

WHA INDUSTRIAL LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 161/2023
30 August 2023

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 30/08/22

Rating History:

Date	Rating	Outlook/Alert
09/10/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on WHA Industrial Leasehold Real Estate Investment Trust (WHAIR or trust) at “BBB+” with a “stable” outlook. The rating reflects the trust’s good asset quality and locations, future growth opportunities in asset acquisitions supported by its sponsor, WHA Industrial Development PLC (WHAID), and its moderate financial leverage.

However, the rating is reflected by the trust’s small size, and exposure to tenant concentration and renewal risk. In addition, the rating takes into consideration our concerns over the prospect of a global economic slowdown which may put pressure on the occupancy and rental rates of industrial properties.

KEY RATING CONSIDERATIONS

Quality assets in good locations

WHAIR’s asset portfolio comprises ready-built factories and ready-built warehouses, sponsored by WHAID, the largest industrial real estate developer in Thailand based on the total amount of industrial land sold. These assets are located mainly in Chonburi and Rayong Provinces, in the Eastern Economic Corridor (EEC) area, which provides privileges to investors via incentive packages and schemes, including tax benefits.

The trust’s tenants are diversified by nationality and industrial sector. As of June 2023, Chinese tenants made up the highest proportion by revenues at 36%, followed by European at 22%, Japanese at 14% and Australian at 11%. The continued trade tensions between the United States and China has prompted an increasing number of Chinese manufacturers and their supply chains to relocate their plants to Southeast Asia, including Thailand. In terms of industrial sector, the trust’s tenants include auto parts (33% by revenue contribution), consumer products (27%), logistics (15%), and electronics (11%).

The occupancy rate (OR) of WHAIR’s assets has been at satisfactory levels. The sponsor guarantees OR of newly acquired assets at 100% and makes up any shortfall if the rental rates offered to tenants fall below a guaranteed rate for the first three years after the acquisition date. WHAIR’s average OR, both excluding and including the sponsor’s undertaking, has been above 90% since 2016, higher than the industry average. We expect the trust’s OR to sustain above 90% throughout the forecast period thanks to the strategic location of its properties, the quality of its assets in well-known industrial estates, and the exclusive yield enhancement from the sponsor’s undertaking.

Asset acquisitions driving revenue growth

We expect WHAIR’s revenue to increase to almost THB1 billion in 2025 due to new asset acquisitions. The trust has acquired new assets every other year since 2016 with increases in revenues being reflected in the years following the acquisitions. In December 2022, the trust acquired assets totaling around THB1.4 billion. For the first six months of 2023, WHAIR’s total revenue increased by 18% to THB439 million, from THB372 million over the same period in 2022. We expect the trust to invest around THB1.5 billion in new assets in late 2024. WHAIR’s revenues are forecast to reach THB875-THB980 million per year during 2023-2025.

Increased expenses led to lower margins

We expect WHAIR's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to be around 85%-86% during 2023-2025, slightly lower than the 87%-90% range recorded during 2017-2021. The EBITDA margin was 85% in 2022 and 86% for the first six months of 2023. The lower margin was mainly the result of a 2022 increase in property management fees from 1.75% to 5.0% of total rental and services revenue based on the property management agreement, the property tax on vacant spaces absorbed by the trust after the undertaking period, and marketing expenses from fund-raising activities.

Small business scale relative to peers

WHAIR is a small-sized industrial real estate investment trust (REIT) in terms of both assets and earnings compared to other rated REITs. The other rated REITs are WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART) and Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT) and, rated "A/stable". As of June 2023, WHAIR's investment portfolio was worth THB12.75 billion, while those of WHART and FTREIT were THB49.18 billion and THB48.01 billion, respectively. WHAIR's EBITDA was THB634 million in fiscal year 2022 while EBITDA of WHART and FTREIT were THB2.22 billion and THB2.89 billion, respectively. We expect WHAIR to gradually enlarge its asset portfolio over time following the trust's investments in new assets every other year with the support of its sponsor, WHAID.

Exposure to portfolio concentration and renewal risk

We assess WHAIR as having a degree of tenant concentration risk as its top-ten tenants occupied 38% of total occupied area and contributed 36% of total rental and service income in the first half of 2023. However, the concentration risk is partly alleviated by the strong credit profiles of the tenants. The growth of assets will also cause the tenant concentration risk to gradually dissipate.

WHAIR is also exposed to renewal risk. Lease contracts with tenants are mostly three-year agreements. The property manager normally negotiates lease renewals with tenants about three to six months in advance of expiration. This gives the trust time to fill vacant areas, mitigating renewal risk to some extent. The renewal rate was 92% in 2022 and 76% for the first half of 2023, compared with less than 70% during 2017-2020. However, WHAIR has achieved a high occupancy rate of above 90% since 2016.

Moderate financial leverage

We expect WHAIR to keep its loan to fair value of total assets ratio (LTV) below 35% throughout the forecast period, in line with its financial policy. For the past five years, WHAIR kept its LTV in the 32%-34% range. At the end of June 2023, the trust's LTV ratio stood at 33%. In our base case, we assume WHAIR will acquire new assets worth around THB1.5 billion in 2024. We expect the trust to fund future acquisitions through a combination of debt and equity, while keeping its LTV at around 32%.

At the end of June 2023, WHAIR's secured debt to fair value of total assets ratio was 33%. As the percentage of secured debt was lower than 35% of the fair value of total assets, we do not view WHAIR's unsecured creditors to be significantly disadvantaged with respect to the priority of claims against assets.

Manageable liquidity

We assess WHAIR's liquidity as manageable over the next 12 months, given the trust's ability to access financial markets and its good relationships with financial institutions. As of June 2023, WHAIR's total outstanding debt was THB4.37 billion, with outstanding long-term loans of THB3.75 billion due to be repaid in December 2023. The trust's management plans to repay the maturing debts with new bank loans. The trust's sources of liquidity included cash on hand of THB366 million. We forecast EBITDA of around THB750 million over the next 12 months. WHAIR's debt to EBITDA ratio is projected to stay around 5-6 times and EBITDA interest coverage ratio around 4-5 times over the next three years.

The financial covenant on WHAIR's loan obligations requires the trust to keep its debt to EBITDA ratio below 6.5 times, its interest-bearing debt to equity ratio below 1 times, and its LTV ratio below 50%. The ratios at the end of June 2023 were 5.8 times, 0.5 times, and 33%, respectively. We assess the trust should have no problem complying with the financial covenant over the next 12 months.

BASE-CASE ASSUMPTIONS

- Investment assets to increase by THB1.5 billion in 2024.
- OR (with the sponsor's undertaking) to increase slightly to 94% over the next three years.
- Total revenue of THB875-THB980 million per annum during 2023-2025.
- EBITDA margin to range from 85%-86% with EBITDA of THB750-THB850 million per annum during 2023-2025.

RATING OUTLOOK

The “stable” outlook reflects our expectation that WHAIR’s property portfolio will continue to generate steady cash flows during 2023-2025. We also expect the trust’s assets to sustain a high average OR of above 90% with sound profitability. In addition, we expect the trust to be able to keep its LTV below 35% in accordance with its financial policy and remain in compliance with the debt covenants.

RATING SENSITIVITIES

The credit rating on WHAIR could come under downward pressure if the OR drops significantly below expectations and/or a larger-than-expected debt-funded expansion cause the net debt to EBITDA ratio to exceed 6.5 times over a prolonged period. On the other hand, the rating could be revised upward if WHAIR is able to enlarge its business scale with EBITDA above THB1.5 billion while maintaining a satisfactory capital structure with net debt to EBITDA of less than 4.5 times.

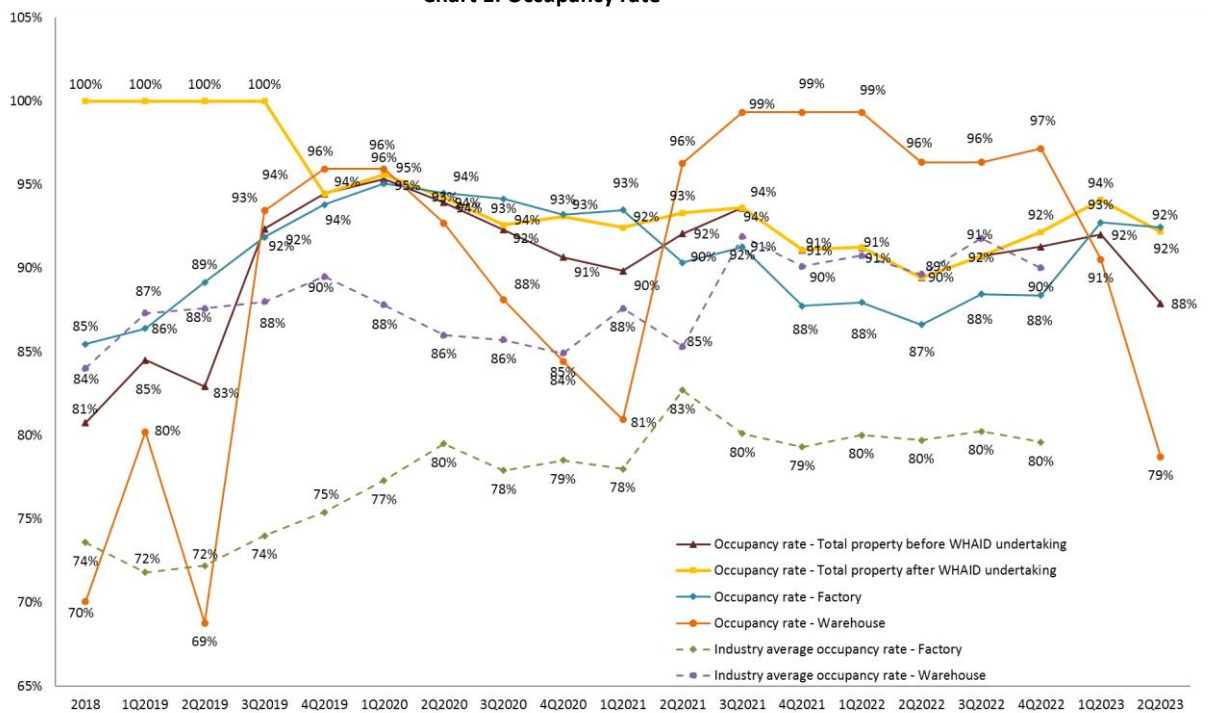
COMPANY OVERVIEW

WHAIR, formerly named HREIT, was established and listed on the Stock Exchange of Thailand (SET) in November 2016, with registered capital of THB5.69 billion. At present, WHAID holds a 15% stake in WHAIR. The REIT manager is WHA Industrial REIT Management Co., Ltd. (WHAIRM) which is wholly owned by WHAID, the property manager and main sponsor of the trust. WHAIR focuses on the acquisition of leasehold rights for good-quality and well-occupied industrial properties including ready-built factories and ready-built warehouses.

As of June 2023, the investment asset size of WHAIR was valued at THB12.75 billion with total leasable area of 428,818 square meters (sq.m.). WHAIR’s property portfolio comprised factories (67%) and warehouses (33%) in four provinces: Chonburi, Rayong, Saraburi and Prachinburi. WHAIR’s properties are located in key industrial estates and manufacturing hubs in Thailand. About 90% of the leasable properties are located in the EEC development area.

KEY OPERATING PERFORMANCE

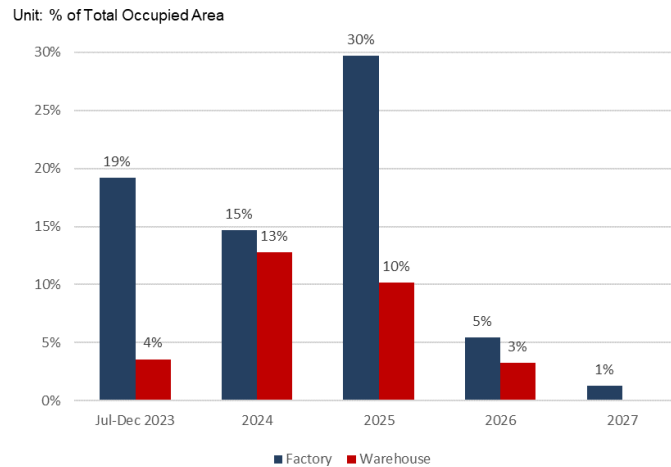
Chart 1: Occupancy rate



Note: OR as of end of period

Sources: WHAIR and CB Richard Ellis (CBRE)

Chart 2: Lease Expiry



Source: WHAIR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	439	747	764	686	767
Earnings before interest and taxes (EBIT)	376	623	670	585	681
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	377	634	682	597	693
Funds from operations (FFO)	292	527	577	479	556
Adjusted interest expense	85	107	105	118	137
Capital expenditures	-	1,372	-	1,363	-
Total assets	13,191	13,321	11,771	11,489	9,914
Adjusted debt	3,996	3,902	3,391	3,359	3,058
Adjusted equity	8,554	8,575	7,792	7,410	6,384
Adjusted Ratios					
EBITDA margin (%)	85.99	84.90	89.30	87.06	90.38
Pretax return on permanent capital (%)	5.61 **	5.09	5.92	5.62	7.12
EBITDA interest coverage (times)	4.44	5.91	6.52	5.07	5.06
Debt to EBITDA (times)	5.78 **	6.15	4.97	5.63	4.41
FFO to debt (%)	13.80 **	13.50	17.03	14.27	18.19
Debt to capitalization (%)	31.84	31.27	30.32	31.19	32.39

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021

WHA Industrial Leasehold Real Estate Investment Trust (WHAIR)

Company Rating:	BBB+
Rating Outlook:	Stable

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