

L.P.N. DEVELOPMENT PLC

No. 21/2021
9 March 2021

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 09/12/20

Company Rating History:

Date	Rating	Outlook/Alert
09/12/20	BBB+	Stable
19/12/19	A-	Negative
16/01/19	A-	Stable

Contacts:

Jutamas Bunyawanichkul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on L.P.N. Development PLC (LPN) and the ratings on LPN's existing senior unsecured debentures at "BBB+", with a "stable" rating outlook. At the same time, we assign the rating of "BBB+" to LPN's proposed issue of up to THB1.5 billion in senior unsecured debentures. The proceeds from the new debentures will be used for business operation.

The ratings on LPN and its debentures reflect the company's well-accepted brands in the middle- to low-priced condominium segments and good after-sales services. The ratings are, however, constrained by LPN's relatively concentrated product portfolio in the middle- to low-priced condominium segments, as well as our concerns over the lingering adverse effects of the Coronavirus Disease 2019 (COVID-19), which could continue to suppress demand for residential properties and pressure the profitability of developers in the short to medium term.

The implementation of new loan-to-value (LTV) rules in 2019 coupled with the outbreak of the COVID-19 in early 2020 suppressed demand for residential properties, especially in the condominium segment. LPN's net presales was THB2.7 billion in 2019 and THB4.7 billion in 2020, dropping sharply from THB11-THB14 billion per annum during 2017-2018. Its total operating revenues declined by 26% year-on-year (y-o-y) to THB7.4 billion in 2020. We forecast LPN's total operating revenues to stay in the range of THB7-THB8.5 billion annually during 2021-2023.

As of December 2020, LPN had 43 existing projects with total remaining project value of THB20.8 billion (including built and un-built units). Condominium projects comprised 80% of its total unsold value, while landed property projects accounted for the rest. Residential units with a price below THB4 million made up around 80% of LPN's total remaining value. The company's backlog at the end of December 2020 was only THB2.4 billion. The backlog will be recognized as revenues of THB2.1 billion this year and THB0.3 billion in 2022. Consequently, LPN's total operating revenues during 2021-2023 will depend largely on its ability to generate sales from its completed condominium projects and new landed property projects.

Due to softening demand in the condominium segment among both local and foreign homebuyers, we foresee that several property developers will continue to rely heavily on price campaigns to boost sales over the next few years. We forecast LPN's profitability could be under pressure as a result of the intensifying competition and rising land cost. In any case, LPN's average gross profit margin should stay at least 30% during 2021-2023. We expect LPN's earnings before interest, taxes, depreciation, and amortization (EBITDA) to be THB1-THB1.5 billion annually during 2021-2023. We project LPN's EBITDA margin to remain above 15% and its net profit margin to be 8%-10% over the forecast period.

LPN's debt to capitalization ratio increased to 37% as of December 2019 and 44% as of December 2020, from below 35% during 2015-2018. In addition, its weaker-than-expected operating performance during 2019-2020 caused the ratio of its funds from operations (FFO) to total debt to decline further to 8% in 2020, from 17% in 2019 and 27% in 2018. Despite its ongoing business expansion in both residential projects and recurring-income assets, we expect LPN to keep its debt to capitalization ratio below 50%. We project LPN's FFO to total debt ratio to drop below 10% over the next three years.

We assess LPN's liquidity to be adequate over the next 12 months. As of December 2020, LPN's sources of funds consisted of THB0.9 billion in cash on hand plus undrawn short-term loan facilities of THB2.2 billion, undrawn unconditional project loan facilities of THB0.6 billion, and undrawn conditional project loan facilities of THB2.7 billion. We project LPN's FFO over the next 12 months to be THB0.6 billion. Debts due over the next 12 months will amount to THB6.6 billion, comprising THB3.6 billion in short-term secured loans from banks, THB1 billion in short-term bills of exchange (B/Es), and THB2 billion in debentures. LPN already repaid the THB0.4 billion debentures due on 20 January 2021. The company plans to roll over its B/Es and refinance other tranches of maturing bonds by bond issuance. Short-term loans for land acquisitions are usually converted to long-term project loans thereafter.

RATING OUTLOOK

The "stable" outlook reflects our expectation that LPN will be able to sustain its operating performance as targeted. The company should be able to deliver the units in its backlog as scheduled. Despite the sluggish demand and intensifying competition in the residential property market, we expect LPN to keep its EBITDA margin above 15%. We also expect LPN's debt to capitalization ratio to remain below 50%.

RATING SENSITIVITIES

The scenario of downward revision on the ratings and/or outlook could emerge if LPN's operating performance and/or financial profile turns out to be materially weaker than our base-case forecast. On the contrary, a credit upside could materialize if LPN delivers significantly better-than-expected operating performance and improves its financial profile to the same level as its higher-rated peers, such that the FFO to total debt ratio stays in the 12%-15% range for a sustained period.

RELATED CRITERIA

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

L.P.N. Development PLC (LPN)

Company Rating:	BBB+
Issue Ratings:	
LPN224A: THB1,168 million senior unsecured debentures due 2022	BBB+
LPN220A: THB1,000 million senior unsecured debentures due 2022	BBB+
Up to THB1,500 million senior unsecured debentures due within 3 years	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2021, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria