

L.P.N. DEVELOPMENT PLC

No. 199/2021
4 November 2021

CORPORATES

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

Last Review Date: 09/03/21

Company Rating History:

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

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RATIONALE

TRIS Rating downgrades the company rating on L.P.N. Development PLC (LPN) and the ratings on LPN's senior unsecured debentures to "BBB" from "BBB+" with a "stable" rating outlook. The downgrade reflects LPN's continued deterioration in operating results and higher financial leverage, which could cause the debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio to increase above 10 times and the funds from operations (FFO) to total debt ratio to sink below 5% over the next three years.

The ratings continue to reflect LPN's well-accepted brands in the middle- to low-end 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 protracted Coronavirus Disease 2019 (COVID-19) pandemic, which is likely to continue to pressure the operations and earnings of property developers for an extended period.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance

LPN's operating performance dropped below our previous forecast. The company reported a decline in total operating revenue of 26% year-on-year (y-o-y) in 2020 and 18% y-o-y in the first six months of 2021. Since demand for condominiums from local buyers remains subdued while bank loan rejection rates in the middle- to low-income segment remain high, we anticipate that LPN's operating performance will continue to come under pressure over the next 12 months. Our latest base-case scenario revises down LPN's total operating revenue to THB5 billion in 2021 before recovering to THB7.0-THB7.5 billion per annum during 2022-2023, down from our previous forecast of THB7.0-THB8.5 billion per annum. LPN's backlog as of June 2021 was only THB2.6 billion. Thus, LPN's future revenues will largely hinge on the company's ability to generate new sales.

With the likelihood of ongoing weak demand in the residential property market until 2022, we expect that several property developers will continue to resort to price campaigns to boost sales. We foresee LPN's average gross profit margin shrinking to 29%-30% of total operating revenue over the forecast period, down from 31%-33% during the past three years. We expect LPN's EBITDA to range from THB0.8-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.

Concentrated residential property portfolio

LPN's residential products are highly concentrated in the middle- to low-priced condominium segment. Revenue from condominiums accounted for around 60% of total operating revenue during 2019-2020 and around 40% in the first half of 2021. Condominiums with a unit price below THB4 million contributed 55% of total operating revenue during 2019-2020 and 40% in the first six months of 2021. The company's premium single-detached house (SDH) brand "Bann 365" contributed only THB0.3 billion or 4% of residential sales in 2020. Although LPN has expanded into more landed property products in the

premium and middle- to low- end segments since 2018, we believe that its portfolio will continue to be mainly made up of affordably priced condominium products over the next three years.

As of June 2021, LPN had 43 existing projects with total remaining value of THB20.1 billion (including built and un-built units). Condominium projects comprised 70% of total unsold value, while landed property projects accounted for the rest. Nearly all remaining condominium units were priced below THB4 million and developed under the “Lumpini Park”, “Lumpini Place”, “Lumpini Ville”, and “Lumpini Township” brands. Of the total unsold value, LPN had completed stock units in condominium projects worth THB9.4 billion or around 50%, which can be recognized as revenue immediately after sales.

Well-recognized brand supported by good after-sale services

We view LPN’s brand recognition in the middle- to low-end segments as acceptable. The key selling points of the company’s residential projects are its ability to deliver projects on time and its good after-sale services. The company has extensive experience in managing the construction of residential property projects, especially condominium projects. LPN has enjoyed long-term relationships and worked as a team with its main contractors for several years. Thus, LPN has been able to control costs and manage the speed of construction of its condominium projects effectively. However, due to the COVID-19 pandemic and the lockdown of construction sites in July 2021, LPN may have to postpone the construction and transfers of some projects from 2021 to 2022.

LPN’s after-sale services include community management, brokerage services, and the provision of cleaning and security services catered to its own projects and other developers’ projects. The company’s after-sale services have been recognized for good quality and have helped build up its brand equity. Revenue from after-sale services has consistently grown during the last five years, and reached THB1.1 billion in 2020. Looking forward, we expect revenue from after-sale services to reach THB1.2-THB1.3 billion per annum over the next 2-3 years.

Leverage on the rise

With an expected deterioration in revenue and earnings during 2021-2023 coupled with the company’s continued expansion in residential property and ongoing construction of an office building under joint venture (JV), we expect LPN’s financial leverage to become elevated over the forecast period. LPN’s debt to EBITDA ratio could rise above 10 times, from 7-9 times during 2020 through the first six months of 2021. We foresee the ratio of FFO to total debt falling below 5% during 2021-2023, from 6%-8% during 2020 through the first six months of 2021 and 17% in 2019. However, we expect LPN to sustain its debt to capitalization ratio at around 50%.

Our base-case scenario assumes LPN will launch new condominium projects worth THB1 billion in 2021, THB8 billion in 2022, and THB5 billion in 2023. With the plan to diversify its existing residential portfolio, we forecast LPN to launch new landed property projects worth THB5 billion per annum over the next three years. The company intends to scale down the size of each new project in order to speed up turnover and reduce debt burden. We project LPN to spend THB2-THB4 billion annually to purchase land plots. We also expect LPN to inject the THB0.8 billion in capital expenditures (LPN’s portion) for construction of a new office building being developed under JV during 2021-2023. Despite the increasing leverage trend, the pressure on LPN’s debt may be partly relieved by sales of its own office buildings.

As of June 2021, LPN had total debt of THB10.3 billion (per priority debt consideration), including THB3.1 billion of priority debt. LPN’s priority debt included secured debt at the parent company and its subsidiaries. As the ratio of priority debt to total debt was 30%, 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.

Liquidity should remain manageable

We assess LPN’s liquidity to be manageable over the next 12 months. As of June 2021, LPN’s scheduled debt repayments over the next 12 months amounted to THB6.8 billion, comprising THB4.1 billion in short-term loans and THB2.7 billion in debentures. LPN’s sources of funds consisted of THB0.8 billion in cash on hand plus undrawn short-term loan facilities of THB2.1 billion and undrawn unconditional project loan facilities of THB0.4 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 THB0.1 billion and remaining finished units in debt-free projects at cost value of THB8.6 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. We expect the short-term B/Es and P/Ns for working capital to be either rolled over or repaid within the next 12 months, and the short-term P/Ns for land acquisition to be converted to long-term project loans thereafter. LPN plans to refinance most maturing debentures by new debentures issuance.

The financial covenants on LPN’s bank loans require maintenance of its interest-bearing debt to equity ratio below 1.25 times and its total liability to total equity ratio below 2 times. Also, the financial covenants on debentures limit the

company's interest-bearing debt to equity ratio lower than 2 times. As of June 2021, the interest-bearing debt to equity ratio was 0.9 times and the total liability to total equity ratio was 1.07 times. We believe LPN should have no problems complying with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

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

- LPN to launch new condominium projects worth THB1 billion in 2021, THB8 billion in 2022, and THB5 billion in 2023 as well as new landed property projects worth THB5 billion per annum during 2021-2023
- Annual budget for land acquisition is forecast at THB2-THB4 billion
- Total operating revenue to the bottom out this year before improving to THB7.0-THB7.5 billion per annum during 2022-2023
- Average gross profit margin to stay in the 29%-30% range and net profit margin to drop below 10% of total operating revenue

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

LPN's ratings and/or outlook could be revised downward should LPN's operating performance and/or financial profile deteriorate further. On the contrary, a rating and/or outlook upward revision could occur if LPN delivers significantly better-than-expected operating results and improves its financial position to the same level as its higher-rated peers, such that the FFO to total debt ratio stays above 10%, for a sustained period.

COMPANY OVERVIEW

LPN was founded in 1989 by Mr. Theerachai Panjasap, Mr. Sumet Techakraisri, and Mr. Sirichai Charoensakwattana. The company was listed on the Stock Exchange of Thailand (SET) in December 1994. As of June 2021, the founders and key executives held an approximate 8% stake in the company. LPN has four major subsidiaries: Pornsanti Co., Ltd. (PST), which develops landed property projects for the middle- to low-income segments; LPP Property Management Co., Ltd. (LPP), which provides community management services and brokerage services; Lumpini Project Management Service Co., Ltd. (LPS), which provides project construction management services; and LPC Social Enterprise Co., Ltd. (LPCSE), which provides community services.

LPN offers condominium, SDH, semi-DH, and townhouse units in a limited range of prices and product categories. The company offers condominium units ranging in price from THB30,000 to THB130,000 per square meter (sq.m.). The landed property products range in price from THB35 million to THB60 million per unit for SDH and from THB2 million to THB20 million per unit for semi-DH, townhouse, and home office. LPN's residential product portfolio focuses on the middle- to low-income condominium segments.

LPN's total operating revenue is mainly derived from condominium projects. Revenue from condominiums constituted 80%-90% of total operating revenue during 2016-2018, but decreased to around 60% during 2019-2020 and around 40% in the first six months of 2021. Revenue from landed property contributed 5%-15% of the total operating revenue during 2016-2018, but increased to 25% in 2019 and 30% in the first six months of 2021. Revenue from residential units with prices below THB4 million has been the major contributor accounting for 70%-80% of total operating revenue during 2016-2018 and 60%-65% during 2019 through the first six months of 2021. The revenue contribution from the management business increased to 22% of total operating revenue in the first six months of 2021 from 11% in 2019 and 8% in 2017. Revenue from rental properties remained minimal.

KEY OPERATING PERFORMANCE

Table 1: Product Portfolio of Condominiums

Segment	Brand	Price (THB/Sq.m.)
Premium	The Lumpini 24	170,000
High	Lumpini Suite	120,000-130,000
Middle-to-high	The Selected Lumpini Place Lumpini Park Lumpini Park Beach	50,000-130,000
Middle	Lumpini Ville Lumpini Seaview	40,000-80,000
Middle-to-low	Lumpini Center Lumpini Condotown	30,000-40,000
Low	Lumpini Township	30,000-35,000
Broad price range	Lumpini MegaCity Lumpini Mixx	40,000-140,000

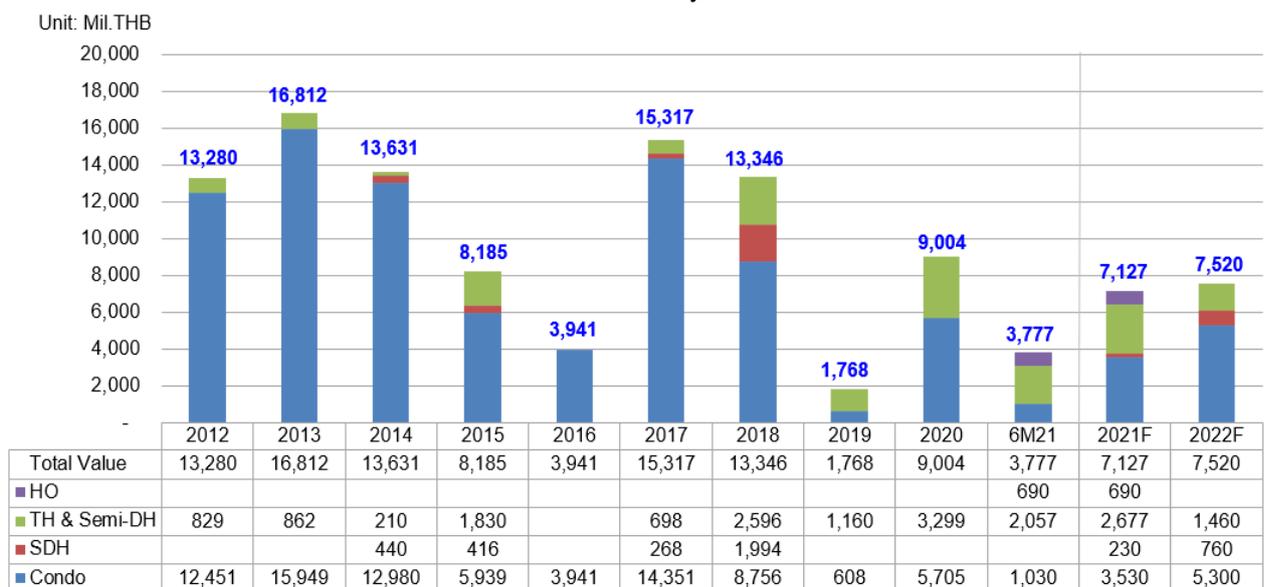
Source: LPN

Table 2: Product Portfolio of Landed Properties

Segment	Brand	Product Type	Price (Mil. THB/Unit)
Premium	BAAN 365 by LPN	3-storey SDH 4.5-storey TH	35-60 18-20
High	Baan Lumpini	2 & 3-storey SDH	10
High	Baan Lumpini Town Residence	4-storey HO 3-storey TH	8
Middle	Baan Lumpini Town Park / Town Place	2-storey Semi-DH 3-storey TH 2-storey TH	6 4 3
Middle-to-low	Baan Lumpini Town Ville	2-storey TH	2-3

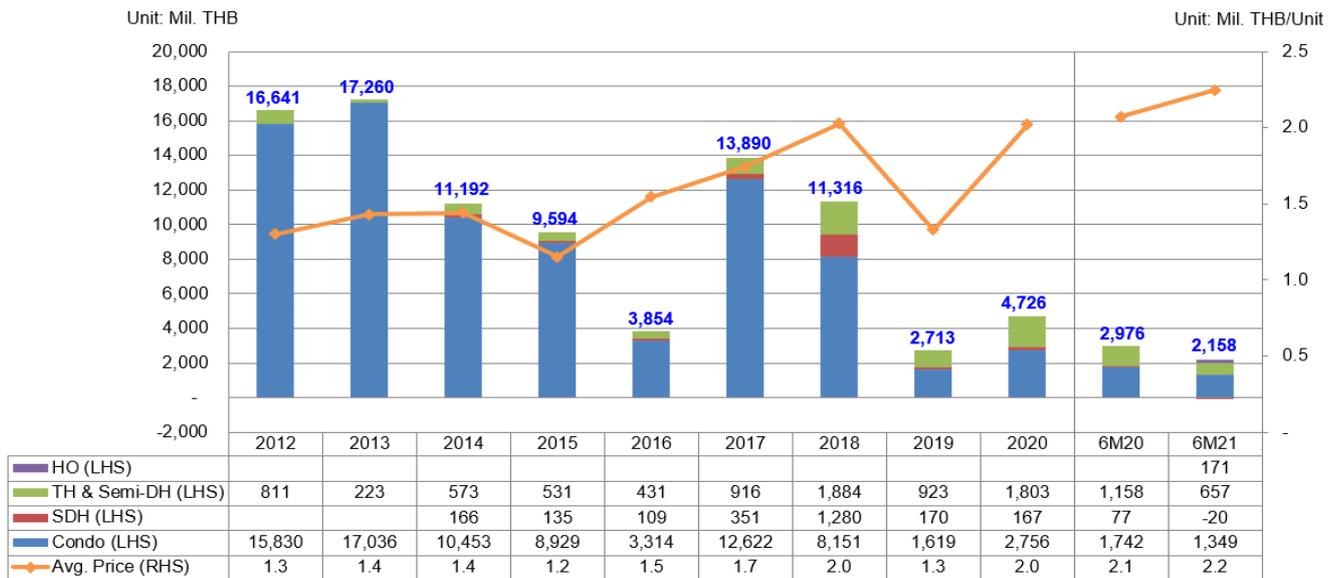
Source: LPN

Chart 1: New Residential Project Launches



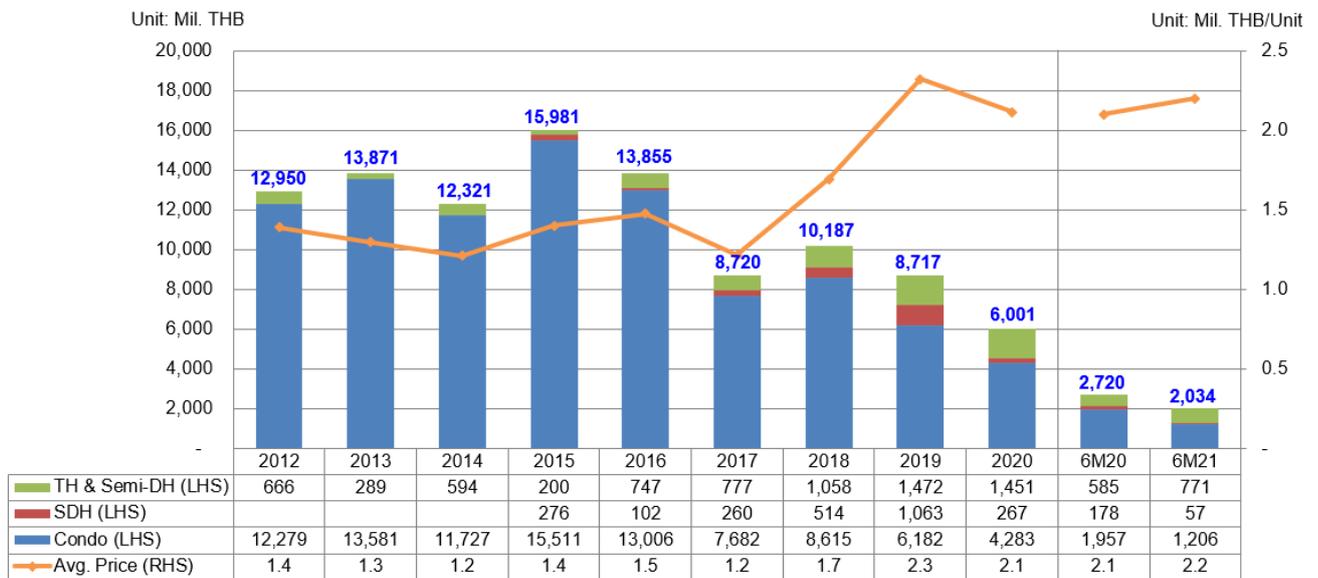
Source: LPN

Chart 2: Presales Performance



Source: LPN

Chart 3: Residential Sales



Source: LPN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	2,791	7,449	10,033	11,294	9,648
Earnings before interest and taxes (EBIT)	454	1,164	1,752	1,932	1,485
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	510	1,265	1,842	2,003	1,550
Funds from operations (FFO)	260	720	1,273	1,401	1,045
Adjusted interest expense	188	328	249	233	205
Real estate development investments	18,170	18,170	19,693	17,871	17,897
Total assets	23,726	23,619	23,473	21,250	21,007
Adjusted debt	10,144	9,328	7,696	5,112	5,937
Adjusted equity	11,484	11,822	13,159	12,935	12,414
Adjusted Ratios					
EBITDA margin (%)	18.26	16.98	18.36	17.74	16.07
Pretax return on permanent capital (%)	4.63 **	5.36	8.80	10.37	8.31
EBITDA interest coverage (times)	2.71	3.86	7.41	8.61	7.57
Debt to EBITDA (times)	8.76 **	7.37	4.18	2.55	3.83
FFO to debt (%)	6.02 **	7.72	16.54	27.41	17.61
Debt to capitalization (%)	46.90	44.10	36.90	28.32	32.35

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- 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
LPN245A: THB1,500 million senior unsecured debentures due 2024	BBB
Rating Outlook:	Stable

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