FRASERS PROPERTY HOLDINGS (THAILAND) CO., LTD.

No. 193/2019
19 November 2019

CORPORATES

Issue Ratings:

Guaranteed	AA-
Outlook:	Stable

Last Review Date: 19/10/18

Issue Rating History:

Date	Rating	Outlook/Alert
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-” with a “stable” outlook. The debentures are issued under FPHT’s Bt25 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” by TRIS Rating).

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

The ratings reflect FPL’s exceptional business profile, underpinned by its strong track record in the real estate business, well-diversified portfolio of quality assets in terms of geography and asset classes, sizable recurring income base, and active management of capital. The ratings are weighed down by FPL’s high leverage as it continues to expand its portfolio, particularly recurring income-producing assets.

FPL is an integrated international real estate company based in Singapore. It was listed on the Mainboard of the Singapore Exchange Securities Trading Ltd. (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 (SBUs): Singapore, Australia, Hospitality, as well as an International Business Unit. Its businesses cover residential property development, commercial property development and investment, and hospitality.

KEY RATING CONSIDERATIONS

Exceptional business risk profile

FPL’s exceptional business risk profile is underpinned by its solid track record in the real estate business and diversified portfolio of quality assets. FPL’s portfolio is diversified across geographic presence, asset class, and client base. The company’s portfolio ranges from property development, including residential and industrial properties, to recurring income-producing commercial properties, comprising retail malls, offices and business parks, industrial and logistics parks, and serviced residences and hotels.

The mix of development and investment asset classes provides FPL with a good combination of cash flow stability and profitability. The geographic diversification also mitigates a downside risk from unfavorable market conditions in any particular country at any given time.

FPL’s sources of income are distributed across all of its businesses and operating countries. For the fiscal year 2019 (FY2019), 75% of the company’s earnings, as measured by profit before interest, fair value change, taxation, and exceptional items (PBIT), were generated from recurring income assets and the remaining were mainly from residential property development. In terms of geography, PBIT from Singapore was 29%, Australia 24%, China 19%, Europe 15% and other countries was 13%.

Recurring income assets secure earnings base

FPL's enlarged portfolio of recurring income-producing assets secures its earnings base and cushions against volatility from the property development business. FPL has been continuously growing its portfolio of recurring income assets in recent years. In FY2019, FPL, together with Frasers Centrepoint Trust (FCT, retail REIT), acquired an 88% stake in PGIM Real Estate AsiaRetail Fund Limited (PGIM ARF) for SG$1.4 billion, causing it to become one of the largest suburban mall operator in Singapore. PGIM ARF owns six retail malls and one office in Singapore, and four retail malls in Malaysia. For FY2019, FPL's recurring income assets accounted for 83% of its total property assets (comprising investment properties, property plant and equipment, investment in joint ventures and associates, and properties held for sale) of SG$31.7 billion.

TRIS Rating's base case scenario projects FPL's revenue to be SG$4 billion in FY2020 and SG$4.7-SG$5.2 billion per annum in FY2021-FY2022. FPL's recurring income portfolio is expected to secure a revenue base of SG$2.1-SG$2.3 billion annually during the forecast period. The balance will come from property development. For FY2019, FPL reported SG$3.8 billion in revenue and SG$1.25 billion in earnings before interest, tax, depreciation, and amortization (EBITDA). Earnings from recurring income assets comprised approximately 75% of EBITDA. The strong and stable recurring income base helps smooth out any fluctuations in FPL's operating performance. The company aims to maintain about 70%-75% of earnings from its recurring income asset portfolio, especially from its commercial and logistics and industrial portfolios. Our base case assumption also projects FPL's EBITDA to be in the range of SG$1.4-SG$1.5 billion per annum and funds from operations (FFO) to be SG$670-SG$750 million per annum during FY2020-FY2022.

Lower residential sales in Singapore and Australia offset by higher contribution from Thailand

TRIS Rating expects some slowdown in residential sales in Singapore and Australia over the next 1-2 years, due mainly to the fragile macroeconomic conditions as well as weakening of the Australian Dollar. The revenue contribution from residential sales in Singapore continues decreased in FY2019 due to the lack of new projects completed. FPL launched only one project, "Riviere", worth about SG$1 billion, in June 2019. This project is scheduled for completion in FY2022. As of September 2019, FPL had unrecognized development revenue of SG$1.6 billion, mainly from residential developments in Australia.

The slowdown of residential sales in Singapore and Australia is, in part, compensated by revenue contributions from residential property development in Thailand under Golden Land Property Development PLC (GOLD). GOLD was further acquired in FY2019 by Frasers Property (Thailand) PLC (FPT), FPL's subsidiary. Currently, FPT holds a 95% stake in GOLD. Revenue from GOLD's residential sales is expected to be in the range of SG$680- SG$700 million per annum during FY2020-FY2022. The higher contribution from residential sales in Thailand should help maintain overall revenues from residential sales of SG$1.8-SG$2.5 billion over the next 2-3 years.

High leverage

TRIS Rating expects FPL's leverage to remain high during FY2020-FY2022 as it will take some time to build up EBITDA from newly acquired assets. We forecast FPL's adjusted debt to EBITDA to stay around 10.5-12 times during 2020-2022. Due to its rapid expansion over the past several years, FPL's leverage has increased steadily. At the end of FY2019, FPL's adjusted debt, including lease obligations and perpetual securities, was SG$16.3 billion. Its adjusted debt to EBITDA ratio increased steadily from 8.3 times at the end of FY2015 to 13 times at the end of FY2019. The high leverage ratio in FY2019 was mainly due to the balance sheet consolidation of latest acquisitions in PGIM ARF and GOLD while consolidating the profit and loss statement only from the date of acquisitions in the last quarter of FY2019. If we annualized the full year profit and loss for both PGIM and GOLD, the adjusted debt to EBITDA ratio would be 11.7 times.

FPL's leverage is considered high when compared with other rated peers at this rating. The company has quite limited headroom for further debt-funded investment. We expect the company to balance its growth opportunities with proactive capital management in order to maintain its credit quality. Its ability to actively recycle assets through its REITs helps improve its financial management flexibility. We expect FPL to keep the leverage ratio within the rating guidance of 12 times in order to maintain its rating at the current level.

Asset recycling keeps capital structure at the target level

Under FPL's financial policy, the company aims to keep its debt to equity ratio at around 0.8-1 times. FPL optimizes its capital productivity and keeps its capital structure at the target level by actively recycling its matured assets to its four REITs or a third party. FPL is a sponsor and its subsidiaries are the managers of the three REITs and a stapled trust, including, FCT, Frasers Commercial Trust (FCOT, office and business space REIT), Frasers Logistics & Industrial Trust (FLT, industrial and logistics REIT), and Frasers Hospitality Trust (FHT, hotel and serviced residence Trust).

Recycling assets can help improve FPL's financial position. Capital raised via its REIT platforms supports FPL's capital structure while proceeds from divesting assets to REITs or third parties can be partly used to pay down debts. For FY2019, FPL's main asset recycling activities included divestment of 50% of interests in Frasers Tower to a third party for SG$443 million, about a 1/3 stake in Waterway Point to FCT for SG$241 million, and 13 industrial and logistics assets to FLT for SG$521 million. FCT and FLT altogether raised SG$693 million in new capital to fund the acquisitions. We estimate that FPL has around SG$13-SG$14 billion of investment assets in the pipeline that can be monetized through its REITs or divested to third parties. With constant capital management, we expect FPL's adjusted debt to capitalization ratio staying at 50%, or the adjusted ratio of debt to equity at around 1 times, during FY2020-FY2022.

Manageable liquidity

We assess FPL's liquidity to be manageable over the next 12 months. Primary uses of funds are scheduled debt repayments of SG$3.5 billion, plus dividend payouts estimated at SG$600-SG$700 million. Based on our assumptions, we estimated that FPL will have capital expenditures of SG$0.8-SG$1.1 billion and budget for residential development of around SG$1 - SG$1.5 billion. Sources of funds are FFO, estimated to be at least SG$670 million, cash and cash equivalents of SG$3.6 billion at the end of September 2019, and some unused bank facilities. We expect the company to fund its investments in part through asset recycling and new equity raised though its REIT platforms. We also hold the view that the company has proven ability to access the capital market and will receive support from the TCC Group if needed.

BASE-CASE ASSUMPTIONS

- Revenues are expected to be around SG$4 billion in FY2020 and SG$4.7-SG$5.2 billion per annum in FY2021-FY2022.
- EBITDA is expected to be at least SG$1.4 billion per annum during 2020-2022 and funds from operations (FFO) of at least SG$670 million per annum during FY2020-FY2022.
- Capital expenditures are estimated at SG$0.8-SG$1.1 billion per annum during 2020-2022.
- We estimate residential development budget of around SG$1 - SG$1.5 billion per annum during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects the creditworthiness of FPL and our expectation that FPL will continue to deliver sound operating performance. We also expect FPL to prudently manage its balance sheet while growing its portfolio and deleveraging to leave more headroom for financial flexibility and to strengthen its credit quality. The issue ratings and/or outlook could change if the rating and/or outlook of the guarantor, FPL, changes.

RATING SENSITIVITIES

FPL's rating could be downgraded if its leverage as measured by the ratio of adjusted debt to EBITDA exceeds 12 times on a sustained basis, either from deteriorating operating results or aggressive debt-funded acquisitions. A rating upside is limited in the near term considering FPL's current financial profile. However, a rating upgrade could occur if the company improves its leverage such that the adjusted debt to EBITDA ratio stays below 7 times on a sustained basis while its operating performance does not deteriorate from the current level.

COMPANY OVERVIEW

FPL is an integrated international real estate company based in Singapore. It was listed on the Mainboard of the SGX-ST in 2014. TCC Group is the major shareholder, holding approximately 87% of FPL's outstanding shares. FPL has four strategic business units (SBUs): Singapore, Australia, Hospitality, and Europe and rest of Asia. The Singapore SBU and Australia SBU focus on residential development as well as commercial property development and investment, including retail malls, offices, and industrial properties. The Europe and rest of Asia SBU engages in the company's investments in Europe (Germany, the Netherlands, and the UK), China, Thailand, and Vietnam. The Hospitality SBU operates over 18,000 serviced residences and hotel rooms in more than 80 cities across Asia, Australia, Europe, and the Middle East.

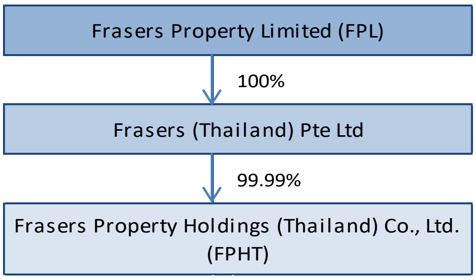
FPL is also a sponsor and its subsidiaries are the managers of three REITs listed on the SGX-ST including FCT (FPL holds 36.4%), FCOT (FPL holds 25.7%), and FLT (FPL holds 19.2%), and a stapled trust listed on the SGX-ST, FHT (FPL holds 24.6%).

For FY2019, FPL reported SG$3.6 billion in revenue, made up of a 18% from the Singapore SBU (including FCT and FCOT), 40% from the Australia SBU (including FLT), 21% from the Hospitality SBU (including FHT), and 21% from the Europe and rest of Asia SBU.

Chart 1: FPL Group Structure

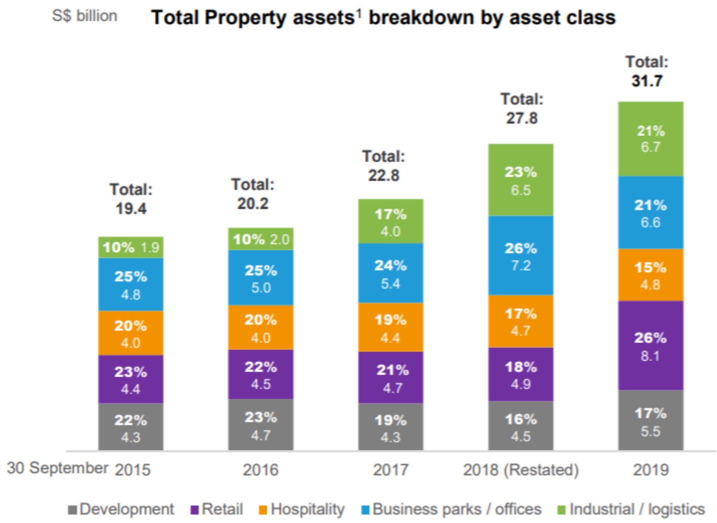
Source: FPL

Chart 2: FPHT Group Structure

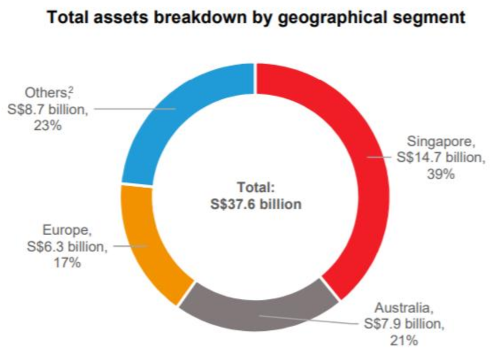


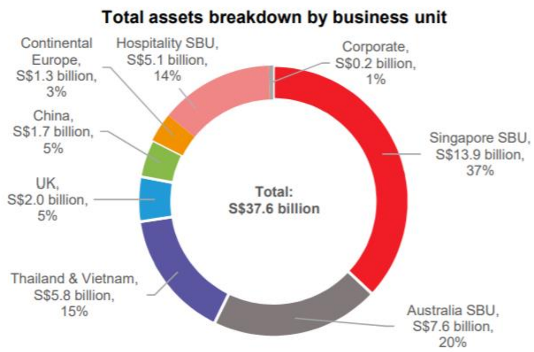
Source: FPL

Chart 3: Assets by Segment



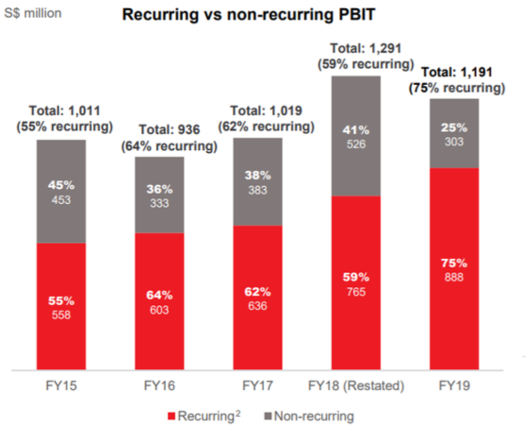
1. Property assets comprise investment properties, property, plant and equipment, investments in JVs and associates and properties held for sale

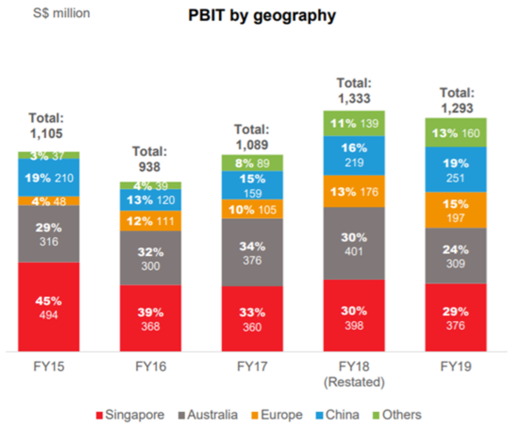




Source: FPL

Chart 4: PBIT Breakdown





Source: FPL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: SG$ million

	-----------------------Year Ended 31 September ------------------				
	2019	2018	2017	2016	2015
Total operating revenues	3,792	4,321	4,027	3,440	3,562
Operating income	1,091	1,185	991	856	886
Earnings before interest and taxes (EBIT)	1,396	1,397	1,148	987	1,153
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,254	1,415	1,192	1,071	1,264
Funds from operations (FFO)	399	629	729	623	836
Adjusted interest expense	569	444	247	254	244
Capital expenditures	570	1,430	894	780	1,572
Total assets	37,633	32,562	27,009	24,204	23,067
Adjusted debt	16,281	14,744	11,247	9,355	10,492
Adjusted equity	14,102	12,752	11,401	10,502	9,358
Adjusted Ratios					
EBITDA margin (%)	33.06	32.74	29.60	31.14	35.49
Pretax return on permanent capital (%)	4.36	5.07	4.88	4.57	5.73
EBITDA interest coverage (times)	2.20	3.19	4.83	4.22	5.17
Debt to EBITDA (times)	12.99	10.42	9.43	8.73	8.30
FFO to debt (%)	2.45	4.27	6.49	6.66	7.96
Debt to capitalization (%)	53.59	53.62	49.66	47.11	52.86

RELATED CRITERIA

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

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

Issue Ratings:	
Bt25,000 million guaranteed debentures program:	
- FPHT213A: Bt2,000 million guaranteed debentures due 2021	AA-
- FPHT228A: Bt2,300 million guaranteed debentures due 2022	AA-
- FPHT233A: Bt1,000 million guaranteed debentures due 2023	AA-
- FPHT24DA: Bt2,500 million guaranteed debentures due 2024	AA-
- FPHT283A: Bt2,000 million guaranteed debentures due 2028	AA-
- FPHT288A: Bt1,200 million guaranteed debentures due 2028	AA-
Rating Outlook:	Stable

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