

# CPN RETAIL GROWTH LEASEHOLD REIT

No. 14/2022

4 February 2022

## CORPORATES

<b>Company Rating:</b>	AA
<b>Issue Ratings:</b>	
Senior unsecured	AA
<b>Outlook:</b>	Negative

**Last Review Date:** 30/07/21

### Company Rating History:

Date	Rating	Outlook/Alert
22/07/20	AA	Negative
25/05/18	AA	Stable

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## RATIONALE

TRIS Rating affirms the company rating on CPN Retail Growth Leasehold REIT (CPNREIT) and the ratings on CPNREIT's existing senior unsecured debentures at "AA", with a "negative" outlook. At the same time, we assign the rating of "AA" to CPNREIT's proposed issue of up to THB2 billion in senior unsecured debentures. The proceeds from the new debentures are intended to be used for debt repayment.

The ratings on CPNREIT and its debentures reflect the trust's high-quality assets, its highly predictable cash flow from contract-based rental and service income, and its conservative financial policy. The ratings also take into consideration CPNREIT's adequate liquidity and future growth opportunities, supported by assets from its sponsor, Central Pattana PLC (CPN), rated "AA" with a "stable" outlook by TRIS Rating.

The "negative" outlook for CPNREIT reflects the uncertainty of recovery of CPNREIT's operations amid the ongoing Coronavirus Disease 2019 (COVID-19) pandemic. A prolonged COVID-19 pandemic raises our concerns over the trust's operating performance and delays in asset acquisitions and equity injections.

CPNREIT is the largest real estate investment trust (REIT) in Thailand, with total investment properties worth THB74.2 billion as of September 2021. The trust's leasable area totaled 357,422 square meters (sq.m.), consisting of 245,602 sq.m. for seven shopping centers and 111,820 sq.m. for four office buildings. The trust has also invested in Hilton Pattaya Hotel, a 304-room hotel.

CPNREIT's operating results in 2021 has been hit by successive waves of COVID-19 outbreaks, particularly during the mandatory closure of shopping centers from mid-July to the end of August 2021. The trust provided rent waivers to affected tenants during the closure period and also provided rent discounts to tenants during months affected by the pandemic in 2021. CPNREIT's rental and service income contracted by 16% year-on-year (y-o-y) to THB2.5 billion in the first nine months of 2021. The trust reported its earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB1.7 billion during the same period.

We view that the momentum from the vaccination rollout will support a strong traffic recovery in 2022. Nonetheless, with weak consumer spending and the emergence of new COVID-19 variants, we believe CPNREIT will continue to provide some rent discounts to affected tenants throughout 2022. We forecast that the trust's rental and service income will improve to THB6.5-THB8.0 billion per annum and its EBITDA will soar to THB5.0-THB6.5 billion per annum during 2022-2023. The projected revenue growth in 2022 will be partly derived from the contribution of new assets acquired during 2021-2022. We incorporated the acquisition of two pending shopping centers worth THB17.3 billion by mid-2022 in our base-case scenario. If the acquisitions and capital injection go ahead as targeted, we expect CPNREIT's loan-to-fair value of total assets (LTV) ratio to stay below 35% by 2022.

We expect the trust will be able to manage its liquidity adequately throughout this difficult period. We forecast CPNREIT's funds from operations (FFO) in 2022 to be THB4.5 billion. As of September 2021, CPNREIT's sources of liquidity included cash on hand of THB0.7 billion and investments in securities worth

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Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

THB1.1 billion at fair value. The trust also had undrawn committed credit facilities from banks of THB1.3 billion. CPNREIT's maturing debts in 2022 comprise bank loans amounting to THB4.2 billion. The trust plans to refinance maturing bank loans by new debenture issuances and new loans. CPNREIT's liquidity uses will include dividend payments of at least 90% of adjusted net investment income as well as projected operating expenses at the REIT level of around THB1.5 billion annually during 2022-2023.

As of September 2021, the trust had THB22.5 billion in debt, including THB15.3 billion in senior unsecured debentures and THB7.2 billion in unsecured bank loans. All debts were unsecured debts with pari passu ranking.

## RATING OUTLOOK

The "negative" outlook reflects the uncertainty of recovery of CPNREIT's operations amid the ongoing COVID-19 pandemic. A prolonged COVID-19 pandemic raises our concerns over the trust's operating performance and delays in asset acquisitions and equity injections.

## RATING SENSITIVITIES

CPNREIT's ratings could be revised downward should the ongoing pandemic evolve in a way that leads us to believe that the trust's operating performance and/or financial profile are heading for a deeper deterioration than expected. On the contrary, CPNREIT's outlook could be revised back to "stable" if the trust's financial leverage improves with the LTV ratio staying below 35% and the debt to EBITDA ratio staying below 5 times on a sustained basis.

## RELATED CRITERIA

- Key Financial Ratio 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
- Rating Methodology – Corporate, 26 July 2019

## CPN Retail Growth Leasehold REIT (CPNREIT)

<b>Company Rating:</b>	AA
<b>Issue Ratings:</b>	
CPNREIT232A: THB1,795 million senior unsecured debentures due 2023	AA
CPNREIT243A: THB2,000 million senior unsecured debentures due 2024	AA
CPNREIT263A: THB1,500 million senior unsecured debentures due 2026	AA
CPNREIT268A: THB1,650 million senior unsecured debentures due 2026	AA
CPNREIT288A: THB7,390 million senior unsecured debentures due 2028	AA
CPNREIT318A: THB1,000 million senior unsecured debentures due 2031	AA
Up to THB2,000 million senior unsecured debentures due within 5 years	AA
<b>Rating Outlook:</b>	Negative

## TRIS Rating Co., Ltd.

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