

CPN RETAIL GROWTH LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 45/2018

29 June 2018

CORPORATES

Issuer Rating:	AA
Issue Rating: Senior unsecured	AA
Outlook:	Stable

Issuer Rating History:

Date	Rating	Outlook/Alert
25/05/18	AA	Stable

Contacts:

Jutamas Bunyanichkul

jutamas@trisrating.com

Pramuansap Phonprasert

pramuansap@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Wiyada Pratoomsuwan, CFA

wiyada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the issuer rating of CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT) at "AA". At the same time, TRIS Rating assigns the rating of "AA" to CPNREIT's proposed issue of up to Bt16,250 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay the trust's Bt14,456 million outstanding bank loans and for normal operation.

The ratings reflect the trust's high quality assets, the predictable cash flow stream from contract-based rental and service income, and its conservative financial policy. The ratings also take into consideration the future growth opportunities of the trust, supported by assets from its sponsor, Central Pattana PLC (CPN), rated "AA" with "stable" outlook by TRIS Rating. However, the ratings are partially constrained by tenant concentration in terms of leasable area and revenue contribution.

CPNREIT has been the largest real estate investment trust (REIT) in Thailand, with total investment properties worth Bt44,301 million as of 31 March 2018. The leasable area totaled 247,458 square meters (sq.m.), consisting of 213,426 sq.m. from five shopping centers and 34,031 sq.m. from two office buildings. The average occupancy rate (OR) of the shopping centers was 92% as of 31 December 2017 and 93% as of 31 March 2018. The average rental rate ranged from Bt1,000 per sq.m. per month to Bt1,900 per sq.m. per month in the first quarter of 2018. The average OR of the office space was 85% as of 31 December 2017 and 83% as of 31 March 2018, with an average rental rate of Bt450-Bt550 per sq.m. per month. CPNREIT also invests in Hilton Pattaya hotel, a 302-room hotel, with the average OR of 98% in the first quarter of 2018.

CPNREIT's rental and service income for 2017 totaled Bt3,410 million. However, adding the Pattaya assets to its portfolio, CPNREIT's rental and service income is projected to increase to approximately Bt4,000 million for 2018 operation. The 10 largest tenants of shopping centers occupy around 40% of total occupied leasable area and contribute around 15% of total rental and service income from shopping centers. For office space, the top-10 largest tenants contribute about 40% in terms of total occupied leasable area and total income. Tenants affiliated with the Central Group occupy 25% and 12% of the occupied leasable area of shopping centers and office space, respectively. However, this concentration risk is partly mitigated by the high credit profiles of its top largest tenants.

CPNREIT's operating profit margin held at 79%-82% during 2014 through the first quarter of 2018. The EBITDA (earnings before interest, tax, depreciation, and amortization) margin was high at 82%-86% during the past five years. CPNREIT's ability to maintain its high OR, increase rental rates, and control operating costs have sustained high profitability.

CPNREIT's net debt to capitalization ratio increased to 30%-31% at the end of December 2017 and March 2018 as a result of new asset acquisition taking place at the same time of CPN Retail Growth Leasehold Property Fund's (CPNRF) conversion into REIT. The interest-bearing debt to EBITDA ratio was 4-5 times during 2017 through the first quarter of 2018. The loan to total asset ratio was 31% as of 31 March 2018. The trust's liquidity is adequate, as the

ratio of funds from operations (FFO) to net debt was 22% during 2017 through the first three months of 2018. The EBITDA interest coverage ratio held at 29 times in 2017 and 11 times in the first quarter of 2018.

RATING OUTLOOK

The “stable” outlook reflects the expectation that CPNREIT’s property portfolio will generate predictable streams of cash flow over the next three years. TRIS Rating expects all the trust’s assets to sustain high ORs and achieve favorable rental rates as targeted. Over the next three years, CPNREIT’s financial profile should remain strong as the interest-bearing debt to EBITDA ratio is projected to stay below 5 times and the loan to total asset ratio to remain below 35% as per the trust’s policy.

RATING SENSITIVITIES

CPNREIT’s rating and/or outlook could be revised downward if the interest-bearing debt to EBITDA ratio increases above 5 times for a prolonged period of time or there are any larger-than-expected debt-financed property acquisitions. The credit upside is limited in the near term.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	-----Year Ended 31 December-----			
		2017	2016	2015	2014
Rental and service income	1,150	3,410	3,425	3,038	3,185
Gross interest expense	87	95	72	73	56
Net income from operations	831	1,997	3,163	3,980	3,211
Funds from operations (FFO)	863	2,730	2,836	2,427	2,690
Earnings before interest, tax, depreciation, and amortization (EBITDA)	950	2,825	2,909	2,501	2,746
Investment in leasehold properties at fair value	44,301	44,310	32,309	31,790	29,920
Total assets	46,504	47,056	33,604	32,784	30,991
Reported debts	14,456	14,454	1,875	1,936	1,955
Net debts	13,263	12,695	927	1,213	1,201
Net asset value	29,656	29,462	29,993	29,242	27,690
Operating income before depreciation and amortization as % of sales	79.11	79.27	81.68	78.91	82.12
EBITDA margin (%)	82.59	82.83	84.92	82.32	86.22
Pretax return on permanent capital (%)	8.24**	7.72	9.47	8.42	11.74
EBITDA interest coverage (times)	10.59	28.97	38.68	32.79	46.19
FFO/net debt (%)	21.57**	21.50	306.02	200.11	223.98
Net debt/capitalization (%)	30.90	30.11	3.00	3.98	4.16
Total debt/EBITDA (times)	3.81	5.13	0.66	0.79	0.73
Loan to fair value of total assets (%)	31.09	30.72	5.58	5.91	6.31

Note: Financial statistics during 2014-2016 are based on CPNRF’s performance. Full year financial statistics of 2017 combine CPNRF’s performance during 1 Jan 2017–4 Dec 2017 and CPNREIT’s performance during 29 Nov 2017–31 Dec 2017.

* Consolidated financial statements

** Annualized with trailing 12 months

CPN Retail Growth Leasehold Real Estate Investment Trust (CPNREIT)

Issuer Rating:	AA
Issue Rating:	
Up to Bt16,250 million senior unsecured debentures due within 10 years	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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