

WHA INDUSTRIAL LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 147/2024

28 August 2024

CORPORATES

Issuer Rating: BBB+
Outlook: Stable

Last Review Date: 30/08/23

Issuer Rating History:

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

Contacts:

Suchana Chantadisai
suchana@trisrating.com

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the issuer 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 in strategic locations, prospects of revenue and earnings growth from new asset acquisitions supported by its sponsor, WHA Industrial Development PLC (WHAID), and its moderate financial leverage. However, the rating is tempered by the trust’s modest scale, tenant concentration, and exposure to renewal risk. Additionally, the rating considers the challenges posed by intensifying competition and the potential impact of local and global economic slowdowns on occupancy and rental rates of industrial properties.

KEY RATING CONSIDERATIONS

Good-quality assets located mainly in the EEC

WHAIR’s asset portfolio includes ready-built factories and warehouses, sponsored by WHAID, the largest industrial real estate developer in Thailand, by total industrial land sales. Approximately 90% of these assets are strategically located in Chonburi and Rayong, within the Eastern Economic Corridor (EEC). This area offers investors various incentives, including tax benefits through special packages and schemes.

As of June 2024, Chinese tenants made up the highest proportion by revenues at 38%, followed by European at 20%, Australian at 13%, and Japanese at 12%. Geopolitical tensions between the United States (US) and China have led a growing number of Chinese manufacturers and their supply chains to move their operations to Southeast Asia, including Thailand. In terms of industrial sector, the trust’s tenants include auto parts (34% by revenue contribution), consumer products (28%), logistics (13%), and electronics (11%).

Satisfactory occupancy rates

We expect WHAIR to sustain a strong average occupancy rate (OR) of around 90% during 2024-2026, supported by the strategic locations of its properties, the quality of its assets in well-known industrial estates, and the exclusive yield enhancement from the sponsor’s undertaking. The sponsor guarantees a 100% OR for newly acquired assets and compensates for any shortfall if the rental rates offered to tenants fall below a guaranteed rate for the first three years after acquisition. Since 2019, WHAIR has been able to keep its average OR, both with and without the sponsor’s support, at around 90% or above, surpassing the industry average.

Revenue growth from consistent asset acquisitions

We expect WHAIR’s revenue to reach almost THB1 billion annually in 2025-2026 due to new asset acquisitions. The trust has acquired new assets every other year since 2016 with increases in revenues being recorded in the years following the acquisitions. The trust’s revenue in 2023 was THB870 million, increasing by 16% from THB747 million in 2022, following the acquisition of assets in December 2022 totaling around THB1.4 billion. The trust plans to invest in new assets in December 2024. According to resolutions of Trust Unitholders’ meeting no. 1/2024, the Trust Unitholders approved a new asset acquisition with the investment cost around THB1.1 billion in 2024. The funding sources will be from both new issue trust units, bank loan, and internal

cash. Furthermore, we expect the trust to invest around THB1.2 billion in new assets in late 2026. WHAIR's revenues are forecast to reach THB880-THB950 million per year during 2024-2026.

Expected lower margins

We expect WHAIR's EBITDA margin to be around 84%-86% during 2024-2026, slightly lower than the 87%-90% range recorded during 2017-2021. The EBITDA margin was 85%-86% in 2022, and from 2023 through the first half of 2024. The decline was mainly the result of a 2022 increase in property management fees from 1.75% to 5.0% of total rental and service revenue based on the property management agreement of the first and second additional investments, 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 with WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART) and Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT), both of which are rated "A/Stable". As of June 2024, WHAIR's investment portfolio was worth THB12.7 billion, while those of WHART and FTREIT were THB52.6 billion and THB49.8 billion, respectively. WHAIR's EBITDA was THB745 million in fiscal year 2023 while those of WHART and FTREIT were THB3.1 billion and THB2.9 billion, respectively.

Enduring stability despite heightened competition and a slowdown in investment pressure on rental rates

WHAIR's ability to increase rental rates while maintaining high levels of occupancy could come under pressure due to economic slowdowns both locally and globally. Over the past few years, demand has been supported by growing private consumption and the continuing surge in e-commerce sales. However, heightened competition from both existing and new players could negatively affect both occupancy and rental rates. This competitive pressure is likely to be more pronounced in the warehouse segment, with more new supply expected to enter the market.

Looking ahead, we expect the average rental rate of the trust's factory and warehouse space to increase slightly during 2024-2026. Rental rates for factories are expected to edge up marginally, driven by increasing demand in several strategic locations where supply is limited. On the other hand, growth in warehouse rental rates is likely to remain flat. Although rates can be raised to some extent due to the good locations of the properties, the increases will probably be lower than factories, due to intensifying competition and a potential oversupply. Despite these challenges, WHAIR's strategic locations should provide some resilience against market fluctuations.

Portfolio concentration risk but expected to gradually diminish by strong tenants and asset expansion

We assess WHAIR as having a degree of tenant concentration risk, both in terms of tenants and lease durations. In the first half of 2024, the top-ten tenants occupied 39% of total occupied area and contributed 37% of total rental and service income. Consequently, any termination of contracts or downsizing of the leased area by these key tenants could significantly impact the trust's operating performance. However, this risk is mitigated to some extent by the strong creditworthiness of the tenants. Additionally, as WHAIR continues to grow its asset base, the tenant concentration risk is expected to gradually diminish.

Moderate financial leverage

The trust's adjusted net debt to EBITDA ratio has been above 5 times since 2020. Debt keeps increasing from investments in new asset investments. Based on TRIS Rating's calculations, the trust's leverage is considered high in investment years, with acquisitions normally occurring in December. Debts are recognized in the year of acquisition, but earnings are realized in the following year. Nonetheless, WHAIR's loan to fair value of total assets ratio (LTV) has remained in the 32%-34% range, lower than the trust's policy.

In our base case, we expect the trust to fund future acquisitions in 2024 and 2026 through a combination of debt and equity, while keeping its LTV at around 32%. The adjusted net debt to EBITDA ratio should range from 5.5-6.0 times and EBITDA interest coverage ratio from 4-5 times.

Manageable liquidity

As of June 2024, WHAIR had total outstanding debt of THB4.3 billion, with no loan repayments due in the next 12 months. The next scheduled bank loan repayment of THB622 million is set for December 2025. As of June 2024, the trust's cash on hand was THB383 million.

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 2024 were 5.7 times, 0.5 times, and 33%, respectively. In our assessment, the trust should have no problem complying with the financial covenant over the next 12 months.

Debt structure

As of June 2024, WHAIR's consolidated debt, excluding lease liabilities, was THB4.3 billion. All the debts were secured long-term bank loans, pledged by some assets of the trust. The ratio of secured debt to fair value of total assets was 33%, below the threshold of 35% according to TRIS Rating's "Rating Methodology for Real Estate for Rent Companies".

BASE-CASE ASSUMPTIONS

- Investment assets to increase by THB1.1-THB1.2 billion per year in 2024 and 2026.
- OR (with the sponsor's undertaking) to be at 93% over the next three years.
- Total revenue of THB880-THB950 million per annum during 2024-2026.
- EBITDA margin to range from 84%-86% with EBITDA of THB740-THB810 million per annum during 2024-2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that WHAIR's property portfolio will continue to generate steady cash flows during 2024-2026. We also expect the trust's assets to sustain a high average OR of around 90%. In addition, we expect the trust to remain in compliance with the debt covenants.

RATING SENSITIVITIES

The rating on WHAIR could come under downward pressure if the OR drops significantly below expectations and/or a larger-than-expected debt-funded expansion causes the net debt to EBITDA ratio to exceed 6.5 times for 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 ratio of less than 4.5 times.

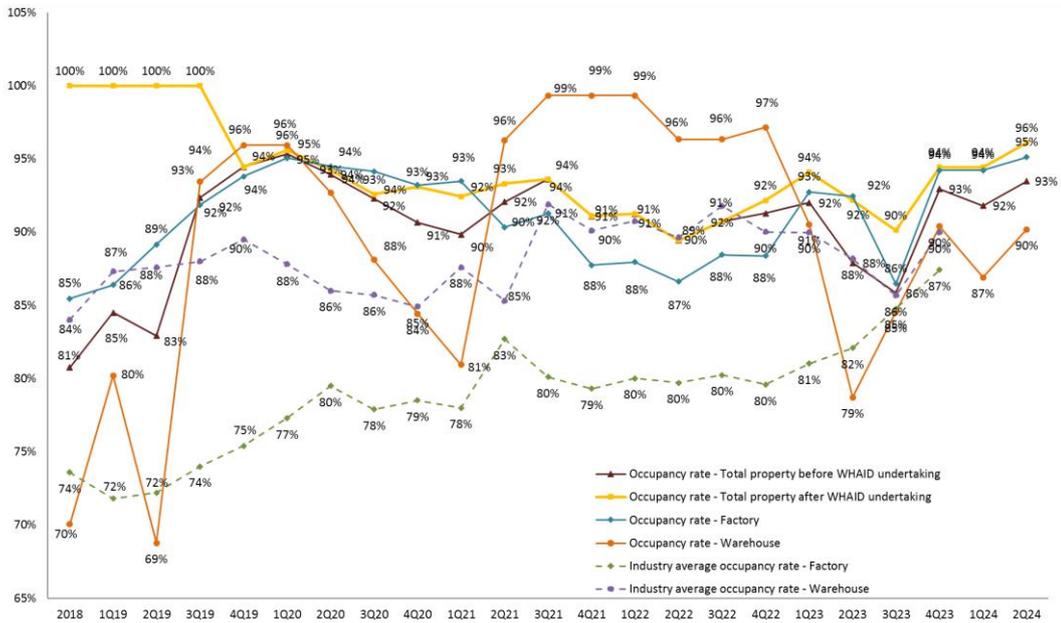
ORGANIZATION OVERVIEW

WHAIR, formerly named Hemaraj Leasehold Real Estate Investment Trust (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 warehouses.

As of June 2024, the investment asset size of WHAIR was valued at THB12.66 billion with total leasable area of 428,818 square meters. The 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

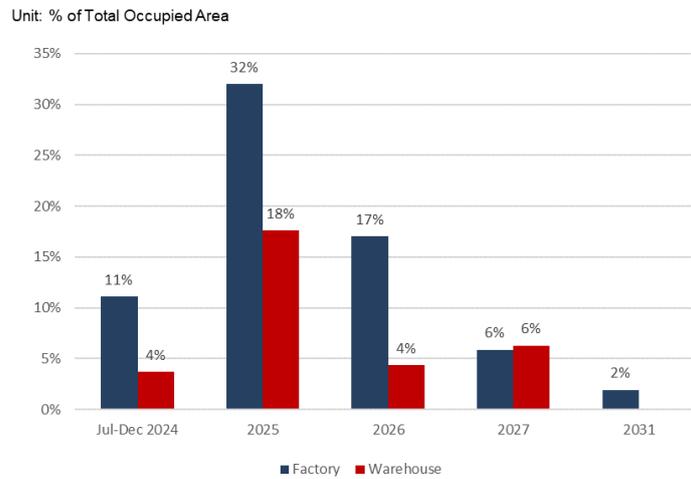
Chart 1: Occupancy Rate (OR)



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 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	445	870	747	764	686
Earnings before interest and taxes (EBIT)	382	743	623	670	585
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	382	745	634	682	597
Funds from operations (FFO)	287	563	527	577	479
Adjusted interest expense	95	182	107	105	118
Capital expenditures	-	-	1,372	-	1,363
Total assets	13,122	13,109	13,321	11,771	11,489
Adjusted debt	3,957	3,966	3,902	3,391	3,359
Adjusted equity	8,502	8,475	8,575	7,792	7,410
Adjusted Ratios					
EBITDA margin (%)	85.9	85.6	84.9	89.3	87.1
Pretax return on permanent capital (%)**	5.8	5.8	5.1	5.9	5.6
EBITDA interest coverage (times)	4.0	4.1	5.9	6.5	5.1
Debt to EBITDA (times)**	5.3	5.3	6.2	5.0	5.6
FFO to debt (%)**	14.1	14.2	13.5	17.0	14.3
Debt to capitalization (%)	31.8	31.9	31.3	30.3	31.2

* 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)

Issuer Rating:	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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