

# GOLDEN LAND PROPERTY DEVELOPMENT PLC

No. 170/2020

16 October 2020

## CORPORATES

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

**Last Review Date:** 17/02/20

### Company Rating History:

Date	Rating	Outlook/Alert
17/09/19	A-	Stable
01/03/19	BBB+	Alert Positive
08/09/16	BBB+	Stable
02/09/15	BBB	Stable

### Contacts:

Jutamas Bunyanichkul

jutamas@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Suchada Pantu, Ph.D.

suchada@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Golden Land Property Development PLC (GOLD) and the ratings on GOLD's senior unsecured debentures at "A-" with a "stable" outlook. The ratings reflect GOLD's status as a core subsidiary of Frasers Property (Thailand) PLC (FPT), growing brand recognition and revenue in the landed property market, and reliable rental income stream. The ratings are, however, constrained by the company's rising leverage, resulting from its aggressive business expansion, and concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19), which has severely affected the hotel business and could put more pressure on the demand for residential properties and the profitability of developers in the short to medium term.

## KEY RATING CONSIDERATIONS

### Core subsidiary of FPT

We assess GOLD as a core subsidiary of FPT. After the completion of the tender offer and delisting of GOLD from the Stock Exchange of Thailand (SET), FPT became the controlling shareholder of GOLD with a 99.44% stake. GOLD's residential properties for sale, commercial properties for rent, and hotel operations complement FPT's business portfolio, which already includes industrial estate properties for factories and warehouses. As a core subsidiary, we expect GOLD to receive strong support from FPT in its business operations and financing activities.

GOLD is a predominant revenue contributor to FPT's total operating revenue and earnings before interest, tax, depreciation, and amortization (EBITDA). During fiscal year (FY) 2019 through the first nine months of FY2020, GOLD contributed around 90% of FPT's total operating revenue and around 60% of FPT's total EBITDA. GOLD's assets also accounted for 50% of the group's total assets. Over the next three years, we expect GOLD to contribute around 90% and 50% of FPT's operating revenue and EBITDA, respectively.

### Growing brand recognition and revenue in landed property segment

We view that GOLD's brand recognition in landed property segment has strengthened during the past five years. GOLD's residential sales soared to THB15.5 billion in FY2019, from THB7-THB9 billion per annum during 2015-FY2017. Its residential sales slowed by 5% year-on-year (y-o-y) to THB11 billion during the first nine months of FY2020. Townhouses are the major product, contributing around 60% of residential sales during FY2017 through the first nine months of FY2020.

In our base-case forecast, we project GOLD's residential sales to stay in the THB14-THB18 billion range per annum during FY2020-FY2023, based on its plan to launch new projects worth around THB15-THB20 billion per annum. As of June 2020, GOLD had 57 existing landed property projects. Around 90% of the projects are located in Bangkok and its vicinity, with the remainder located upcountry. Total unsold project value (including built and un-built units) amounted to THB29.1 billion and the total backlog was THB2.4 billion. The backlog is expected to be delivered to customers during the remainder of FY2020 through FY2021.

### Offices for rent less affected by COVID-19 than hotels

GOLD's existing rental property portfolio comprises three office buildings: "Sathorn Square", "FYI Center", and "Golden Land Building", and three hotels: "Mayfair Marriott", "The Ascott Sathorn", and "Modena". Its office buildings and hotels generated annual revenues of around THB1 billion and THB0.5 billion, respectively, during FY2018-FY2019. The office buildings had an average occupancy rate (OR) of above 90% and an average rental rate of THB550-THB850 per square meter (sq.m.) per month during FY2018 through the first nine months of FY2020. The OR and average room rate (ARR) of hotels have been severely affected by the COVID-19 since the beginning of 2020. Rental income from hotels declined by 31% y-o-y to THB0.29 billion during the first nine months of FY2020.

In our base-case scenario, we assume the OR of office buildings will remain above 90% but with no growth in rental rate over the forecast period. We expect rental income from office buildings to be around THB1 billion in FY2020, before decreasing to THB0.5-THB0.6 billion per annum during FY2021-FY2023. The decrease is due to the absence of unearned income amortization of Sathorn Square in FY2021 resulting from a change in accounting practices and the expiration of leasehold rights on Golden Land Building in September 2022.

Revenues from hotel operations are expected to drop to around THB0.25-THB0.3 billion per annum during FY2020-FY2021 from around THB0.5-THB0.6 billion per annum, then improve to THB0.4 billion per annum during FY2022-FY2023. As foreign tourist arrivals are not expected until mid-2021, we expect the OR of each hotel to remain low at 30%-50% during FY2020-FY2021 and will gradually improve to 50%-70% during FY2022-FY2023. We project the ARR to drop by 15%-20% in FY2020 with no growth in FY2021. The ARR should gradually increase by 3% per annum during FY2022-FY2023.

### Softening profitability for most property developers amid concerns over a prolonged COVID-19 outbreak

The residential property market closely follows trends in the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of the COVID-19 could cause a severe economic downturn and further suppress market demand. In addition, the number of non-performing mortgage loans (NPL) could rise further. The weakening purchasing power of homebuyers and stringent bank lending policies have been the key factors affecting the demand for residential properties, especially from buyers in the middle- to low-income segments which are GOLD's target customers. Thus, GOLD needs to be more cautious to launch new projects.

Due to softening demand in condominium segment among both local and foreign homebuyers, we foresee that several property developers will turn to more landed property project launches during the next few years. TRIS Rating forecasts that GOLD's profitability could be pressured by more intense competition and rising land cost in landed property segment. In any case, GOLD's average gross profit margin may decrease to 27%-31% during FY2020-FY2023, from above 31% during the past five years. The net profit margin could drop to 7%-9% of total operating revenue during the next three years, from 10%-13% during 2016 through the first nine months of FY2020.

### Heightened leverage from aggressive business expansion

GOLD's total operating revenue grew sharply to THB15.7 billion in FY2018 and THB17.4 billion in FY2019, from THB8-THB10 billion per annum during 2015-FY2017. However, total operating revenue reduced by 5% y-o-y to THB12.3 billion during the first nine months of FY2020. Due to GOLD's rapid project expansion, its debt to capitalization ratio elevated to 55% as of September 2019 and 58% as of June 2020. The ratio of funds from operations (FFO) to total debt dropped to 11% in FY2019 and 7% in the first nine months of FY2020 while the annualized net debt to EBITDA ratio jumped to 8 times in the first nine months of FY2020, from around 6 times in FY2019.

We expect GOLD's total operating revenue over the next three years to remain in the THB15-THB20 billion per annum range. We assume the company will launch new residential projects worth THB15-THB20 billion per annum and spend THB5-THB6 billion annually to purchase land plots during FY2020-FY2023. We expect that nearly all new projects will be landed property projects. Despite the company's ongoing growth plan, we expect GOLD's need for capital to remain moderate due to the relatively short development period of landed property projects. We expect GOLD to maintain its debt to capitalization ratio below 55% and its FFO to total debt ratio in the 5%-8% range over the next three years. We expect the company to keep its net debt to EBITDA ratio below 8 times to maintain its ratings/outlook at the current levels.

### Expected financial support from the parent company

As of June 2020, GOLD's sources of funds consisted of THB1 billion in cash on hand plus undrawn project loans of THB2.1 billion and undrawn short-term credit facilities of THB3.5 billion. We project GOLD's FFO over the next 12 months to be around THB1.3 billion. Debts due over the next 12 months will amount to around THB8 billion, comprising THB5.5 billion in short-term promissory notes (P/Ns) for land acquisition and working capital, THB1.5 billion in project loans, and THB1 billion in debentures.

We expect the short-term P/Ns for land acquisition to be converted to long-term project loans thereafter, and short-term P/Ns for working capital to be either rolled over or repaid within the next 12 months. Project loans will be repaid by cash flow from the transfer of residential units. The THB1 billion debentures due in August 2020 was repaid by cash flow from operations.

Following the consolidation under FPT, GOLD's future sources of funds will come primarily from FPT. GOLD's financing activities will be pooled to group financing under FPT who will provide loans and support the capital needs to GOLD. Under the group financing policy, we expect the remaining THB9.5 billion debentures to be repaid by cash flow from operations or loans from FPT.

The financial covenants on GOLD's bank loans and bonds requires maintenance of its interest-bearing debt to equity ratio below 2 times. As of June 2020, the ratio was 1.24 times. We believe that GOLD 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 GOLD during FY2020-FY2023:

- GOLD to launch new residential projects worth THB15-THB20 billion per annum.
- Budget for land acquisition is forecast to be THB5-THB6 billion per annum.
- Total operating revenue to stay at THB15-THB20 billion per annum.
- Average gross profit margin to stay at 27%-31% of total operating revenue and net profit margin to stay in the range of 7%-9%.

## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that GOLD will remain a core subsidiary of FPT. Despite the intensifying competition in the landed property segment, we expect GOLD to keep its EBITDA margin in the 13%-15% range during FY2020-FY2023. We also expect GOLD's debt to capitalization ratio to remain below 55%.

## RATING SENSITIVITIES

GOLD's ratings and/or outlook will depend not only on its operating performance but also on the financial position of the group. A stronger operating performance and/or financial profile of the group will help support the ratings on GOLD. On the contrary, a weaker operating performance and/or financial profile of the group will put downward pressure on the ratings.

## COMPANY OVERVIEW

GOLD was founded in 1978 by the Srivikorn family and listed on the SET in 1994. GOLD's major shareholders and key executives have changed several times during the past decades. In late 2012, Univentures PLC (UV) acquired a 50.64% stake in GOLD and became the major shareholder. At the beginning of 2016, GOLD increased its capital under a private placement to Frasers Property Holdings (Thailand) Co., Ltd. (FPHT). In August 2019, FPT acquired a 94.5% stake in GOLD and became the company's major shareholder. Currently, FPT holds a 99.44% stake in GOLD. GOLD was delisted from the SET in August 2020. The ultimate shareholder of UV, FPHT, and FPT is the Sirivadhanabhakdi family.

GOLD has become a core subsidiary of FPT, undertaking the residential property for sale and commercial property for rent businesses. GOLD's residential portfolio covers single detached house (SDH), semi-detached house, and townhouse units, with the unit prices ranging from THB2 million to THB40 million. Its commercial properties include three office buildings; Sathorn Square, FYI Center, and Golden Land Building, as well as three hotels; Mayfair Marriott, The Ascott Sathorn, and Modena.

Landed properties for sale contributed around 90% of GOLD's total operating revenues during 2016 through the first nine months of FY2020. Rental assets contributed around 10%, while revenue from other businesses remained negligible.

**KEY OPERATING PERFORMANCE**

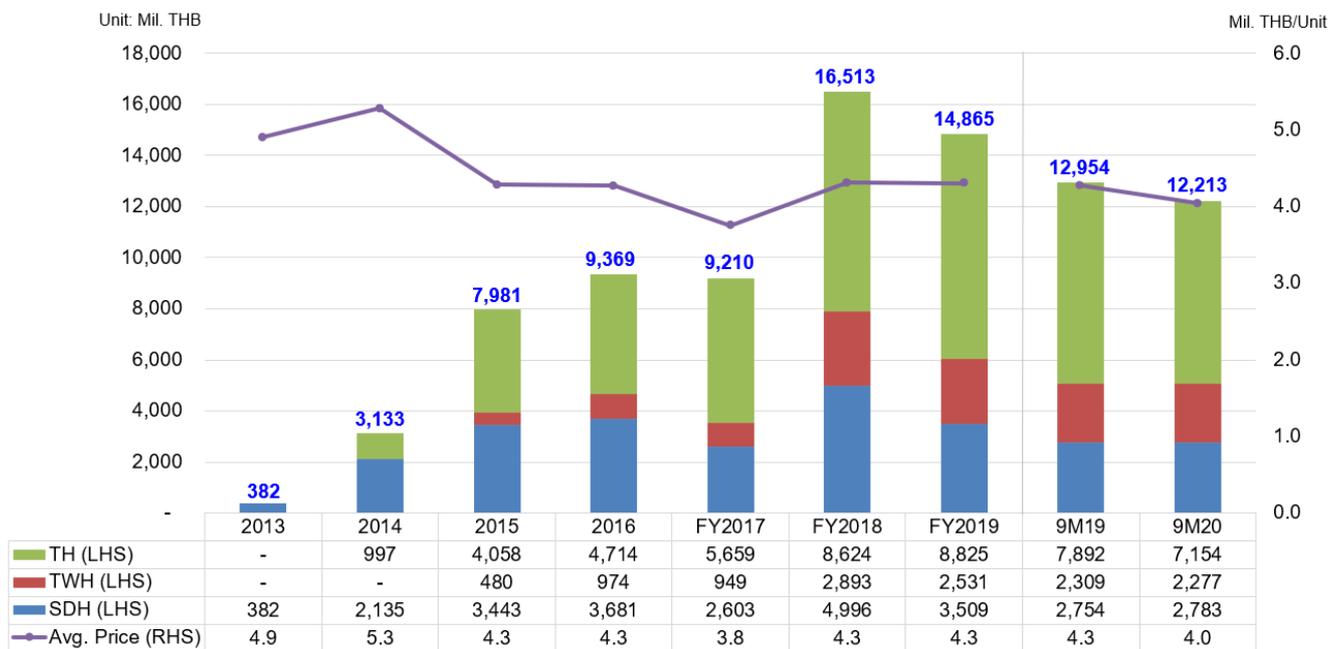
**Table 1: Revenue Contribution by Business**

Unit: % of total operating revenue

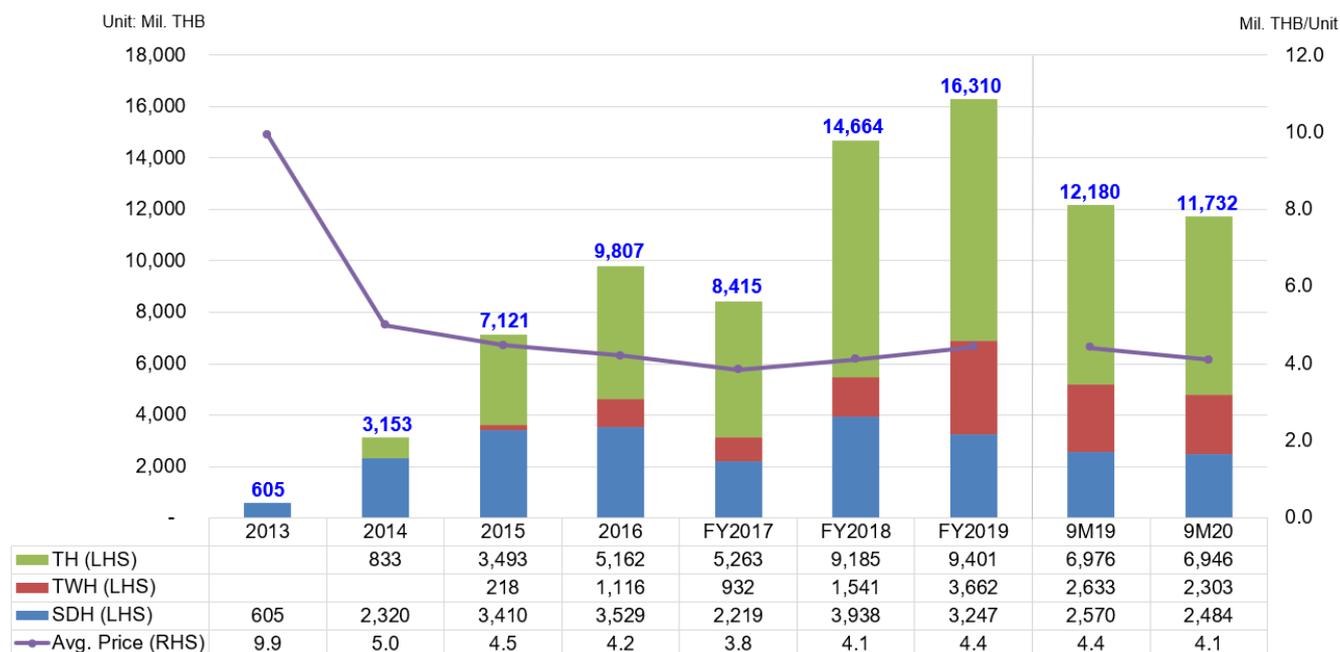
Revenue Contribution	2015	2016	FY2017	FY2018	FY2019	Oct 2019- Jun 2020
Real estate sales	85	88	87	89	89	89
Office building for rent	8	6	7	6	6	6
Hotel operation	6	4	4	4	3	3
Management fee income		1	1	1	1	1
Golf course operation						
Other operating revenues	1	1	1		1	1
<b>Total operating revenues</b>	<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>8,579</b>	<b>10,831</b>	<b>9,252</b>	<b>15,747</b>	<b>17,358</b>	<b>12,307</b>

Source: GOLD

**Chart 1: Presales Performance**



Source: GOLD

**Chart 2: Transfer Performance**


Source: GOLD

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

Unit: Mil. THB

	-----Year Ended 30 September-----				2016
	Oct 2019- Jun 2020	FY2019	FY2018	FY2017	
Total operating revenues	12,307	17,358	15,747	9,252	10,831
Earnings before interest and tax (EBIT)	1,680	2,829	2,621	1,366	1,445
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,122	3,410	3,130	1,831	1,941
Funds from operations (FFO)	1,128	2,199	2,217	1,427	1,476
Adjusted interest expense	619	633	341	168	245
Real estate development investments	34,308	31,078	23,509	15,553	13,768
Total assets	48,671	47,198	39,202	30,805	28,824
Adjusted debt	23,995	20,829	13,148	6,819	5,833
Adjusted equity	17,067	16,991	15,890	14,364	13,814
<b>Adjusted Ratios</b>					
EBITDA margin (%)	17.24	19.64	19.87	19.79	17.92
Pretax return on permanent capital (%)	5.97 **	8.17	10.05	6.45	7.19
EBITDA interest coverage (times)	3.43	5.39	9.18	10.92	7.93
Debt to EBITDA (times)	8.00 **	6.11	4.20	3.72	3.01
FFO to debt (%)	6.94 **	10.56	16.86	20.92	25.31
Debt to capitalization (%)	58.44	55.07	45.28	32.19	29.69

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

**Golden Land Property Development PLC (GOLD)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
GOLD22NA: THB3,000 million senior unsecured debentures due 2022	A-
GOLD252A: THB1,500 million senior unsecured debentures due 2025	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2020, 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 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](http://www.trisrating.com/rating-information/rating-criteria)