

# PROSPECT DEVELOPMENT CO., LTD.

No. 57/2023  
12 April 2023

## CORPORATES

**Company Rating:** BB+  
**Outlook:** Stable

**Last Review Date:** 31/08/22

Company Rating History:		
Date	Rating	Outlook/Alert
31/08/22	BBB-	Negative

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## RATIONALE

TRIS Rating downgrades the company rating on Prospect Development Co., Ltd (PD) to “BB+” from “BBB-” and revises the rating outlook to “stable” from “negative”. The downgrade follows the rating action on its parent company, M.K. Real Estate Development PLC (MK, rated “BB+/stable”).

As a core subsidiary, the company rating on PD is equivalent to and moves in tandem with the company rating on MK. In our view, PD’s business is aligned with the group’s strategy, and the company is expected to be a major earnings contributor to the group in the long term. In addition, PD is expected to receive financial support from the group in times of stress.

## KEY RATING CONSIDERATIONS

### Downgrade of company rating on MK

The downgrade of company rating on MK reflects MK’s weaker-than-expected operating performance and its high financial leverage. A sharp drop in residential property sales coupled with a slow recovery in the wellness business has resulted in MK posting an operating loss for the third consecutive year. In addition, the huge capital expenditures needed for its wellness and industrial property development (IP) businesses caused MK’s debt to rise to more than THB12 billion, resulting in a debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio of 29 times at the end of 2022.

Looking ahead, we expect MK’s operating performance, especially the performance of its wellness business, to gradually recover after the reopening of the country. MK’s operating revenue is expected to increase from THB2.3 billion in 2022 to around THB2.6-THB2.8 billion per annum during 2023-2025. We forecast funds from operations (FFO) to increase to THB400-THB600 million per annum and annual EBITDA to rise to THB1-THB1.3 billion in 2023-2025. However, adjusted debt is expected to remain high at around THB11-THB12 billion, causing its FFO to debt ratio to remain below 5% and its debt to EBITDA ratio to stay above 8 times over the forecast period.

### PD remains a core subsidiary of MK

PD is a wholly owned subsidiary of MK, focusing on the IP business. PD has contributed significantly to MK’s earnings over the past three years. The company generated 80% of MK’s total EBITDA in 2022, up from only 40% in 2019, amid the weak performance of MK’s residential property development and wellness businesses. PD’s assets, comprising warehouse and factory for rent, also accounted for more than 40% of MK’s total assets at the end of 2022.

Looking forward, we expect PD to continue to be a key earnings contributor to the group. The company will likely generate 65%-90% of total EBITDA over the next three years. As a core subsidiary, PD is expected to receive continued financial support from MK. At the end of 2022, around 40% of PD’s debt was made up of loans from MK.

### Growing, but modest revenue and earnings base

We expect PD’s operating revenues and earnings to continue to grow supported by its plan to develop and sell assets to Prospect Logistics and Industrial Freehold and Leasehold Real Estate Investment Trust (PROSPECT) over the next three years. However, PD’s business scale will likely remain modest compared with other rated industrial property developers. The

company's operating revenue and EBITDA in 2022 were only THB539 million and THB347 million, respectively. As of December 2022, leasable area under management of PD totaled around 0.5 million square meters (sq.m.), including its own leasable area, 0.22 million sq.m. of PROSPECT, and 26,194 sq.m. of leasable area under its two joint ventures, BFTZ Wangnoi "BFTZW" and BFTZ Bangkok "BFTZB".

Our base-case forecast the company's annual EBITDA to increase and range between THB0.7-THB1.1 billion in 2023-2025. PD is expected to develop around 0.05 to 0.1 million sq.m. of its own leasable area each year at cost of around THB0.8-THB2 billion per annum. The company plans to maintain approximately 0.2 million sq.m. of its own leasable area to generate recurring income of around THB400 million per annum. Excess rental space, including newly built warehouses and factories, and projects under JVs, will be sold to PROSPECT to top up its earnings. PD is also expected to earn property management fee income from PROSPECT and two JVs projects amounting to around THB100-THB140 million per annum over the forecast period.

#### **Exposure to portfolio concentration and renewal risk**

In our view, PD's portfolio remains exposed to significant concentration risk in terms of locations, tenants, and lease tenures. As all the leasable area is located in Samut Prakarn Province, unfavorable local circumstances could considerably impact the overall performance of the company. In tenant wise, the top-ten tenants accounted for around 40% of total leasable area and rental income in 2022. Contract terminations of major tenants could potentially have a significant negative impact on the company's operating results. In addition, the terms of its lease contracts are mostly less than three years, exposing the company to some degree of lease renewal risk every year. However, the relatively high renewal rate of more than 90% in the past five years and the expected growth in demand after the opening of several countries should help alleviate this risk. PD has been able to maintain an average occupancy rate (OR) of above 80% over the past several years. However, the OR in 2022 dropped to 67% since newly built space was added in the last quarter of the year.

On the downside, rising competition from existing and new players and concerns over a global recession could prove challenging for PD. The company is attempting to raise awareness of its brand among target customers through several marketing channels to mitigate this risk to some extent.

#### **Breach of bank's financial covenants**

At the end of December 2022, PD's own debts stood at THB5.1 billion, comprising THB900 million debentures, THB2 billion short-term loans from the parent company, and THB2.1 billion of long-term bank loans. PD's secured debts was THB2.2 billion. This translates to a priority debt to total debt ratio of 43.2%. Debts of JVs were THB5.1 billion, including THB3.1 billion of aval.

The financial covenants on PD's bank loans require the company to maintain its interest-bearing debt to equity ratio below 2 times, total liabilities to total equity ratio below 1.5 times, and debt service coverage ratio above 1.2 times. As of December 2022, the ratios were 2.2 times, 2.4 times, and 0.2 times respectively. PD already received waivers from its lenders on all covenants for 2022. Given its relatively high debt level, PD could breach its financial covenants again this year.

#### **Tight liquidity**

We assess PD's liquidity to be tight but manageable over the next 12 months. Debt maturing over the next 12 months will amount to THB536 million, comprising THB300 million debentures, THB50 million short-term promissory notes (P/N), and THB241 million long-term project loans. PD's sources of liquidity at the end of December 2022 included cash on hand of THB73 million. We forecast PD's FFO to be around THB350 billion in 2023. PD usually refinances its matured debentures by new debenture issuances and rolls over its matured short-term P/N. In addition, MK should help support PD's liquidity if needed.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumption is that PD will remain a core subsidiary of the MK Group.

#### **RATING OUTLOOK**

The "Stable" outlook is aligned with the outlook revision on MK.

#### **RATING SENSITIVITIES**

As a core subsidiary of MK, the rating on PD is linked to MK's credit profile. Any change in MK's rating will affect PD's rating accordingly.

**COMPANY OVERVIEW**

PD was established in 2010 as a wholly owned subsidiary of FNS Holdings PLC (FNS) (formerly Finansa PLC). PD developed and operated factories and warehouses for rent in the “Bangkok Free Trade Zone” (BFTZ) project located at Bangna-Trad Km. 23 in Samut Prakarn Province. In December 2015, MK acquired 100% of the equity of PD, partly through a share swap. As of December 2022, FNS was MK’s largest shareholder, owning a 31.5% stake. MK holds a 100% stake in PD.

At the end of December 2022, PD had freehold and leasehold rights in four developed and underdeveloped industrial estates located on Bangna-Trad Km. 23, Bangna-Trad Km. 19 and Theparak Roads in Samut Prakarn Province. In 2021, PD joined Sansiri PLC (SIRI) to set up BFTZ Bangpakong Co.Ltd (BFTZB) to develop industrial property for rent in Chachoengsao Province. PD also set up a JV with FNS, BFTZ Wangnoi Co.Ltd. (BFTZW), to develop warehouse for rent in Ayutthaya Province. The total area of the development was 936 rais comprising 468 rais owned by PD and 468 rais owned by JVs. The total leasable areas of PD’s own project, BFTZB and BFTZW will be 411,155 sq.m., 185,763 sq.m. and 109,411 sq.m., respectively.

As of December 2022, the leasable areas managed by PD totaled 503,558 sq.m., comprising 255,161 sq.m. owned by PD, 26,194 sq.m. owned by JVs, and 222,203 sq.m. owned by PROSPECT. The average ORs of PD and PROSPECT were 66.8% and 92.5%, respectively.

**KEY OPERATING PERFORMANCE**
**Table 1: Revenue Breakdown**
*Unit: % of total operating revenue*

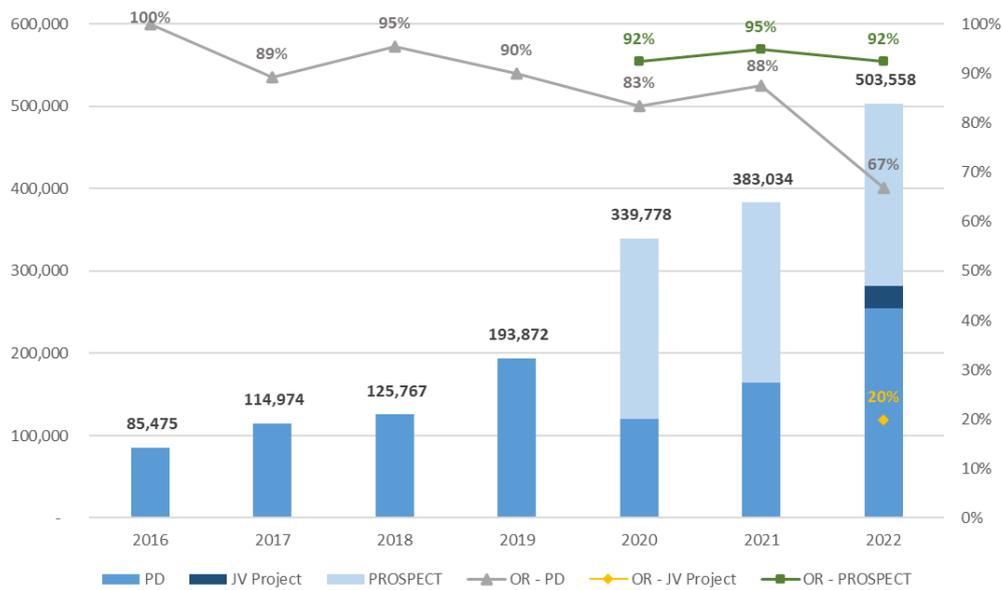
Revenue Contribution	2017	2018	2019	2020	2021	2022
Residential sales			71			
Industrial estate for rent	93	92	27	81	79	61
Management fee income				7	19	20
Other operating revenues	7	8	2	12	2	19
<b>Total operating revenues</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total operating revenues (mil. THB)</b>	<b>211</b>	<b>254</b>	<b>1,306</b>	<b>455</b>	<b>411</b>	<b>539</b>

*Note: Consolidated financial statements from 2019 onwards*
*Source: PD*
**Table 2: Details of Assets**

Project	Location		Land area (rai)	Total NLA (sq.m.)	Developed (sq.m.)
<b>PD</b>					
- BFTZ1	Bangna-Trad Km.23	Leasehold	236	185,032	185,032
- BFTZ2	Theparak Rd.	Leasehold	42	33,477	20,996
- BFTZ3	Bangna-Trad Km.19	Leasehold	8	12,163	
		Freehold	132	99,947	49,133
- BFTZ6	Bangna-Trad Km.19	Leasehold	50	50,800	
		Freehold	33	29,736	
<b>Total</b>			<b>456</b>	<b>411,155</b>	<b>255,161</b>
<b>JV</b>					
- TPARK BFTZ (FPIT 60%)	Bangna-Trad Km.23	Leasehold	92	80,930	80,930
- BFTZ4 (SIRI 50%)	Bangpakong	Freehold	323	185,763	5,184
		Land for develop			
		For sale	212		
- BFTZ5 (FNS 50%)	Wangnoi	Leasehold	145	109,411	21,010
<b>Total</b>			<b>772</b>	<b>376,103</b>	<b>107,124</b>

*Note: All projects managed by PD except TPARK BFTZ*
*Source: PD*

**Chart 1: Occupancy and Leasable Area Owned and Managed by PD**



Source: PD

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2022	2021	2020	2019	2018
Total operating revenues	539	411	455	1,306	254
Earnings before interest and taxes (EBIT)	220	192	476	205	67
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	347	337	655	358	174
Funds from operations (FFO)	118	131	436	165	100
Adjusted interest expense	211	204	182	192	74
Capital expenditures	1,997	1,149	1,602	0	0
Total assets	8,220	6,662	6,615	6,040	2,839
Adjusted debt	5,990	4,045	4,356	3,852	1,694
Adjusted equity	2,445	2,433	2,203	1,944	1,033
<b>Adjusted Ratios</b>					
EBITDA margin (%)	64.27	82.01	143.98	27.38	68.50
Pretax return on permanent capital (%)	2.92	2.91	7.64	4.76	2.56
EBITDA interest coverage (times)	1.64	1.65	3.60	1.86	2.36
Debt to EBITDA (times)	17.28	12.01	6.65	10.77	9.75
FFO to debt (%)	1.97	3.24	10.02	4.29	5.91
Debt to capitalization (%)	71.01	62.44	66.41	66.46	62.12

\* Consolidated financial statements

**RELATED CRITERIA**

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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Prospect Development Co., Ltd (PD)

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<b>Company Rating:</b>	BB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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