

CENTRAL PATTANA PLC

No. 82/2020

28 October 2020

CORPORATES

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

Last Review Date: 21/02/20

Company Rating History:

Date	Rating	Outlook/Alert
16/01/19	AA	Stable
18/09/18	AA	Alert Developing
22/09/17	AA	Stable
12/05/14	AA-	Stable
05/02/13	A+	Positive
23/05/07	A+	Stable
22/02/05	A	Stable
12/07/04	A-	Positive
04/10/02	A-	-
17/05/01	BBB+	-

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RATIONALE

TRIS Rating affirms the company rating on Central Pattana PLC (CPN) and the ratings on CPN's existing senior unsecured debentures at "AA". At the same time, TRIS Rating assigns the rating of "AA" to CPN's proposed issue of up to THB10 billion in senior unsecured debentures. The proceeds from the new debentures will be used to refinance CPN's existing debentures, repay outstanding debts, and fund business expansion.

The ratings reflect CPN's leading position in the retail property development industry in Thailand, proven track record of managing high-quality assets, and stable cash flow from contract-based rental and service income. The ratings also take into consideration the large capital expenditures needed for business expansion during 2021-2022 as well as concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19) and the ongoing street protests, which could affect consumer confidence and the demand for retail spaces.

We expect CPN will continue its leading market position in the retail property development market. As of June 2020, CPN managed 34 shopping centers, comprising 15 shopping centers in Bangkok, 18 in provincial areas, and one in Malaysia. CPN held a net leasable area of 1.8 million square meters (sq.m.). CPN's leading position is attributed to the company holding the largest share of 20% of the retail space market in combination with its high overall occupancy rate (OR) of above 90% for the past several years.

CPN's operations have been hard hit by the COVID-19 lockdown measures, particularly the closure of all shopping centers for 56 days during the period from 22 March 2020 to 16 May 2020. The company's operating revenue declined by 27% year-on-year (y-o-y) to THB13.1 billion and its operating profit dropped by 50% to THB3 billion during the first six months of 2020. The sharp drop was due primarily to a rent waiver during the COVID-19 lockdown period as well as 30%-50% discounts on rental fees offered to tenants both pre- and post-lockdown in the first half of 2020. After business re-openings in late May 2020, customer traffic for CPN's shopping malls gradually recovered from 68% in June 2020 to 70% in July 2020 and more than 80% in September 2020.

In our revised base-case scenario, we project CPN's total operating revenue to fall by 20% y-o-y to THB30 billion in 2020 and gradually revive to THB33-THB35 billion per annum during 2021-2022. We assume the rent discounts will be lowered to 10%-20% during the second half of 2020 and rental rates will gradually improve from 2021 onwards.

CPN's earnings before interest, tax, depreciation, and amortization (EBITDA) margin was in the range of 58%-60% during 2015 through the first six months of 2020. We believe that CPN's ability to maintain high OR, keep favorable rental rates, and control operating costs will help sustain satisfactory profitability. We foresee CPN's EBITDA margin to stay around 60% and its net profit margin to stay at least 30% throughout the forecast period.

Due to the slump in the domestic economy induced by the prolonged effect of COVID-19 and potential impacts from the escalating political tensions, CPN has managed to slash its investment budget in 2020 by half to THB11 billion. However, we project CPN to invest THB22-THB24 billion per annum during 2021-2022. We expect CPN's need for capital to pursue its growth plans will remain moderate. The company's funding plan includes the sale and sublease

of its shopping centers to CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) in 2021. Cash received from the sale and sublease of assets will alleviate the burden of debt funding. We expect CPN to keep its debt to capitalization ratio at 50%-60% and the debt to EBITDA ratio below 5 times during the forecast period.

We assess CPN's liquidity to be adequate over the next 12 months. As of June 2020, CPN's sources of funds comprised cash on hand of THB2.8 billion and short-term investments of THB1.6 billion. In addition, CPN has undrawn term loan facilities of THB2 billion plus undrawn short-term loan facilities of THB10 billion. We forecast CPN's FFO over the next 12 months to be THB17 billion. Debt due over the next 12 months is projected to amount to THB19.6 billion, comprising THB12.1 billion in short-term obligations, THB5 billion in long-term obligations, and THB2.5 billion in financial lease.

RATING OUTLOOK

The "stable" rating outlook reflects TRIS Rating's expectation that CPN will be able to sustain its satisfactory operating results despite the challenging business conditions. With its strong balance sheet and prudent financial management, CPN should be able to weather a period of uncertainties on consumer confidence and the recovery of domestic economy.

RATING SENSITIVITIES

CPN's credit upside would materialize if its business and/or financial profile further strengthens. On the contrary, the ratings and/or outlook could be revised downward should its operating performance and/or financial profile substantially deteriorate from the target levels.

RELATED CRITERIA

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

Central Pattana PLC (CPN)

Company Rating:	AA
Issue Ratings:	
CPN20DA: THB800 million senior unsecured debentures due 2020	AA
CPN218A: THB1,900 million senior unsecured debentures due 2021	AA
CPN210A: THB300 million senior unsecured debentures due 2021	AA
CPN21DA: THB800 million senior unsecured debentures due 2021	AA
CPN221A: THB1,000 million senior unsecured debentures due 2022	AA
CPN225A: THB1,500 million senior unsecured debentures due 2022	AA
CPN228A: THB800 million senior unsecured debentures due 2022	AA
CPN22DA: THB600 million senior unsecured debentures due 2022	AA
CPN235A: THB2,000 million senior unsecured debentures due 2023	AA
CPN258A: THB1,000 million senior unsecured debentures due 2025	AA
Up to THB10,000 million senior unsecured debentures due within 15 years	AA
Rating Outlook:	Stable

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