

# CHARN ISSARA DEVELOPMENT PLC

No. 52/2017

12 May 2017

**Company Rating:** BBB-

**Outlook:** Stable

## Company Rating History:

Date	Rating	Outlook/Alert
16/08/13	BBB-	Stable

## Rating Rationale

TRIS Rating affirms the company rating of Charn Issara Development PLC (CI) at “BBB-”. The rating reflects the company’s acceptable track records in the operations of middle- to high-end condominium and hotel businesses, as well as the recurring income it earns from renting out commercial office space, and dividend income from its investments in the Sri Panwa Hospitality Real Estate Investment Trust (SRIPANWA) and Bangkok Commercial Property Fund (BKKCP). These strengths are partly offset by the company’s relatively small revenue base, fluctuating operating performances, and relatively high leverage. The rating also takes into consideration the cyclical and competitive nature of the residential property industry and the relatively high level of household debts nationwide.

CI was established in 1989 and listed on the Stock Exchange of Thailand (SET) in 2002. The Issara family has been the company’s major shareholder since its inception. As of March 2017, the family held a 48% stake in the company. CI’s business scale is considered small compared with its SET-listed peers. Despite its various types of residential properties, the number of the company’s projects was limited. Its products mainly target the middle- to high-end market segments. CI had 14 active projects as of December 2016. Its residential projects are located in Bangkok and the provinces which are popular tourist destinations. The value of remaining unsold units in these projects was approximately Bt10,376 million. Half of the remaining unsold value was in housing projects, with the rest in condominium projects and residential villas.

CI’s presales in 2016 was Bt1,608 million, increasing from Bt543 million in 2015. The presales jump in 2016 was driven by two newly-launched residential villa projects and two single detached houses (SDH) projects. CI has a backlog worth Bt2,037 million. Almost all of the units in its backlog are scheduled to be transferred to customers during 2017-2018. The backlog is expected to be recognized as revenues of around Bt1,100 million in 2017 and Bt900 million in 2018.

Apart from its residential property projects, CI started developing a luxury boutique hotel in Phuket named Sri Panwa in 2006. Sri Panwa is a premium quality hotel and has received a very favorable response from customers. In addition, the on-site hotel helps increase the value of the residential villas offered for sale inside the Sri Panwa project. In 2013, CI sold the Sri Panwa hotel phase 1 to the Sri Panwa Hotel Property Fund (SPWPF). In 2016, SPWPF converted from a property fund to a Real Estate Investment Trust (REIT), SRIPANWA. At the same time, CI sold the Sri Panwa hotel phase 2 to SRIPANWA. CI also leased back the hotel from the REIT. CI invested in 30% of SRIPANWA. CI earns recurring income of Bt80-Bt90 million per annum from renting out the commercial space in two Bangkok office buildings, Charn Issara Tower I and Charn Issara Tower II. Dividends received from the investments in SRIPANWA and BKKCP are around Bt50-Bt60 million per annum.

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CI's financial profile in 2016 was lower than TRIS Rating's expectations. Revenue was Bt2,592 million in 2016, decreasing 2.1% from 2015. Most revenues came from the transfer of the condominium units in its backlog in only two projects: Baan Thew Talay Blue Sapphire, and ISSI Condo Suksawat. CI's operating profit margin (operating income before depreciation and amortization as a percentage of revenue) was 10.1% in 2016, down from 17.1% in 2015. CI has a high level of leverage. The adjusted debt to capitalization ratio, considering the operating lease of the Sri Panwa hotel as a debt obligation, ranged from 60% to 70% during 2013-2015. At the end of 2016, the adjusted debt to capitalization ratio was 68.8%.

During 2017-2019, TRIS Rating's base-case expects that CI should generate revenue in a range of Bt2,500-Bt3,500 million per annum. The revenue contribution from the hotel operations and office rental are expected at around Bt700-Bt800 million per annum. The operating margin is expected to stay at around 15% on average. The adjusted debt to capitalization ratio is expected to stay around 60%-65% for the next three years. CI's financial leverage is expected to improve gradually over the next one to two years due to the cash received from selling the units in Sri Panwa hotel phase 2 to REIT and the transfers of condominium projects. This should reduce CI's leverage. Funds from operations (FFO) is expected to hold above Bt200 million per annum.

CI's liquidity profile was moderate. At the end of December 2016, CI had Bt702 million in cash on hand plus undrawn long-term credit lines of Bt2,636 million. CI has debts due over the next 12 months of Bt1,210 million. The company typically matches the maturities of its short-term debts with the cash it expects to receive from transferring finished condominiums to its customers. CI plans to refinance most of the maturing bonds with new bond issues. During 2017-2019, the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 2 times. The FFO to total debt ratio is expected to stay above 5%.

#### Rating Outlook

The "stable" outlook reflects the expectation that CI will be able to sustain its financial position during 2017-2019. The company is expected to deliver the units in its backlog on schedule. The adjusted debt to capitalization ratio is expected to stay below 65% and the operating profit margin to be maintained at around 15% for the next three years.

The credit rating and/or outlook could be revised upward if CI's operating performance and its financial leverage improve significantly from the current levels. On the contrary, the rating and/or outlook could be revised downward if its operating performance falls below the expectation, or the company's adjusted debt to capitalization ratio stays above 65% on a sustainable basis.

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#### Charn Issara Development PLC (CI)

<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

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**Financial Statistics and Key Financial Ratios\***

Unit: Bt million

	Year Ended 31 December					
	2016	2015	2014	2013	2012	2011
Revenue	2,592	2,648	1,593	1,061	2,068	1,048
Finance cost	192	151	102	82	138	143
Net income from operations	159	132	(28)	303	120	(20)
Funds from operations (FFO)	416	244	(64)	511	228	62
Inventory investment (-increase/+decrease)	(179)	(1,520)	(718)	(437)	607	(317)
Total assets	7,328	6,814	4,885	4,130	3,721	4,142
Total debt	3,682	3,450	1,982	1,292	1,473	2,077
Adjusted debt	5,045	4,639	3,201	2,536	n.a.	n.a.
Total liabilities	5,040	4,788	3,278	2,496	2,397	2,968
Shareholders' equity	2,289	2,027	1,606	1,633	1,324	1,173
Depreciation & amortization	65	24	17	48	70	70
Dividends	14	70	50	87	67	5
Operating income before depreciation and amortization as % of sales	10.12	17.08	10.01	(8.70)	17.89	11.00
Pretax return on permanent capital (%)	11.77	10.85	5.25	18.40	12.81	4.09
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.47	2.13	1.03	4.96	3.31	1.35
FFO/total debt (%)	8.71	5.93	(1.13)	20.14	15.47	3.01
Total debt/capitalization (%)	68.79	69.59	66.58	60.83	52.68	63.90

Note: All ratios have been adjusted by operating leases of Sripanwa hotel since 2013

\* Consolidated financial statements

n.a. Not available

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