

# NOBLE DEVELOPMENT PLC

No. 212/2022  
23 November 2022

## CORPORATES

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

**Last Review Date:** 23/05/22

### Company Rating History:

Date	Rating	Outlook/Alert
19/10/20	BBB	Stable
01/03/19	BBB	Negative
28/12/17	BBB	Stable
06/11/15	BBB	Negative
04/01/13	BBB	Stable
08/09/06	BBB+	Stable
12/07/04	BBB	Stable
14/10/03	BBB	-

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## RATIONALE

TRIS Rating affirms the company rating on Noble Development PLC (NOBLE) and the ratings on its existing senior unsecured debentures at “BBB”, with a “stable” rating outlook. At the same time, TRIS Rating assigns the rating of “BBB” to NOBLE’s proposed issue of up to THB700 million in senior unsecured debentures due within one year. The proceeds from the new debentures are intended to be used to support NOBLE’s working capital and investments in real estate development.

The ratings reflect NOBLE’s relatively strong market position in the affordable- to high-end condominium segment and its large backlog, which will partly secure future revenue stream. The ratings are, however, constrained by an expected softening profit margin and high financial leverage from the company’s aggressive business expansion. The ratings also incorporate our concerns over the persistently high household debt level and rising inflation which could impact the purchasing power of homebuyers in the short to medium term while pushing up development and funding costs for developers.

## KEY RATING CONSIDERATIONS

### Well-recognized brands, covering the affordable- to high-end segment

We view that NOBLE’s strength in the middle- to high-end condominium segment is underpinned by its well-recognized brands, prime project locations, and unique designs. Since 2018, NOBLE has expanded its property development portfolio by increasing the affordably-priced projects, with unit prices ranging between THB2-THB6 million. Projects under the “Nue” brand have received a good market response with most Nue projects achieving presales of above 40% as of September 2022. The presales contribution from Nue projects mounted to 90% of total presales in the first nine months of 2022, up from 40% during 2020-2021 and 27% in 2019.

NOBLE plans to diversify its residential property portfolio and broaden its customer base by developing more landed property projects under either its own projects or joint ventures (JVs) projects. However, we consider NOBLE’s track record in landed property to be comparatively limited. Thus, the success of its future landed property projects remains to be seen. In our view, the expansion of its landed property projects, if successful, will help widen NOBLE’s product range and enlarge its customer base. This should help alleviate fluctuations in operating performance and strengthen NOBLE’s portfolio in the long run.

### Future revenue partly supported by large backlog

We expect NOBLE’s operating performance to gradually recover after the lifting of COVID-19 restrictions. Our base case forecasts NOBLE’s total operating revenue to revive to THB9 billion in 2022, then jump to THB11-THB13 billion per annum in 2023-2025, with revenue from sales of real estate to be in the THB7-THB10 billion per annum range. Revenue from turnkey constructions and marketing services provided to its JVs should reach THB1.6 billion in 2022 and THB2.5-THB4.5 billion per annum during 2023-2025. We forecast NOBLE’s earnings before interest, taxes, depreciation, and amortization (EBITDA) to be THB1.2 billion this year, improving to around THB2-THB3 billion per annum during 2023-2025.

NOBLE's future revenue and earnings are partly secured by its large backlog. As of September 2022, the company's own backlog was worth THB11.8 billion. The transfer of backlog is expected to span the last quarter of 2022 through 2025. As of September 2022, NOBLE's existing project portfolio consisted of 17 own condominium projects, four JV condominium projects, three own landed property projects, and one JV landed property project. Total unsold project value (including built and unbuilt units) amounted to THB25.6 billion. Of the unsold value, 90% was from condominium projects while landed property projects made up the remainder. NOBLE had remaining completed inventory worth THB8.3 billion, which can be recognized as revenue immediately after sale.

### **Expected softening profit margin**

We anticipate NOBLE's profit margins to contract as the company continues to resort to price campaigns for several completed condominium projects in order to speed up sales and clear inventory. In addition, NOBLE plans to develop more landed property projects and increase the revenue contribution from its JV turnkey construction projects, which have relatively thin margins. This will likely drag down the overall profit margins of the company.

Looking forward, we forecast NOBLE's residential gross profit margin to drop to 29%-32% during 2022-2025 from 34% in 2021 and 37%-39% during 2019-2020. We project a gross profit margin of 30%-34% for condominium projects and around 25% for landed property projects, with revenue contribution from landed property projects to increase to 15%-20% of total operating revenue. Revenue from turnkey construction will likely increase to 20%-35% of total operating revenue during 2022-2025. However, the profit margin from turnkey construction is expected to be only 4%-7%. As a result, NOBLE's overall gross profit margin may slump to 23%-30% in 2022-2025 from above 35% during the past five years. Its EBITDA margin could sink to 15%-25% and net profit margin is likely to stay below 10% of total operating revenue throughout the forecast period.

### **High financial leverage but improvement expected in the following years**

We expect NOBLE's debt to capitalization ratio to remain relatively high at 72% at the end of 2022 and its FFO to total debt ratio to stay below 5% this year. NOBLE's aggressive project expansion together with lower-than-expected revenue and funds from operations (FFO) recognition has caused financial leverage to hang at a high level this year. With numerous project launches in the next three years, NOBLE's expected higher income and earnings recognition should dial back financial leverage during 2023-2025. We forecast NOBLE's debt to capitalization ratio to improve to below 70% and its FFO to total debt ratio to rise above 5% from 2023 onwards.

Our base-case scenario projects NOBLE plans to launch new residential projects, both owned and under JVs, worth THB32 billion this year, THB25.1 billion in 2023, and THB10 billion per annum during 2024-2025. We assume the budget for land acquisition will be THB532 million in 2022, THB900 million in 2023, and around THB2 billion per annum in 2024-2025. We project capital expenditures for construction of its own projects of THB5.6 billion this year and THB2.5-THB3.0 billion per annum during 2023-2025. We also incorporate NOBLE's investments in its affiliates of around THB600 million to THB1 billion per annum in our projection.

At the end of September 2022, NOBLE's own debts stood at THB13.2 billion. NOBLE's priority debt, including secured debt at the company and its subsidiaries, was THB6.3 billion. This translates to a priority debt to total debt ratio of 47.5%.

### **Tight but manageable liquidity**

We assess NOBLE's liquidity to be tight but manageable over the next 12 months. As of September 2022, the company had debts of THB4.6 billion coming due in the next 12 months, comprising THB1.7 billion maturing debentures, THB2.2 billion long-term project loans, THB538 million bridge loans, and THB200 million bill of exchange (B/Es). We estimate investments in affiliates of around THB600 million to THB1 billion per annum during 2022-2025 and dividend payment of around 40% of net profit.

NOBLE's sources of liquidity included cash and cash equivalents of THB1.2 billion, undrawn unconditional credit facilities of around THB700 million, and expected FFO in 2023 of around THB1 billion. In addition, NOBLE had remaining finished units in debt-free projects with a selling price totaling THB688 million, which can be pledged as collateral for bank loans, if needed. NOBLE usually refinances maturing debentures with new debenture issuance. Project loans are normally repaid with cash received from the underlying projects' unit transfers.

The financial covenants on NOBLE's debentures and bank loans require the company to maintain its net interest-bearing debt to equity ratio below 2.5 times. As of September 2022, the ratio was 2.1 times. We expect the company to carefully manage its financial ratios to comply with its financial covenants.

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## BASE-CASE ASSUMPTIONS

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These are the key assumptions in TRIS Rating's base-case forecast for NOBLE's operations during 2022-2025:

- NOBLE to launch new condominium projects (own and JV) worth THB26 billion in 2022, THB12.7 billion in 2023, and THB7 billion per annum during 2024-2025.
- NOBLE to launch new landed property projects (own and JV) worth THB6 billion in 2022, THB12.4 billion in 2023, and THB3 billion per annum in 2024-2025.
- Budget for land acquisition of THB532 million in 2022, THB900 million in 2023, and around THB2 billion per annum in 2024-2025.
- Total operating revenue to stay in the THB9-THB13 billion per annum range with revenue from sales of residential property of around THB7-THB10 billion per annum.
- Average residential gross profit margin to wane to 29%-32%.

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## RATING OUTLOOK

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The "stable" outlook reflects our expectation that NOBLE should be able to deliver operating performance and improve its financial profile in line with our forecast. We expect NOBLE's debt to capitalization ratio to stay below 70% and its FFO to total debt ratio to remain above 5% from 2023 onwards.

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## RATING SENSITIVITIES

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The ratings and/or outlook could be revised downward should the company's operating results and/or financial profile deteriorate considerably from our expectations. On the other hand, a credit upside scenario could emerge if NOBLE's business scale enlarges and its financial position improves significantly from the target level, such that the debt to capitalization ratio remains below 60% and FFO to total debt ratio keeps in the 10%-15% range for a sustained period.

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## COMPANY OVERVIEW

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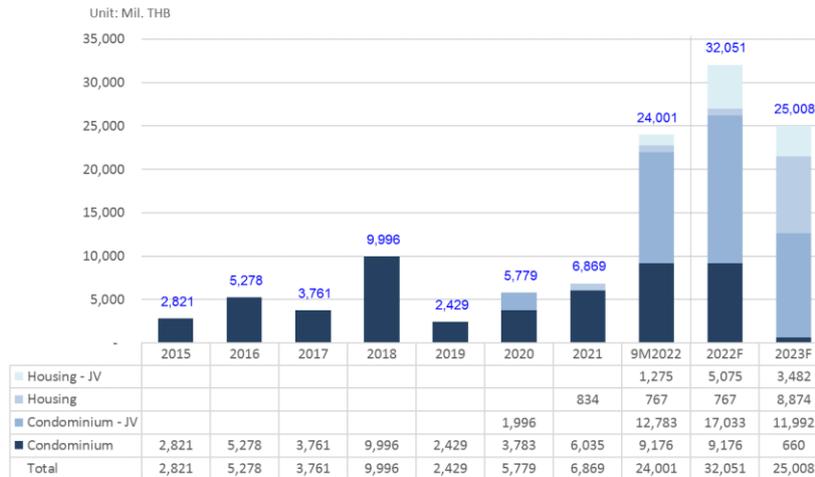
NOBLE was founded in 1991 and listed on the Stock Exchange of Thailand (SET) in November 1996. During 2018-2019, the company's shareholding structure and management underwent some changes. Mr. Thongchai Busrapan, a former Vice Chairman and President of NOBLE, and Fulcrum Global Capital, a real estate investor and distributor based in Hong Kong, became the major shareholders. As of September 2022, Mr. Thongchai Busrapan and Mr. Frank Fung Kuen Leung, a representative of Fulcrum Global Capital, each directly and indirectly held a 20% stake in NOBLE. Mr. Thongchai Busrapan and Mr. Frank Fung Kuen Leung are Co-Chief Executive Officers.

NOBLE highly focused on the middle- to high-end condominium segment, with prices ranging from THB120,000-THB260,000 per sq.m. NOBLE has launched the "Nue" brand to tap the more affordably priced segment in 2018. The "Nue" brand targets the condominium segment with prices of THB60,000-THB160,000 per sq.m. and the landed property segment with prices in the THB5-THB10 million per unit range. NOBLE plans to increase the number of landed property projects during 2022-2023 in order to mitigate its revenue and earnings volatility.

Almost all of NOBLE's condominium projects are situated along mass transit lines, while its landed property projects are located in the outskirts of Bangkok. NOBLE's unique designs differentiate its products from those of other property developers.

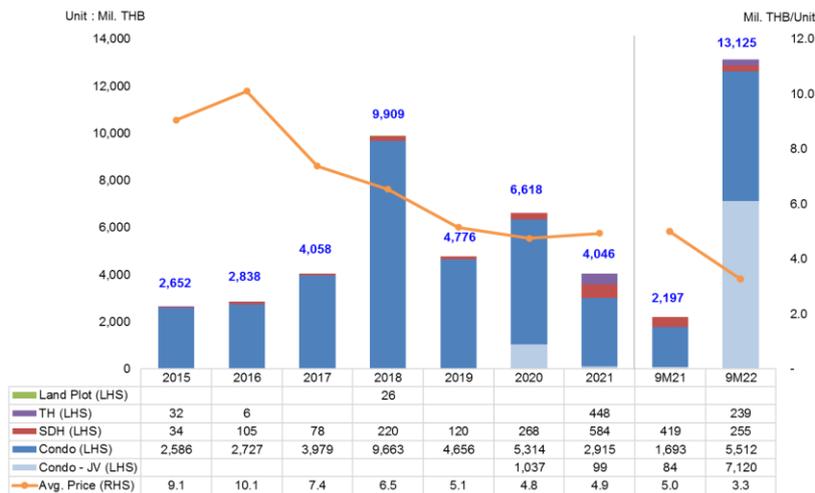
**KEY OPERATING PERFORMANCE**

**Chart 1: New Project Launches**



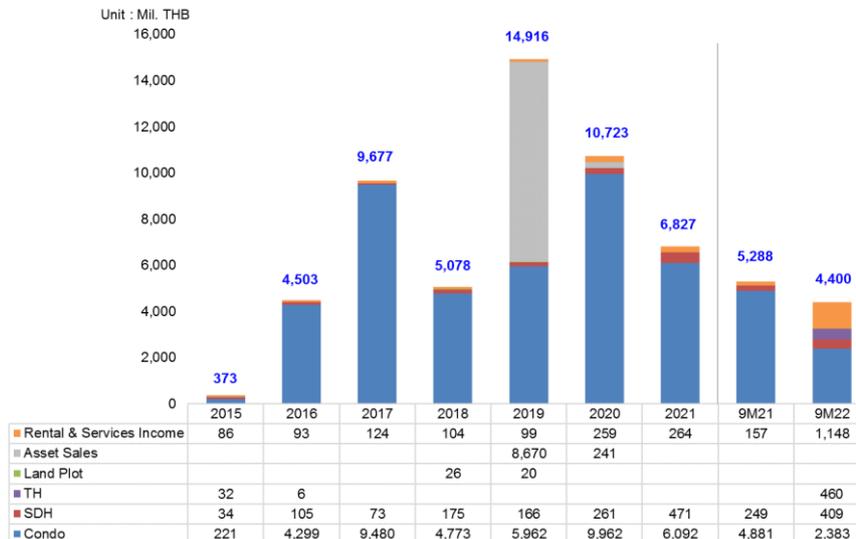
Source: NOBLE

**Chart 2: Presales Performance**



Source: NOBLE

**Chart 3: Revenue from Sales and Services Breakdown**



Source: NOBLE

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

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	4,733	7,383	10,851	15,008	5,140
Earnings before interest and taxes (EBIT)	374	1,439	3,065	4,741	1,415
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	532	1,579	3,153	4,796	1,495
Funds from operations (FFO)	8	710	2,216	3,378	646
Adjusted interest expense	460	451	491	697	638
Real estate development investments	15,330	13,992	13,565	16,048	20,743
Total assets	23,119	20,280	19,198	21,631	25,953
Adjusted debt	15,805	12,379	8,040	9,216	11,602
Adjusted equity	5,627	5,628	5,864	5,479	7,948
<b>Adjusted Ratios</b>					
EBITDA margin (%)	11.24	21.39	29.06	31.95	29.09
Pretax return on permanent capital (%)	2.44 **	8.16	19.06	25.20	6.91
EBITDA interest coverage (times)	1.16	3.50	6.42	6.88	2.34
Debt to EBITDA (times)	22.93 **	7.84	2.55	1.92	7.76
FFO to debt (%)	(0.88) **	5.73	27.56	36.66	5.57
Debt to capitalization (%)	73.74	68.75	57.83	62.71	59.34

\* 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
- Issue Rating Criteria, 15 June 2021

**Noble Development PLC (NOBLE)**

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
NOBLE242A: THB1,800 million senior unsecured debentures due 2024	BBB
NOBLE251A: THB1,800 million senior unsecured debentures due 2025	BBB
NOBLE256A: THB1,200 million senior unsecured debentures due 2025	BBB
Up to THB700 million senior unsecured debentures due within 1 year	BBB
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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