

CHARN ISSARA DEVELOPMENT PLC

No. 71/2021

30 April 2021

CORPORATES

Company Rating: BB
Outlook: Stable

Last Review Date: 09/04/20

Company Rating History:

Date	Rating	Outlook/Alert
09/04/20	BB+	Negative
23/04/18	BB+	Stable
16/08/13	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Charn Issara Development PLC (CI) to “BB” from “BB+” and revises the outlook to “stable” from “negative”. The rating downgrade reflects the company’s continued weakening operating performance amid sluggish demand and intense competition in the residential property market and its high financial leverage.

The rating continues to reflect the company’s small business size, volatile operating performance, and acceptable brand recognition in the middle- to high-end residential property and hotel segments. The rating also takes into consideration our concerns over the resurgence of the Coronavirus Disease 2019 (COVID-19) pandemic, which will put more pressure on both hotel and residential property businesses.

KEY RATING CONSIDERATIONS

Small scale with volatile performance

In TRIS Rating’s view, CI’s business scale is small compared with other rated property developers. CI’s revenue base has ranged from THB2.3-THB2.9 billion per year for the past several years but has fallen below THB1.5 billion annually in the last two years due mainly to sluggish condominium sales. Revenue from real estate sales made up the largest proportion of total revenue (70%), followed by hotel operations (20%) and rental and services making up the rest (10%). CI has also recorded gains from the sales of its assets to the Sri Panwa Hospitality Real Estate Investment Trust (SRIPANWA) from time to time. Thus, its bottom line has been rather volatile, ranging from a loss of THB328 million to a gain of THB159 million in the past five years.

The company had 13 active residential property projects at the end of 2020. The projects are located in Bangkok and at popular tourist destinations, notably Phuket and Cha-am. The value of units available for sale in the 13 projects (both built and un-built units) was THB10.4 billion. At the end of 2020, CI’s backlog stood at THB1.2 billion. The backlog will likely be realized as revenues of around THB700 million this year with the rest to be realized in 2023.

Performance remains under pressure

TRIS Rating expects CI’s operating performance to remain under pressure over the next 2-3 years amid sluggish demand for condominiums and the prolonged COVID-19 pandemic. CI’s profitability continues to weaken under intense competition in the residential property sector. In addition, we expect its hotel operations will continue to suffer from the impact of COVID-19 as the resurgence of infections and slow progress of vaccination will likely further delay the lifting of travel restrictions.

Looking forward, we expect CI’s real estate and hotel businesses to gradually recover from the trough in 2020. Revenues are expected to recover to around THB2-THB2.5 billion per annum. Despite cost saving measures, CI’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is expected to stay in the range of 10%-13%, significantly lower than the 20%-30% recorded in the past. In addition, the company’s plan to sell its rental assets to SRIPANWA during 2020-2022 has to be postponed to 2023. Without gains from the sale of its assets to SRIPANWA, we project the company to report a net loss of around THB40 million per year over the forecast period.

High financial leverage

CI has a relatively high level of leverage. Adjusted debt at the end of December 2020 was THB6.9 billion, increasing from THB5.6 billion a year earlier. CI's debt increased as a result of its investments in two new hotels and a convention hall building which should be completed and start to generate income in the next couple of years. CI's debts include hotel lease-back obligations with SRIPANWA amounting to THB2.1 billion, or lease payments of THB330-THB350 million per annum for the next 10 years. At the end of 2020, CI's debt to capitalization ratio stood at 73.8%, up from 65.2% in 2019.

Due to its relatively small capital base, CI has focused on recycling its capital through property funds or real estate investment trusts (REIT). The company had planned to complete and sell assets to SRIPANWA every year. However, due to the unfavorable market conditions, CI had to delay its asset sale to SRIPANWA until 2023. Assets in the asset sale pipeline include hotel units in the "Baba Beach Club Cha-am" worth THB1.5 billion, hotel units in the "Baba Beach Club Phangnga" worth THB500 million, and the convention hall in "Sri Panwa Hotel" worth THB1 billion. Due to the delay, we project CI's debt to capitalization ratio to remain in the 70%-75% range during 2021-2022. The ratio could drop to 65% in 2023 if the company succeeds in selling assets to SRIPANWA.

Acceptable brand recognition in the middle- to high-end segments

In TRIS Rating's view, CI's products are well accepted in terms of quality and style. CI's residential property products are developed under the "Issara" and "Baan Issara" brands. Its housing products cover the middle to luxury segment, with units priced above THB50 million accounting for almost 50% of the value of its remaining housing projects. In addition, most of CI's projects are located in tourist destinations like Phuket, Hua Hin, and Phangnga, thus, the company's strategy has been to develop mixed-use projects with both properties for sale and hotels located in the same area.

The company started to develop luxury residences for sale and built its first boutique hotel, Sri Panwa Hotel, in Phuket in 2003. The on-site hotel increases the value of the residential villas offered for sale inside the Sri Panwa project. Sri Panwa Hotel has received a very favorable response from both domestic and foreign customers. In 2015, CI developed its second mixed-use project in Phangnga under an 86:14 joint venture (JV) with Junfa Real Estate Co., Ltd., a Chinese operator. This project included 24 villas for sale and a boutique hotel under the "Baba Beach" brand. In 2016, CI formed a 50:25:25 JV with Sahapat Co., Ltd. and I.C.C. International PLC (ICC) to develop another mixed-use project under the "Baba Beach" brand in Cha-am district, Phetchaburi. The development of mixed-use projects helps enhance the value of CI's housing products.

Manageable liquidity

We view that CI's liquidity is manageable. At the end of 2020, CI had cash on hand of THB569 million plus current investments of THB636 million and available credit facilities of THB680 million. The company also has a 16% stake in a land plot held by its affiliate, International Resource Development Co., Ltd., which can be used as another source of funds. The appraisal value of the land plot was around THB2.5 billion. At the end of 2020, debts due in the following 12 months totaled THB2.2 billion, comprising THB508 million in short-term borrowings, THB476 million in long-term loans, and bond redemptions of THB1.2 billion. CI issued a 3-year bond worth THB950 million in January 2021 to repay THB500 million of its bonds due in February 2021.

The financial covenants on its debt obligations require CI to maintain its interest-bearing debt to equity ratio below 3.75 times. At the end of 2020, the ratio was 2.17 times. We expect the company should have no problem complying with the financial covenants over the next 12 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for CI's operations during 2021-2023:

- Revenue to range from THB2-THB2.5 billion per annum. Contribution from hotel operations and office rental segment to total THB600-THB800 million per annum.
- Capital expenditure for hotels and land acquisition of around THB0.9-THB1.3 billion in total.
- EBITDA margin to remain at around 10%-13%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CI's financial profile will not deteriorate further from the current level. The debt to capitalization ratio is expected to stay at around 70%-75% and the EBITDA margin to hold at 10%-13% for the next three years.

RATING SENSITIVITIES

CI's ratings and/or outlook could be revised downward should its operating performance and/or financial profile deteriorate further. On the contrary, the outlook could be revised upward if the company demonstrates a significant, sustained improvement in operating performance.

COMPANY OVERVIEW

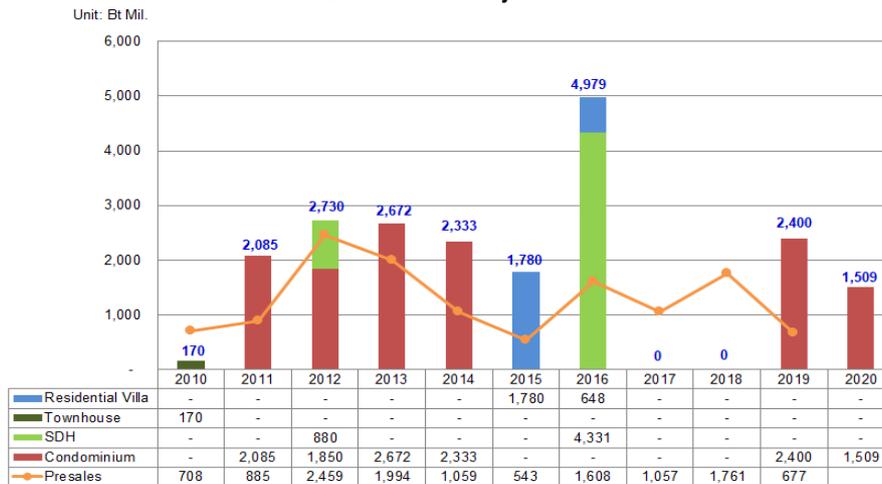
CI was established in 1989 by the Issara family. CI became a public company in June 2002 and was listed on the Stock Exchange of Thailand (SET) in December 2002. The Issara family has been the company's major shareholder since its inception. As of March 2021, the Issara family held a 44% stake in the company.

CI's residential property products target the middle- to high-income segments. At the end of 2020, the residential property portfolio comprised condominiums (47% of the total remaining value of the project portfolio), single detached houses (SDH) (36%), and residential villas (17%). CI's existing residential projects are located in Phetchaburi (25% of the total remaining value of the project portfolio), Phuket (14%), Bangkok (54%), Nakorn Ratchasima (2%), and Chiang Mai (5%).

CI started to develop luxury residences for sale and opened its first boutique hotel, Sri Panwa, in Phuket in 2003. The Sri Panwa Hotel started operations in 2006. The company sold the Sri Panwa Hotel to Sri Panwa Hotel Property Fund (SPWPF) in 2013 and simultaneously purchased 30% of SPWPF. In 2016, SPWPF converted from a property fund to a REIT named SRIPANWA. Currently, CI holds 19.4% of SRIPANWA. The company also owns 17.6% of Bangkok Commercial Property (BKKCP), a property fund that owns two office buildings, "Charn Issara Tower I" and "Charn Issara Tower II". CI manages these two office buildings for the fund. In addition, the company owns 3,578 square meters of retail space in these two buildings.

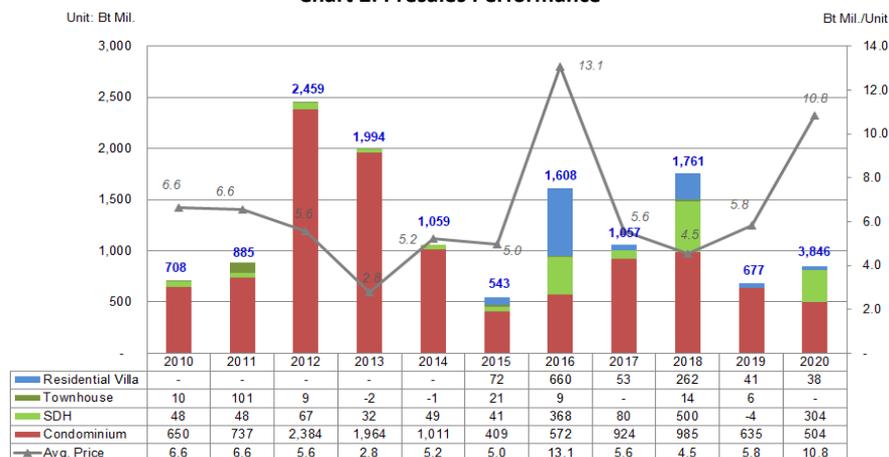
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



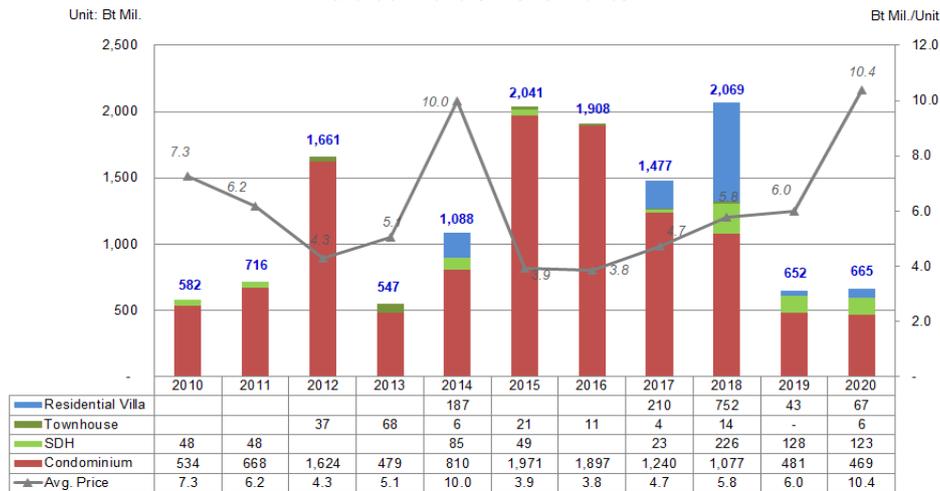
Source: CI

Chart 2: Presales Performance



Source: CI

Chart 3: Transfer Performance



Source: CI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2020	2019	2018	2017	2016
Total operating revenues	1,389	1,501	2,950	2,261	2,650
Earnings before interest and taxes (EBIT)	(134)	(276)	484	328	763
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	143	1	615	465	867
Funds from operations (FFO)	(188)	(385)	281	94	383
Adjusted interest expense	331	387	294	335	322
Real estate development investments	5,588	4,939	4,344	4,841	4,653
Total assets	10,805	8,681	7,767	7,884	7,328
Adjusted debt	6,868	5,628	5,275	5,587	5,092
Adjusted equity	2,438	2,949	2,798	2,525	2,289
Adjusted Ratios					
EBITDA margin (%)	10.31	0.09	20.83	20.54	32.73
Pretax return on permanent capital (%)	(1.37)	(2.97)	5.50	3.90	10.02
EBITDA interest coverage (times)	0.43	0.00	2.09	1.39	2.69
Debt to EBITDA (times)	47.96	4,067.48	8.58	12.03	5.87
FFO to debt (%)	(2.73)	(6.84)	5.33	1.68	7.52
Debt to capitalization (%)	73.80	65.62	65.34	68.87	68.99

* Consolidated financial statements

RELATED CRITERIA

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

Charn Issara Development PLC (CI)

Company Rating:	BB
Rating Outlook:	Stable

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