

FRASERS PROPERTY (THAILAND) PLC

No. 209/2023
25 October 2023

CORPORATES

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

Last Review Date: 19/06/23

Company Rating History:

Date	Rating	Outlook/Alert
14/10/21	A	Stable
17/09/19	A-	Stable
01/03/19	A	Alert Negative
25/05/17	A	Stable
27/04/16	A-	Stable
07/05/15	A	Negative
02/05/12	A	Stable
14/10/11	A	Alert Negative
21/11/05	A	Stable

Contacts:

Bundit Pommata
bundit@trisrating.com

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Jutamas Bunyawanchkul
jutamas_b@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Frasers Property (Thailand) PLC (FPT) and the ratings on FPT's existing senior unsecured debentures at "A", with a "stable" rating outlook. At the same time, we also affirm the rating of "A" on FPT's remaining proposed issue of up to THB2.4 billion senior unsecured debentures, previously assigned on 19 June 2023. The proceeds from the new debentures will be used for debt repayments and/or working capital.

The company rating incorporates a rating enhancement by three notches from its stand-alone credit profile (SACP) to reflect the company's status as a "strategically important" subsidiary of Frasers Property Ltd. (FPL, rated "AA-/stable"), a multinational property development company listed on the Singapore Stock Exchange. We expect FPT to remain a strategically important member of FPL and an investment arm of FPL's real estate business in Thailand in the foreseeable future. FPT's earnings before interest, taxes, depreciation, and amortization (EBITDA) contribute around 14% of FPL's total EBITDA.

FPT's SACP of "bbb" reflects its diversified and balanced real estate business portfolio, expected improving performance in its key business lines, and healthier profitability. The SACP is weighted down by the company's high financial leverage. The ratings also incorporate the negative impacts of interest rate hikes and reimposition of the loan-to-value (LTV) rules which could suppress housing demand in the short to medium term.

KEY RATING CONSIDERATIONS

Balanced and diversified business portfolio

Prior to the acquisition of Golden Land Property Development PLC (GOLD) in 2019, FPT's business focused solely on industrial factories and warehouses for rent. We consider FPT's businesses to have become more balanced and diversified after the acquisition, covering the residential property, commercial and hospitality property, and industrial property sectors. Its diversified business profile enhances the resilience of the company's revenue and earnings, as evidenced during the pandemic period.

In our base-case scenario, we project FPT's total operating revenue to range from THB15-THB17 billion during fiscal year 2023-2025 (FY2023-FY2025). Total operating revenue is expected to slightly drop in FY2023, mainly from lower residential property sales in the middle- to low-priced segments. Revenue growth is forecast to revive in FY2024-FY2025 underpinned by an anticipated recovery of GOLD's operations. The company's EBITDA margin will likely remain above 30% and the net profit margin above 10% throughout the forecast period.

Looking ahead, revenue from residential property will likely remain the key contributor to FPT's total operating revenue, accounting for around 75% of the total over the next three years. The combined revenue contribution from industrial, commercial, and hospitality properties is expected to be around 25%. However, the EBITDA contributions from residential property and industrial, commercial, and hospitality properties are projected to be around 50% each.

Softer residential property operations but improvement anticipated

FPT's revenues from real estate sales in the first nine months of FY2023 were pressured by several external factors including weakened purchasing power

among homebuyers, high levels of household debt, rising interest rates, and more stringent LTV rules. Its revenue from real estate sales dropped 9% year-on-year (y-o-y) to around THB7.7 billion while its gross profit margin decreased to 29% for the first nine months of FY2023, from 31% in the same period of last year. The weakened profitability was mainly due to the increased use of promotions to capture demand from homebuyers during the period of weak market sentiment and intense competition.

In our base-case scenario, we project a 10% drop in real estate sales to around THB10.8 billion for FY2023. The real estate sales for the remaining quarter will partly be supported by backlog of around THB1.0 billion as of June 2023, all of which is expected to be recognized as revenue in FY2023. The real estate sales should then gradually recover by around 5% per annum during FY2024-FY2025 with revenue from residential property ranging from THB12-THB13 billion annually. We assume FPT's gross profit margin from sales of residential property to remain flat at around 29% in FY2023 given the current industry headwinds, and then recover to around 31%-32% during FY2024-FY2025.

Sound performance of industrial property

TRIS Rating expects FPT's rental income from industrial properties to increase to around THB1.9-THB2.5 billion per annum during FY2023-FY2025, from around THB1.7 billion in FY2022. Rental income from warehouses will remain the key source of income contributing around 80% of total rental income from industrial estates over the forecast period. The gross profit margin for industrial property is forecast to remain satisfactory at above 50% over the next three years.

The company is likely to continue expanding its industrial property for rent business over the next three years. Our base-case forecast assumes new builds of 150,000-250,000 square meters (sq.m.) per annum during FY2023-FY2025, of which around 90% are expected to be warehouses. FPT's own leasable area is expected to stay around 1.3-1.7 million sq.m. over the next three years, a slight increase from around 1.2 million sq.m. in FY2019-FY2022 (including Indonesia and Vietnam operations). We also expect FPT to sell leasable areas to Frasers Property Thailand Industrial Freehold and Leasehold Real Estate Investment Trust (FTREIT) worth around THB1.5 billion per annum in FY2023-FY2025.

FPT's warehouse occupancy rate is projected to hover around 70%-80% in Thailand, around 80% in Vietnam, and more than 90% in Indonesia with a net increase in leased areas of 100,000-220,000 sq.m. per year during FY2023-FY2025. Intense competition in the warehouse for rent business from both existing operators and new market entrants remains a challenge amidst increasing demand from the expanding e-commerce segment and supply chain disruptions. Factory occupancy rates are expected to stay around 60%-70% over the next three years with a net increase in leased factory areas of 13,000-28,000 sq.m. per annum. The factory for rent business continues to benefit from manufacturing relocation, especially from China, and production capacity expansion.

Ongoing recovery of commercial property business

The recovery in hotel performance will likely continue during FY2023-FY2025, driven by the return of foreign tourists. Our base-case scenario projects the average revenue per available room (RevPar) of each of FPT's hotels to reach the pre-pandemic level by FY2025 in tandem with our expectation of tourism fully returning to normal.

However, we expect FPT's revenue from hotel operations to drop to around THB350-THB550 million per annum in FY2023-FY2025 because of its decision to terminate the management contract of Mayfair Marriott in order to develop a new condominium project. Despite the forecast drop in hotel revenue as no replacement for Mayfair Marriott is planned, the gross profit margin for hotel operations could improve to around 40%-45% in FY2023-FY2025, surpassing the pre-pandemic level.

The office rentals segment should also improve but remain affected to a certain degree by new supply of office space and sluggish demand caused by the hybrid working model. These factors could continue to pressure both occupancy and rental rates. We expect the rental rate of FYI Center to stay flat while the occupancy rate should stay above 90% in FY2023-FY2025. After the expiry of the lease contract of "Golden Land Building" in August 2022, rental income from FPT's new office and retail building "Silom Edge" should help maintain its rental revenue base during FY2023-FY2025. We project office and retail rental revenue to range from THB670-THB720 million per annum with an expected gross profit margin of around 40% during FY2023-FY2025.

High financial leverage but improvement expected

We expect FPT's financial leverage to remain relatively high due to its business expansion in both the residential and industrial property segments. As of June 2023, FPT's adjusted debt (including guarantees on its joint ventures' debts) to capitalization ratio remained at around 60% while its funds from operations (FFO) to adjusted debt stayed above 6%. Its adjusted debt to EBITDA ratio remained in the 9-10 times range.

Looking forward, FPT is expected to invest around THB3.0-THB3.5 billion per annum for the residential property business, mainly for land purchases, while investment in the industrial estate business is slated to be around THB2.0-THB3.6 billion

per annum over the forecast period. Given its expansion plan, our base-case scenario projects FPT's debt to capitalization ratio to slightly improve to around 57%-58% during FY2023-FY2025 and its FFO to debt ratio to stay around 6% during the forecast period. The adjusted debt to EBITDA ratio is likely to remain at around 10 times in FY2023-FY2025 given the company's current asset recycling plan of around THB1.5 billion per annum.

The financial covenants on FPT's debentures require maintenance of an interest-bearing debt (excluding lease liability) to equity ratio below 3 times. As of June 2023, the ratio was 1.4 times. We believe FPT should have no problems complying with the financial covenants over the next 12 to 18 months. FPT's priority debt to total debt ratio was around 34% at the end of June 2023.

Manageable liquidity

We assess FPT's liquidity to be manageable over the next 12 months. As of June 2023, the company had maturing debt over the next 12 months totaling THB18.8 billion, comprising THB7.2 billion debentures, THB8.0 billion short-term loans, THB3.3 billion long-term project loans, and THB0.3 billion lease liability.

FPT's sources of funds included THB1.1 billion of cash on hand, THB1.0 billion undrawn committed credit facilities, and THB4.7 billion undrawn uncommitted credit facilities. FFO is projected to be around THB3.0-THB3.2 billion per annum. FPT also had unencumbered land banks at book value of THB8.1 billion and remaining finished units in debt-free residential projects totaling THB3.0 billion, which can be pledged as collateral for new loans (if needed).

BASE-CASE ASSUMPTIONS

These are our key assumptions for FPT's operations during 2023-2025:

- New residential project launches worth THB10.4-THB13.4 billion per annum
- Annual budget for land acquisition to range from THB3.0-THB3.5 billion
- Annual capital expenditure for industrial property to range from THB2.0-THB3.6 billion
- Total operating revenues to increase to THB15-THB17 billion per annum
- Average gross profit margin from all businesses of around 34%-36% and EBITDA margin of 31%-34%

RATING OUTLOOK

The "stable" outlook reflects our expectation that FPT should be able to maintain its market position and deliver operating performance as targeted and will keep its FFO to total debt ratio above 5%. We also expect FPT to remain a strategically important member of FPL.

RATING SENSITIVITIES

A credit upside would materialize if FPT delivers significantly better-than-expected operating results and/or its financial profile improves with a FFO to adjusted debt ratio of around 10% for a sustained period. On the contrary, the ratings and/or outlook could be revised downward if we expect the company's FFO to adjusted debt ratio to fall below 5% for a prolonged period, either from weakening operating performance or aggressive debt-funded business expansion. Change in the company's linkage with FPL could also lead to a revision in the company rating on FPT.

COMPANY OVERVIEW

FPT, formerly known as TICON Industrial Connection PLC (TICON), was incorporated in 1990 and listed on the Stock Exchange of Thailand (SET) in 2002. The Frasers Property Group, a multinational company that develops, owns, and manages a diverse portfolio of properties, acquired a majority share in TICON in early 2017. TICON was subsequently renamed FPT. As of June 2022, the Frasers Property Group held an 81.83% stake in FPT.

In early 2019, FPT announced a voluntary tender offer for all securities of GOLD. The acquisition was completed in early 2020 and FPT became a major shareholder of GOLD with a 99.48% shareholding. Since the acquisition, FPT's business portfolio has covered residential properties for sale, industrial properties for rent (including factories and warehouses in Thailand, Indonesia and Vietnam), and commercial properties for rent (including offices, retails, hotels, and serviced apartments). In addition, FPT has entered into several joint ventures (JVs) with its partners to develop several projects such as industrial properties in Thailand, a mixed-use project located on Bangna-Trad Road, and co-working space.

FPT's revenue from residential properties for sale contributed around 70%-80% of total operating revenue during FY2018 through the first nine months of FY2023. The revenue contributions from industrial properties and commercial properties for rent were 10%-15% and 5%-10%, respectively. Revenue from other businesses remained negligible.

KEY OPERATING PERFORMANCE

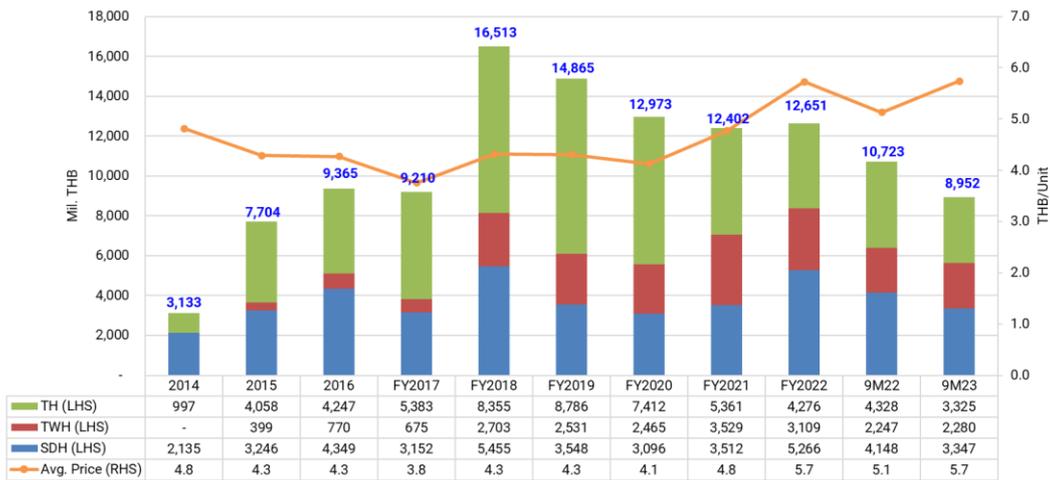
Table 1: Revenue Contribution by Business

Unit: % of total operating revenue

Revenue Contribution	FY2018	FY2019	FY2020	FY2021	FY2022	Oct 2022- Jun 2023
Residential sales	78	79	78	77	76	71
Industrial estate sales						
Industrial estate for rent	9	9	9	10	12	14
Office building for rent	5	5	5	4	4	5
Hotel operation	3	3	2	1	2	4
Management fee income	3	3	3	5	5	5
Other rental and services income	1		1	1		
Other operating revenues	1	1	2	2	1	1
Total operating revenues	100	100	100	100	100	100
Total operating revenues (mil. THB)	13,127	19,598	18,686	14,766	15,036	10,794

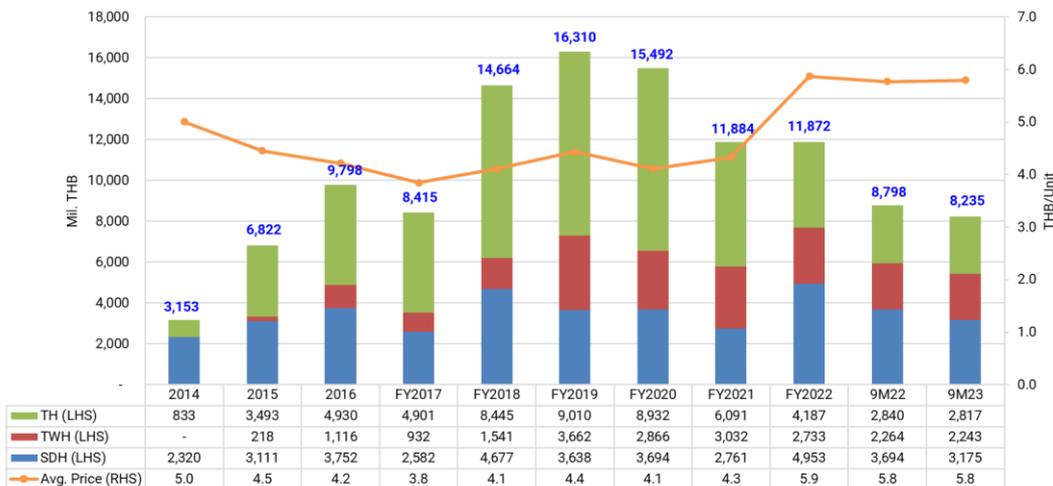
Source: FPT

Chart 1: Presales



Source: FPT

Chart 2: Transfers



Source: FPT

Chart 3: Breakdown of Rental Income



Source: FPT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct2022- Jun2023	FY2022	FY2021	FY2020	FY2019
Total operating revenues	10,794	15,036	14,766	18,686	19,598
Earnings before interest and taxes (EBIT)	2,510	3,809	3,201	4,339	5,069
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,723	5,618	5,224	6,331	6,962
Funds from operations (FFO)	2,273	3,399	3,313	3,741	4,749
Adjusted interest expense	1,174	1,594	1,469	1,868	1,318
Real estate development investments	34,494	33,658	32,356	32,878	31,078
Total assets	97,402	98,967	92,637	93,186	92,363
Adjusted debt	53,951	54,351	51,248	48,729	48,861
Adjusted equity	36,218	36,487	34,253	32,133	27,870
Adjusted Ratios					
EBITDA margin (%)	34.49	37.36	35.38	33.88	35.52
Pretax return on permanent capital (%)	4.13 **	4.27	3.77	5.27	6.66
EBITDA interest coverage (times)	3.17	3.52	3.56	3.39	5.28
Debt to EBITDA (times)	9.77 **	9.67	9.81	7.70	7.02
FFO to debt (%)	6.17 **	6.25	6.47	7.68	9.72
Debt to capitalization (%)	59.83	59.83	59.94	60.26	63.68

* Consolidated financial statements
** Annualized with trailing 12 months

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Frasers Property (Thailand) PLC (FPT)

Company Rating:	A
Issue Ratings:	
FPT242A: THB500 million senior unsecured debentures due 2024	A
FPT251A: THB1,800 million senior unsecured debentures due 2025	A
FPT256A: THB1,000 million senior unsecured debentures due 2025	A
FPT25NA: THB971 million senior unsecured debentures due 2025	A
FPT262A: THB3,000 million senior unsecured debentures due 2026	A
FPT260A: THB1,900 million senior unsecured debentures due 2026	A
FPT271A: THB500 million senior unsecured debentures due 2027	A
FPT275A: THB500 million senior unsecured debentures due 2027	A
FPT276A: THB2,000 million senior unsecured debentures due 2027	A
FPT277A: THB1,400 million senior unsecured debentures due 2027	A
FPT27NA: THB689 million senior unsecured debentures due 2027	A
FPT282A: THB500 million senior unsecured debentures due 2028	A
TICON283A: THB1,000 million senior unsecured debentures due 2028	A
FPT292A: THB200 million senior unsecured debentures due 2029	A
FPT301A: THB1,200 million senior unsecured debentures due 2030	A
FPT302A: THB500 million senior unsecured debentures due 2030	A
FPT305A: THB500 million senior unsecured debentures due 2030	A
FPT309A: THB300 million senior unsecured debentures due 2030	A
Up to THB2,400 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria