

NOBLE DEVELOPMENT PLC

No. 9/2021
3 February 2021

CORPORATES

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

Last Review Date: 21/12/20

Company Rating History:

Date	Rating	Outlook/Alert
19/10/20	BBB	Stable
01/03/19	BBB	Negative
28/12/17	BBB	Stable
06/11/15	BBB	Negative
04/01/13	BBB	Stable
08/09/06	BBB+	Stable
12/07/04	BBB	Stable
14/10/03	BBB	-

Contacts:

Jutamas Bunyawanchkul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

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



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RATIONALE

TRIS Rating affirms the company rating on Noble Development PLC (NOBLE) at “BBB” and affirms the rating on NOBLE’s existing senior unsecured debenture at “BBB-”, with a “stable” rating outlook. At the same time, we assign the rating of “BBB-” to NOBLE’s proposed issue of up to THB1.8 billion in senior unsecured debentures. The new issue rating replaces the issue rating previously assigned on 21 December 2020, following NOBLE’s request to increase the issue size to up to THB1.8 billion, from THB1.3 billion. The ratings on NOBLE’s senior unsecured debentures are one notch below the company rating due to the company’s high level of secured debts with respect to its total assets. The proceeds from the new debentures will be used to repay the debentures maturing in February 2021 and for working capital.

The ratings reflect the company’s well-accepted brand name in the middle-to high-end segments of the condominium market and its large backlog, which we believe will partly secure future revenue streams and lower the volatility of its performance. The ratings are, however, constrained by NOBLE’s relatively high leverage and concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the demand for residential property and the profitability of property developers in the short to medium term.

NOBLE’s presales during the first nine months of 2020 grew by 67% year-on-year (y-o-y) to THB6.1 billion despite the impact from the pandemic. We expect that NOBLE’s wider range of products and larger customer base should help sustain its operating performance in the long run. We expect NOBLE’s presales will improve to THB8-THB10 billion annually during 2021-2022 as the company plans more project launches in the next two years.

NOBLE’s revenue from residential sales (excluding the sales of land plots and fixed assets of THB7.7 billion) increased by 65% y-o-y to THB7.1 billion in the first nine months of 2020. In our base-case forecast, we project NOBLE’s total operating revenue to stay at THB8-THB10 billion per annum during 2020-2023 with earnings before interest, taxes, depreciation, and amortization (EBITDA) in the THB2-THB2.5 billion range. NOBLE’s future revenue and earnings are partly secured by its large backlog and topped up by sales of remaining units in existing projects.

As of September 2020, NOBLE’s existing project portfolio consisted of 15 own condominium projects, one joint venture (JV) condominium project, and three landed property projects. The total backlog was worth THB15.4 billion. The backlog is expected to be delivered to customers during the remainder of 2020 through 2023. The ongoing revenue recognition from backlog could alleviate fluctuations in revenues and earnings. Total unsold project value (including built and un-built units) amounted to THB13.4 billion. Condominium projects accounted for 91% of total unsold project value while landed property projects accounted for the rest. Of the total unsold project value, NOBLE had remaining completed inventory worth around THB4 billion which can be recognized as revenues immediately after sale.

Due to softening demand in the condominium segment from both local and foreign homebuyers, we expect condominium property developers to be

more cautious in launching new projects. We foresee that price competition in the condominium segment will be heightened over the next few years. We forecast that NOBLE's profitability will come under pressure as a result of the more intense competition and rising land costs. Its plan to develop more landed property projects, which normally yield a lower profit margin than condominiums, will also bring down its profit margin. However, capital needs for landed properties will be lower. Thus, we project NOBLE's average gross profit margin to drop to 32%-33% of total operating revenue during 2022-2023 from 36%-38% during 2020-2021. We expect the company to maintain its net profit margin above 10% over the forecast period.

NOBLE's financial leverage has risen significantly since 2019 following a sizable special dividend payment of THB5.5 billion that year. The resulted drop in equity base pushed the debt to capitalization ratio to 61%-63% during 2019 through the first nine months of 2020. The net interest-bearing debt to equity ratio was 1.4-1.6 times during 2019 through the first nine months of 2020. We project NOBLE's financial leverage to remain high over the next three years as the company intends to expand its development projects portfolio for both condominiums and landed properties through its own projects and those under JVs. However, we expect NOBLE's debt to capitalization ratio to remain in the 61%-64% range. NOBLE should keep its net interest-bearing debt to equity ratio below 2 times and the ratio of funds from operations (FFO) to total debt above 10% on a sustained basis.

We assess NOBLE to have adequate liquidity for the next 12 months. NOBLE's scheduled debt repayments over the next 12 months amount to THB3.3 billion, comprising THB2.6 billion in debentures (including the THB1.05 billion debentures due in November 2020 which was refinanced by new issuance) and THB0.7 billion in long-term project loans. As of September 2020, NOBLE's sources of liquidity included cash on hand of THB2.7 billion plus undrawn unconditional credit facilities of THB1.4 billion. FFO over the next 12 months is forecast at THB1.8 billion. Project loans are expected to be repaid by cash flow from the transfers of condominium units. NOBLE plans to refinance its maturing bonds by new bond issuance.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that NOBLE will be able to deliver its operating performance as targeted. We expect NOBLE to maintain its net interest-bearing debt to equity ratio below 2 times and its FFO to total debt ratio in the 10%-15% range on a sustained basis.

RATING SENSITIVITIES

NOBLE's ratings and/or outlook could be revised downward if its operating performance and/or financial profile deteriorate from the target level. On the contrary, a credit upside scenario could emerge if NOBLE's business scale enlarges significantly and its capital structure improves considerably from the current level, such that the FFO to total debt ratio remains above 20% and the debt to capitalization ratio stays below 60% on a sustained basis.

RELATED CRITERIA

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

Noble Development PLC (NOBLE)

Company Rating:	BBB
Issue Ratings:	
NOBLE212A: THB1,500 million senior unsecured debentures due 2021	BBB-
Up to THB1,800 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: 0-2098-3000

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