

CENTRAL PATTANA PLC

No. 5/2023
27 January 2023

CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 23/09/22

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 senior unsecured debentures at “AA”, with a “stable” outlook. The ratings reflect CPN’s leading position in the retail property development industry in Thailand, proven track record of managing high-quality assets, and reliable cash flow from contract-based rental and service income. The ratings also take into consideration the recovery of the retail industry after the Coronavirus Disease 2019 (COVID-19) pandemic and the large capital expenditures needed for business expansion during 2023-2024.

KEY RATING CONSIDERATIONS

Strong recovery in 2022 performance

CPN’s shopping centers are expected to fully recover in 2023-2024 after the country’s reopening and the lifting of COVID-19 restrictions. In December 2022, customer traffic at CPN’s shopping centers reached high 80% of the 2019 pre-pandemic level, the highest since March 2020.

The hotel sector is recovering following the government’s stimulus measures and the resurgence of incoming foreign tourists. We expect revenue per available room (RevPAR) of CPN’s hotel in Pattaya as the 2019 level in 2023-2024, while its hotels in secondary provinces that depend mainly on domestic tourists should gradually recover to the 2019 level by 2025. As of December 2022, the overall performance of CPN’s hotels was satisfactory compared to pre-COVID-19 levels. The RevPAR of the “Hilton Pattaya” achieved the 2019 level, while that of “Centara Udonthani” reached 79%.

We forecast that CPN’s operating revenue to improve to the THB35-THB45 billion per annum range during 2022-2024 while its earnings before interest, taxes, depreciation, and amortization (EBITDA) will soar to THB22-THB27 billion per annum. Revenue is projected to grow by 36% in 2022 and 10% per year in 2023-2024 due to the improvement in the COVID-19 situation and revenue contributions from newly opened shopping centers, residential projects, and hotels.

Proven track record in high-quality asset management

We assess CPN’s overall asset quality as good. CPN has a diversified portfolio of income-generating retail properties, sited in good locations, with 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”, cinemas, 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.

Enhanced portfolio with mixed-use properties

CPN’s strategy is to become a leading retail-led mixed-use developer. The company plans to develop office buildings, hotels, and residences in the same areas as its own or Central Group’s shopping centers. CPN has many mixed-use developments in the pipeline including large projects being developed jointly with well-known partners. These include the “Dusit Central Park” project on the corner of Silom and Rama 4 Roads, with Dusit Thani PLC (DTC), and the “Central Embassy 2” project, located between Wireless Road and Soi Somkid,

with Hongkong Land Ltd. (HKL). CPN also plans to turn land plots at “The Grand Rama 9” project and on Phaholyothin Road, held by Grand Canal Land PLC (GLAND), into various types of mixed-use properties. The number of residential projects and hotels located next to CPN’s shopping centers is expected to more than double in the next five years. We forecast an increase in CPN’s revenue from residential properties and hotels of approximately THB2-THB3 billion per year.

Leverage to be maintained despite intensive expansion

We expect CPN’s financial leverage to remain steady during the forecast period. In our base-case scenario, we assume capital expenditures totaling THB75 billion during 2022-2024. More than 50% of total investments are earmarked for new shopping centers and office buildings, as well as for enhancements to existing shopping centers. Land purchases and construction costs for residential projects are expected to total THB3-THB4 billion per year during 2022-2024 while investment costs for hotel projects are expected to be in the THB1-THB2 billion per year range.

Total debt has been high since the acquisition of Siam Future Development PLC (SF) in 2021. However, the company’s plan to sell part of its assets to CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) should help alleviate CPN’s debt burden. We expect CPN to sell and sublease assets in late 2023. Cash received from these transactions will be around THB15 billion. We expect CPN’s net debt to EBITDA ratio and EBITDA interest coverage ratio to remain around 6 times and 8 times, respectively, over the forecast period.

Adequate liquidity profile

We assess CPN to have adequate liquidity over the next 12 months. At the end of September 2022, CPN’s sources of funds consisted of THB3.3 billion in cash plus THB2.4 billion in short-term investments. The company had undrawn committed credit facilities of THB31 billion. Funds from operations (FFO) are forecast to be around THB18 billion in 2022. In addition, CPN had unencumbered assets at book value worth around THB179 billion, which can be pledged as collateral for new loans, if needed.

As of September 2022, CPN’s debt maturing over the next 12 months will amount to THB33.5 billion, comprising THB18 billion in short-term obligations, THB9 billion in long-term loans, THB4 billion in debentures, and THB2.5 billion in lease liability. We project CPN’s capital expenditures to amount to THB12 billion in 2022 and THB25 billion annually during 2023-2024. Dividend payments will be around 35% of net profit.

The key financial covenant on its debentures requires the company to maintain its net interest-bearing debt to equity ratio (excluding lease liability) below 1.75 times and total assets (excluding secured debt) to unsecured debt ratio above 1.5 times. The ratios as of September 2022 were 0.9 times and 3.5 times, respectively.

At the end of September 2022, the ratio of its secured debt to cost value of total assets was only 1.4%, well below the threshold of 35% according to TRIS Rating’s “Rating Methodology for Real Estate for Rent Companies”, we view that CPN’s unsecured creditors are not significantly disadvantaged with respect to claims against the company’s assets.

BASE-CASE ASSUMPTIONS

- Rental and service income from shopping centers to recover to THB32-THB35 billion per annum during 2023-2024.
- CPN to open one to three new shopping centers annually during 2023-2024, with overall OR of around 90%.
- Aggregate capital expenditure totaling of THB75 billion during 2022-2024.
- Total operating revenue of THB36 billion in 2022, recovering to THB40-THB45 billion annually during 2023-2024.
- CPN to sell and sublease assets to the CPNREIT in late 2023.

RATING OUTLOOK

The “stable” rating outlook reflects our expectation that CPN will be able to deliver operating results as targeted. Despite a more aggressive business expansion, we expect CPN to sustain its strong financial profile and keep the net debt to EBITDA ratio below 7.5 times, over the forecast period.

RATING SENSITIVITIES

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

COMPANY OVERVIEW

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 2022, 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. After the acquisition of GLAND in late 2018 and SF in August 2021, CPN’s property portfolio included 52 shopping centers and community malls with net leasable area of 2.2 million square meters (sq.m.), 10 office buildings with net leasable area of 317,253 sq.m., two hotels, one apartment, 32 food centers, 13 existing residential projects, and two REITs/property funds.

CPN’s rental and service income from shopping centers constituted 80%-85% of total revenues from sales and services during 2018 through the first nine months of 2022. Revenue from residential projects for sale has contributed 7%-8% during the past five years. Revenue from office buildings for rent has contributed 3%-7% 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.	1,902,150	20,257	380,149	2,302,556
NLA* of office space	sq.m.	172,416	148,112	-	320,528
Hotel	rooms	781	-	-	781
Unsold value in residential projects	mil. THB	6,460	1,256	-	7,716

* NLA = Net leasable area

Sources: CPN, GLAND, and SF

Table 2: CPN’s Revenue from Sales and Services

Unit: %

Business	2017	2018	2019	2020	2021	Jan-Sep 2022
Shopping center	88.1	82.9	82.1	83.6	82.7	84.3
Office building	2.4	3.1	4.6	5.6	6.1	4.8
Hotel	3.8	3.6	3.1	1.1	1.2	2.3
Apartment & others	0.0	0.0	0.0	0.0	0.0	0.0
Food & beverage	5.7	2.2	2.3	1.6	1.3	1.8
Residential		8.2	7.9	8.1	8.7	6.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total revenues from sales and services (mil. THB)	28,785	33,728	36,719	27,862	24,840	25,365

Source: CPN

Table 3: Average Occupancy Rate

Unit: %

Occupancy Rate	2017	2018	2019	2020	2021	Jan-Sep 2022
Shopping centers/ community malls						
- CPN	91.8	92.7	92.6	91.9	90.9	89.9
- GLAND		69.8	68.8	57.9	49.9	60.0
- SF					92.7	89.8
Office buildings						
- CPN	94.1	95.5	94.3	90.1	87.7	89.0
- GLAND		98.3	97.2	91.7	90.3	88.2
Hotels	85.9	86.2	76.9	33.1	49.0	66.1

Sources: CPN, GLAND, and SF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	26,571	26,220	28,924	38,093	35,317
Earnings before interest and taxes (EBIT)	10,522	9,526	9,298	15,381	14,562
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	16,881	17,650	17,103	22,260	20,533
Funds from operations (FFO)	13,186	12,880	13,112	16,599	15,855
Adjusted interest expense	1,859	2,201	2,083	2,920	2,340
Capital expenditures	4,902	6,908	7,179	10,434	9,021
Investment in affiliates	(183)	33,595	(176)	2,215	11,861
Total assets	269,849	263,421	221,652	169,933	161,708
Adjusted debt	128,309	127,836	86,404	64,301	54,650
Adjusted equity	87,050	82,075	77,123	80,462	74,176
Adjusted Ratios					
EBITDA margin (%)	63.53	67.32	59.13	58.44	58.14
Pretax return on permanent capital (%)	6.01 **	4.92	5.81	11.01	12.53
EBITDA interest coverage (times)	9.08	8.02	8.21	7.62	8.78
Debt to EBITDA (times)	5.97 **	7.24	5.05	2.89	2.66
FFO to debt (%)	12.53 **	10.08	15.18	25.81	29.01
Debt to capitalization (%)	59.58	60.90	52.84	44.42	42.42

* 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)

Company Rating:	AA
Issue Ratings:	
CPN235A: THB2,000 million senior unsecured debentures due 2023	AA
CPN241A: THB2,000 million senior unsecured debentures due 2024	AA
CPN242A: THB3,000 million senior unsecured debentures due 2024	AA
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 THB2,200 million senior unsecured debentures due within 15 years	AA
Rating Outlook:	Stable

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