INITIATED REPORT

CENTRAL PATTANA (CPN TB)

THAILAND / SET / PROPERTY DEVELOPMENT

Globlex Securities Co., Ltd.

4 December 2024

Mixed-use mastery and predictable growth

- A resilient and defensive business model
- Lowest valuation since COVID-19 with a stronger fundamental
- Initiated with a BUY and TP of THB72

Leading Thailand's retail evolution with resilient growth

Thailand is one of the world's leading in retail development as shopping malls have become an integral part of Thai people's daily life. CPN, the largest mall developer in the country, has successfully capitalized on this cultural dynamic to become the leading mall operator with a proven track record of success. Over the decade, CPN has delivered a robust CAGR of 8-9% in both revenue and net profit, highlighting its strong operational efficiency and strategic focus on expansion, solidifying its position as a dominant player in Thailand's retail landscape.

CPN's vision: Where Shopping meets Living

CPN has strategically leveraged its expertise in shopping mall development to create integrated mixed-use properties that combine shopping malls with offices, residences, and hotels. This diversified approach not only enhances the value of each development but also distinguishes CPN from competitors in the real estate and hospitality sectors.

Central Krabi to Dusit Central Park in 2025E

For 2025E, CPN is targeting a 10% CAGR in revenue growth, supported by its pipeline of new projects and ongoing renovations. Key developments include the opening of Central Krabi in 2H25E and the highly anticipated Dusit Central Park mega-project in 4Q25E. In addition to these launches, CPN is investing in the modernization of its existing malls to enhance customer experiences and maintain its competitive edge.

A temporary hurdle in CPN's growth story

The rising interest cost has been a key factor tempering CPN's growth momentum, even as its core business continues to perform exceptionally well. The spike in interest rates has led to a notable increase in interest expenses, despite the company actively reducing its interest-bearing debt each quarter. This rise in financing costs reflects the macroeconomic environment rather than company-specific weaknesses, as CPN's strategic debt management efforts have been evident in its declining IBD/E ratio.

Initiated with a BUY and TP of THB72

We recommend a BUY for CPN with a TP of THB72, based on a 2025E P/E of 18x, which remains below its 2-year and 5-year historical averages of 20x and 23x, respectively. CPN's current trading P/E of 15x represents one of its lowest levels since the COVID-19 pandemic, despite the company's business operations being significantly stronger now. This valuation provides an attractive entry point with considerable upside potential and limited downside risk.

Analyst

Siriluck Pinthusoonthorn
Siriluck@globlex.co.th,
+662 672 5806

Assistant Analyst

Peerayu Sirivorawong

ESG Rating : AA

CG Rating : ▲▲▲▲▲

BUY

Target Price 12M (THB)	**72.00**
VS. BB Consensus TP (%)	-8.8%
Share Price (THB)	60.50
Upside/Downside	+19.0%

Share Data

Market Cap (THB m)	271,524.00
Par (THB)	0.50
Free Float (%)	68.71
Issued shares (m shares)	4,488

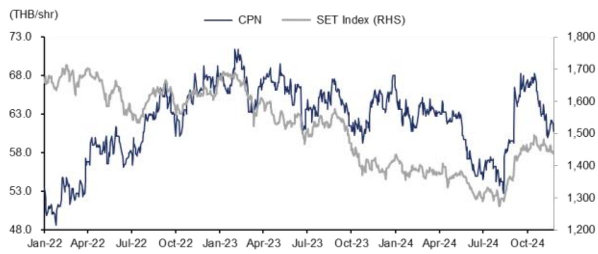
Financial forecast

YE Dec (THB m)	2023	2024E	2025E	2026E
Revenue	48,337	53,433	56,143	58,858
Net profit	15,062	17,201	18,408	18,971
Core net profit	15,062	17,201	18,408	18,971
vs Consensus (%)		3.1	3.1	(0.6)
Net profit growth (%)	40.0	14.2	7.0	3.1
Core net profit growth (%)	50.2	14.2	7.0	3.1
EPS (THB)	3.36	3.83	4.10	4.23
Core EPS (THB)	3.36	3.83	4.10	4.23
Chg in core EPS (%)	-	0.00	0.00	0.00
DPS (THB)	1.80	1.53	1.64	1.69
P/E (x)	20.86	15.79	14.75	14.31
P/BV (x)	3.40	2.68	2.40	2.18
ROE (%)	17.34	17.76	17.18	15.98
Dividend yield (%)	2.57	2.53	2.71	2.79

Source: Financial Statement and Globlex securities

Share Price Performance (%)

	1M	3M	6M	YTD
Stock	(3.97)	1.68	5.68	(13.57)
Market	(3.35)	(4.62)	(2.25)	(15.88)
12M High/Low (THB)				70.00 / 52.50



Major Shareholders (%) as of

Central Holding	26.21
Thai NVDR Company Limited	8.08
SOUTH EAST ASIA UK (TYPE C)	2.70

Company Profile

Develop and invest in retail property for rent comprising large-scale shopping complexes and other related and supportive businesses, such as office buildings, hotels, residential development and food court. In addition, the Company invests in CPN Commercial Growth Leasehold Property Fund (CPNCG) and CPN Retail Growth Leasehold REIT (CPNREIT), and is the property manager and REIT manager.

Source: SETSMART, SET

Mixed-use mastery and predictable growth

While traditionally viewed CPN as part of the property sector, we consider CPN a key player in the commerce sector due to its predominantly recurring income from mall rentals and revenue-sharing agreements with retail tenants. This business model ties CPN's success directly to the performance of commerce activities within its malls, making it more aligned with consumer spending patterns than typical property developers. By blending real estate and commerce, CPN has positioned itself uniquely within the sector, leveraging stable income streams while benefiting from retail growth dynamics.

CPN stands out as a high-quality company with a business model that aligns seamlessly with Thai consumer lifestyles. In Thailand's hot and humid climate, shopping malls are not just retail centers but also serve as essential social and leisure destinations. Capitalizing on this cultural aspect, CPN has established itself as the leading mall operator in the country, with a proven track record of success. Over the past decade, CPN has delivered a solid CAGR of 8-9% in both revenue and net profit, underscoring its operational efficiency and strategic expansion efforts. Its ability to adapt to evolving consumer trends and maintain consistent growth highlights CPN as a standout performer in Thailand's commerce landscape.

Exhibit 1: CPN's portfolio

Sources: CPN

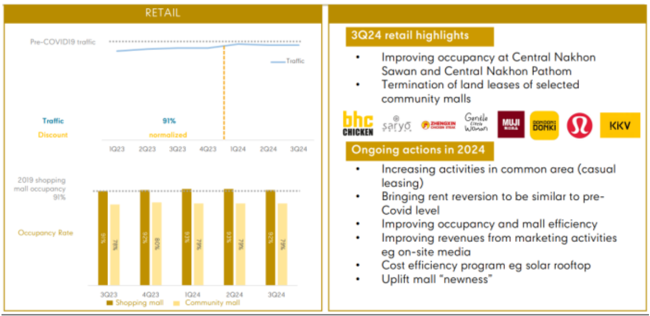
Exhibit 2: 2024 key highlights

Sources: CPN

What sets CPN apart from other commerce players is its highly resilient business model. More than 80% of its revenue comes from mall rentals, providing a stable and predictable income stream that is less reliant on consumer spending compared to other retail businesses.

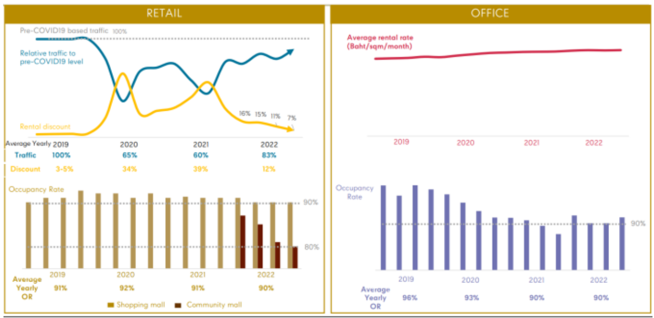
Even during the COVID-19 pandemic, when CPN had to offer discounts to tenants, it maintained stable recurring income, showcasing the defensive nature of its earnings. With its proven ability to deliver steady growth and navigate economic challenges.

Exhibit 3: 3Q24 rental & service



Sources: CPN

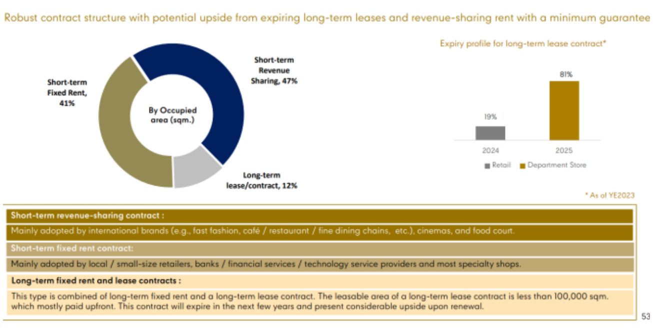
Exhibit 4: 2019-2022 rental & service



Sources: CPN

Despite the challenges posed by the COVID-19 pandemic, including temporary mall closures and a significant drop in foot traffic, CPN demonstrated remarkable resilience by maintaining an occupancy rate of over 90%. This highlights the strong relationship between CPN and its tenants, underpinned by mutually beneficial agreements and the strategic importance of CPN's malls to retailers. The high retention rate also reflects the high switching costs for tenants, who rely on CPN's prime locations, steady foot traffic, and integrated mall ecosystems to sustain their businesses. This tenant loyalty underscores the strength and stability of CPN's business model, even in adverse market conditions.

Exhibit 5: Rental contract structure



Sources: CPN

Exhibit 6: Dusit Central Park

Sources: CPN

CPN's mall traffic has shown steady recovery over the years following the COVID-19 pandemic-induced closures, with current levels nearing full normalization. The rental discounts offered during the pandemic have also been phased out since 2H23, reflecting a return to pre-pandemic operating conditions. Notably, mall occupancy has now surpassed pre-COVID levels, alleviating any concerns about tenant demand or space utilization.

Additionally, CPN appears to be increasingly adopting a revenue-sharing model for high-performing stores, which offers greater earnings potential during stable economic periods compared to fixed rental models. This strategic shift aligns with CPN's focus on maximizing revenue while maintaining strong tenant relationships, further enhancing its growth outlook

For 2025E, CPN is targeting a 10% CAGR in revenue growth, supported by its pipeline of new projects and ongoing renovations. Key developments include the opening of Central Krabi in 2H25E and the highly anticipated Dusit Central Park mega-project in 4Q25E, with CPN holding 85% stake in the retail part. In addition to these launches, CPN is investing in the modernization of its existing malls to enhance customer experiences and maintain its competitive edge.

We expect Central Krabi to contribute 1-2% to CPN's total revenue once it achieves a normal occupancy rate of 90%. Meanwhile, Dusit Central Park, designed to cater to higher-tier customers on par with CentralWorld, is one of the largest malls ever developed by CPN, comparable in size to CentralWorld. When Dusit Central Park reaches its typical occupancy levels, it is projected to contribute 8-10% of CPN's total revenue.

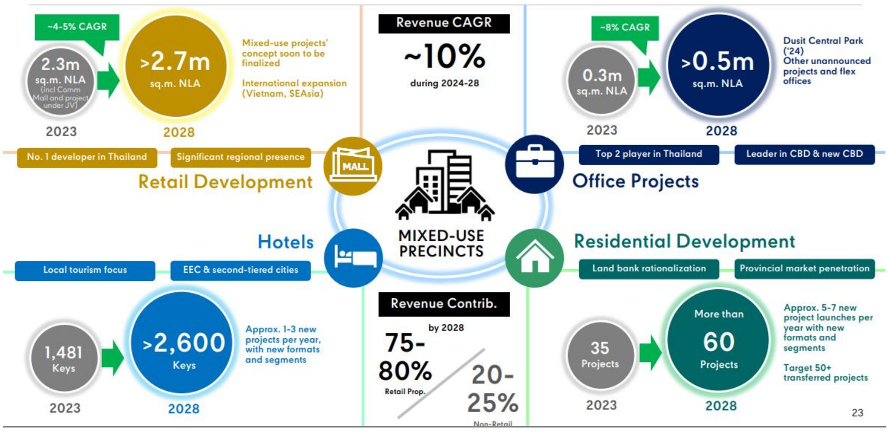
Based on historical trends, CPN typically takes up less than a year to achieve normal occupancy levels for new mall openings. For example, Central Westville, which opened in 3Q23 in an urban area, began with a 92% occupancy rate and increased to 96% as of 3Q24. On the other hand, Central Nakhon Sawan, which opened in 4Q23 with a starting occupancy of 76%, reached 90% within 3 quarters. Given Dusit Central Park's prime location, we expect a similarly rapid ramp-up, minimizing concerns about occupancy

The path to mastery lies in developing strengths into unmatched expertise

In addition to CPN's mall rental revenue, CPN has strategically leveraged its expertise in shopping mall development to create mixed-use properties that integrate shopping malls with offices, residences, and hotels. This diversified approach not only enhances the value of each development but also sets CPN apart from competitors in the real estate and hospitality sectors.

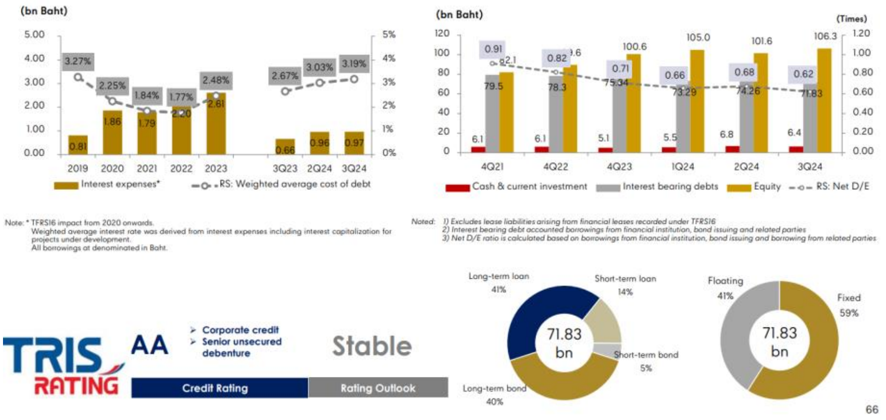
By combining multiple revenue streams within a single project, CPN maximizes land utilization and creates a self-sustaining ecosystem that attracts a diverse customer base. This unique edge strengthens its market position and provides greater stability and growth opportunities compared to traditional mall operators or single-segment developers.

Exhibit 7: 5-year financial target



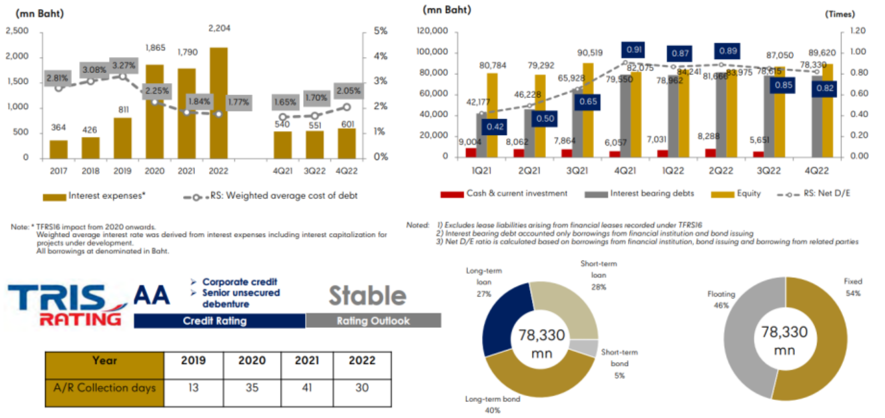
Sources: CPN

Exhibit 8: 3Q24 debt details



Sources: CPN

Exhibit 9: 2017-2022 debt details



Sources: CPN

The rising interest cost has been a key factor tempering CPN's growth momentum, even as its core business continues to perform exceptionally well. The spike in interest rates has led to a notable increase in interest expenses, despite the company actively reducing its interest-bearing debt each quarter. This rise in financing costs reflects the macroeconomic environment rather than company-specific weaknesses, as CPN's strategic debt management efforts have been evident in its declining IBD/E ratio.

As of 3Q24, CPN's IBD/E ratio has improved from 0.9x in 2021 to 0.62x, with 59% of its debt at fixed rates and 41% at floating rates. This debt structure positions CPN to benefit significantly from any reduction in interest rates. We estimate that a 0.5% drop in interest rates could reduce CPN's annual interest expense by around THB150m. With the current interest rate spike already reflected in its results, we do not anticipate further significant increases in interest costs, suggesting that CPN is well-positioned to enhance profitability as macroeconomic conditions stabilize.

Exhibit 10: CPN's interest bearing debt

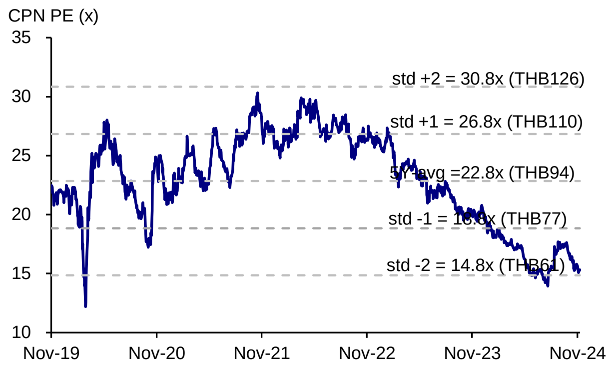
Metrics	Amount (THB m)
Interest-Bearing Debt	71,830
Annual Interest Expense	3,840
Annual Interest Expense with 0.5% Reduction	3,690
Annual Interest Savings	150

Sources: Financial statement, collected by Globlex Research

Initiated with a BUY and TP of THB72

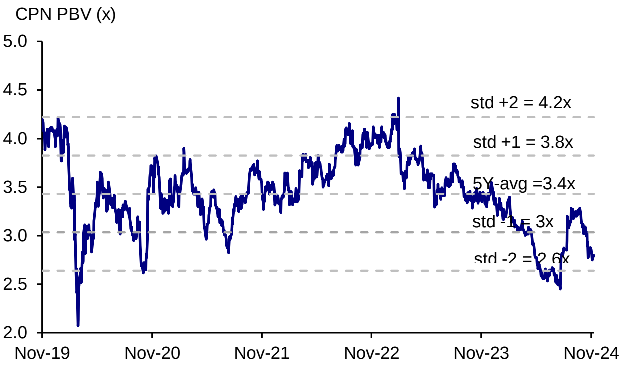
We recommend a BUY for CPN with a TP of THB72, based on a 2025E P/E of 18x, which remains below its 2-year and 5-year historical averages of 20x and 23x, respectively. While Thailand's equity market may not see significant momentum in the near term, CPN's current trading P/E of 15x represents one of its lowest levels since the COVID-19 pandemic, despite the company's business operations being significantly stronger now. This valuation provides an attractive entry point with considerable upside potential and limited downside risk, supported by CPN's resilient business model and ongoing growth initiatives.

Exhibit 11: 5-year P/E band



Sources: Bloomberg

Exhibit 12: 5-year P/BV band



Sources: Bloomberg

Globlex Securities Co., Ltd.

Balance sheet (THB m) Year ending Dec	2022	2023	2024E	2025E	2026E
Current assets					
Cash & ST investment	3,246	3,169	13,584	26,447	38,409
Account receivable	2,915	2,217	1,737	677	-153
Inventories	13,667	16,432	16,161	15,975	16,738
Others	5,414	3,728	4,121	4,330	4,540
Non-current assets					
Net fixed assets	4,005	4,822	5,676	6,427	7,076
Others	243,444	249,505	249,505	249,505	249,505
Total Assets	**272,692**	**279,873**	**290,784**	**303,362**	**316,114**
Current liabilities					
Account payable	1,274	1,485	1,461	1,444	1,513
ST borrowing	27,441	36,999	36,999	36,999	36,999
Others	13,317	15,384	17,006	17,868	18,732
Long-term liabilities					
Long-term debts	52,304	39,762	39,762	39,762	39,762
Others	88,736	85,661	85,661	85,661	85,661
Total liabilities	**183,072**	**179,291**	**180,888**	**181,734**	**182,667**
Paid-up capital	2,244	2,244	2,244	2,244	2,244
Retained earnings	435	163	9,285	20,813	32,421
Others	78,796	89,866	89,866	89,866	89,866
Minority interest	8,145	8,309	8,500	8,705	8,916
Shareholders' equity	**89,620**	**100,582**	**109,895**	**121,628**	**133,447**

Profit & loss (THB m) Year ending Dec	2022	2023	2024E	2025E	2026E
Revenue from sales and services	**38,707**	**48,337**	**53,433**	**56,143**	**58,858**
Cost of goods sold	-9,483	-12,963	-12,749	-12,603	-13,204
Gross profit	**29,224**	**35,374**	**40,684**	**43,540**	**45,654**
Operating expenses	-6,618	-7,726	-8,592	-9,039	-9,476
Operating profit	**22,606**	**27,648**	**32,092**	**34,501**	**36,178**
EBIT	**14,056**	**19,102**	**23,119**	**24,810**	**25,712**
Depreciation	-8,550	-8,546	-8,973	-9,691	-10,466
EBITDA	**22,606**	**27,648**	**32,092**	**34,501**	**36,178**
Non-operating income	**1,509**	**2,204**	**2,386**	**2,386**	**2,386**
Other incomes	1,560	2,133	2,386	2,386	2,386
Other non-op income	-51	71	0	0	0
Non-operating expense	**-2,204**	**-2,613**	**-3,764**	**-3,930**	**-4,120**
Interest expense	-2,204	-2,613	-3,764	-3,930	-4,120
Other non-op expense	0	0	0	0	0
Equity income/(loss)	0	0	0	0	0
Pre-tax Profit	**13,361**	**18,693**	**21,740**	**23,266**	**23,977**
Extraordinary items					
Current taxation	-2,487	-3,461	-4,348	-4,653	-4,795
Minorities	-114	-171	-191	-205	-211
Net Profit	**10,760**	**15,062**	**17,201**	**18,408**	**18,971**
Core net profit	**10,029**	**15,062**	**17,201**	**18,408**	**18,971**
EPS (THB)	**2.40**	**3.36**	**3.83**	**4.10**	**4.23**
Core EPS (THB)	**2.23**	**3.36**	**3.83**	**4.10**	**4.23**

Key ratios Year ending Dec	2022	2023	2024E	2025E	2026E
Growth (%YoY)					
Sales	27.3	24.9	10.5	5.1	4.8
Operating profit	23.4	22.3	16.1	7.5	4.9
EBITDA	23.4	22.3	16.1	7.5	4.9
Net profit	50.5	40.0	14.2	7.0	3.1
Core net profit	202.6	50.2	14.2	7.0	3.1
EPS	50.5	40.0	14.2	7.0	3.1
Core EPS	202.6	50.2	14.2	7.0	3.1
Profitability (%)					
Gross margin	75.5	73.2	76.1	77.6	77.6
Operation margin	58.4	57.2	60.1	61.5	61.5
EBITDA margin	58.4	57.2	60.1	61.5	61.5
Net margin	27.8	31.2	32.2	32.8	32.2
ROE	13.9	17.3	17.8	17.2	16.0
ROA	4.0	5.5	6.0	6.2	6.1
Stability					
Interest bearing debt/equity (x)	0.9	0.8	0.7	0.6	0.6
Net debt/equity (x)	0.9	0.7	0.6	0.4	0.3
Interest coverage (x)	6.4	7.3	6.1	6.3	6.2
Interest & ST debt coverage (x)	0.5	0.5	0.6	0.6	0.6
Cash flow interest coverage (x)	0.1	0.1	0.1	0.1	0.1
Current ratio (x)	0.6	0.5	0.6	0.8	1.0
Quick ratio (x)	0.1	0.1	0.3	0.5	0.7
Net debt (THB m)	76,499	73,593	63,178	50,314	38,353
Activity					
Asset turnover (X)	0.1	0.2	0.2	0.2	0.2
Days receivables	27.5	16.7	11.9	4.4	-1.0
Days inventory	240.2	232.7	236.2	236.2	236.3
Days payable	49.0	41.8	41.8	41.8	41.8
Cash cycle days	218.6	207.6	206.2	198.8	193.5

Cash flow (THB m) Year ending Dec	2022	2023	2024E	2025E	2026E
Operating cash flow	**12,463**	**17,548**	**17,927**	**19,104**	**18,990**
Net profit	10,760	15,062	17,201	18,408	18,971
Depre.& amortization	8,550	8,546	8,973	9,691	10,466
Change in working capital	-985	1,896	1,955	1,883	792
Others	-5,863	-7,956	-10,202	-10,878	-11,239
Investment cash flow	**-6,358**	**-9,711**	**375**	**436**	**124**
Net CAPEX	-9,355	-9,362	-9,362	-9,362	-9,362
Change in LT investment	-826	-79	18,493	19,744	19,324
Change in other assets	3,823	-270	-8,757	-9,946	-9,839
Free cash flow	**6,105**	**7,837**	**18,302**	**19,540**	**19,113**
Financing cash flow	**-5,989**	**-7,915**	**-7,887**	**-6,676**	**-7,152**
Change in share capital	0	0	0	0	0
Net change in debt	-828	164	191	205	211
Divident paid	-5,161	-8,078	-8,078	-6,880	-7,363
Others					
Net cash flow	**116**	**-78**	**10,415**	**12,864**	**11,961**

Per share (THB)	2022	2023	2024E	2025E	2026E
EPS	2.40	3.36	3.83	4.10	4.23
Core EPS	2.23	3.36	3.83	4.10	4.23
CFPS	4.33	5.30	5.87	6.31	6.61
BVPS	18.15	20.56	22.59	25.16	27.75
Sales/share	8.62	10.77	11.91	12.51	13.11
EBITDA/share	5.04	6.16	7.15	7.69	8.06
DPS	1.15	1.80	1.53	1.64	1.69
Valuation					
P/E (x)	29.6	20.9	15.7	14.6	14.2
P/BV (x)	3.91	3.40	2.66	2.38	2.16
Dividend yield (%)	1.62	2.57	2.56	2.73	2.82
Divdend payout ratio (%)	47.97	53.64	40.00	40.00	40.00

GENERAL DISCLAIMER

Analyst Certification

Siriluck Pinthusoonthorn, Register No. 119539, Globlex Securities Public Company Limited

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.