

# GOLDEN LAND PROPERTY DEVELOPMENT PLC

No. 171/2021

14 October 2021

## CORPORATES

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

Last Review Date: 16/10/20

### Company Rating History:

Date	Rating	Outlook/Alert
17/09/19	A-	Stable
01/03/19	BBB+	Alert Positive
08/09/16	BBB+	Stable
02/09/15	BBB	Stable

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## RATIONALE

TRIS Rating upgrades the company rating on Golden Land Property Development PLC (GOLD) and the ratings on GOLD's senior unsecured debentures to "A" from "A-", with a "stable" rating outlook. The rating upgrades follow the same rating action on its parent company, Frasers Property (Thailand) PLC (FPT, rated "A/Stable" by TRIS Rating). According to our "Group Rating Methodology", GOLD is categorized as a "core" subsidiary of FPT, based on which the company rating on GOLD is equivalent to that on FPT. As a core subsidiary, we expect GOLD to obtain strong committed support from FPT in its business operations and financing activities. GOLD's senior unsecured debentures are also rated at the same level as the company rating since its priority debt level to total debt ratio is lower than the 50% threshold.

## KEY RATING CONSIDERATIONS

### Core subsidiary of FPT

TRIS Rating assesses GOLD as a core subsidiary of FPT. FPT currently holds a 99.48% stake in GOLD. In our view, GOLD's businesses which include residential properties for sale, offices, and hotels, complement FPT's business portfolio, which formerly focused on industrial factories and warehouses for rent.

GOLD is also the major revenue and earnings contributor to FPT. GOLD contributed 85%-90% of FPT's total operating revenue and around 50% of FPT's earnings before interest, taxes, depreciation and amortization (EBITDA) during fiscal year (FY) 2019 through the first nine months of FY2021. In addition, GOLD's assets accounted for 50% of its parent's total assets. Going forward, we expect GOLD to remain a major earnings contributor to the group.

### Growing brand recognition in landed property segment

We view GOLD's brand recognition in the landed property segment has strengthened during the past three years. Revenues from the residential property business increased to THB14-THB16 billion per annum during FY2018-FY2020, up from THB8-THB9 billion per annum during 2016-FY2017. However, the ongoing Coronavirus Disease 2019 (COVID-19) situation and a sharp rise in household debt could negatively impact demand for residential units in the middle- to low-income segments, which are the target segments of the company.

In our base-case forecast, we project GOLD's revenues from landed properties in FY2021 to decline by almost 20% year-on-year (y-o-y) and then increase gradually by 5%-10% per annum over the next two years. Thus, GOLD's revenues from residential properties should be at THB12-THB14 billion per annum during FY2021-FY2023. As of June 2021, GOLD's backlog was THB2.9 billion. We expect the company to deliver backlog worth THB1.9 billion in the fourth quarter of FY2021 and the rest in FY2022. Townhouses will remain the major contributor, accounting for more than 50% of residential sales. We foresee GOLD's gross profit margin from residential projects to dip below 30% in FY2021, before increasing to 30% during FY2022-FY2023.

## Gradual revival in hotel operations, but demand for office spaces to remain sluggish

We believe that the hospitality industry in Thailand will continue to be severely affected by the ongoing COVID-19 pandemic for the remainder of FY2021 through the first half of FY2022. We expect to see some signs of recovery next year, with a revival to the pre-pandemic level by FY2024. The OR for each of its hotels is expected to progressively increase during the next couple of years and should reach the 2019 level in FY2024. We project the average room rate in FY2021 to be 30%-40% below the 2019 level, before improving to 20%-30% below the 2019 level in FY2023 and approaching pre-COVID-19 levels in FY2024. We forecast revenue from hotel operations will only reach 25% of the 2019 level this year. Revenue should then improve to THB200-THB350 million per annum during FY2022-FY2023. Due to fixed costs and depreciation at the time of the industry downturn, we expect GOLD's hotel operations to record a loss during FY2021-FY2022.

Given the contract-based nature of rental properties, we assess the adverse effect from the ongoing pandemic on GOLD's office buildings to be minimal. The OR of "Sathorn Square" and "FYI Center" remained healthy with averaging 94% and 95%, respectively, as of June 2021. The average rental rate of these two office buildings has continued to increase over the past five years. The OR and rental rate of "Golden Land Building" have been in decline since FY2020 as a result of its shorter remaining lease period. However, affected from soften office space demand accelerated by the pandemic, coupled with expected excess office supply in the near future could negatively affect demand for office space and rental rate growth over the forecast period. We project revenue from office buildings to remain in the THB500-THB600 million per annum range during FY2021-FY2023. Revenue from FY2023 onwards will include rental income of around THB100-THB200 million per annum from the new office building "Silom Edge".

## Financial leverage to rise

Our base-case assumption projects GOLD to launch new residential projects worth THB17-THB22 billion per annum and spend THB3-THB5 billion annually to purchase land plots during FY2021-FY2023. We forecast GOLD's total operating revenue to stay in the THB13-THB15 billion per annum range over the next three years, down from THB16-THB17 billion per annum during FY2018-FY2020. We project GOLD's EBITDA to contract to THB2-THB3 billion annually due to sluggish demand in residential property and office space for rent businesses. Capital expenditure for commercial properties is expected to be THB1.5 billion this year and THB2.6 billion in FY2022. The lower earnings coupled with GOLD's funding needs will likely result in a rise in the group's financial leverage. GOLD's debt to EBITDA ratio could rise to 8-10 times over the next 2-3 years from around 5-6 times during FY2019-FY2020. The ratio of funds from operations (FFO) to total debt is projected to be 5%-8%, down from 10%-12% during FY2019-FY2020.

As of June 2021, GOLD had total debt of THB19.1 billion (per priority debt consideration), including THB3.7 billion of priority debt. GOLD's priority debt included secured debt at the parent company and its subsidiaries as well as unsecured debt of subsidiaries. The ratio of priority debt to total debt was 19%. As GOLD's priority debt ratio is less than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that its unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

## Financial support from the parent company

Following the consolidation under FPT, GOLD's financing activities will be pooled to group financing under FPT, which will provide loans and support the capital needs of GOLD in the future. As of June 2021, GOLD's outstanding debt was THB21.9 billion, comprising THB5.3 billion loans from FPT, THB9.5 billion debentures, THB2.3 billion project loans, THB1.5 billion short-term loans, THB0.6 billion long-term loans from subsidiary shareholders, and THB2.8 billion lease liability. GOLD's outstanding debentures of THB9.5 billion will be repaid by cash flow from operations or loans from its parent company when these debentures come due.

We assess GOLD's liquidity to be adequate over the next 12 months. Debts due over the next 12 months will amount to THB9.1 billion, comprising THB4.3 billion short-term loans from the parent company, THB3 billion debentures, THB1.5 billion short-term loans from banks, THB0.2 billion long-term loans, and THB0.1 billion lease liability. Short-term loans from the parent company are expected to be replaced by a new loan. As of June 2021, GOLD's sources of funds consisted of THB0.6 billion in cash on hand plus undrawn committed credit facilities for project loans of THB4.8 billion and undrawn uncommitted credit facilities for short-term loans of THB6.4 billion. GOLD had unencumbered land banks at book value of THB5.6 billion and remaining finished units in debt-free residential projects with a selling price of THB3.7 billion. FFO in FY2022 is expected to be THB1.9 billion.

The financial covenants on GOLD's bank loans and debentures require maintenance of its interest-bearing debt to equity ratio below 2 times. As of June 2021, the ratio was 1.12 times. We believe that GOLD should have no problems complying with the financial covenants over the next 12 to 18 months.

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**RATING OUTLOOK**

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The “stable” outlook mirrors the outlook on the parent company and reflects our expectation that GOLD will maintain its status as a core subsidiary of FPT.

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**RATING SENSITIVITIES**

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The ratings and/or outlook on GOLD will hinge not only on its operating performance but also on the financial position of the group. A stronger operating result and/or financial profile of the group will help enhance the ratings on GOLD. On the contrary, the credit metrics on GOLD will be negatively affected if the group operating performance and/or financial profile significantly deviates from the target level and/or the relationship with FPT weakens materially.

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**COMPANY OVERVIEW**

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GOLD was founded in 1978 by the Srivikorn family and listed on the Stock Exchange of Thailand (SET) in 1994. GOLD’s major shareholders and key executives have changed several times during the past decades. In late 2012, Univentures PLC (UV) acquired a 50.64% stake in GOLD and became the major shareholder. At the beginning of 2016, GOLD increased its capital under a private placement to Frasers Property Holdings (Thailand) Co., Ltd. (FPHT). In August 2019, FPT acquired a 94.5% stake in GOLD and became the company’s major shareholder. Currently, FPT holds a 99.48% stake in GOLD. GOLD was delisted from the SET in August 2020.

GOLD has become a core subsidiary of FPT, undertaking the residential property for sale and commercial property for rent businesses. GOLD’s residential portfolio covers single detached house (SDH), semi-detached house, and townhouse units, with unit prices ranging from THB2 million to THB40 million. Its existing commercial property assets include three office buildings; Sathorn Square, FYI Center, and Golden Land Building, as well as three hotels; Mayfair Marriott, The Ascott Sathorn, and Modena.

Landed properties for sale have contributed around 90% of GOLD’s total operating revenues during the past five years. The revenue contribution from office buildings for rent was 5%, while the contribution from hotel operations was 3%. Revenues from other businesses remained negligible.

**KEY OPERATING PERFORMANCE**

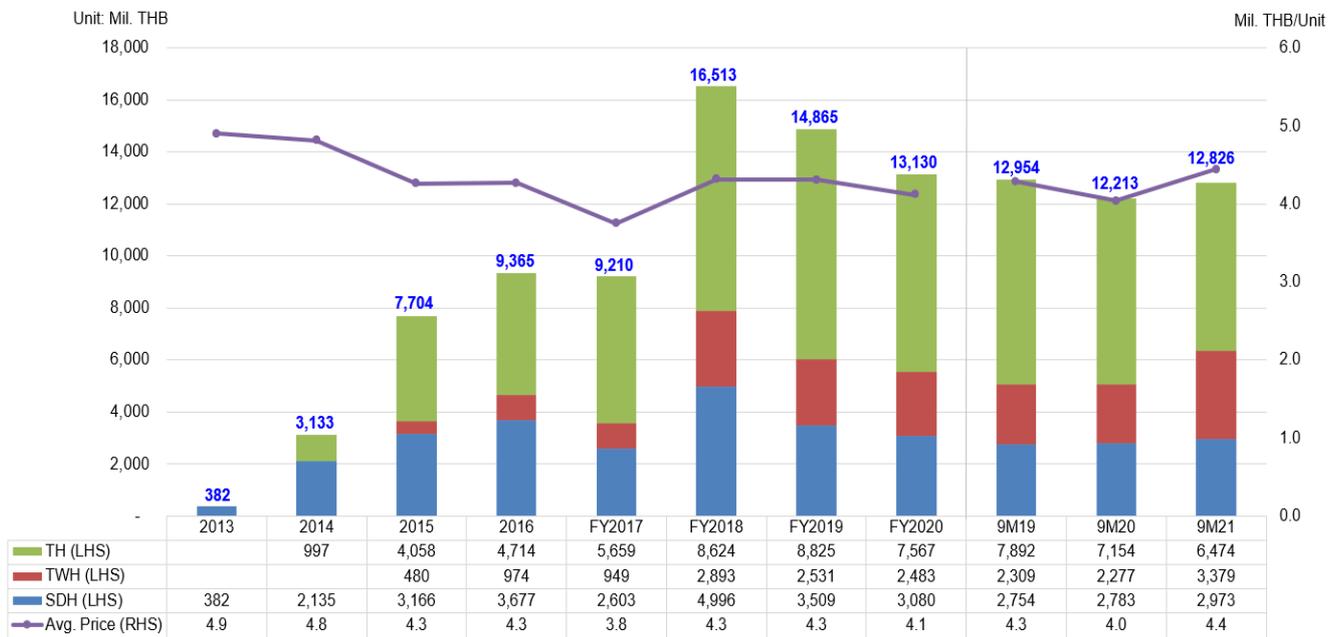
**Table 1: Revenue Contribution by Business**

Unit: % of total operating revenue

Revenue Contribution	2015	2016	FY2017	FY2018	FY2019	FY2020	Oct 2020- Jun 2021
Real estate sales	85	88	87	89	89	90	92
Office building for rent	8	6	7	6	6	6	4
Hotel operation	6	4	4	4	3	2	1
Management fee income		1	1	1	1	1	2
Other operating revenues	1	1	1		1	1	1
<b>Total operating revenues</b>	<b>100</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>8,579</b>	<b>10,831</b>	<b>9,252</b>	<b>15,747</b>	<b>17,384</b>	<b>16,341</b>	<b>9,952</b>

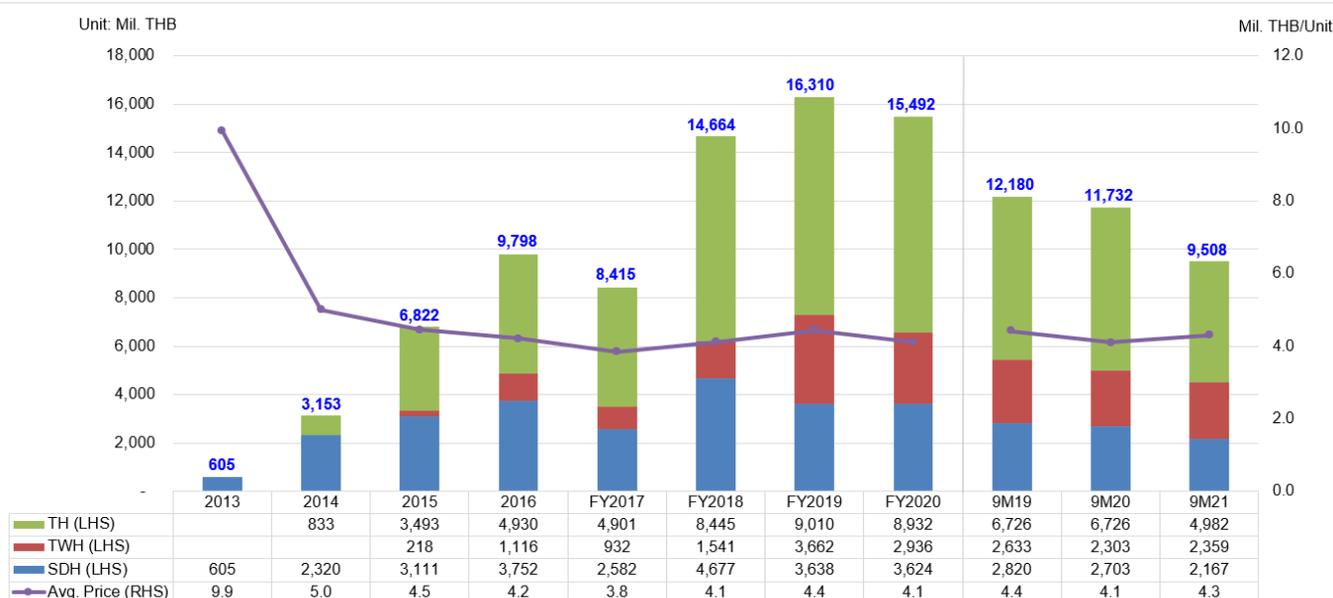
Source: GOLD

**Chart 1: Presales Performance**



Source: GOLD

Chart 2: Transfer Performance



Source: GOLD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Oct 2020- Jun 2021	FY2020	FY2019	FY2018	FY2017
Total operating revenues	9,952	16,341	17,384	15,747	9,252
Earnings before interest and taxes (EBIT)	1,310	2,289	2,837	2,621	1,366
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,949	3,331	3,621	3,209	1,831
Funds from operations (FFO)	1,289	2,007	2,402	2,296	1,427
Adjusted interest expense	463	811	641	341	168
Real estate development investments	32,569	32,878	31,078	23,509	15,553
Total assets	46,745	46,993	47,198	39,202	30,805
Adjusted debt	22,274	20,420	19,497	12,943	6,819
Adjusted equity	19,584	17,487	16,991	15,890	14,364
<b>Adjusted Ratios</b>					
EBITDA margin (%)	19.58	20.38	20.83	20.38	19.79
Pretax return on permanent capital (%)	4.62 **	5.97	8.38	10.09	6.45
EBITDA interest coverage (times)	4.21	4.11	5.65	9.41	10.92
Debt to EBITDA (times)	7.92 **	6.13	5.38	4.03	3.72
FFO to debt (%)	8.22 **	9.83	12.32	17.74	20.92
Debt to capitalization (%)	53.21	53.87	53.43	44.89	32.19

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology - Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Golden Land Property Development PLC (GOLD)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
GOLD22NA: THB3,000 million senior unsecured debentures due 2022	A
GOLD252A: THB1,500 million senior unsecured debentures due 2025	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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