

ROJANA INDUSTRIAL PARK PLC

No. 191/2024
25 October 2024

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 18/10/23

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” rating outlook. The rating reflects ROJNA’s highly predictable cash flow from electricity and utility sales and its leading position in industrial property in Thailand, as well as a significant improvement in its financial profile.

Nevertheless, the rating is constrained by the looming expiration of a power purchase agreement (PPA) with the Electricity Generating Authority of Thailand (EGAT) associated with ROJNA’s power plants, that may pressure the company’s earnings. The rating also takes into consideration multiple challenges stemming from the volatile nature of the industrial property market, and a slowing global economy.

KEY RATING CONSIDERATIONS

Strong demand for industrial land likely to continue

We expect ROJNA’s industrial land sales to continue in 2024-2025 at level roughly doubling the average level in recent years after peaking in 2023. The strong demand is largely due to geopolitical tensions between China and the United States (US) leading to the relocation of manufacturing bases from China to Thailand and other Southeast Asian countries. The company’s reputation and long track record are also the key supporting factors for its land sales. ROJNA’s industrial estates are situated in prime locations in Ayutthaya Province and the Eastern Economic Corridor (EEC).

ROJNA’s land sales volume peaked in 2023 at 2,190 rai, roughly doubling from the previous year and well above the 300-500 rai per year recorded during 2017-2021. In the first half of 2024, volume dropped to 700 rai, down by about 30% compared to the same period in 2023. We expect sales volume to range from 800-1,000 rai per year in 2024-2026 as we still foresee momentum of robust demand from Chinese manufacturers.

Based on the expected land title transfers up to 2026, revenue from industrial land sales is forecast to reach THB6.9 billion in 2024 and around THB4.7-THB5.0 billion annually during 2025-2026.

Predictable power earnings

ROJNA generates recurring income from its power plants and solar farm operations. Revenue from electricity sales came to approximately THB10 billion per year during 2017-2021, before reaching around THB13-THB14 billion annually in 2022-2023 due to unusually high gas prices and electricity tariffs. Gas prices and electricity tariffs remained elevated in 2023 but with a better balance. EBITDA from electricity sales reached around THB2.5 billion in 2023, and THB1.2 billion in the first half of 2024, from an unusually low base of THB1.1 billion in 2022. However, with high gas prices and tariffs in 2022 and soaring land sales in 2023, the contribution of EBITDA from electricity sales fell to 45%-50% of the total, from the normal level of around 70% during 2017-2021.

Rojana Power Co., Ltd., ROJNA’s subsidiary, operates three power plants with total capacity of 489 megawatts (MW). The company supplies 55% of its capacity to EGAT through three 25-year PPAs under the Small Power Producer (SPP) scheme. As of June 2024, the remaining contract periods of the three PPAs were 1.3 years, 14 years, and 18 years. According to the

company's management, ROJNA will not extend the soon-to-expire PPA with EGAT.

Rojana Energy Co., Ltd., another subsidiary of ROJNA, generates income from solar power generation through three power-supply contracts with the Provincial Electricity Authority (PEA) under the Very Small Power Producer (VSPP) scheme. The contracts are automatically renewed every five years. The company is entitled to receive an adder at the rate of THB8 per kilowatt-hour (kWh) of electricity for 10 years from the commencement of commercial operations in April, July, and August 2014. The adder expires in 2024 which is expected to reduce cash flow from solar power generation by about two-thirds of the current level. EBITDA from solar power contributed around 10%-15% of total EBITDA in 2017-2023.

Impact on revenues from expiry of PPA and adders

We expect power revenue to decline during the forecast years due to two main factors: the expiry of one of the three PPAs with EGAT in October 2025, and the expiry of adders for its solar farm in 2024. Although ROJNA's management expects industrial users to take up capacity from the expired EGAT contract, electricity sales in units are anticipated to decline by 8% in 2026. Considering the expiry of the PPA and the adders, electricity sales are expected to decline by about THB1 billion each year. Power revenue is estimated at about THB12 billion in 2024 before gradually declining to THB10 billion in 2026.

Sustained strong profitability during forecast period

ROJNA's profitability rebounded in 2023 and is expected to continue at around the same level during the forecast years, thanks to a higher EBITDA contribution from land transfers and improved operating margins in the power business. EBITDA margin picked up to 26% in 2023 and the first half of 2024 from 15% in 2022, with the contribution of revenue from land sales increasing to 30% of total revenue in 2023, from 15% in 2022. The gross margin of land sales is around 40%-50%, while that of electricity sales is around 10%-15%.

Under our base case scenario, land sales are expected to continue contributing 30%-35% of total revenue, with the EBITDA margin ranging from 24%-27% during 2024-2026.

Low leverage over the next few years

We expect ROJNA's low financial leverage to sustain over the next few years, with the adjusted net debt to EBITDA ratio projected to remain below 2 times during the forecast period. The decline in financial leverage in recent years is largely due to improved cash flow from land sales and higher EBITDA. The adjusted net debt to EBITDA ratio dropped to 2.6 times in 2023 and 2.1 times in the first half of 2024 (annualized), the lowest level in the past 10 years. The average adjusted net debt to EBITDA ratio was around 6.5 times during 2017-2021 before peaking at 8 times in 2022 due mainly to losses on electricity sales to industrial users following surging gas prices and delay in electricity tariff adjustments. The company's adjusted net debt decreased to THB10.8 billion as of June 2024, from THB13.0 billion at the end of 2023.

In our base-case scenario, planned capital expenditures for land development and utility facilities, along with the expansion of solar rooftop operations, are expected to total around THB3.5 billion per annum during 2024-2026. Adjusted net debt is expected to gradually decline to around THB9.6 billion in 2026. With projected EBITDA of THB4.1-THB4.7 billion, the adjusted net debt to EBITDA ratio is forecast to remain in the range of 2.0-3.0 times. The ratio of funds from operations (FFO) to adjusted net debt should be in the range of 30%-35%.

Adequate liquidity profile

ROJNA's sources of funds comprised cash and restricted cash of THB6.3 billion, short-term investments of THB4.8 billion and undrawn uncommitted credit facilities of THB3.9 billion as of June 2024. FFO are expected to be around THB3.5 billion. These sources of funds should be sufficient to cover debt services and investment needs over the next 12 months, which include long-term debt repayment obligations of around THB5.9 billion, and an estimated investment budget of around THB3.5 billion.

At the end of June 2024, ROJNA recorded THB9.0 billion of priority debt out of total interest-bearing debt (excluding lease liabilities) of THB17 billion. The priority debt comprised all secured debts and debts at the subsidiary level. ROJNA's priority debt to total debt ratio was 53%. As its priority debt ratio is more than our threshold of 50%, we view that ROJNA's unsecured creditors could be significantly disadvantaged with respect to the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Revenue from industrial land sales of THB6.9 billion in 2024 and around THB4.7-THB5.0 billion annually in 2025-2026.
- Revenue from the power segment to gradually decline from THB11.6 billion in 2024 to THB9.5 billion in 2026.
- EBITDA margin of 24%-27% during 2024-2026.
- Capital expenditures and investments of THB3.5 billion per annum during the forecast period.

RATING OUTLOOK

The “stable” outlook reflects our expectation that ROJNA will maintain its competitive position in the industrial property industry. Cash flow from the power business is expected to alleviate the effect of fluctuations in industrial land sales.

RATING SENSITIVITIES

A rating upgrade could occur if ROJNA is able to sustain its cash generation and debt servicing ability, with a net debt to EBITDA ratio well below 4 times. In contrast, the rating could be downgraded if the company undertakes any sizeable debt-financed investments that result in a material weakening of its balance sheet or a rise in the net debt to EBITDA ratio to a level above 7 times for an extended 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 megawatts (MW) of electricity, and owns a 24-MW solar farm located in Rojana Industrial Park in Ayutthaya Province.

ROJNA has focused more on the power business. The company acquired shares in two solar rooftop companies, RLN Energy Co., Ltd. and RJ Energy Co., Ltd., for a total investment cost of THB100 million. The company also acquired additional shares in Rojana Power increasing its stake to 75% (from 41%) with an investment of THB3.1 billion in 2021.

In addition to its main businesses of industrial land, power, and utility sales, ROJNA has entered into partnerships in a number of businesses including gas sales and the distribution of consumer products. The company manages excess liquidity by investing in marketable securities and a real estate investment trust (REIT). As of June 2024, ROJNA’s short-term investments, including the REIT investment, were worth THB4.8 billion.

ROJNA operates in eight business segments as of June 2024 as shown in Table 1.

Table 1: ROJNA’s Business Operations

Companies	ROJNA’s Holding (%)	Partners
Utility Business		
1) Rojana Power Co., Ltd.	75	Nippon Steel & Sumikin Bussan Corporation (25%)
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%)
4) RLN Energy Co., Ltd.	60*	Loop Co., Ltd.(35%), Nippon Steel Trading Corporation(5%)
5) RJ Energy Co., Ltd.	100*	
Industrial Property Business		
1) Rojana Property Co., Ltd.	100	
2) Rojana Industrial Park Prachinburi Co., Ltd.	100	
3) Rojana Industrial Park Rayong 2 Co., Ltd.	100	
4) TRA Land Development Co., Ltd.	25	Fraser Property (Thailand) PLC (50%) Asia Industrial Estate Co., Ltd. (25%)
5) SC Plus Property Co., Ltd.	42*	SC Real Estate Development Co., Ltd. (42%),others (16%)
6) Spectral Property Development Co., Ltd.	51*	Risland (Thailand) Co., Ltd. (49%)
Medical Business		
1) ThaiUnivest Holding Group Co., Ltd.	30	Others (70%)
Operation and Maintenance		
1) Operational Energy Group Ltd.	25	S&J International Enterprise PLC (30%) Engineering Technical Supply Co., Ltd.(26%),others (19%)
Nitrogen Gas Provider		
1) BIG Rojana Thai-Japan Gas Co., Ltd.	25	Bangkok Industrial Gas Co., Ltd. (55%) Thai-Japan Gas Co., Ltd. (20%)
Waste Management		
1) Rojana Group Holding Co., Ltd.	100	
2) Rayong Recycle Waste Co., Ltd.	15*	Sun Tech Group Co., Ltd.(30%), Ban Khai Concrete Products Co., Ltd. (30%), SUEN CORP Co., Ltd.(10%), Rayong Industry Development Co., Ltd. (15%)
Construction		
1) SUEN Construction & Engineering Co., Ltd.	25.5	Others (74.5%)

* % of holding by ROJNA’s subsidiaries

KEY OPERATING PERFORMANCE

Table 2: Revenue Breakdown

Unit: %

Revenue	2019	2020	2021	2022	2023	Jan-Jun 2024
Sales						
• Industrial lands	7	12	10	14	28	30
Total sales	7	12	10	14	28	30
Recurring income						
• Electricity	82	78	80	79	65	63
• Solar	4	4	4	4	3	3
• Utilities & rental	7	6	6	3	4	4
Total recurring income	93	88	90	86	72	70
Total revenue	100	100	100	100	100	100
Total revenue (mil. THB)	12,304	12,154	12,559	17,168	19,275	8,880

Source: ROJNA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	8,896	19,289	17,185	12,566	12,160
Earnings before interest and taxes (EBIT)	1,494	3,324	1,249	1,904	2,403
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,357	5,041	2,510	3,570	3,919
Funds from operations (FFO)	1,846	3,844	1,301	2,200	2,770
Adjusted interest expense	475	1,029	1,008	1,051	1,069
Capital expenditures	234	539	433	595	397
Total assets	46,044	47,696	48,541	47,887	49,717
Adjusted debt	10,789	12,988	20,407	20,418	23,263
Adjusted equity	20,038	19,934	19,556	19,030	20,361
Adjusted Ratios					
EBITDA margin (%)	26.5	26.1	14.6	28.4	32.2
Pretax return on permanent capital (%)**	8.9	8.0	2.8	4.2	5.2
EBITDA interest coverage (times)	5.0	4.9	2.5	3.4	3.7
Debt to EBITDA (times)**	2.1	2.6	8.1	5.7	5.9
FFO to debt (%)**	38.0	29.6	6.4	10.8	11.9
Debt to capitalization (%)	35.0	39.5	51.1	51.8	53.3

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Rojana Industrial Park PLC (ROJNA)

Company Rating:	BBB+
Rating Outlook:	Stable

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