Analyst Briefing for the Bangyai Project

December 11, 2012

Presenters

1. *Mr. Naris Cheyklin, Senior Executive Vice President, Finance, Accounting, and Risk Management, Central Pattana Plc.*

2. *Ms. Naparat Sriwanvit, Senior Vice President, Finance, Central Pattana Plc.*

3. *Mr. Montree Sornpaisarn, Maybank Kim Eng Securities (Thailand) Plc*

4. *Ms. Wantana Petlerkwong, Maybank Kim Eng Securities (Thailand) Plc.*

Slide 4: Mr. Naris

Good morning, analysts. Today, CPN is pleased to present a proposal to lease about 100 rai of land at Bangyai, at the intersection of Kanchanaphisek Road (also known as the West Ring Road) with Rattanathibet Road in Nonthaburi province—a very attractive location near an electric train route. Since the proposed lease will be engaged with Vantage Ground Co., Ltd., the landlord and a company in Central Group, this item is regarded as a connected transaction. The CPN Board of Directors of November 9, 2012, approved CPN's land leasing with Vantage Ground, subject to the approval of a shareholders' meeting. To this end, an Extraordinary Meeting of the shareholders (No. 1/2013) (EGM) will be held on January 18, 2013.

Slide 5: Mr. Naris

The plot is located right at a corner of this intersection. The purple line cutting across here is the Purple MRTA Line. CPN will enter into the lease by making an upfront payment of Baht 655 million together with 30 years of annual leases totaling about Baht 4,443 million, for a grand total payment of Baht 5,098.68 million.

Slide 6: Mr. Naris

Since the project location is at a corner, access is extremely convenient. Besides, the size of the plot is nearly 100 rai, so the project potential is quite high for a mixed-use complex. Initially a shopping complex will be developed, with other development likely to follow suit.

Slide 7: Mr. Naris

The lease will be paid annually for 30 years, rising every three years, especially after the third year because we bargained with the landlord that in the initial construction and the operation period, our cash flow would be modest. Therefore we requested a more modest lease during the initial period, which is to rise in later years. This way, we would improve our IRR.

Slide 8: Mr. Naris

Here is our plan for the transaction:

- November 28, 2012: Account book closed for XM
- January 18, 2013: The EGM will be held
- Late January 2013: Actual lease will likely be signed
- February 2013: Construction is set to begin.

To date, design work has begun.

What I described was the general features of the transaction. As for details about its suitability, Mr. Montree will give a presentation.

Slide 9: Mr. Montree

Maybank Kim Eng is proud to have had a chance to work with CPN for a decade or so, and recognize CPN's earnest intention toward its investors all along. First of all, we have been assigned to serve as an independent financial adviser (IFA), not a negotiation adviser on lease conditions. Our duty is to inspect the negotiation outcome from investors' point of view whether the deal is fair, particularly to other investors who are not connected party, so our duty is to focus on sensibility and value. I might say that the land location is suitable for business because the plot is at a corner, an attractive, massive plot that can be exploited in many ways. For Central Group, location is of foremost importance. The corner of the plot has several access roads, which is critical for shoppers' convenience. You will agree that shopping complexes that border the main road but have only one access road mostly face traffic congestion. As for the suitability of the lease conditions, the project's IRR is excellent. For decision-making, as far as I know, CPN management were quite independent. Although Vantage Ground, which is a connected party, has invested in putting plots of land together, CPN did not need to accept all conditions, especially if some proved unsuitable. CPN management and board made independent decisions, treating CPN's interests as a key consideration, an illustration of proper business principles. As for other sensibility aspects, including proper values, Ms. Wantana will address them.

Slide 10: Ms. Wantana

Details about the IFA's opinions will begin with Slide 10 onward.

This slide reiterates that this is a connected transaction for CPN, which will enter into a leasing agreement with Vantage Ground (a connected party) after receiving an approval from the shareholders on January 18, 2013. Most key conditions are ordinary ones. After a lease has been signed, CPN will begin construction work of an integrated shopping complex and then rent space out to tenants and retail outlets, which is normal business practice.

As for lease payments, as Mr. Naris said, the deal calls for an upfront payment of Baht 655 million, after which there are annual lease payments. During the construction period, these payments are modest as a result of negotiations that aligned lease payments with project operation. To enforce them, these conditions must be approved by the shareholders in line with regulations of SEC and SET.

Slide 11: Ms. Wantana

Vantage Ground, established in December 1991, buys and sells or leases properties. Wholly owned by Central Group, as seen on the right, today its registered capital amounts to Baht 85 million.

Slide 12: Ms. Wantana

CPN management's plan is that the leased land will house a super regional mall, to be constructed in about 26 months, from 2013 onward, with a gross floor area of 330,000 sq.m. and CPN's net rentable area (excluding the department store) of about 75,000 sq.m.

Ms. Wantana: Slide 13 and later ones will address the opinions of IFA. The focus of the opinions given to investors is the transaction's sensibility. That is, does the price tag reflect fair conditions? These conditions include those of the lease agreement to be signed with Vantage Ground.

Slide 13: Ms. Wantana

This slide sums up its sensibility aspects. We regard this transaction as CPN's core business of developing and managing a shopping complex, which calls for procurement of a nice piece of land. Mr. Naris and Mr. Montree have said that such land is hard to find these days, which was why Vantage Ground had spent long years gathering land, involving several title deeds, since 2003. So it is a golden, suitable opportunity to develop a large-scale shopping complex in about 100 rai that can accommodate business expansion and a mixed-use complex to diversify income for CPN even more while serving as a development pipeline for CPN. The IFA therefore regards this transaction as sensible and beneficial to CPN and long-term shareholders alike.

Slide 14: Ms. Wantana

Besides sensibility, IFA considered the transaction's risk factors.

The key risk factors arise from project development concerning the ability to generate income as planned, which could affect projected financial returns.

As for the failure to find tenants and shopping complex development under the budget or planned timetable, such risks are regarded as insignificant. This is because of CPN's past experience seen in projects in and around Bangkok, together with provincial areas, which should convince investors of CPN's ability to execute its plans.

As for flood risks, during the Great Floods of 2011 sizeable stores nearby, like Big C Bangyai, were not really ravaged by the floods, except for some rising water on the roads. In anticipation of this situation, CPN will take proactive steps by erecting higher flood barriers and making the project area higher than past flood levels. In addition, it will take out insurance during the construction period and all-risk insurance, which will cover operational periods. Plans are also in place for floods, whether the hardware, water pumping, or personnel training—you could say CPN have covered all ground. But, as I said, even during last year's Great Floods, the water did not reach project areas of nearby projects. With the project's planned higher level, this risk should prove manageable.

Slide 16: Ms. Wantana

As for the suitability of this connected transaction, it is quite clear that the land's location is attractive and holds the potential of shopping complex development. If CPN does not engage in this transaction and chooses another location by procuring land on its own, gather plots of land on its own, or identify other landlords, chances are that CPN will not get as good a location as this one. What is more, the land size may be unsuitable for developing a major shopping complex. It is clear, therefore, that this transaction is suitable.

Slide 17: Ms. Wantana

This slide concerns the opinion whether the price conditions are fair. IFA applies two evaluation approaches: market and income approaches. As a rule, SET or SEC should focus on whether a given connected transaction follows market prices or indeed benefits CPN. In either case, IFA compared the market prices according to independent land valuators under SEC's list. For the assessment of the land and its leasing price under the market price over 30 years, CPN identified two valuators: Brooke Real Estate Co., Ltd., and 15 Business Advisory Co., Ltd.

Slides 17-18: Ms. Wantana

These slides contain land valuation details, with sample market prices for comparison purposes.

Slide 19: Ms. Wantana

Based on our consideration, the valuation prices of both companies were Baht 1,870 million and Baht 1,978 million. Other details used by IFA for the leasing were that the upfront payment was Baht 655 million and that annual leases are to be paid, and its present value computed at an 8.76% WACC discount rate came out to Baht 1,748 million. Compared with the market-based leases given by both valuators, the discount ranged from 5 to 10%. Therefore, the lease paid to Vantage Ground would be no higher than market prices and would contain some discount. All this is based on the first valuation approach.

Slide 20: Ms. Wantana

Under the second valuation approach, IFA considered how much benefit CPN would get for the lease paid to develop the project, how much value addition CPN and its shareholders would derive by way of a comparison of project IRRs. The key assumption consisted of occupancy rates and rental rates collected from tenants based on comparable current projects. The 14.8% IRR of the project in question far exceeds the 8.76% WACC. In short, this project would supplement value to CPN and its shareholders, based on IRR and minimum required return comparison. Since CPN's policy requires 14-15% IRR, the project's IRR indeed lies within CPN's IRR range. In addition, IFA compared the required returns of shopping complexes in general, based on the data obtained by the Thailand Asset Valuation Foundation of 2011, which averaged 8-12%. Therefore, this investment is likely to yield decent returns for the shareholders.

Slide 21: Ms. Wantana

On the whole, IFA thinks this transaction will benefit both CPN and its shareholders. First, the sensibility of transaction engagement, which follows the business plan of creating long-term yields to CPN and its shareholders. Second, the sensibility of prices, evident in both valuation approaches. Besides, the lease conditions were found to follow normal business leases and require that once the 30-year lease period is over, CPN may extend the lease, when negotiation will be based on prevailing market conditions. Negotiation will begin one year before the lease expiry. The conditions of lease payment should also prove beneficial because lease payments are divided up in line with project income generation, which would add to project returns. In conclusion, IFA believes this transaction should be approved by the shareholders.

Mr. Naris:

Before proceeding to the Q&A session, I might give you some background to this plot of land. In securing the land, we consider the suitability for CPN-identified and Central Group-identified locations. You see, Central Group invests in other commercial prospects too. This plot of land had been under consideration since 2003, but back then CPN had so many expansion projects on its plate and had invested in many plots of land—like the Chaengwattana, Khonkaen, and Pattaya Beach projects, not to mention the construction of a complex in Chonburi, each of which required Baht 3-4 billion, which was massive. Meanwhile, this big plot required a very long time to put together because of the many title deeds involved, owned by many minor individuals. It proved risky to put the plots of land together, not to mention tax and several other matters involved. As I said, CPN was then burdened with huge investment and already had the Rattanathibet project in operation for a short period. So, CPN considered it improper to take on another burden of gathering plots of land because its cash flows were still relatively modest. We therefore let Central Group purchase the land, but whether CPN would indeed develop the land would be considered later. Actually, a similar situation had occurred in Phuket, when CPN had just acquired CentralWorld with a huge investment. Central Group owned a plot of land in Phuket, but CPN was not in a position of buying or investing in the land. Since Central Group could face problems if the land acquired was left idle, it started constructing Central Festival Phuket on its own. I found myself having to answer numerous questions from analysts and shareholders, especially why CPN did not invest in the Phuket project. Frankly, CPN regretted the lost opportunity, but we just were not allowed to by the investment capital in our pocket. Fortunately for us, one year after the launch, a tsunami occurred there, giving Central Group worrying problems for about two years—but things have since recovered. To recap, when CPN was not ready, Central Group would buy the land; whether CPN would develop that land is subject to our readiness. No commitment. Today, with the imminent completion of the electric train route, we project the location to be extremely attractive. As for the CentralPlaza Rattanathibet project, performance now seems healthy. If we had not invested there, our competitors probably would have. We therefore think the timing is right and start investing in this plot of land (at Bangyai). Ms. Naparat negotiated with the landlord and had been offered great various conditions.

The prime condition for the purchase is that this would be a long-term lease. As a general practice, Central Group's policy is to buy a land and keep it, just like the land at Pinklao and Ramintra that CPN had to lease from Central Group. The conditions are very similar. So, this is the background to this plot of land, which looks bright in the next 2-3 years. Today the prices of nearby land have taken big leaps. I heard that competitors have shown interest and actually bought some land, so CPN had to speed up on its negotiation over this plot of land.

Additional Q&As from the session

1. What does the area to undergo initial construction consist of, and how much land will be used for the purpose?

    - The first phase of development is the shopping complex, requiring about 60 rai, whereas those areas to the back and to the front will not be developed yet. The project features three-story low-rise buildings, of probably a new format. Specific plans have been laid out, however, about eventual development. The 14.8% IRR accounted for the first phase, which means that the remaining area could add value to the project.

2. What does the mixed-use complex consist of?

    - We will initially build a shopping complex in the 60 rai mentioned. The rest could contain some additional residences, although an office building looks unlikely.

3. Could the remaining, undeveloped area be subleased?

    - This is possible provided that the transaction proves suitable.

4. To which CPN project is the Bangyai Project comparable?

    - The Bangyai Project is somewhat larger than that the Chaengwattana Project.

5. How many baht per square meter is the rent planned for retail outlets under the Bangyai Project?

    - About 1,400 baht per square meter, a cautious estimate based on comparable current projects of 1,200-1,300 baht per square meter. We project that over the next 2-3 years, rents will be rising by about 5% annually.

6. What occupancy rate do you project for the Bangyai Project?

    - For the first three years, we estimate 89%, and for subsequent years, 92-95%, which are very conservative because newly launched complexes today boast practically full occupancy, like CentralPlaza Lampang and CentralPlaza Suratthani.

7. Has the capital expenditure of CPN included this project?

    - Yes. We already included the required capital expenditure of the Bangyai Project in the announced plan.

8. Do you foresee change in the land cost paid to Vantage Ground?

    - No, because the lease will be as specified in the contract.

9. What is the project's payback period?

- By and large, project payback periods range from seven to 10 years. But since this is a large, new-format project that differs from current projects and requires massive capital, the payback period is estimated at 10 years.

10. Will the Bangyai Project offer discounts to tenants?

- As a normal practice, CPN offers discounts to retail outlets during the launch of new shopping complexes. For this project, CPN has estimated discounts of about 10% for the first two years, which are already included in its financial projections. The discounts to the outlets these days are generally lower than estimates.

11. Are you concerned about a construction labor shortage?

- CPN has hired major contractors like Italian-Thai Development Plc, Ritta Co., Ltd., and Construction Lines Co., Ltd., with ample manpower, so the likelihood of a labor shortage is low. Around the project, little major construction is now taking place. To date, we have not faced a labor shortage; for instance, the Lampang Project took only eight months. Therefore, the Bangyai Project should be completed as planned.

12. How large is the Rattanathibet Project, and will additional development be undertaken to accommodate the launch of the Bangyai Project? Do you have any concern about customer siphoning between the two?

- An old shopping center taken over from Jusco Rattanathibet, the Rattanathibet Project occupies about 50 rai. We have planned some renovation there, which attracts different customer groups from what we project at Bangyai, where formats differ.

13. What criteria does CPN have in selecting a department store for a given shopping complex—specifically Central Department Store (CDS) or Robinson Department Store (ROBINS)? I notice that the Rattanathibet Project has RDS, whereas the Bangyai Project, which is rather remote, plans a CDS operation.

- The Rattanathibet Project was taken over from Jusco Rattanathibet, with the previous format left relatively intact by CPN, so it may not suit CDS positioning. Today the Kanchanaphisek Road area sees a radically different landscape from before, with electric train routes and construction of many residential projects—just slightly less than CentralPlaza Lardprao! As a result, CDS should fit customer groups in this vicinity with high purchasing power.

14. Besides CDS, which is an anchor, what tenants form the other anchors?

- They include cinemas, Tops Supermarket, Homeworks, and B2S. Some anchors, like SuperSports, are located in CDS, with the land lease and construction cost split with CPN.

15. Which competitor could invest around the Bangyai Project?

- IKEA and Siam Future could locate their shopping areas close by, although we are unsure whether they could successfully gather the land plots, since the landlords tend to be minor ones. After Central Group's purchase of the land there, prices began rising sharply, so our competitors may still be unable to gather enough plots of land.
- Note that Vantage Ground's land is in a "red" zone, which can house commercial facilities with tall buildings or major shopping complexes. Also, this high-potential area is densely populated. Today red-zone plots of land in that vicinity are only a handful.

16. The pros of developing a shopping complex in the area before others?

- The first mover will of course attract brands.

Mr. Montree:

Based on the questions, I believe that analysts value growth over engagement in the transaction, whether this will be a land lease, not a land purchase. To me, everyone today agrees with CPN and focuses on growth, not capital limitation. This would enable CPN to continue to grow, with plans for the future without capital limitation at any shopping complex for too long. In fact, CPN is managing this limitation today by selling assets into real-estate mutual funds, which contributes to CPN's growth as seen today.