

# CENTRAL PATTANA PLC

No. 12/2024  
19 February 2024

## CORPORATES

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

**Last Review Date:** 27/01/23

### Company Rating History:

Date	Rating	Outlook/Alert
29/12/21	AA	Stable
12/07/21	AA	Alert Negative
16/01/19	AA	Stable
18/09/18	AA	Alert Developing
22/09/17	AA	Stable
12/05/14	AA-	Stable
05/02/13	A+	Positive
23/05/07	A+	Stable
22/02/05	A	Stable
12/07/04	A-	Positive
04/10/02	A-	-
17/05/01	BBB+	-

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## RATIONALE

TRIS Rating affirms the company rating on Central Pattana PLC (CPN) and the ratings on CPN's outstanding senior unsecured debentures at "AA", with a "stable" outlook. At the same time, we assign a rating of "AA" to CPN's proposed issue of up to THB3 billion senior unsecured debentures due within five years. The proceeds from the new debentures are intended to be used to repay some of its existing debts.

The ratings reflect the company's leading market presence in the retail property industry in Thailand, expected strong operating performance supported by stable cash flow from existing assets and ongoing mixed-use projects, moderate financial leverage, and adequate liquidity.

## KEY RATING CONSIDERATIONS

### Ratings underpinned by leading market position

CPN's credit profile takes into account the company's leading market presence and competitive edges in the retail property market. As of September 2023, CPN managed 56 shopping centers including community malls under Siam Future Development PLC (SF) and retail space under Grand Canal Land PLC (GLAND), with total net leasable area (NLA) of 2.3 million square meters (sq.m.). Its shopping center portfolio comprises 34 centers in Bangkok, 21 in provincial areas, and one in Malaysia. CPN's dominant position is attributed to its leading market share of around 20% of the nationwide retail space market, with occupancy rates (OR) of above 90% in the past several years.

We expect CPN to sustain its strong market position in the retail property industry in Thailand. CPN's competitive edges are driven by its diversified portfolio of income-generating retail properties, well-maintained assets, prime locations of the properties, as well as a diverse and strong tenant base. Each shopping center regularly undergoes renovations and remerchandising to enhance its appearance and draw customer traffic. Magnet anchors, such as "Central Department Stores", "Robinson Department Stores", supermarkets, brand name shops, and large multi-purpose halls, help stimulate traffic. A good mix of anchor tenants attracts other specialty retailers. The prime-quality shopping centers also attract a diverse mix of local and international brand retailers.

### Strong operating results anticipated

We view that CPN will continue generating strong revenue and earnings growth in 2024-2026, buoyed by ongoing expansions in commercial property, hotels, residential, and mixed-use projects. However, CPN's profit margin could be under pressure from higher operating costs pushed up by projects under development, rising utility costs, and intense competition among leading players.

In the first nine months of 2023 (9M2023), CPN's operating performance showed significant improvement, surpassing pre-pandemic levels. This was attributed to increased revenues from revenue-sharing contracts, robust OR, and rebounded rental rates after discontinuing the discounts previously provided to tenants. Additionally, there was strong growth in both the hospitality and residential property segments. The company reported total operating revenue growth of 27% year-on-year (y-o-y) to THB33.7 billion in 9M2023. Revenue from commercial properties soared by 21% y-o-y to

THB27.3 billion in 9M2023. Revenue from hotel operation and residential projects doubled from the same period of 2022. CPN's earnings before interest, taxes, depreciation, and amortization (EBITDA) surged by 24% y-o-y to THB21 billion in 9M2023, with EBITDA margin of 62%.

Looking forward, we expect CPN's total operating revenue to reach the THB48-THB53 billion level in 2024-2026. This is based on our assumption that CPN will open one to three new shopping centers annually. We expect the company to maintain the average OR of around 90% and average rental rate (ARR) growth of 2%-5% per annum. Revenue from commercial properties is expected to grow by 5%-10% per annum in 2024-2026. We also forecast revenue from hotel operation to increase to THB1.8-THB2.3 billion annually from THB1.1 billion in 9M2023 following the recovery of both local and foreign tourists and portfolio expansion. Revenue from residential projects is expected to rise to THB5-THB7 billion annually over the forecast period. CPN's EBITDA is projected to enlarge to THB28-THB30 billion in 2024-2026, with EBITDA margin of 55%-60%.

### **Enlarged portfolio with mixed-use properties**

Following its strategic move to become a leading retail-led mixed-use developer, CPN plans to develop hotels, and residences in the same areas of its own or Central Group's shopping centers. CPN has several large mixed-use projects in the pipeline being developed by its own and jointly with well-known partners. These projects include "Dusit Central Park", "The Grand Rama 9", "Bayswater", "Central Embassy 2", and "Siam Square Soi 1" project.

According to its five-year investment plan, CPN will continue expanding its retail and office spaces to 2.7 million sq.m. and 0.5 million sq.m., respectively, by 2028. CPN plans to open 1-3 new hotels per annum, with targeted 2,600 keys in 2028. We also expect CPN to launch new residential projects worth THB4-THB5 billion per annum in 2024-2026.

### **Moderate financial leverage despite aggressive expansion**

Despite large capital expenditures (CAPEX) required for business expansion through its own and joint venture (JV) projects over the next three years, we expect CPN's financial leverage, measured by the debt to EBITDA ratio, will remain modest. This is based on the company's anticipated strong operational performance and estimated cash inflows from the lease extension with CPNREIT.

Our base-case scenario assumes CAPEX totaling THB68 billion in 2024-2026. Around half of total investments are earmarked for own and JV mixed-use projects, 30% for new shopping centers and asset enhancements to existing shopping centers, and the remainder for non-retail businesses. For non-retail businesses, we project CPN to spend THB3.0-THB3.2 billion per annum for land purchase and construction in residential projects as well as THB500 million per annum for hotel operations in 2024-2026.

We expect the expansion-induced pressure on CPN's financial leverage to be alleviated by expected cash receipt from the lease extension of Central Pinklao and Central Rama 2 with CPNREIT in 2024-2025. Cash received from the lease extension is forecast to be THB6.4 billion for Central Pinklao in 2024 and THB12.9 billion for Central Rama 2 in 2025. We also assume CPN will inject equity in CPNREIT to the maximum of THB6 billion in 2024. As a result, CPN's debt to EBITDA ratio is projected to stay at 4.6-5.0 times and its EBITDA interest coverage ratio should hover around 8 times over the forecast period.

The financial covenants on its debentures require the company to maintain its net interest-bearing debt (excluding lease liability) to equity ratio below 1.75 times and total assets (excluding secured debt) to unsecured debt ratio above 1.5 times. The ratios as of September 2023 were 0.8 times and 3.7 times, respectively. We believe the company should have no problems complying with the financial covenants over the next 12 to 18 months.

### **Adequate liquidity**

We assess CPN's liquidity as adequate over the next 12 months. CPN's sources of liquidity included cash on hand of THB2.2 billion plus short-term investments of THB2.2 billion and undrawn committed facilities from banks of THB12.3 billion. We forecast its funds from operations (FFO) over the next 12 months to be around THB22 billion. In addition, CPN had unencumbered assets at book value worth around THB186 billion, which can be pledged as collateral for new credit lines, if needed.

As of September 2023, the company had maturing debts over the next 12 months totaling THB40 billion, comprising THB12.6 billion in short-term obligations, THB14.6 billion in long-term loans, THB10 billion in debentures, and THB2.8 billion in lease liability. CPN already repaid the THB5 billion debentures due in first quarter of 2024 with term loans extended by financial institutions. We also project CPN's CAPEX to be around THB21 billion in 2024 and annual dividend payments to be around 40% of net profit.

At the end of September 2023, the ratio of its secured debt to book value of total assets was only 1.3%, well below the threshold of 35% according to TRIS Rating's "Rating Methodology for Real Estate for Rent Companies".

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## BASE-CASE ASSUMPTIONS

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These are the key assumptions in TRIS Rating's base case forecast for CPN's operations in 2024-2026:

- CPN to open one to three new shopping centers annually with overall OR of around 90% and ARR growth of 2%-5% per annum
- Rental and service income from commercial properties to grow by 5%-10% per annum.
- CPN to launch new residential projects worth THB4-THB5 billion per annum
- Revenue from residential sales to range between THB5-THB7 billion per year
- Aggregate capital expenditure totaling of THB68 billion
- Cash received from lease extension with CPNREIT amounting to THB6.4 billion for Central Pinklao in 2024 and THB12.9 billion for Central Rama 2 in 2025

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## RATING OUTLOOK

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The "stable" outlook reflects our expectation that CPN will be able to deliver operating results as targeted. Despite the planned substantial business expansion, we expect CPN to maintain its strong financial profile and keep the net debt to EBITDA ratio below 7.5 times over the forecast period.

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## RATING SENSITIVITIES

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A credit upside could emerge if CPN strengthens its financial position while maintaining a strong business profile, with the net debt to EBITDA ratio below 4.5 times on a sustained basis. On the contrary, the ratings and/or outlook could be revised downward if the company's operating performance and/or financial profile considerably deteriorate from our expectations with the net debt to EBITDA ratio staying above 7.5 times for an extended period.

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## COMPANY OVERVIEW

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CPN was incorporated in 1980 under the name "Central Plaza Co., Ltd." to develop and operate shopping centers in Thailand. The company was listed on the Stock Exchange of Thailand (SET) in 1995. As of September 2023, the major shareholders of CPN were the Chirathivat family (27%) and Central Holding Co., Ltd. (26%). Central Holding, a wholly-owned holding company of Chirathivat family members, is engaged in real estate development, hotel, food retailing, department store, hardline product, and online marketing businesses. The ownership link with the Central Group is a benefit for CPN since many anchor tenants under the group have been strong magnets for shopping centers owned by CPN.

CPN is the largest retail property developer in Thailand. CPN acquired GLAND in late 2018 and SF in August 2021. As of September 2023, CPN's property portfolio included 56 shopping centers and community malls with net leasable area of 2.3 million sq.m., 10 office buildings with net leasable area of 319,967 sq.m., eight hotels, one apartment, 32 food centers, 21 active residential projects, and two REITs/property funds.

CPN's rental and service income from shopping centers constituted 79%-84% of total revenues from sales and services during 2018 through the first nine months of 2023. Revenue from residential projects for sale has contributed 8%-11% during the past five years. Revenue from office buildings for rent has contributed 3%-6% during the same period. Revenue from hotel operations and food centers has remained negligible.

**KEY OPERATING PERFORMANCE**

**Table 1: CPN Property Portfolio**

Type of Property	Unit	CPN	GLAND	SF	Total
NLA* of retail space	sq.m.	1,899,313	21,075	384,723	2,305,111
NLA* of office space	sq.m.	171,941	148,026	-	319,967
Hotel	rooms	1,257	-	-	1,257
Unsold value in residential projects	mil. THB	15,361	1,086	-	16,447

\* NLA = Net leasable area

Sources: CPN, GLAND, and SF, as of September 2023

**Table 2: CPN's Revenue from Sales and Services**

Unit: %

Business	2018	2019	2020	2021	2022	Jan-Sep 2023
Shopping center	82.9	82.1	83.6	82.7	82.5	79.0
Office building	3.1	4.6	5.6	6.1	5.0	4.4
Hotel	3.6	3.1	1.1	1.2	2.6	3.4
Apartment & others	0.0	0.0	0.0	0.0	0.0	0.0
Food & beverage	2.2	2.3	1.6	1.3	1.8	2.1
Residential	8.2	7.9	8.1	8.7	8.1	11.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total revenues from sales and services (mil. THB)</b>	<b>33,728</b>	<b>36,719</b>	<b>27,862</b>	<b>24,840</b>	<b>35,575</b>	<b>32,764</b>

Source: CPN

**Table 3: Average Occupancy Rate**

Unit: %

Occupancy Rate	2018	2019	2020	2021	2022	Jan-Sep 2023
Shopping centers/ community malls						
- CPN	92.7	92.6	91.9	90.8	90.1	90.8
- GLAND	69.8	68.8	57.9	49.9	57.7	69.4
- SF				92.7	89.3	88.5
Office buildings						
- CPN	95.5	94.3	90.1	87.7	92.2	91.5
- GLAND	98.3	97.2	91.7	90.3	89.0	80.9
Hotels	86.2	76.9	33.1	49.0	68.2	77.4

Sources: CPN, GLAND, and SF

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	33,701	36,765	26,220	28,924	38,093
Earnings before interest and taxes (EBIT)	14,634	13,942	9,526	9,298	15,381
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	21,003	22,448	17,630	17,103	22,260
Funds from operations (FFO)	16,202	17,584	12,860	13,112	16,599
Adjusted interest expense	2,327	2,495	2,201	2,083	2,920
Capital expenditures	7,150	7,273	6,908	7,179	10,434
Total assets	279,245	272,692	263,421	221,652	169,933
Adjusted debt	127,216	127,440	127,704	86,404	64,301
Adjusted equity	96,721	89,620	82,075	77,123	80,462
<b>Adjusted Ratios</b>					
EBITDA margin (%)	62.3	61.1	67.2	59.1	58.4
Pretax return on permanent capital (%)	8.1 **	6.4	4.9	5.8	11.0
EBITDA interest coverage (times)	9.0	9.0	8.0	8.2	7.6
Debt to EBITDA (times)	4.8 **	5.7	7.2	5.1	2.9
FFO to debt (%)	16.2 **	13.8	10.1	15.2	25.8
Debt to capitalization (%)	56.8	58.7	60.9	52.8	44.4

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021

**Central Pattana PLC (CPN)**

<b>Company Rating:</b>	AA
<b>Issue Ratings:</b>	
CPN248A: THB5,000 million senior unsecured debentures due 2024	AA
CPN253A: THB1,500 million senior unsecured debentures due 2025	AA
CPN256A: THB1,000 million senior unsecured debentures due 2025	AA
CPN258A: THB1,000 million senior unsecured debentures due 2025	AA
CPN25DA: THB1,000 million senior unsecured debentures due 2025	AA
CPN261A: THB1,250 million senior unsecured debentures due 2026	AA
CPN261B: THB750 million senior unsecured debentures due 2026	AA
CPN268A: THB4,000 million senior unsecured debentures due 2026	AA
CPN26OA: THB2,100 million senior unsecured debentures due 2026	AA
CPN273A: THB1,000 million senior unsecured debentures due 2027	AA
CPN27OA: THB2,000 million senior unsecured debentures due 2027	AA
CPN293A: THB1,000 million senior unsecured debentures due 2029	AA
CPN29OA: THB2,200 million senior unsecured debentures due 2029	AA
CPN323A: THB2,000 million senior unsecured debentures due 2032	AA
Up to THB3,000 million senior unsecured debentures due within 5 years	AA
<b>Rating Outlook:</b>	Stable

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