

# PROSPECT DEVELOPMENT CO., LTD.

No. 5/2025

11 February 2025

## CORPORATES

**Company Rating:** BB-  
**Outlook:** Stable

**Last Review Date:** 26/03/24

### Company Rating History:

Date	Rating	Outlook/Alert
26/03/24	BB-	Stable
12/04/23	BB+	Stable
31/08/22	BBB-	Negative

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## RATIONALE

TRIS Rating affirms the company rating on Prospect Development Co., Ltd. (PD) at “BB-”, with a “stable” rating outlook. The rating reflects the company’s status as a core subsidiary of M.K. Real Estate Development PLC (MK, rated “BB-/Stable”). Thus, the company rating on PD is equivalent to and moves in tandem with the company rating on MK. MK’s company rating reflects the group’s modest revenue and earnings base, high financial leverage, and tight liquidity.

## KEY RATING CONSIDERATIONS

### Core subsidiary of MK

TRIS Rating assesses PD as a core subsidiary of MK. PD is a wholly owned subsidiary of MK, specializing in the industrial property (IP) business. The company has been a key contributor to MK’s revenues and earnings over the past five years. In the first nine months of 2024 (9M24), PD accounted for 57% of MK’s revenues and 119% of its EBITDA. Additionally, PD has received financial support from MK, with loans from MK making up approximately 30% of PD’s total debt as of September 2024.

Following the divestment of its wellness business to FNS Holding PLC (FNS) in April 2024, MK will concentrate solely on the IP business while its residential property portfolio was sold to a non-related party and will be phased out over the next five years. Thus, proceeds from residential unit sales will primarily be used to repay loans from its creditor. As a result, PD will become MK’s sole sources of revenue and earnings going forward.

### Small and concentrated IP portfolio

PD’s portfolio is highly concentrated in terms of locations, tenants, and lease terms. As of December 2024, PD had 0.34 million square meters (sq.m.) of its own warehouse and factory space for rent, and 0.22 million sq.m. under two joint ventures, BFTZ Wangnoi (BFTZW) and BFTZ Bangpakong (BFTZB). PD plans to acquire the remaining 50% stake in BFTZW from FNS in April 2025. Since its own properties are all located in Samut Prakarn Province, unfavorable local conditions could significantly impact the company’s overall performance.

Additionally, PD’s top ten tenants occupied 44% of total occupied area by the end of 2024. Any lease terminations or downsizing of the leased area by major tenants could significantly affect the company’s operating results. However, this risk is somewhat mitigated by the strategic locations of the properties, as evidenced by PD’s relatively high occupancy rate (OR) of around 80%, and a renewal rate exceeding 82% over the past five years.

Looking ahead, the company may benefit from the wave of manufacturing relocation driven by ongoing trade tensions between the United States and China. However, escalating competition from both existing and new players poses a challenge for PD. As a result, we expect PD to be able to maintain an average OR exceeding 85% throughout the forecast period. However, PD’s ability to increase rental rates is limited. In our view, the rental rate for factories is expected to edge up marginally, given the limited supply in this location. In contrast, the rental rate for warehouses could face downward pressure due to heightened competition and a potential oversupply. Thus, PD’s average rental rate is expected to remain in the 175-185 THB/sq.m./month range during 2025-2027.

### **Earnings contribution from IP, although increasing, remains modest**

PD's operating revenues and earnings have grown steadily over the past three years, driven by its strategic plan to develop and divest assets to its own real estate investment trust (REIT), "Prospect Logistics and Industrial Freehold and Leasehold Real Estate Investment Trust" (PROSPECT). However, PD's business scale remains modest compared with other rated industrial property developers, and its earnings have fluctuated depending on the value of asset sales each year. PD's operating revenue in 9M24 grew 12% year-on-year (y-o-y) to THB496 million, while EBITDA fell by 25% to THB454 million due to the absence of gains from asset sales to its REIT.

Looking forward, PD's revenues are expected to remain modest, ranging around THB600-THB700 million per annum over the next three years. EBITDA is projected to fluctuate between THB1.2-THB1.6 billion annually, depending on gains from asset sales. The company aims to retain around 0.2 million sq.m. of leasable area to generate recurring income of approximately THB450-THB500 million per annum. Services fees and asset management revenues are expected to be around THB150-THB200 million annually. As of December 2024, PD managed total leasable area of around 0.86 million sq.m., comprising 0.34 million sq.m. of its own assets, 0.29 million sq.m. from PROSPECT, and 0.22 million sq.m. from its two joint ventures, BFTZW and BFTZB. PD plans to develop around 0.05 to 0.15 million sq.m. of leasable area each year. Surplus rental space will be sold to PROSPECT to enhance earnings. The company plans to sell 272,426 sq.m. of its rental assets to PROSPECT worth THB4.3 billion this year.

### **Entry to industrial estate business, if successful, will support future growth**

PD is strategically expanding into new business opportunities with its latest land holdings, totaling 1,000 rai in the Eastern Economic Corridor (EEC). The company established a new subsidiary in late 2024 to develop its first industrial park in EEC. The project is currently awaiting license approval. PD plans to sell a 50% stake in this subsidiary to a strategic partner within this year. The construction is expected to commence in late 2025 with land transfers to customers from 2026 onwards. The total investment cost for the project is THB6.4 billion, comprising THB4.7 billion for land acquisition and THB1.7 billion for construction costs.

The strategic partner is expected to assist the company in attracting interest and demand from global manufacturers while also alleviating PD's debt burden. However, any delays in the partnership and development process could significantly affect PD's financial profile in the short- to medium term, given the considerable upfront investment required. Should the project proceed as planned, PD may incur a share loss from investments in JVs of around THB100 million this year before realizing share profits of THB300-THB700 million per year in 2026-2027.

### **Leverage remains high**

TRIS Rating expects the financial leverage of the group to remain high over the next three years. MK's debt to capitalization ratio is expected to stay in the 73%-74% range, reflecting the ongoing need for substantial capital expenditure for the IP business expansion along with investments in JVs and PROSPECT, as well as the inclusion of debt from BFTZ Wangnoi Ltd. (BFTZW). PD's debt to capitalization ratio is expected to be in line with MK's. With all future cash flow from residential property sales committed to loans from a non-related company, MK will need to finance the construction of its IP business through bank loans, the sale of developed areas under PD to PROSPECT and third parties, and through the sale of land plots.

The financial covenants on MK's debentures and bank loans stipulate that the company must maintain its net interest-bearing debt to equity ratio below 3 times. As of September 2024, the ratio was 2.7 times. However, financial covenants on PD's bank loans require the company to maintain its interest-bearing debt to equity ratio below 2 times, total liabilities to total equity ratio below 1.5 times, and debt service coverage ratio above 1.2 times. As of September 2024, the ratios were 2.1 times, 2.4 times, and 0.3 times respectively. PD has already obtained waivers from its lenders for breaching its debt service coverage ratio covenant in 2024. However, considering its relatively high debt level, the company could potentially breach its financial covenants again this year.

### **Tight liquidity**

We assess PD's liquidity to be tight over the next 12 months. Debt maturing within this period will amount to THB1.6 billion, comprising THB1.3 billion debentures, THB57 million short-term promissory notes (P/N), THB250 million long-term project loans, and THB9.5 million lease liabilities. As of September 2024, PD's sources of liquidity included cash on hand amounting to THB18 million. We forecast PD's funds from operations (FFO) to be approximately THB600 million in 2025. PD normally refinances its matured debentures through new debenture issuances and rolls over its matured short-term P/N. In addition, MK should support PD's liquidity if needed. PD plans to repay its debentures by using the net proceeds, after repaying bank loans, from the sale of rental warehouse and factory space to PROSPECT. In addition, MK expects to receive the proceeds from divesting a 50% stake in its industrial park project to a strategic partner in the second quarter of this year.

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**Debt structure**

At the end of September 2024, PD's own debts amounted to THB6.7 billion, comprising THB1.6 billion debentures, THB2.5 billion bank loans, THB1.8 billion short-term loans from the parent company, THB57 million short-term borrowings from banks, and THB657 million lease liabilities. PD's secured debts totaled THB2.5 billion, resulting in a priority debt to total debt ratio of 41%.

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**BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumes that PD will remain a core subsidiary of MK.

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**RATING OUTLOOK**

The "Stable" outlook is aligned with the outlook on MK.

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**RATING SENSITIVITIES**

As a core subsidiary of MK, the rating on PD is linked to MK's credit profile. Any change in MK's rating and/or outlook will affect the rating on PD accordingly.

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**COMPANY OVERVIEW**

PD was established in 2010 as a wholly owned subsidiary of FNS (formerly Finansia PLC). PD developed and operated factories and warehouses for rent in the "Bangkok Free Trade Zone" (BFTZ) project located at Bangna-Trad Km. 23 in Samut Prakarn Province. In December 2015, MK acquired 100% of the equity of PD, partly through a share swap. In August 2023, FNS acquired additional shares in MK, becoming the single largest shareholder with a 49.5% shareholding. MK holds a 100% stake in PD.

In 2021, PD joined Sansiri PLC (SIRI) to set up BFTZB to develop industrial property for rent in Chachoengsao Province. PD also set up a JV with FNS, BFTZW, to develop warehouses for rent in Ayutthaya Province. In 2024, PD set up a new company to develop and operate industrial park in EEC. The total area of the development was 2,228 rai comprising 1,456 rai owned by PD and 772 rai owned by JVs.

At the end of December 2024, PD had freehold and leasehold rights in seven developed and partially developed industrial estates located at Bangna-Trad Km. 10, Bangna-Trad Km. 19, Bangna-Trad Km. 23, on Theparak Road in Samut Prakarn Province and in Chachoengsao Province.

**KEY OPERATING PERFORMANCE**

**Table 1: Revenue Breakdown**

Unit: % of total operating revenue

Revenue Contribution	2019	2020	2021	2022	2023	9M2024
Residential sales	71					
Industrial estate for rent	27	81	79	61	64	72
Management fee income		7	19	20	28	19
Other operating revenues	2	12	2	19	8	9
<b>Total operating revenues</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total operating revenues (Mil. THB)</b>	<b>1,306</b>	<b>455</b>	<b>411</b>	<b>539</b>	<b>615</b>	<b>496</b>

Source: PD

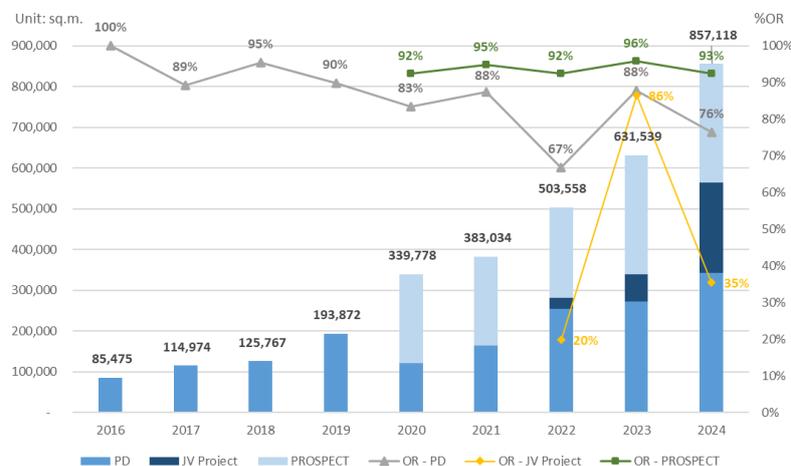
**Table 2: Details of Assets**

Project	Location		Land area (rai)	Total NLA (sq.m.)	Developed (sq.m.)
<b>PD</b>					
- BFTZ1	Bangna-Trad Km.23	Leasehold	236	181,673	181,673
- BFTZ2	Theparak Rd.	Leasehold	17	12,481	12,481
- BFTZ3	Bangna-Trad Km.19	Leasehold	8	12,163	12,163
		Freehold	78	50,882	50,882
- BFTZ6	Bangna-Trad Km.19	Leasehold	50	50,748	50,748
		Freehold	33	28,992	
- BFTZ7	Bangna-Trad Km.10	Leasehold	44	35,608	35,608
- BFTZ8	Theparak Rd.	Leasehold	32	24,769	
- EEC	EEC	Freehold	1,000		
		Industrial land for sale			
<b>Total</b>			<b>1,498</b>	<b>397,316</b>	<b>343,555</b>
<b>JV</b>					
- TPARK BFTZ (FPIT 60%)	Bangna-Trad Km.23	Leasehold	92	80,930	80,930
- BFTZ4 (SIRI 50%)	Bangpakong	Freehold	323	189,545	111,876
- BFTZ5 (FNS 50%)	Wangnoi	Leasehold	145	109,355	109,355
<b>Total</b>			<b>560</b>	<b>379,830</b>	<b>302,161</b>

Note: All projects managed by PD except TPARK BFTZ

Source: PD

**Chart 1: Occupancy and Leasable Area Owned and Managed by PD**



Source: PD

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	496	615	539	411	455
Earnings before interest and taxes (EBIT)	264	541	220	192	476
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	454	720	347	337	655
Funds from operations (FFO)	175	368	118	131	436
Adjusted interest expense	279	280	211	204	182
Capital expenditures	518	1,013	1,997	1,149	1,602
Total assets	10,895	8,831	8,220	6,662	6,615
Adjusted debt	7,885	6,229	5,990	4,045	4,356
Adjusted equity	3,225	2,688	2,445	2,433	2,203
<b>Adjusted Ratios</b>					
EBITDA margin (%)	91.6	117.2	64.3	82.0	144.0
Pretax return on permanent capital (%)	5.4 **	6.2	2.9	2.9	7.6
EBITDA interest coverage (times)	1.6	2.6	1.6	1.7	3.6
Debt to EBITDA (times)	13.9 **	8.6	17.3	12.0	6.7
FFO to debt (%)	2.7 **	5.9	2.0	3.2	10.0
Debt to capitalization (%)	71.0	69.9	71.0	62.4	66.4

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Rating Methodology for Real Estate for Rent Companies, 16 December 2024
- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

**Prospect Development Co., Ltd. (PD)**

**Company Rating:**

BB-

**Rating Outlook:**

Stable

**TRIS Rating Co., Ltd.**

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