

12 DEC 2023

Fitch Downgrades FNS Holdings to 'B-(tha)'; on Rating Watch Negative

Fitch Ratings - Bangkok - 12 Dec 2023: Fitch Ratings (Thailand) Limited has downgraded FNS Holdings Public Company Limited's National Long-Term Rating to 'B-(tha)', from 'B(th)'. All of FNS's ratings have been placed on Rating Watch Negative (RWN).

The downgrade and RWN reflect high liquidity and refinancing risk, as FNS is relying on asset sales to repay debt due in 2H24. Refinancing risk is exacerbated by our forecast of weak EBITDA interest cover of below 1.0x over the next two years. This may limit the company's ability to access arms-length financing at market-rates should the asset sales be delayed.

We expect to resolve the RWN once the asset sales are concluded, which could take longer than six months. FNS's inability to execute the asset sales in a timely manner could result in the rating being downgraded by more than one notch.

Key Rating Drivers

Asset Sales to Repay Debt: FNS expects to sell the investment properties held at its subsidiary, M.K. Real Estate Development Public Company Limited (MK), to its affiliate, Prospect Logistics and Industrial REIT (Prospect REIT), for about THB3.0 billion in mid-2024. FNS plans to use the proceeds to meet MK's maturing debt in 2H24, including debentures of THB500 million due 18 September 2024 and THB600 million due in 19 October 2024. The asset sale is subject to approval by Prospect REIT's unit holders as well as a capital increase, which is subject to market conditions.

An inability to execute the asset sale in a timely manner could lead to rising default risk. MK successfully sold its warehouses-for-rent for about THB1.8 billion to Prospect REIT in March 2023.

Partly Funded Liquidity: FNS has weak liquidity, due to the debt maturities at MK, which accounts for about 80% of FNS's consolidated assets and debt. FNS's cash on hand of THB143 million as of end-September 2023 and committed undrawn lines of around THB1.1 billion are sufficient to fund projected free cash flow burn of around THB1.0 billion, but falls significantly short of repaying the THB3.5 billion of debt due in the next 12 months.

FNS aims to recover THB550 million in receivables in 2024 from its pre-sold condominium units and may be able to securitise these receivables to support timely debt repayment, as it has done in the past. However, this still leaves it almost entirely reliant on the asset sale for debt repayment, with a failed deal possibly leading to debt restructuring.

Unsustainable Capital Structure: FNS's capital structure is unsustainable and exceeds the company's

cash generation ability. Meaningful deleveraging is contingent on the asset sale, which is subject to high execution risk and conducive capital markets. Net debt could fall in 2024, should the asset sale to Prospect REIT succeed. However, consolidated EBITDA net leverage would remain elevated over the next two years.

Consolidated Profile Drives Rating: We assess FNS's credit profile based on its consolidated profile including MK, adjusted for any dividend leakages to MK's minority shareholders. This follows FNS's increased stake in MK to 49.5% in August 2023, from 31.5%. We believe FNS has effective control of MK via its board of directors and management, including a common CEO, and that FNS is likely to determine the business direction of the group.

Subsidiary's Contagion Risk: We believe MK is important to FNS's strategy to expand its industrial property development and wellness businesses in the medium term. The two companies have separate financial arrangements, but we believe the risk of financial contagion is high following FNS's increased ownership of the subsidiary, as lenders may consider the group as a single entity. FNS is also somewhat reliant on MK's dividends and asset sales to sustain its cash flow at the holding company level.

Execution Risk of Neo Stake Sale: FNS also plans to sell its stake in Neo Corporate Public Company Limited, subject to its IPO on the Stock Exchange of Thailand. Plans have, nonetheless, been delayed for the past few years due to market sentiment and the company now expects the sale to be completed in 1H24. We have not incorporated the IPO and FNS's exit plan or the potential liquidity support it may provide in our forecasts, as the transaction is subject to high execution risk.

Derivation Summary

FNS's rating is significantly lower than that of rated peers in Thailand and is driven by weak liquidity and high refinancing risk.

Key Assumptions

- FNS, via MK, to move away from residential property development and to sell its remaining housing units by 2026
- Consolidated free cash flow to remain at negative THB1 billion in 2024 and negative THB650 million in 2025
- FNS, via MK, to sell warehouses to Prospect REIT for THB2.9 billion in 2024, following THB1.8 billion in sales in 2023, but execution risk is high
- Total capex of THB1.9 billion during 2024, mainly to develop new warehouses for rent, funded by a committed credit facility of THB1 billion

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Execution of asset sales in a timely manner that leads to a meaningful improvement in liquidity.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Weakening liquidity, including due to the inability to execute planned asset sales in a timely manner, could lead to a downgrade of more than one notch.

Liquidity and Debt Structure

Weak Liquidity: FNS lacks sufficient cash on hand and committed credit lines to meet debt of more than THB3.5 billion due in the next 12 months. All current maturities are at MK. Repayment is reliant on an asset sale to Prospect REIT, which is subject to high execution risk.

Issuer Profile

FNS is a holding company with investments in several businesses. Its largest investment is its 49.5% stake in MK. Its other investments involve household and personal care products, a bakery chain and small start-up businesses. MK is a leading developer of industrial warehouses and factories for rent in Thailand's free trade zone area and is likely to be FNS's key growth focus over the medium term.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
FNS Holdings Public Company Limited	Natl LT	B-(tha)	Downgrade	B(th)
	Natl ST	B(th)	Rating Watch On	B(th)

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Corporate Rating Criteria \(pub.03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.03 Nov 2023\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

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