TRIS RATING
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CPN RETAIL GROWTH LEASEHOLD REIT

No. 182/2024
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CORPORATES

Issuer Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Outlook:	Stable

Last Review Date: 14/03/24

Issuer Rating History:

Date	Rating	Outlook/Alert
12/09/23	AA-	Negative
22/07/20	AA	Negative
25/05/18	AA	Stable

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RATIONALE

TRIS Rating downgrades the issuer rating on CPN Retail Growth Leasehold REIT (CPNREIT or "trust") and the ratings on CPNREIT's senior unsecured debentures to "A+" from "AA-" and revises the outlook to "stable" from "negative".

Despite its operating and financial performance aligning with our base case, the trust's debt (including lease liability) to EBITDA ratio is expected to remain above our 7.5 times threshold for a rating downgrade over the next 2-3 years, consistent with the previously assigned "negative" outlook. The ratings also take into consideration the trust's tight but manageable liquidity. Nevertheless, the ratings continue to reflect stable cash flow stream from contract-based income as well as growth prospects from continued recovery in overall operating performance and potential new asset acquisitions, supported by its sponsor, Central Pattana PLC (CPN).

KEY RATING CONSIDERATIONS

Elevated financial leverage from 2025 onwards

We expect CPNREIT's financial leverage, as measured by the debt to EBITDA ratio, to significantly rise starting in 2025, following the commencement of the new 30-year lease term for Central Rama 2. The total payment for the first 10-year lease extension of this project will amount to THB12.9 billion in 2025, which the trust plans to finance entirely with debt. The payment terms for the subsequent 20-year lease will be mutually determined by both parties in the future. In the event that the parties cannot reach a mutual agreement regarding the payment terms, neither party shall have the authority to impose penalty fees on the other. Consequently, the trust will not be bound by any contractual obligation in this regard. However, TRIS Rating will incorporate the projected net present value (NPV) of THB13-THB14 billion for the 20-year lease as a debt obligation into our base-case to make it comparable to freehold assets.

In addition, CPNREIT plans to acquire new assets every two years from the sponsor starting from 2026. The trust intends to acquire a shopping center with an investment cost of THB20 billion from CPN in 2026. The trust plans to fund this acquisition with two-thirds in equity and the remaining portion with debt. CPNREIT also sets capital expenditures (CAPEX) for major renovations of THB1.9 billion over 2024-2025, with 60% debt financing.

Following the trust's investment and financing plans in the next couple years, we project CPNREIT's adjusted net debt (including lease liability of Central Rama 2) to escalate to THB50 billion in 2025 and THB58 billion in 2026 from 19.8 billion as of June 2024. Its EBITDA is projected to sustain at THB 4.7 billion per annum in 2024-2025, before increasing to THB6.7 billion in 2026, following the completion of a major renovation in 2025 and the acquisition of a new asset in 2026. As a result, CPNREIT's debt to EBITDA ratio is likely to rise to 11 times in 2025 from 5 times in 2024. Given its plan to inject more equity in 2026, the debt to EBITDA ratio could decline to around 9 times after the projected surge in 2025. However, this ratio remains above our threshold of 7.5 times, which is more stringent than our previous condition. The trust's loan to fair value of total assets (LTV) ratio is expected to range between 50%-53% over the forecast period.

Overall performance improved as targeted

CPNREIT's operating performance in 2023 through the first six months of 2024 (6M24) was in line with our previous targets. The trust reported total operating revenue growth by 18% year-on-year (y-o-y) to THB5.8 billion in 2023. Its revenue increased by 9% y-o-y to THB3 billion in 6M24. EBITDA rose by 17% y-o-y in 2023 and by 7% y-o-y in 6M24, with EBITDA margin of 79%-80%.

CPNREIT's revenue and earnings growth were primarily driven by the robust occupancy rate (OR) of shopping centers at above 95% and increased revenues from revenue-sharing contracts. The trust also received the full amount of fixed and variable rents for Hilton Pattaya since the beginning of 2023. The OR of the Hilton Pattaya Hotel recovered to 88% in 2023 and 94% in 6M24 from 76% in 2022. However, the OR of office buildings continued declining to 84%-85% in 2023-6M24 from above 90% of the pre-pandemic level.

Future performance continues reviving

We expect CPNREIT's operating performance to continue improving, supported by increasing rental and services income from its retail and hotel businesses amid the ongoing recovery of customer traffic, rising tourist arrivals in Thailand, and growth prospects from potential asset acquisitions from its sponsor. Nonetheless, we view that the OR and rental rates of office spaces will continue to face significant challenges due to the large influx of supply expected in 2024-2025.

Our base case expects CPNREIT's total operating revenue to increase to THB6.0-THB6.5 billion in 2024-2025, reaching THB9 billion by 2026. This is based on our assumptions that the trust will acquire a new shopping center in 2026, resulting in a 30% increase in net leasable area (NLA). We project the average OR of shopping center to remain between 91%-95%, as some shopping centers will undergo major renovations in 2024-2025. The average room rate (ARR) is projected to grow by 1%-2% per annum. We expect the trust to receive a combined THB400 million annually in fixed and variable rents from the Hilton Pattaya Hotel. For office spaces for rent, we anticipate an OR of 85%-87%, with a slight decline in ARR. CPNREIT's EBITDA margin is projected to decline to 73%-75% in 2025-2026, down from 78%-80% in 2022-2024, due to additional common area maintenance (CAM) charge that the trust will receive revenue and absorb costs following the lease renewals of Central Pinklao and Central Rama 2 as well as future asset acquisitions. Nevertheless, its EBITDA margin is expected to remain within the upper range of the industry average, which is between 40% and 80%. The revenue and expenses associated to the CAM do not impact to absolute EBITDA.

Predictable cash flow from contract-based income

CPNREIT's credit profile is underpinned by its steady cash flow from contract-based rental and service income for its leasehold rights of shopping centers and office buildings. With most tenants holding three-year rent contracts, the trust's income has been stable. We view that the fixed-rent contracts offer the advantage of predictable cash flows while certain revenue-sharing contracts can generate higher income during market upswings. Additionally, the minimum rental fees help mitigate downside risk if tenant performance falls short of expectations. Across the entire portfolio, around 60% of the trust's occupied area is rented under fixed-rate contracts, while the revenue-sharing contracts make up the rest.

Tight but manageable liquidity

We assess the trust's liquidity as tight but should be manageable over the next 12-18 months. As of June 2024, CPNREIT's sources of liquidity included THB1.8 billion cash on hand and THB381 million investments in securities at fair value. Funds from operations (FFO) in the next 12 months is projected to be THB2.9 billion.

Debts due over the next 12 months will amount to THB4.4 billion, comprising THB2 billion debentures, THB2 billion promissory notes (P/Ns), and THB0.4 billion bank loans. CPNREIT normally refinances maturing debentures by new debentures issuances. We expect the trust to be able to rollover P/Ns every two months and find a suitable source of fund to refinance it in December 2025. Maturing bank loans will be repaid with internally generated cash. CPNREIT's liquidity uses also include dividend payments of at least 90% of adjusted net investment income and projected operating expenses of THB1.6 billion in the next 12 months.

The financial covenants on CPNREIT's debt obligations require the trust to maintain its LTV ratio (excluding lease liabilities in loans) below 60% and the debt service coverage ratio (DSCR) above 1.2 times. As of June 2024, the trust's LTV ratio (excluding lease liability in loans) was 24% and DSCR was 1.8 times. We expect the trust to be able to comply with the financial covenants over the next 12 to 18 months.

Debt structure

As of June 2024, the trust's total debt (per priority debt consideration) was THB21.9 billion, including THB17.4 billion senior unsecured debentures, THB2.4 billion bank loans, and THB2 billion P/Ns. All debts are unsecured and rank pari passu.

BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for CPNREIT's operations in 2024-2026 are as follows:

- The first payment for the 10-year lease renewal of Central Rama 2 will be THB12.9 billion in 2025, with the estimated NPV of the lease liability for the remaining 20-year lease of Central Rama 2 to be around THB13-THB14 billion
- New asset acquisition of THB20 billion in 2026
- CAPEX for major renovation of THB0.9-THB1.0 billion per annum in 2024-2025
- OR of shopping centers to stay 91%-95%, with ARR growth of 1%-2% per annum
- Total operating revenue to increase to THB6.0-THB6.5 billion in 2024-2025, before rising to the THB9 billion level in 2026
- EBITDA margin to decline to 73%-75% in 2025-2026

RATING OUTLOOK

The "stable" outlook reflects our expectation that CPNREIT will be able to deliver operating results and maintain its financial profile in line with our base-case forecast.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward if the trust's operating performance and/or financial profile deviate considerably from our expectations. Conversely, a credit upward scenario may arise if the trust's operational performance remains strong and its financial leverage is maintained at a moderate level. To secure a higher credit rating on a sustained basis, we anticipate that the trust will achieve a more stringent debt (including lease liability) to EBITDA ratio of less than 7.5 times while the trust's LTV ratio should remain below 50%.

ORGANIZATION OVERVIEW

CPNREIT was founded as part of the process to convert CPN Retail Growth Leasehold Property Fund (CPNRF), a property fund, into a real estate investment trust or "REIT". CPNRF was established and listed on the Stock Exchange of Thailand (SET) in 2005. Upon the conversion in December 2017, CPNREIT acquired CPNRF's entire property portfolio, including the shopping centers as follows: Central Rama 2, Central Rama 3, Central Pinklao, and Central Chiangmai Airport; as well as two office buildings of Central Pinklao. At the same time, CPNREIT invested in Central Pattaya Shopping Center and Hilton Pattaya. The trust acquired two office buildings, The 9th Towers and Unilever House, from GLAND Office Leasehold Real Estate Investment Trust (GLANDRT) in March 2020 and invested in Central Marina Shopping Center and Central Lampang Shopping Center in February 2021. In May 2024, the trust extended the 15-year lease agreement for Central Pinklao with CPN. Total costs for lease extension (including related taxes and expenses) amounted to THB12.8 billion, with 84% capital increase and the rest through debt financing. As of June 2024, CPN was the trust's largest unitholder with a 39% stake.

The property portfolio of the trust currently comprises seven shopping centers, with NLA of 252,743 square meters (sq.m.), four office buildings, with NLA of 111,541 sq.m., and one hotel, with 304 rooms. The assets are located in Bangkok, Chiangmai, Chonburi, and Lampang. CPN REIT Management Co., Ltd., a wholly-owned subsidiary of CPN, acts as the REIT manager. CPN is the property manager of the assets acquired from itself. Grand Canal Land PLC (GLAND) is the property manager of The 9th Towers, and Sterling Equity Co., Ltd., a wholly-owned subsidiary of GLAND, is the property manager of Unilever House. The trust subleases the hotel to CPN Pattaya Hotel Co., Ltd., a subsidiary of CPN, as a special purpose vehicle (SPV). Hilton Hotels and Resorts acts as the hotel manager.

KEY OPERATING PERFORMANCE

Table 1: CPNREIT's Property Portfolio

	Central Rama 2	Central Rama 3	Central Pinklao	Central Chiangmai Airport	Central Pattaya	Central Marina	Central Lampang
Type	Shopping center	Shopping center	Shopping center	Shopping center	Shopping center	Shopping center	Shopping center
Location	Bangkok	Bangkok	Bangkok	Chiangmai	Chonburi	Chonburi	Lampang
Net leasable area (sq.m.)	88,352	36,040	27,677	39,496	29,380	15,435	16,363
OR (%) (as of 30 Jun 2024)	97	96	97	94	94	97	95
Investment at fair value (Mil. THB) (as of 30 Jun 2024)	29,205	13,824	12,305 (incl. office buildings)	10,549	7,437	1,703	2,932
Remaining leasehold period (years)	1+30	11+30+30	0.5+15	20	13	11	17

	Office Tower A at Pinklao	Office Tower B at Pinklao	The 9th Towers	Unilever House	Hilton Pattaya
Type	Office	Office	Office	Office	Hotel
Location	Bangkok	Bangkok	Bangkok	Bangkok	Chonburi
Net leasable area (sq.m.)	22,762	11,339	58,913	18,527	304 rooms
OR (%) (as of 30 Jun 2024)	84	79	86	75	93
Investment at fair value (Mil. THB) (as of 30 Jun 2024)			5,920	1,245	3,767
Remaining leasehold period (years)	0.5+15	0.5+15	24	10	13

Source: CPNREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024		-----------Year Ended 31 December --------- 2023	2022	2021	2020
Total operating revenues	3,008		5,753	4,881	3,524	4,062
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,388		4,578	3,901	2,453	3,012
Funds from operations (FFO)	2,098		3,911	3,276	1,854	2,420
Adjusted interest expense	291		667	625	599	592
Investments in leasehold properties at fair value	88,887		77,019	76,304	75,371	68,270
Total assets	91,734		81,367	80,317	78,971	71,577
Adjusted debt (excluding lease liability)	19,781		18,482	20,222	20,613	20,993
Lease liability	23,174		22,205	21,045	19,315	17,727
Adjusted equity	43,107		33,459	33,277	33,819	28,044
Adjusted Ratios						
EBITDA margin (%)	79.4		79.6	79.9	69.6	74.1
Pretax return on permanent capital (%)	7.9	**	8.2	6.9	4.6	6.3
EBITDA interest coverage (times)	8.2		6.9	6.2	4.1	5.1
Debt to EBITDA (times)	4.2	**	4.0	5.2	8.4	7.0
FFO to debt (%)	20.8	**	21.2	16.2	9.0	11.5
Debt to capitalization (%)	31.5		35.6	37.8	37.9	42.8
Loan to fair value of total assets (%) (according to bond covenants)	23.8		27.2	28.6	28.6	32.2
Loan to fair value of total assets (%) (including lease liability)	49.1		54.4	54.8	53.0	56.9

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021

CPN Retail Growth Leasehold REIT (CPNREIT)

Issuer Rating:	A+
Issue Ratings:	
CPNREIT253A: THB2,060 million senior unsecured debentures due 2025	A+
CPNREIT262A: THB500 million senior unsecured debentures due 2026	A+
CPNREIT263A: THB1,500 million senior unsecured debentures due 2026	A+
CPNREIT268A: THB1,650 million senior unsecured debentures due 2026	A+
CPNREIT272A: THB2,000 million senior unsecured debentures due 2027	A+
CPNREIT272B: THB1,400 million senior unsecured debentures due 2027	A+
CPNREIT288A: THB7,390 million senior unsecured debentures due 2028	A+
CPNREIT318A: THB1,000 million senior unsecured debentures due 2031	A+
Rating Outlook:	Stable

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