

L.P.N. DEVELOPMENT PLC

No. 32/2022
4 April 2022

CORPORATES

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

Last Review Date: 04/11/21

Company Rating History:

Date	Rating	Outlook/Alert
04/11/21	BBB	Stable
09/12/20	BBB+	Stable
19/12/19	A-	Negative
16/01/19	A-	Stable

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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 debt repayment and business operation.

The ratings reflect LPN's well-accepted brands in the middle- to low-priced condominium segment supported by its good after-sale services. The ratings also incorporate LPN's relatively concentrated product portfolio in terms of product types and price ranges as well as our concerns over the drawn-out Coronavirus Disease 2019 (COVID-19) pandemic, which is likely to continue to pressure the demand for condominiums and LPN's operation for an extended period.

LPN's operating performance was hard hit by the implementation of loan-to-value (LTV) rules in 2019 coupled with the ongoing COVID-19 pandemic since 2020. LPN reported net presales of THB2.7 billion in 2019 and THB4-THB5 billion per annum during 2020-2021, relatively lower than net presales of THB11-THB14 billion per annum during 2017-2018. LPN's total operating revenue contracted by 25% year-on-year (y-o-y) to THB5.6 billion in 2021. We view that its total operating revenue should bottom out in 2021, and start improving to THB7.0-THB7.5 billion per annum during 2022-2023.

As of December 2021, LPN had 45 existing projects with total remaining project value of THB19 billion (including built and un-built units). Condominium projects comprised 68% of its total unsold value, while landed property projects accounted for the rest. Residential units with a price below THB4 million made up 74% of LPN's total remaining value. Of the total unsold value, LPN had completed stock units in condominium projects worth THB7.8 billion or around 40%, which can be recognized as revenue immediately after sales. The company's backlog at the end of December 2021 was only THB3 billion. The backlog will be recognized as revenues of THB2.8 billion this year and THB0.2 billion in 2023. Consequently, LPN's total operating revenue during 2022-2023 will depend largely on its ability to generate sales from its completed condominium projects and landed property projects.

With the likelihood of ongoing weak demand in the condominium segment throughout 2022, we expect that several property developers will continue to resort to price campaigns to boost condominium sales. We foresee LPN's average gross profit margin staying at 29% of total operating revenue over the forecast period. We expect LPN's earnings before interest, taxes, depreciation, and amortization (EBITDA) to range around THB1.0-THB1.2 billion annually and EBITDA margin to hover around 15%. However, increasing financial costs may cause LPN's net profit margin to drop below 10% of total operating revenue.

Our base-case scenario forecasts LPN's operating performance to remain soft during 2022-2023, together with its continued expansion in residential property and ongoing construction of an office building under joint venture (JV). We expect LPN's financial leverage to remain high over the forecast period. LPN's debt to EBITDA ratio is likely to hang above 10 times. We foresee the ratio of funds from operations (FFO) to total debt staying below 5% during 2022-2023. However, we expect LPN to sustain its debt to capitalization ratio at around 50%.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

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.

As of December 2021, LPN had total debt of THB10.4 billion (per priority debt consideration), including THB4.4 billion of priority debt. LPN's priority debt included the total secured debt of the parent and its subsidiaries. As the ratio of priority debt to total debt was 42%, below the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that LPN's unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

We assess LPN's liquidity to be manageable over the next 12 months. As of December 2021, LPN's scheduled debt repayments over the next 12 months amounted to THB7.1 billion, comprising THB4.8 billion in short-term loans, THB2.2 billion in debentures, and THB0.1 billion in long-term loans. LPN's sources of funds consisted of THB0.3 billion in cash on hand plus undrawn working capital facilities of THB2.4 billion and undrawn unconditional project loan facilities of THB0.9 billion. We project LPN's FFO in 2022 to be around THB0.5 billion. In addition, LPN had unencumbered land banks at book value of THB0.3 billion and remaining finished units in debt-free projects at cost value of THB7.2 billion, which can be pledged as collateral for bank loans, if needed.

LPN normally uses short-term bills of exchange (B/Es) and promissory notes (P/Ns) to finance land purchases and debentures to finance construction costs. The short-term P/Ns for land acquisition of THB1.7 billion are expected to be converted to long-term project loans thereafter. LPN plans to refinance most maturing debentures by new debentures issuance.

RATING OUTLOOK

The "stable" outlook reflects our expectation that LPN should be able to sustain its operating performance as targeted and deliver the units in its backlog as scheduled. We also expect the company to keep its EBITDA margin around 15% and debt to capitalization ratio at around 50% over the forecast period.

RATING SENSITIVITIES

The ratings and outlook on LPN could be revised downward should LPN's operation and/or financial profile deteriorate further. On the contrary, a rating and/or outlook upward revision would materialize if LPN delivers significantly better-than-expected operating results, such that the FFO to total debt ratio stays above 10%, for a sustained period.

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

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
LPN245A: THB1,500 million senior unsecured debentures due 2024	BBB
Up to THB1,500 million senior unsecured debentures due within 3 years	BBB
Rating Outlook:	Stable

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