

ROJANA INDUSTRIAL PARK PLC

No. 178/2019
29 October 2019

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 29/10/18

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+”. The rating reflects ROJNA’s predictable cash flow from electricity sales and its ranking as one of the top three industrial property developers in Thailand. However, the rating is constrained by the company’s high leverage and the volatile nature of the industrial property market.

KEY RATING CONSIDERATIONS

Predictable stream of cash flow from electricity sales

ROJNA’s electricity sales are steady supported by its long-term contracts with the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA). In addition, demand for electricity from industrial users in ROJNA’s industrial estates in Ayudhya province is also on the rise, with a compound annual growth rate (CAGR) of 13% for the past five years. In 2018, electricity sales from the company’s cogeneration power plants and solar farm accounted for 87% and 75% of total revenue and earnings before interest, tax, depreciation and amortization (EBITDA), respectively.

ROJNA’s subsidiary, Rojana Power Co., Ltd, sells 55% of its capacity to EGAT through three long-term Power Purchase Agreements (PPA) under the Small Power Producer (SPP) scheme. The contract periods with EGAT are 25 years. As of June 2019, the contract periods remaining are in excess of five years.

Rojana Energy Co., Ltd., another subsidiary of ROJNA, generates income from solar power through three contracts with PEA under the Very Small Power Producer (VSPP) scheme. The contract is automatically renewed every five years.

TRIS Rating expects ROJNA to be able to generate consistent earnings throughout the forecast period. Total revenue is forecast to be in the Bt12.8-Bt13.6 billion per annum range and EBITDA to be Bt3.4-Bt3.6 billion per annum in 2019-2022.

One of the top three industrial developers in Thailand

ROJNA has been one of the leading industrial property developers in Thailand for 30 years. Based on industrial land sales over the past five years, ROJNA has market share on averaged 19% following WHA Corporation PCL (WHA; 49%) and Amata Corporation PCL (AMATA; 26%).

Currently ROJNA owns and operates seven industrial estates in Ayudhya, Prachinburi, Rayong, and Chonburi provinces. The company has diversified into many locations to mitigate the risk of stagnant demand in Ayudhya following the massive flooding which occurred in 2011.

ROJNA continues to acquire land in the Eastern Economic Corridor (EEC) areas. Thanks to the government’s investment promotion schemes, including new privileges made available to investors by the Board of Investment of Thailand, industrial land sales in eastern Thailand are expected to rise over the next three years.

Volatile nature of the industrial property sector

The industrial estate market is volatile, influenced by changes in economic conditions, the political situation, and the investment climate. Currently ROJNA has about 3,600 rais of salable area and 6,900 rais of land held for development. About 60% of these lands are located in Chonburi and Rayong,

two provinces on the eastern seaboard.

TRIS Rating expects prospects for ROJNA's industrial land sales will improve following signs of a recovery of foreign direct investment in industrial estates after the prolonged economic slowdown. Moreover, the US-China trade war, that is helping stimulate investment in Thailand especially from the Chinese manufacturers, is likely to continue for some years.

Relatively high leverage but manageable liquidity

ROJNA's leverage is still on the high side, despite the company receiving Bt8.6 billion in proceeds from sales of TICON Industrial Connection PLC's (TICON) shares. The proceeds were used for investing in available-for-sale securities, real estate investment trust (REIT), non-performing loans (NPLs) and land, as well as for a special dividend payment. Thus, the total debt to capitalization ratio remained above 50% and debt to EBITDA ratio of more than 6 times as of June 2019.

We view ROJNA to have manageable liquidity with sufficient cash flow protection over the next 12 months. Debts maturing within the next 12 months will amount to Bt7.1 billion. The sources of funds for debt repayment and investment spending include funds from operations (FFO) of Bt2.0 billion, cash and short-term investments of Bt3.0 billion, and remaining undrawn credit facilities. The FFO to adjusted net debt ratio will be in the range of 9%-15% for the forecast period, which is higher than the 8%-10% levels achieved during 2016-2018. The improved ratio is, mainly the result of better performance in the industrial estate business and debt amortization.

BASE CASE ASSUMPTIONS

- Revenue from industrial lands to be in the range of Bt1.2-Bt1.7 billion per annum.
- Revenue from the power segment is projected at Bt10.3-Bt10.6 billion per annum.
- Overall gross margin and operating margin are projected at 20% and 15%, respectively.
- Capital expenditures and investments to be Bt2.5 billion in 2019 and Bt300-Bt500 million per annum during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ROJNA will maintain its competitive position in the industrial property development industry. Cash flow from the power segment is expected to counterbalance fluctuations in the industrial land sales.

RATING SENSITIVITIES

A rating upgrade could occur if ROJNA can make significant improvements in its cash flow generation and debt servicing ability, with its net debt to EBITDA ratio dropping below 4 times for a sustained period. On the other hand, ROJNA's rating could be downgraded if the company undertakes any sizeable debt-financed investments that result in the deterioration in its balance sheet and cause the net debt to EBITDA ratio to rise above 9 times for a sustained period.

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 industrial properties for rent in Thailand, to 43.6% from 20.6% with an additional investment of about Bt5.3 billion in late 2014. ROJNA began to consolidate TICON's financial statements into its own financial statements in January 2015. However, in October 2016, TICON sold its additional shares to Frasers Property Holdings Thailand Co, leading to a decrease in the stake held by ROJNA to 26%. ROJNA deconsolidated TICON's financial statements and has only recognized a share of the profit from TICON since January 2017. In April 2018, ROJNA sold its entire stake in TICON to Fraser Assets Co., Ltd.

Apart from its main businesses in industrial land sales as well as power and utility sales, ROJNA has entered into a number of partnerships in various businesses including management of NPLs, a medical center, and a gas provider. The company manages excess liquidity by investing in marketable securities and a REIT. As of June 2019, ROJNA's investment portfolios totaled Bt6.4 billion, including short-term investments of Bt2.4 billion.

ROJNA operates in six business segments as shown in Table 1.

Table 1: ROJNA's Business Operations

Company	ROJNA's Holding (%)	Partners
Utilities Business		
1) Rojana Power Co., Ltd.	41	Nippon Steel & Sumikin Bussan Corporation (20%), KPIC Netherlands B.V. (39%)
2) Rojana Industrial Management Co., Ltd.	90	Nippon Steel & Sumikin Bussan Corporation (10%)
3) Rojana Energy Co., Ltd.	70	Nippon Steel & Sumikin Bussan Corporation (30%)
Property Business		
4) Rojana Property Co., Ltd.	100	
5) Rojana Industrial Park Prachinburi Co., Ltd.	100	
6) Rojana Industrial Park Rayong 2 Co., Ltd.	100	
7) TRA Land Development Co., Ltd.	25	Fraser Property (Thailand) PCL (50%) Asia Industrial Estate Co., Ltd. (25%)
8) SC Plus Property Co., Ltd.	42*	SC Real Estate Development Co., Ltd. (42%) Others (16%)
9) Spectral Property Development Co., Ltd.	51*	Risland (Thailand) Co., Ltd. (49%)
Medical		
10) Sakurajui rojana Medical Co., Ltd.	51	Sakurajui Corporation (49%)
Operation and Maintenance		
11) Operational Energy Group Limited	25	S&J International enterprise PCL (30%) Engineering Technical Supply Co., Ltd. (26%) Others (19%)
Assets Management (NPLs)		
12) Rachakarn Assets Management Co., Ltd.	50*	Gulf Holding (Thailand) Co., Ltd. (50%)
Nitrogen Gas Provider		
13) BIG Rojana Thai-Japan Gas Co., Ltd.	25	Bangkok Industrial Gas Co., Ltd. (55%) Thai-Japan Gas Co., Ltd. (20%)

* % of holding by ROJNA's subsidiaries

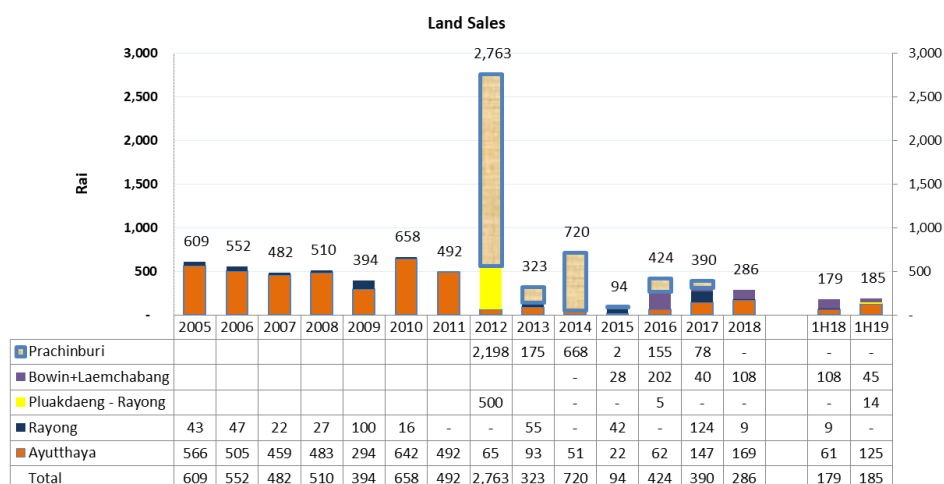
KEY OPERATING PERFORMANCE

Table 2: Revenue Breakdown

Unit: %

Revenue	2014	2015	2016	2017	2018	Jan-Jun 2019
Sales						
• Industrial land	23	12	13	14	7	10
• Commercial Building/Condo	-	7	-	-	-	-
Total sales	23	19	13	14	7	10
Recurring income						
• Electricity	71	73	76	76	83	80
• Solar	2	4	5	4	4	4
• Utilities & rental	4	4	6	6	6	6
Total recurring income	77	81	87	86	93	90
Total revenue	100	100	100	100	100	100
Total revenue (Bt million)	11,597	11,884	9,757	10,866	11,706	6,321

Source: ROJNA

Chart 1: Industrial Land Sales


Source: ROJNA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	6,349	11,735	10,877	9,829	11,890
Operating income	1,595	3,135	3,103	3,200	4,583
Earnings before interest and taxes (EBIT)	1,050	1,937	2,889	1,638	2,196
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,759	3,306	3,248	3,554	4,982
Funds from operations (FFO)	1,017	2,117	1,938	2,517	3,778
Adjusted interest expense	566	1,109	1,119	1,031	1,149
Capital expenditures	228	571	1,286	5,238	8,118
Total assets	49,057	44,760	45,829	76,976	76,023
Adjusted debt	22,224	21,569	23,118	24,143	43,444
Adjusted equity	18,459	17,589	17,839	25,147	25,358
Adjusted Ratios					
Operating income as % of total operating revenues (%)	25.12	26.71	28.53	32.56	38.54
Pretax return on permanent capital (%) **	4.49	4.56	6.19	2.70	3.23
EBITDA interest coverage (times)	3.11	2.98	2.90	3.45	4.34
Debt to EBITDA (times) **	6.47	6.52	7.12	6.79	8.72
FFO to debt (%) **	9.21	9.82	8.38	10.43	8.70
Debt to capitalization (%)	54.63	55.08	56.44	48.98	63.14

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Rojana Industrial Park PLC (ROJNA)

Company Rating:	BBB+
Rating Outlook:	Stable

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