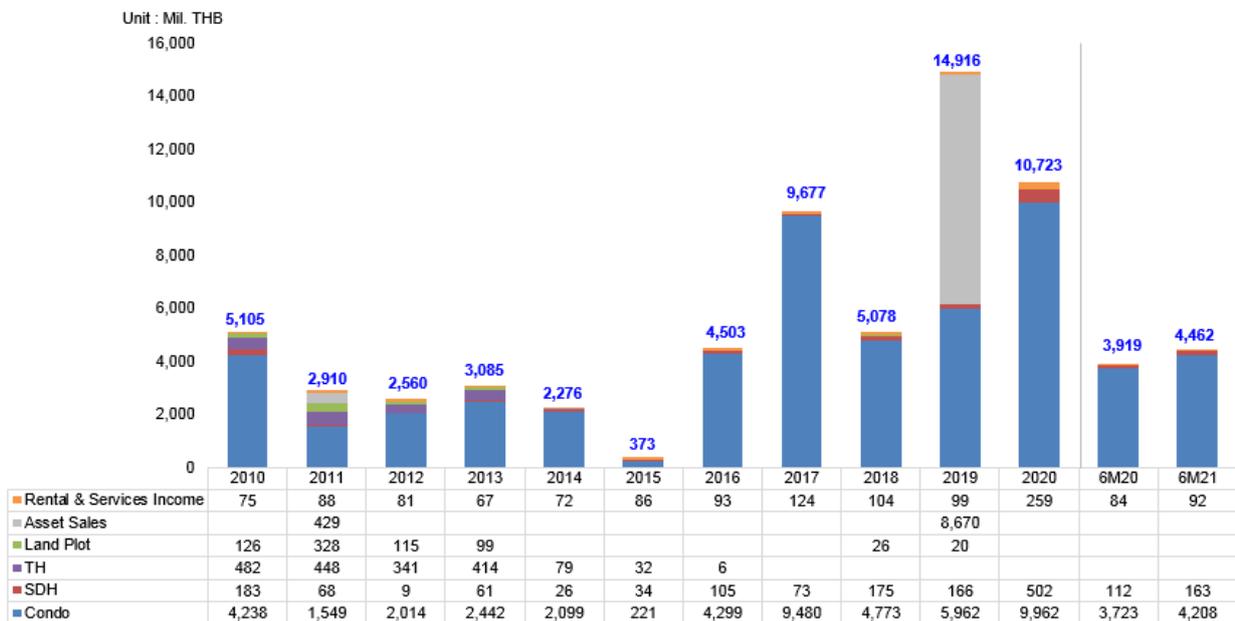
**KEY OPERATING PERFORMANCE**

**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 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	4,915	10,860	15,008	5,140	9,697
Earnings before interest and taxes (EBIT)	1,304	3,072	4,741	1,415	3,595
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,363	3,160	4,796	1,495	3,690
Funds from operations (FFO)	934	2,162	3,344	609	2,500
Adjusted interest expense	228	491	697	638	640
Real estate development investments	11,962	13,565	16,048	20,743	19,466
Total assets	18,116	19,198	21,631	25,953	23,071
Adjusted debt	9,108	8,047	9,216	11,602	11,755
Adjusted equity	5,956	5,864	5,479	7,948	7,039
<b>Adjusted Ratios</b>					
EBITDA margin (%)	27.73	29.10	31.95	29.09	38.05
Pretax return on permanent capital (%)	19.39 **	19.10	25.20	6.91	18.65
EBITDA interest coverage (times)	5.96	6.43	6.88	2.34	5.76
Debt to EBITDA (times)	2.74 **	2.55	1.92	7.76	3.19
FFO to debt (%)	25.65 **	26.86	36.28	5.25	21.27
Debt to capitalization (%)	60.46	57.85	62.71	59.34	62.55

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Noble Development PLC (NOBLE)**

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
NOBLE242A: THB1,800 million senior unsecured debentures due 2024	BBB
Up to THB1,500 million senior unsecured debentures due within 3 years	BBB
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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