

AMATA CORPORATION PLC

No. 105/2019
4 July 2019

CORPORATES

| | |
|------------------|--------|
| Company Rating: | A |
| Issue Ratings: | |
| Senior unsecured | A |
| Outlook: | Stable |

Last Review Date: 02/08/18

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 27/06/17 | A | Stable |

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RATIONALE

TRIS Rating affirms the company rating on Amata Corporation PLC (AMATA) and the ratings on AMATA's senior unsecured debentures at "A". The ratings reflect the company's proven record as one of the leading industrial estate developers in Thailand. The ratings also reflect the company's sizable base of recurring revenues from the sale of utility services and the dividend income from its investments in several power plants.

However, the ratings are constrained by the volatile nature of the market for industrial properties, as well as the country and regulatory risks associated with AMATA's operations abroad. The ratings are also constrained by a forthcoming rise in leverage as several industrial estates are being developed and planned in the pipeline.

KEY RATING CONSIDERATIONS

Leading industrial estate developer in Thailand and extensive experience in Vietnam

AMATA has been one of the top industrial estate developers in Thailand for 30 years. The company ranked second in the industry in terms of the quantity of industrial land sold. AMATA's market share has averaged 28.0% over the past 10 years, based on the total amount of industrial land sold. The market leader is WHA Corporation PLC (WHA; 38.0%), while the third-largest developer is Rojana Industrial Park PLC (ROJNA; 20.0%).

Apart from Thailand, AMATA also established a presence in Vietnam in 1994. AMATA's first industrial estate in Vietnam, Amata City Bien Hoa Industrial Estate (ACBH), is located in the southern part of the country. Over the past three years, the land sold by ACBH ranged from 40 to 220 rai per year. Revenue from land sales in Vietnam ranged around Bt356-Bt642 million in 2016-2018, accounting for 16%-33% of AMATA's revenue from land sales over the past three years.

Volatile nature of industrial property market

The industrial property market tends to move in tandem with the state of economy and investor confidence. After facing sluggish demand for several years, demand for AMATA's industrial land rebounded in 2018. Thanks to the government's tax privilege schemes for Eastern Economic Corridor (EEC), combined with rising demand from the Chinese investors, AMATA's sales volume of industrial estate land improved to 823 rai in 2018 and 128 rai in the first quarter of 2019. For comparison, sales ranged from 360 rai to 620 rai annually during 2014-2017.

TRIS Rating holds the view that AMATA will continue to benefit from the EEC on the back of its plentiful land banks of about 12,000 rai in Rayong and Chonburi provinces, as well as the relocation of production bases resulting from the United States-China trade tensions.

However, land sale in Vietnam will drop sharply in 2019-2020 due to an absence of land available for sale. ACBH has only two hectares (about 12.5 rai) of the land backlog to be transferred this year. The company is applying for an investment certificate license so it can open a new phase in the ACBH estate.

On the new industrial estates, Amata City Long Thanh (ACLT) and Amata City Halong (ACHL), are under development. However, these projects have fallen

behind schedule as a result of delays in the license approval process. These projects are in the process of applying for construction licenses. AMATA views the development of new projects should commence in late 2019, and revenue will come in 2020.

More recurring revenue

AMATA's strong business profile is underpinned by steady growth in the revenue it earns from utility services. Utility services are a stable revenue source, partially offsetting fluctuations in land sales. Utility services include supplying raw water, processed water, and wastewater treatment. Revenue from utility services escalated to Bt1,837 million in 2018 (42% of total revenue) from Bt1,253 million in 2013 (17% of total revenue). The driving forces behind the rise were increases in the number of customers and increased demand from new power plants located in AMATA's industrial estates. The prospect of utility services remains strong as buyers of industrial land gradually start operations.

Dividend from power business provides predictable cash flow stream

The ratings reflect the predictable dividends AMATA receives from a number of power projects. AMATA has invested in power projects with B. Grimm Power Ltd. The company has a total installed power generation capacity of 260 megawatts (MW) proportionate to its ownership percentages in the power projects. AMATA, through a joint venture (JV), holds a 4.0% equity stake in Amata B. Grimm Power Plant Infrastructure Fund (ABPIF), which owns two power plants in Chonburi province. Over the next three years, the investments in the power business are expected to provide dividends totaled Bt500 million per year.

Leverage will rise from sizable investments

Ongoing expansion pushed the leverage of AMATA higher in the recent years. The debt to capitalization ratio rose to around 38.0% at the end of March 2019, from 34.4% in 2017. TRIS Rating forecasts a rise in leverage because several large investments lie ahead. We forecast AMATA's capital expenditures will amount to Bt5,000-Bt7,000 million per annum during the next three years. AMATA needs to acquire and develop sites in Thailand. The company also plans to develop several industrial estates abroad at the same time. New industrial estates are planned in Vietnam, Myanmar, and the Lao People's Democratic Republic (Lao PDR). Despite the sizable investments ahead, our base case forecasts the debt to capitalization ratio of the company will stay below 50.0% during 2019-2021.

We view the company has adequate cash flow protection. Over the past three years, the ratio of funds from operations (FFO) to total debt varied between 17.0%-34.0%, while the ratio of earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage was 7-9 times.

In our base case forecast, AMATA's EBITDA will hover around Bt3,000 million per year during 2019-2021. FFO will be around Bt2,000 million during the same period. The FFO to total debt ratio will range 11.0%-15.0%, while the EBITDA interest coverage ratio should stay at about 5-6 times. Liquidity buffer is acceptable with cash and cash equivalents of approximately Bt2,000 million as well as ample available credit lines with financial institutions.

BASE CASE ASSUMPTIONS

- AMATA's total operating revenue will rise to Bt7,000 million per annum in the next three years.
- Gross profit margin is forecast at 46%-48%, while the adjusted operating margin will stay around 35%-40%.
- Total capital spending will range Bt5,000-Bt7,000 million per annum during 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that AMATA can maintain its leading position in the industrial property industry. Recurring income from the utility service business, dividend from the power plants, and income from the rental properties will partly provide a cushion for the company to weather economic slowdowns.

RATING SENSITIVITIES

The ratings of AMATA and its debentures could be under downward pressure if more intense competition or slack demand makes cash flow from operations fall below expectations. The ratings could be revised upward if the cash generation increases significantly and the balance sheet stays healthy.

COMPANY OVERVIEW

AMATA was founded in 1989 by Mr. Vikrom Kromadit (Chief Executive Officer -- CEO) and was listed on the Stock Exchange of Thailand (SET) in 1997. Since inception, the Kromadit family has been the main shareholder and is actively involved in the management team of AMATA. The Kromadit family held approximately 20.0% of the outstanding shares of the

company as of May 2019.

AMATA owns industrial estates in Chonburi and Rayong provinces. AMATA also set up a JV, with a Chinese partner, to develop a Thai-Chinese Industrial Estate in Rayong province, to serve demand from the Chinese investors. AMATA has approximately 1,000 customers in its three industrial estates. Across all the estates, about one third of customers are in the automotive industry. As of March 2019, AMATA had 2,194 rai of land available for sale in Thailand. The company had 9,039 rai of raw land, mostly in Chonburi, awaiting development.

AMATA expanded to Vietnam in 1994 by joining hands with Sonadezi Corporation, a state-owned enterprise and developer of industrial estates and residential properties in Vietnam. Its first industrial estate, ACBH, is located in Bien Hoa City, Dong Nai province. ACBH is 30 kilometers (km.) away from Ho Chi Minh City, and less than 50 km. from an airport and a seaport. AMATA has been granted a 50-year lease on 700 hectares (or 4,375 rai) by the Dong Nai Industrial Zone Authority.

Nearly all of the land in ACBH has been sold. The company is waiting for an investment certificate before it can develop new phase with 19 hectares (or 119 rai) of sellable areas. Additionally, AMATA will develop two new industrial estates in Vietnam: ACLT in the southern part of the country, and ACHL in the northern part of the country. The ACLT and ACHL projects have been granted the investment certificates. The next step is to apply for construction licenses.

AMATA also plans for industrial estate projects in Myanmar and the Lao PDR. These two projects are in the process of applying for licenses.

In addition to selling land in industrial estates, AMATA provides infrastructure, facility, and maintenance services to customers in the industrial estates. These services include supplying raw water, potable and clarified water, wastewater treatment, and maintenance of the industrial estates. AMATA, through a JV, also sells or leases ready-built factories to small- and medium-sized enterprise (SME) factories.

AMATA owns equity stakes in several power plants, with the equity stakes ranging from 15.0% to 27.0%. AMATA also holds a 7.0% equity stake in a power company in Vietnam.

KEY OPERATING PERFORMANCE

Table 1: AMATA's Revenue Breakdown

Unit: %

| Revenue | 2014 | 2015 | 2016 | 2017 | 2018 | Jan-Mar 2019 |
|-------------------------------|------------|------------|------------|------------|------------|--------------|
| Sales | | | | | | |
| - Industrial land | 72 | 59 | 49 | 46 | 42 | 38 |
| Total sales | 72 | 59 | 49 | 46 | 42 | 38 |
| Recurring income | | | | | | |
| - Utilities & services | 18 | 28 | 38 | 40 | 42 | 45 |
| - Rental | 10 | 13 | 13 | 11 | 16 | 17 |
| Total recurring income | 28 | 41 | 51 | 51 | 58 | 62 |
| Total revenue | 100 | 100 | 100 | 100 | 100 | 100 |
| Total revenue (Bt million) | 7,358 | 5,170 | 4,484 | 4,491 | 4,354 | 1,044 |

Source: AMATA

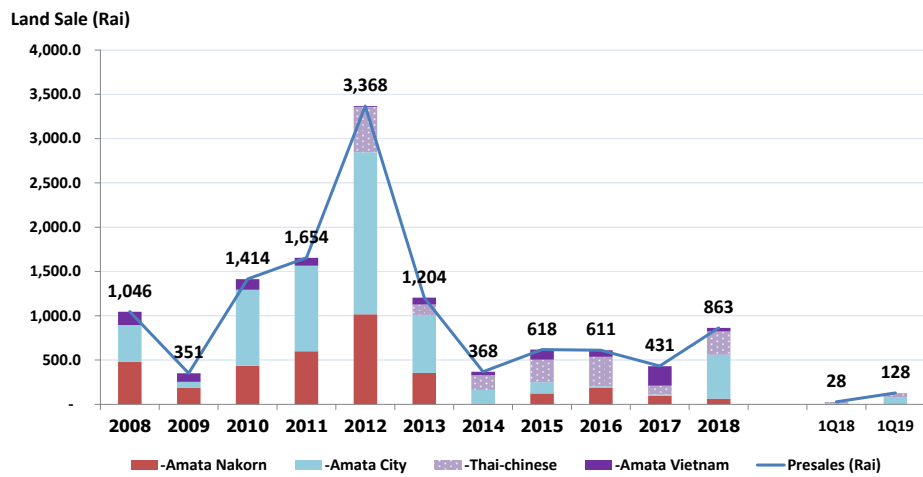
Table 2: AMATA's EBITDA Breakdown

Unit: %

| EBITDA | 2014 | 2015 | 2016 | 2017 | 2018 | Jan-Mar 2019 |
|--------------------------------|------------|------------|------------|------------|------------|--------------|
| Sales | | | | | | |
| - Industrial land | 79 | 60 | 55 | 53 | 38 | 23 |
| Total sales | 79 | 60 | 55 | 53 | 38 | 23 |
| Recurring income | | | | | | |
| - Utilities & services | 6 | 11 | 19 | 19 | 22 | 24 |
| - Rental | 12 | 19 | 15 | 13 | 17 | 20 |
| - Dividend from power business | 4 | 10 | 10 | 14 | 23 | 33 |
| Total recurring income | 21 | 40 | 45 | 47 | 62 | 77 |
| Total EBITDA | 100 | 100 | 100 | 100 | 100 | 100 |

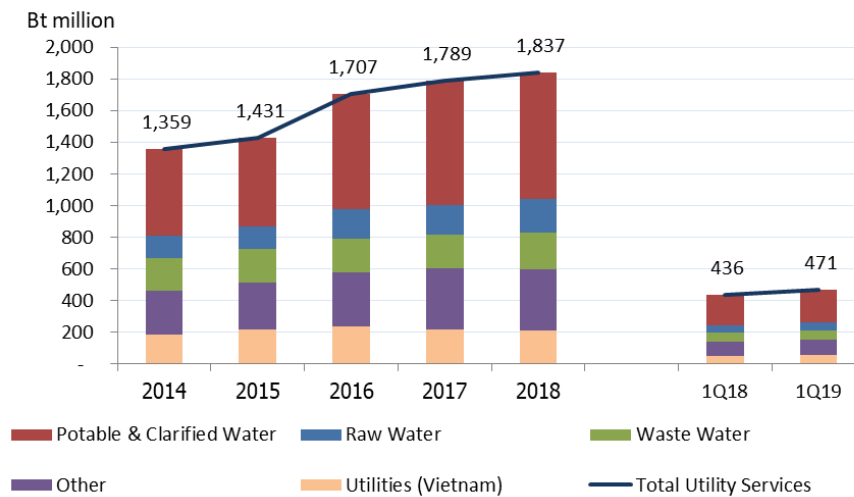
Source: AMATA

Chart 1: AMATA's Industrial Land Sales



Source: AMATA

Chart 2: AMATA's Utility Service Income



Source: AMATA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

| | Jan-Mar 2019 | -----Year Ended 31 December ----- | | | |
|---|-----------------|-----------------------------------|--------|--------|--------|
| | | 2018 | 2017 | 2016 | 2015 |
| Total operating revenues | 1,074 | 4,453 | 4,585 | 4,604 | 5,335 |
| Operating income | 470 | 2,019 | 2,305 | 2,159 | 2,338 |
| Earnings before interest and taxes (EBIT) | 444 | 2,135 | 2,304 | 1,982 | 2,660 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 606 | 2,489 | 2,525 | 2,506 | 3,473 |
| Funds from operations (FFO) | 477 | 1,902 | 1,957 | 1,881 | 2,706 |
| Adjusted interest expense | 87 | 315 | 285 | 321 | 371 |
| Capital expenditures | 128 | 1,402 | 770 | 639 | 718 |
| Total assets | 33,223 | 33,021 | 29,280 | 26,595 | 25,452 |
| Adjusted debt | 9,687 | 10,927 | 7,834 | 5,529 | 4,234 |
| Adjusted equity | 15,825 | 15,569 | 14,971 | 14,240 | 13,501 |
| Adjusted Ratios | | | | | |
| Operating income as % of total operating revenues (%) | 43.80 | 45.34 | 50.28 | 46.89 | 43.83 |
| Pretax return on permanent capital (%) | 7.42 | 8.01 | 9.85 | 9.26 | 12.79 |
| EBITDA interest coverage (times) | 6.94 | 7.90 | 8.86 | 7.81 | 9.36 |
| Debt to EBITDA (times) | 4.12 | 4.39 | 3.10 | 2.21 | 1.22 |
| FFO to debt (%) | 18.43 | 17.41 | 24.98 | 34.02 | 63.92 |
| Debt to capitalization (%) | 37.97 | 41.24 | 34.35 | 27.97 | 23.87 |

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

AMATA Corporation PLC (AMATA)

| | |
|---|--------|
| Company Rating: | A |
| Issue Ratings: | |
| AMATA200A: Bt1,000 million senior unsecured debentures due 2020 | A |
| AMATA220A: Bt2,000 million senior unsecured debentures due 2022 | A |
| AMATA240A: Bt2,000 million senior unsecured debentures due 2024 | A |
| AMATA258A: Bt250 million senior unsecured debentures due 2025 | A |
| AMATA288A: Bt750 million senior unsecured debentures due 2028 | A |
| Rating Outlook: | Stable |

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