

CPN RETAIL GROWTH LEASEHOLD REIT

No. 23/2024
14 March 2024

CORPORATES

Issuer Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
Outlook:	Negative

Last Review Date: 12/09/23

Issuer Rating History:

Date	Rating	Outlook/Alert
12/09/23	AA-	Negative
22/07/20	AA	Negative
25/05/18	AA	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on CPN Retail Growth Leasehold REIT (CPNREIT or “trust”) 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 THB2.06 billion senior unsecured debentures. The proceeds from the new debentures are intended to be used for debt repayment.

The “negative” outlook reflects a potential significant rise in the trust’s financial leverage caused by its debt funding plan for the renewal of leasehold rights of two large assets in 2024-2025, coupled with a projected decrease in profitability due to an increase in the common area maintenance charge (CAM charge) from the new lease renewal agreements. The ratings continue to reflect the trust’s highly predictable cash flows from contract-based income and the prospect of continued recovery in the operating performance of its shopping centers and hotel operation.

CPNREIT’s operating performance was in line with our forecast. Its operating revenue soared by 18% year-on-year (y-o-y) to THB5.8 billion in 2023. The trust also reported a 18% y-o-y growth in earnings before interest, taxes, depreciation, and amortization (EBITDA) to THB4.6 billion in 2023. Its revenue and earnings growth were primarily driven by the robust occupancy rate (OR) of each shopping center and the improvement in rental rates, attributed to reduced tenant discounts in 2023. The trust also received the full amount of fixed and variable rents for Hilton Pattaya after a recovery of tourist arrivals since the beginning of 2023. However, the OR of office buildings declined to 85% in 2023 from the pre-pandemic level of above 90%.

Looking forward, we expect CPNREIT’s operating performance to continue improving in 2024-2025. We anticipate the OR and rental rate of each shopping center to increase in tandem with the recovery of customer traffic and spending after the pandemic. For the hotel operation, we expect the trust to receive the full amount of fixed and variable rents throughout the forecast period as tourist arrivals rebound. Conversely, we are concerned about the challenges on the OR and rental rates of office spaces due to an anticipated influx of supply in the coming years coupled with shrinking demand stemming from the remote working trend. We project the trust’s operating revenue to stay in the THB5-THB6 billion range with an EBITDA margin of 73%-78% in 2024-2025.

Despite the improving operating performance, CPNREIT’s financial leverage, as measured by the debt to EBITDA ratio, is expected to rise sharply after factoring in its lease renewals and financing plans for two major assets during 2024-2025. Under TRIS Rating’s base-case forecast, CPNREIT’s debt to EBITDA ratio is projected to rise from 4.2 times as of December 2023 to 7 times in 2024 and to exceed 10 times (including lease liabilities) in 2025. Our base case assumes total costs for lease extension of the two assets of approximately THB25 billion. The trust intends to finance 60% of this cost through debt financing and the remaining 40% through a capital increase. Consequently, the trust’s loan-to-fair value of total assets (LTV) ratio could exceed 50% from 2025 onwards.

However, we view that the trust should be able to manage its liquidity over the next 12 months, given the improving operating performance and its capacity to

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tap the capital market. As of December 2023, CPNREIT’s sources of liquidity included cash on hand of THB1 billion plus investments in securities of THB2.8 billion at fair value and undrawn committed working capital facilities from banks of THB100 million. We estimate the trust’s funds from operations (FFO) in 2024 to be THB3.1 billion. Conversely, the trust’s debts due in the next 12 months will be THB4.4 billion, comprising THB2 billion debentures and THB2.4 billion bank loans. The trust plans to refinance maturing debentures with new debenture issuances, while maturing bank loans will be repaid with internal cash. CPNREIT’s liquidity uses also include dividend payments of at least 90% of adjusted net investment income and projected operating expenses of THB1.3-THB1.8 billion per annum in 2024-2025.

The financial covenants on CPNREIT’s debt obligations require the trust to maintain its loan to fair value of total assets (LTV) (excluding lease liabilities in loans) ratio below 60% and the debt service coverage ratio (DSCR) above 1.2 times. The ratios at the end of December 2023 were 27% and 2.1 times, respectively. We expect the trust should be able to comply with the financial covenants over the next 12 months.

RATING OUTLOOK

The “negative” outlook reflects a potential material deterioration in CPNREIT’s financial profile arising from its debt financing plan that will significantly elevate financial leverage, coupled with the possibility of a weakening profit margin.

RATING SENSITIVITIES

The ratings could be downgraded if the trust’s operating performance and/or financial profile deteriorate materially from our base-case forecast. Conversely, the outlook could be revised to “stable” if the trust is able to execute a less debt-loaded financing structure to fund the major lease renewals, such that the LTV ratio stays below 50% and the debt to EBITDA ratio stays in the 5-8 times range after lease renewals of both projects.

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

CPN Retail Growth Leasehold REIT (CPNREIT)

Issuer Rating:	AA-
Issue Ratings:	
CPNREIT243A: THB2,000 million senior unsecured debentures due 2024	AA-
CPNREIT262A: THB500 million senior unsecured debentures due 2026	AA-
CPNREIT263A: THB1,500 million senior unsecured debentures due 2026	AA-
CPNREIT268A: THB1,650 million senior unsecured debentures due 2026	AA-
CPNREIT272A: THB2,000 million senior unsecured debentures due 2027	AA-
CPNREIT272B: THB1,400 million senior unsecured debentures due 2027	AA-
CPNREIT288A: THB7,390 million senior unsecured debentures due 2028	AA-
CPNREIT318A: THB1,000 million senior unsecured debentures due 2031	AA-
Up to THB2,060 million senior unsecured debentures due within 1 year	AA-
Rating Outlook:	Negative

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