TRIS RATING
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CreditNews ข่าวเครดิต

FRASERS PROPERTY HOLDINGS (THAILAND) CO., LTD.

No. 237/2022
23 December 2022

CORPORATES

Issue Ratings:

Guaranteed	AA-
Outlook:	Stable

Last Review Date: 22/07/22

Company Rating History:

Date	**Rating**	**Outlook/Alert**
18/12/20	AA-	Negative
23/11/17	AA-	Stable

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RATIONALE

TRIS Rating affirms the ratings on the outstanding guaranteed debentures of Frasers Property Holdings (Thailand) Co., Ltd. (FPHT or Issuer) at "AA-". The rating outlook is revised to "stable" from "negative". The debentures are issued under FPHT's THB25 billion debenture program and fully guaranteed by Frasers Property Ltd. (FPL or Guarantor). FPHT is a wholly owned subsidiary of FPL. The issue ratings reflect the creditworthiness of the Guarantor (rated "AA-/stable").

The outlook revision reflects FPL's improving operating performance resulting from a faster-than-expected recovery in its retail and hospitality businesses and the solid operating performance of its industrial and logistics business.
The ratings continue to reflect FPL's exceptional business profile, underpinned by its strong track record in the real estate business, well-diversified portfolio of quality assets across asset classes and geography, sizable recurring income base, and active management of capital. The ratings are weighed down by FPL's high leverage as the company has been continuously expanding its portfolio.

Under the terms of the guarantee agreement, FPL will provide an unconditional and irrevocable guarantee for all amounts due under the terms of the debentures, including the principal, accrued interest, and other related expenses. The guaranteed debentures will rank pari passu with all other unsecured and unsubordinated obligations of FPL. The guarantee agreement is governed by the law of Singapore.

KEY RATING CONSIDERATIONS

Strong operating results, supported by a well-diversified portfolio

FPL reported strong operating results in fiscal year (FY) 2022, after a brief drop in FY2021. As businesses emerged from the COVID-19 pandemic, FPL reported SGD3.88 billion in revenue in FY2022, up by 3% year-on-year (y-o-y). Profit before interest, fair value change, taxation, and exceptional items (PBIT) improved by a greater extent to SGD1.25 billion, rising by 17% y-o-y. The strong operating results were attributable to a significant improvement in the hospitality business in Europe and a steady recovery of the retail business in Singapore. In addition, the industrial portfolio continued to deliver sound operating results despite during the pandemic while the residential property sales were rather flat.

FPL's well-diversified portfolio of quality assets across asset classes and geographies made its business resilient during the downturn. More than 80% of FPL's portfolio is made up of recurring income-producing assets (industrial and logistics, retails, offices, and hotels) and the rest is in residential property development. Its assets are also geographically diversified, mainly in Singapore, Australia, Europe, and Thailand. The mix of development and investment asset classes provides FPL with a good combination of cash-flow stability and profitability while the geographic diversification helps mitigate downside risk from unfavorable market conditions in some markets.

Continued recovery in hospitality and retail businesses

FPL's hospitality business has steadily recovered after the pandemic-led slump. FPL reported PBIT of SGD101 million in FY2022, compared to SGD4 million in FY2021 and SGD132 million in the pre-pandemic FY2019. The recovery was driven by strong demand in the United Kingdom (UK) and Europe. The ongoing relaxation of COVID-19 restrictions in other regions, especially in China, should continue to support a steady recovery of the hospitality business. We expect FPL's hospitality performance to recover close to pre-pandemic levels in FY2023.

For the retail business, FPL has a strong market position in the suburban mall segment in Singapore, where demand is quite resilient. Since the beginning of 2022, tenant' sales have exceeded pre-pandemic levels. In FY2022, FPL reported PBIT from the retail business at SGD300 million, a slight decline from the previous year due mainly to some asset divestments. We view downside risks from inflationary pressure and weakening macroeconomic factors on FPL's retail business as limited considering its high proportion of nondiscretionary tenants.

Sound performance of industrial portfolio

FPL's industrial and logistics business continued generating strong and steady operating cash flow despite the pandemic. FPL's industrial and logistics assets are located mainly in Australia, Germany, the Netherlands, and Thailand. Given the current constraints in supply and the need of cautious supply chain management by corporates, assets in Australia and Europe continue to show very high occupancy rates of 97%-100% with weighted average lease expiries of 5-6 years at the end of FY2022. Additionally, diversified tenants and structured rental increments which are predominantly fixed in Australia and linked to the consumer price index in Europe (CPI) should provide a cushion to FPL's earnings against inflationary pressure and economic uncertainties, especially in Europe going forward. In Thailand, the company continues to focus on built-to-suit factories and warehouses aiming to improve both occupancy rates and lease terms. We expect FPL to continue to prioritize its capital to expand its industrial portfolio. We estimate capital expenditures of SGD3.5-SGD4.0 billion in total during FY2023-FY2025.

Demand for commercial and residential property faces challenges

FPL's commercial portfolio comprises mainly offices and business parks in Singapore, Australia, Thailand, and the UK. Although demand for office space in Singapore remains sound with occupancy rates of 93%, commercial space demand in Australia, the UK, and Thailand has declined, with softer occupancy rates. In Australia, average occupancy rates declined from 79% in FY2021 to 55% in FY2022, mainly due to the redevelopment of some properties. In the UK, average occupancy rates declined from 91% in FY2021 to 88% in FY2022 due to subdued demand of the Farnborough business park and Blythe Valley Park. We expect increasing macroeconomic uncertainties to continue pressuring commercial asset performance in the UK. In addition, technological disruption and the adoption of hybrid working could put pressure on occupancy rates, rental reversions, as well as lease expiry profiles.

For the residential property business, revenues were rather flat. Revenue from residential sales was around SGD1.7 billion in FY2022, compared with SGD1.8 billion in FY2021. Strong residential sales in Singapore, in part, offset by softer demand in Australia and Thailand. While we expect residential sales in Singapore to remain strong supported by ongoing solid housing demand, rising interest rates and fragile macroeconomic conditions may negatively impact housing sales in Australia and Thailand. Our base-case scenario projects FPL's revenue from residential sales to be SGD2.0-SGD2.5 billion per annum during FY2023-FY2025. The forecast incorporates FPL's residential developments in the pipeline and planned project launches in all operating markets, especially in Australia where FPL has been continuously replenishing its land banks.

Leverage Improves but remains high

FPL's leverage improved considerably in FY2022, thanks to its strong operating results. At the end of FY2022, FPL's adjusted debt, including lease obligations and perpetual securities, was SGD14.7 billion. The adjusted debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio declined to 9 times, from 12.7 times in FY2021. During 2023-2025, our base-case assumption projects the leverage ratio to be 10.5-11.5 times. The projection is based on a revenue forecast of SGD4.4-SGD4.6 billion per annum during the forecast period. We expect heightening inflation to weigh on FPL's profitability even though it can adjust rental rates and prices to correspond with rising costs. EBITDA margin is projected at 33%-36%, compared to 42% in FY2022. This will translate into EBITDA of SGD1.5-SGD1.65 billion per annum during 2023-2025.

FPL's adjusted debt (including lease liabilities and perpetual securities) is expected to rise to around SGD16-SGD19 billion during FY2023-FY2025, considering FPL's plan to continue expanding its portfolio. However, its ability to manage its leverage and capital structure through asset recycling as well as through funding partnerships should help the company maintain its leverage as targeted. Under FPL's financial policy, the company aims to keep its net debt to equity ratio below 1 time. As of September 2022, the ratio was 0.65 times. We estimate that FPL has approximately SGD15-SGD16 billion of investment assets in the pipeline that can be monetized through its real estate investment trusts (REITs) or divested to third parties.
Considering FPL's debt profile at the end of FY2022, average weighted debt maturity was 2.8 years and average cost of debt was 2.7% per annum. FPL's financing cost is projected to increase amid the rising interest rate environment. We forecast the EBITDA interest coverage ratio to weaken to 2-3 times during FY2023-FY2025, compared to 3.6 times in FY2022.

High levels of priority debt mitigated by well-diversified portfolio

As of September 2022, FPL had a total of SGD17.1 billion of interest-bearing debt (including perpetual securities). Of this, SGD2.7 billion was secured debt and SGD13.1 billion was unsecured debt at the subsidiaries' level. This means the ratio of priority debt to total debt was 73%, exceeding our 50% threshold that generally indicates unsecured creditors' disadvantaged position to priority debtholders. However, FPL has multiple operating entities which are independent from each other with no single unit contributing more than 50% of total earnings or cash flow, which in our view should meaningfully mitigate the subordination risk of its unsecured creditors. We therefore rate FPL's guarantee obligations, at the same level as the issuer rating on FPL at "AA-".

Adequate liquidity

We assess FPL's liquidity as adequate over the next 12 months from the end of September 2022. Primary uses of funds include scheduled debt repayments of SGD3.8 billion, dividend payment estimated at SGD450-SGD550 million, capital expenditures and investment of around SGD1.9 billion and a budget for residential development of around SGD1.0-SGD1.5 billion. Sources of funds are cash and cash equivalents of SGD3.3 billion at the end of September 2022, funds from operations (FFO) estimated at SGD750-SGD800 million, and some unused bank facilities. The company is expected to refinance some of its debts and/or recycle some of its investment properties.

BASE-CASE ASSUMPTIONS

- Revenues to range from SGD4.4-SGD4.6 billion per annum in FY2023-FY2025.
- EBITDA of SGD1.5-SGD1.65 billion per annum during FY2023-FY2025.
- Capital expenditures are estimated at SGD1.9 billion in FY2023 and SGD2.5-SGD3.0 billion per annum during FY2024-FY2025.
- Residential development budget estimated at around SGD1.0-SGD1.5 billion per annum during FY2023-FY2025.

RATING OUTLOOK

The "stable" outlook reflects improving operating conditions across FPL's business portfolio. We expect a steady performance recovery in retail and hospitality businesses post pandemic. We also expect solid operating results of the company's industrial and logistics assets to help cushion against economic headwinds and safeguard its earnings generation.

RATING SENSITIVITIES

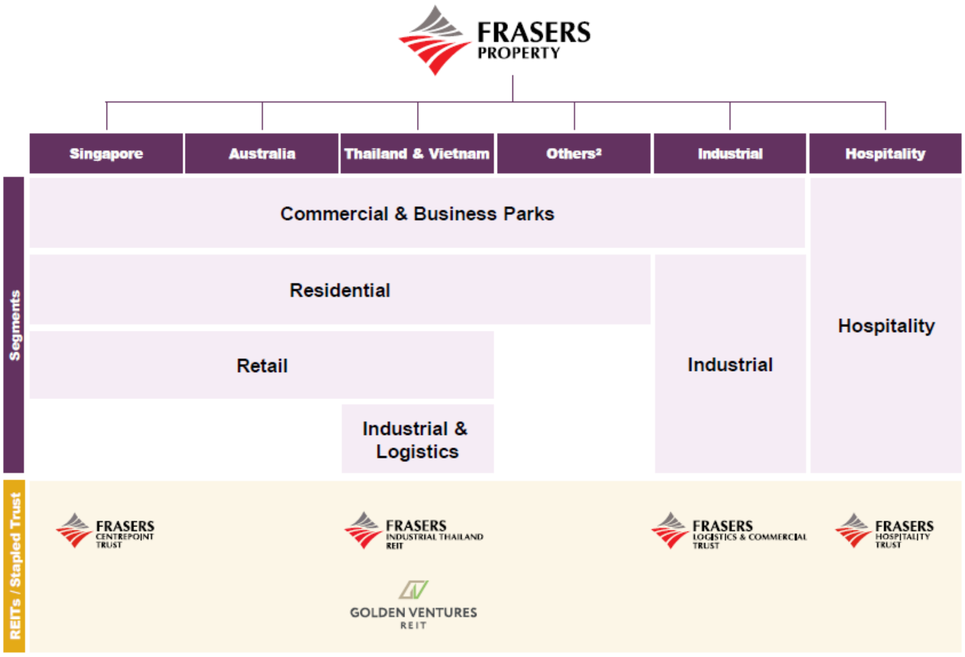
The issue ratings and/or outlook could change if the rating and/or outlook on the guarantor, FPL, changes. FPL's rating could be downgraded if FPL's leverage as measured by the ratio of adjusted debt to EBITDA exceeds 12 times for an extended period, either from deteriorating operating results or aggressive debt-funded acquisitions. A rating upgrade could occur if FPL improves its leverage such that the adjusted debt to EBITDA ratio stays below 7 times on a sustained basis.

COMPANY OVERVIEW

FPL, the guarantor, is an integrated international real estate company based in Singapore. It was listed on the Mainboard of the SGX-ST in 2014. Thai Charoen Corporation Group (TCC Group) is the major shareholder, holding approximately 87% of FPL's outstanding shares. FPL has four strategic business units including Singapore, Australia, Industrial & logistics, and Hospitality, and two business units including Thailand & Vietnam and Others (UK and China). The Singapore SBU and Australia SBU focus on residential development as well as commercial property development and investment, including retail malls and offices. Industrial & logistics SBU focuses on industrial and logistics platforms in Australia and Europe, plus commercial properties under FLCT. The Hospitality SBU operates over 19,500 serviced residences and hotel rooms in more than 70 cities across Asia, Australia, Europe, and the Middle East. The Thailand & Vietnam business unit engages in residential development and industrial and logistics properties. Others business unit engages mainly in residential development in China and residential and commercial businesses in the UK.

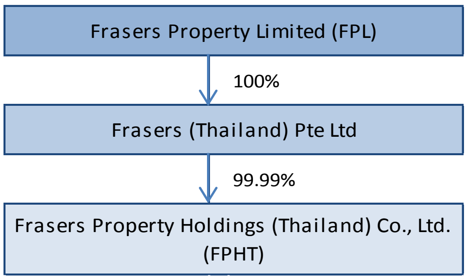
FPL is also a sponsor of three REITs listed on the SGX-ST including Frasers Centrepoint Trust (FCT) – a retail trust in which FPL holds 41.2%, Frasers Logistics & Commercial Trust (FLCT) – an industrial, logistics, office, and business parks trust in which FPL holds 21.6%, and Frasers Hospitality Trust (FHT) – hotel and serviced residence trust in which FPL holds 25.8%. All the REITs are managed by its subsidiaries.

Chart 1: FPL Group Structure



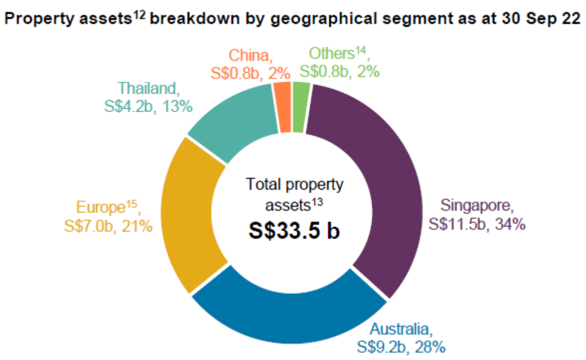
Source: FPL

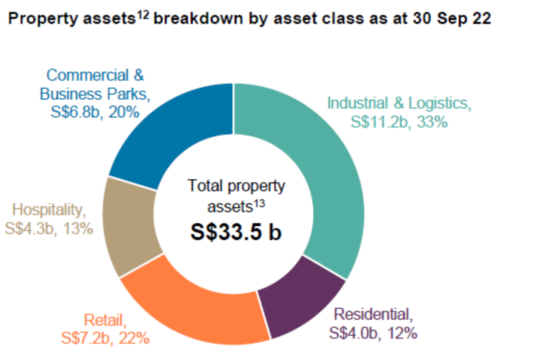
Chart 2: FPHT Group Structure



Source: FPL

Chart 3: Assets by Segment

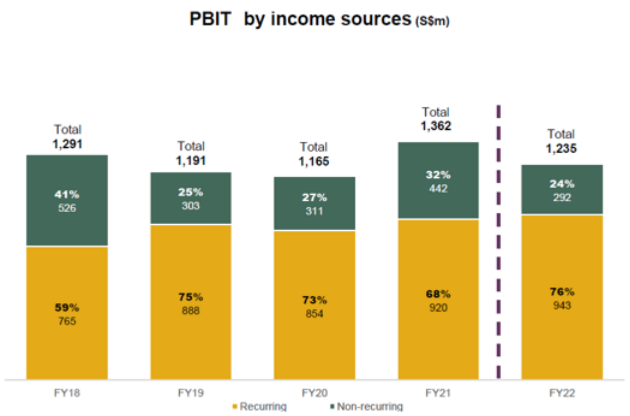


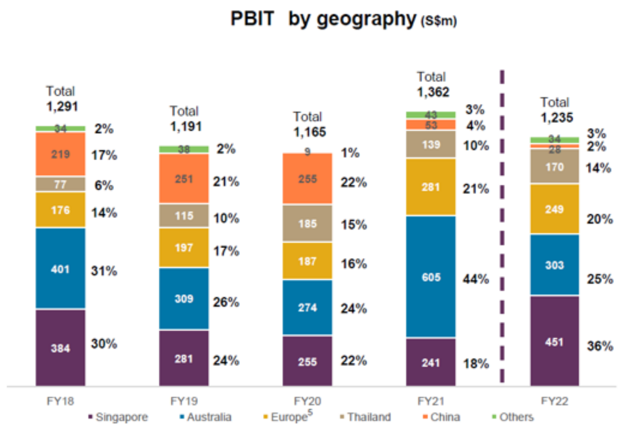


1. Profit before interest, fair value change, taxation and exceptional items
2. Comprises property assets in which the Group has an interest, including assets held by its REITs, Stapled Trust, joint ventures ("JVs") and associates
3. Including both owned and managed properties; and units pending opening
4. Comprises property assets in-market in which the Group has an interest, including assets held by its REITs, Stapled Trust, JVs and associates
5. Retail portfolio refers to FCT's portfolio of suburban malls including Waterway Point and excluding the office property Central Plaza
6. Includes 100% of joint arrangements – joint operations ("JOs") and JVs – and project development agreements ("PDAs")
7. Comprises unsold units and land bank; includes The Grove, which is conditional and exchanged contracts under deferred payment terms
8. Includes the Group's effective interest of JOs, JVs and PDAs
9. Real Utilities is a licensed energy business wholly owned by Frasers Property Australia
10. As at 30 September 2022, FPL holds approximately 38.3% through its wholly owned subsidiary, Frasers Property Holdings Thailand Co., Ltd. ("FPHT"), and 43.5% through Frasers Assets Co., Ltd, a 49:51 JV with TCC Assets Co., Ltd ("TCCAT")
11. TCCAT and FPHT have an effective economic interest of 80.2% and 19.8%, respectively, in the One Bangkok project
12. Includes all units not launched for sale
13. Property assets comprise investment properties, property, plant and equipment, investments in JVs and associates, shareholder loans to JVs and associates, properties held for sale and assets held for sale
14. Including Vietnam, Malaysia, Japan and Indonesia
15. Includes property assets in the UK of S$3.5 b (10% of total property assets)

Source: FPL

Chart 4: PBIT Breakdown





Source: FPL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. SGD

	------------Year Ended 30 September ------------				
	2022	**2021**	**2020**	**2019**	**2018**
Total operating revenues	3,877	3,764	3,597	3,792	4,321
Earnings before interest and taxes (EBIT)	1,438	1,213	1,436	1,514	1,397
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,636	1,229	1,552	1,372	1,415
Funds from operations (FFO)	1,074	612	732	517	629
Adjusted interest expense	451	498	592	569	444
Capital expenditures	1,035	1,040	384	570	1,430
Total assets	40,165	40,257	38,748	37,633	32,562
Adjusted debt	14,652	15,676	18,003	16,281	14,744
Adjusted equity	18,134	17,086	13,823	14,102	12,752
Adjusted Ratios					
EBITDA margin (%)	42.19	32.67	43.14	36.17	32.74
Pretax return on permanent capital (%)	3.96	3.39	4.16	4.73	5.07
EBITDA interest coverage (times)	3.62	2.47	2.62	2.41	3.19
Debt to EBITDA (times)	8.96	12.75	11.60	11.87	10.42
FFO to debt (%)	7.33	3.90	4.06	3.17	4.27
Debt to capitalization (%)	44.69	47.85	56.57	53.59	53.62

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

Frasers Property Holdings (Thailand) Co., Ltd. (FPHT)

Issue Ratings:	
THB25,000 million guaranteed debentures program:	
- FPHT233A: THB1,000 million guaranteed debentures due 2023	AA-
- FPHT24DA: THB2,500 million guaranteed debentures due 2024	AA-
- FPHT258A: THB500 million guaranteed debentures due 2025	AA-
- FPHT278A: THB2,000 million guaranteed debentures due 2027	AA-
- FPHT283A: THB2,000 million guaranteed debentures due 2028	AA-
- FPHT288A: THB1,200 million guaranteed debentures due 2028	AA-
Rating Outlook:	Stable

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