

# ROJANA INDUSTRIAL PARK PLC

No. 170/2018

29 October 2018

## CORPORATES

**Company Rating:** BBB+

**Outlook:** Stable

### Company Rating History:

Date	Rating	Outlook/Alert
06/08/13	BBB+	Stable
02/05/12	A-	Negative
14/10/11	A-	Alert Negative
27/03/07	A-	Stable
10/01/06	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Rojana Industrial Park PLC (ROJNA) at “BBB+” with a “stable” outlook. The rating reflects ROJNA’s reliable cash flow from electricity sales and long track record in developing and selling industrial properties across diversified locations in Thailand. These strengths are considerably weighed down by the volatile nature of the industrial property market, slow recovery in its major industrial estate in Ayudhya, and high leverage.

## KEY RATING CONSIDERATIONS

### Reliable cash flow from electricity sales

ROJNA generates reliable recurring income from electricity sales supported by its long-term contracts with the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA), and an increasing number of industrial users at the Ayudhya industrial estate. Electricity sales from both its cogeneration power plants and solar farm account for 80% of its total revenues.

ROJNA’s subsidiary, Rojana Power Co., Ltd., has contracted with EGAT through Power Purchase Agreements (PPA) under the terms of the Small Power Producer (SPP) scheme. 55% of its total capacity is sold to EGAT. The remaining capacity is for industrial users at ROJNA’s industrial estate in Ayudhya. The contract period with EGAT is 25 years. Currently, over six years remain in the contracts. Rojana Energy Co., Ltd., another ROJNA’s subsidiary, entered into three PPAs to sell electricity from its solar farm to PEA, its sole customer since 2014. The contract is auto-renewed every five years.

Hence, we expect ROJNA will have relatively consistent earnings. Total revenues will range from Bt12,000-Bt13,000 million per annum for the forecast period thanks to the projected higher electricity demand and higher industrial land sales according to the Eastern Economic Corridor (EEC). ROJNA’s earnings before interest, tax, depreciation, and amortization (EBITDA) will be around Bt3,000 million per annum, the same level as the five-year average.

### Proven track record in industrial properties with moderately diversified locations

ROJNA has been one of the leading industrial property developers in Thailand for 30 years. The company currently owns and operates six industrial estates in Ayudhya, Rayong, Prachinburi, and Chonburi provinces. After the massive floods in Ayudhya in 2011, the company expanded to other provinces to diversify the risk of stagnant demand for industrial land in Ayudhya.

The industrial estates in eastern Thailand are expected to increase land sales for the next three years thanks to the government’s investment promotion schemes, including new privileges made available to investors by the Board of Investment of Thailand and the development of the EEC.

ROJNA remains third in the industrial property market. Its market share has averaged 20% over the past five years after WHA Corporation PCL (WHA; 51%) and Amata Corporation PCL (AMATA; 24%).

## **Volatile nature of the industrial property market and slow recovery in Ayudhya industrial estate**

The industrial property market is volatile, influenced by changes in economic conditions, the political situation, and the investment climate. The prolonged economic slowdown of the past few years has curbed investment spending and the sales of industrial land nationwide. According to a report from CB Richard Ellis, industrial land sales in Thailand remain sluggish. Sales declined to 1,700 rai in 2017 and 511 rai in the first half of 2018, comparing to around 4,000 rai per annum in the previous years. The industry condition reflects the situation of ROJNA's land sales. ROJNA sold only 390 rai in 2017 and 179 rai in the first half of 2018, comparing to 500-700 rai in the past.

### **High leverage but acceptable cash flow**

The company's leverage is still high despite the net proceeds received from the sales of TICON Industrial Connection PLC's (TICON) shares. Apart from debt repayment and acquiring more land, ROJNA invests in various available-for-sale securities to diversify its current portfolio. Total debt to capitalization ratio is forecast to drop slightly over the forecast period but is still considered high at around 50%.

Cash flow protection is manageable. Debt maturing in 12 months is Bt6,500 million. Of which, 78% are outstanding bills of exchange and short-term debt, while the rest is long-term debt. Capital expenditures (CAPEX) is estimated approximately Bt1,000 million per year during 2018-2021. For the next 12 months, the debt repayment and CAPEX should be funded by its funds from operations (FFO) of Bt1,700 million, cash and short-term investment of Bt5,100 million, and undrawn credit facilities of Bt1,900 million. The FFO to total debt ratio will be in the range of 11%-15% for the forecast period, higher than the 8%-11% range during 2015-2017, resulting from better operating performance and gradual debt repayment.

### **RATING OUTLOOK**

The "stable" outlook reflects the fact that ROJNA will maintain its market position in the industrial property development industry. The cash flows from the power segment are expected to counterbalance the fluctuations in industrial land sales.

### **RATING SENSITIVITIES**

ROJNA's rating could be upgraded if the company makes significant, sustained improvements in cash flow generation and debt serviceability. A downward rating pressure would emerge if the company undertakes any sizeable debt-financed investments which will deteriorate its balance sheet and cash flow protection.

### **COMPANY OVERVIEW**

ROJNA was established in 1988 by the Vinichbutr family and the Sumitomo Group. In addition to selling industrial properties and providing utility services, ROJNA owns and operates cogeneration power plants, producing 489 megawatt (MW) of electricity and owns a 24-MW solar farm located in Rojana Industrial Park in Ayudhya province.

As a part of efforts to increase recurring income, ROJNA increased its equity stake in TICON, a leader in renting industrial properties in Thailand, to 43.6% from 20.6% with an additional investment about Bt5,300 million in late 2014. ROJNA began to consolidate TICON's financial statements onto its own financial statements in January 2015. However, in October 2016, TICON sold its additional shares to Frazer Holding Thailand, leading to a decrease of stake held by ROJNA to 26%. ROJNA deconsolidated TICON's financial statements and has only recognized share of profit from TICON since January 2017. In April 2018, ROJNA sold all TICON stakes to Fraser Assets Co., Ltd.

**KEY OPERATING PERFORMANCE**

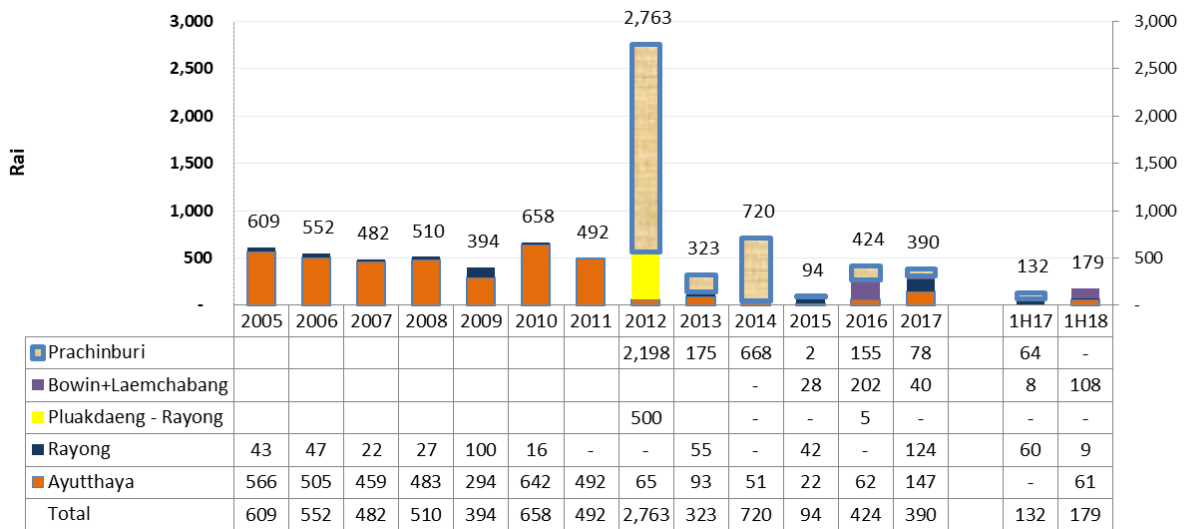
**Table 1: Revenue Breakdown**

Unit: %

Revenue	2013	2014	2015	2016	2017	Jan-Jun 2018
<b>Sales</b>						
• Industrial land	15	23	12	13	14	5
• Commercial Building/Condo	22	-	7	-	-	-
Total sales	37	23	19	13	14	5
<b>Recurring income</b>						
• Electricity	58	71	73	76	76	84
• Solar	1	2	4	5	4	4
• Utilities & rental	4	4	4	6	6	7
Total recurring income	63	77	81	87	86	95
<b>Total revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total revenue (Bt million)</b>	<b>9,155</b>	<b>11,597</b>	<b>11,884</b>	<b>9,757</b>	<b>10,866</b>	<b>5,514</b>

Source: ROJNA

**Chart 1: Industrial Land Sales**



Source: ROJNA

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	-----Year Ended 31 December -----				
	Jan-Jun 2018	2017	2016	2015	2014
Total operating revenues	5,537	10,908	9,829	11,890	11,619
Operating income	1,569	3,134	3,200	4,583	2,466
Earnings before interest and taxes (EBIT)	966	2,889	1,638	2,196	1,688
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,632	3,248	3,554	4,982	2,672
Funds from operations (FFO)	1,091	1,938	2,517	3,778	1,670
Adjusted interest expense	555	1,119	1,031	1,149	994
Capital expenditures	264	1,286	5,238	8,118	1,591
Total assets	46,742	45,829	76,976	76,023	69,739
Adjusted debt	20,266	23,086	24,143	43,444	39,611
Adjusted equity	17,487	17,839	25,147	25,358	24,002
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	28.33	28.73	32.56	38.54	21.22
Pretax return on permanent capital (%)	5.43 **	6.19	2.70	3.23	3.66
EBITDA interest coverage (times)	2.94	2.90	3.45	4.34	2.69
Debt to EBITDA (times)	5.48 **	7.11	6.79	8.72	14.83
FFO to debt (%)	11.59 **	8.39	10.43	8.70	4.22
Debt to capitalization (%)	53.68	56.41	48.98	63.14	62.27

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**Rojana Industrial Park PLC (ROJNA)**
**Company Rating:**

BBB+

**Rating Outlook:**

Stable

**TRIS Rating Co., Ltd.**

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