

# AMATA CORPORATION PLC

No. 107/2021  
6 July 2021

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

Last Review Date: 01/09/20

### Company Rating History:

Date	Rating	Outlook/Alert
01/07/20	A-	Stable
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-", with a "stable" outlook.

The ratings continue to reflect the company's proven record as one of the leading industrial estate developers in Thailand. The company's strengths are underpinned by its sizable base of recurring revenues from the sale of utility services and dividend income from its investments in several power plants. Nevertheless, the ratings are constrained by the company's elevated leverage, coupled with the country and regulatory risks associated with AMATA's overseas operations. The ratings also take into consideration the impact of the Coronavirus Disease 2019 (COVID-19) pandemic, which has brought about a significant decline in investment activities as well as Thailand's slow pace of economic recovery.

## KEY RATING CONSIDERATIONS

### Sluggish land sale amid prolonged COVID-19 outbreak

Travel restriction measures and economic fallout during the COVID-19 pandemic have led to a significant decline in investment activities and a slump in industrial land sales. The volume of AMATA's land sale in Thailand declined significantly to 213 rai in 2020 and 36 rai in the first quarter of 2021, from 600-800 rai per year in 2018-2019.

In our view, AMATA's industrial land sales will likely continue under pressure throughout the remainder of this year. The growth outlook in 2021 is likely to remain sluggish, owing to the prolonged and escalated COVID-19 outbreak, coupled with the state quarantine requirement for foreign visitors. However, we expect clearer signs of recovery in 2022, when a certain degree of herd immunity should have been achieved according to the country's vaccination plan, together with an easing of travel restrictions and a resumption of normal investment activities.

Our base-case forecast projects AMATA's land presales in Thailand of around 300 rai in 2021 before bouncing back to the pre-COVID level of 550-700 rai annually in 2022-2023. Revenue from land transfers in Thailand is projected to reach THB1.4 billion in 2021 and elevate to THB1.6-THB2.3 billion per year in 2022-2023.

For the medium term, we hold the view that AMATA will benefit from the Eastern Economic Corridor (EEC) development plan on the back of its plentiful land banks totaling about 12,000 rai in Rayong and Chonburi provinces. We also expect the demand for industrial estates in Thailand to benefit from the trend of relocation of production bases resulting from the United States-China trade tensions. Additionally, the company's strategy to focus on new S-curve industries and develop smart city, as well as its policy to grow with partners from several countries should improve the company's operating performance in the long term.

### Higher revenue contributions from Vietnam expected

We expect higher revenue contributions from the company's Vietnam operations from 2022 onwards after a long delay in the license approval process over the past few years. The volume of AMATA's land sales in Vietnam was in the range of 0-40 rai annually in 2018-2020, compared with

220 rai in 2017. The falloff in sales was due to a depletion of available land in the company's first industrial estate, compounded by delays in the license approval process for new industrial estates.

However, there are signs of progress at AMATA's new industrial estate in northern Vietnam, AMATA City Halong (ACHL), following the sale of 204 rai of land in the first quarter of 2021. The company expects land transfers and revenue recognition from this industrial estate to commence in late 2021.

We view the business prospects for industrial estate development in Vietnam to be promising, propelled by the country's low labor costs and proximity to China, as well as benefits from the country's free trade agreements with major economies. AMATA has a good number of potential land sale transactions in the pipeline, but has been held back by regulatory changes and delays in the license approval process. Several of AMATA's projects are in the process of applying for investment certificates and construction licenses. Further delays in the approval process could cause significant disruptions to the company's revenue stream in the future. In our base-case forecast, we project the volume of AMATA's land sales in Vietnam to reach around 200-400 rai per annum over the next three years. Revenues from land sales are forecast to be THB0.7 billion-THB2.7 billion per year over the same period.

### **Leverage to rise moderately**

Ongoing expansion over the past few years has pushed AMATA's leverage up. Adjusted net debt rose significantly to THB14.2 billion at the end of March 2021, from THB11.5 billion in 2019. The debt to capitalization ratio was 43.2% in 2020 and 42.1% at the end of March 2021, up from 40.5% in 2019. The ratio of adjusted debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) surged to 6.4 times in 2020 and 7 times in the first quarter of 2021, from 4.2 times in 2019.

Going forward, we expect AMATA's leverage to increase further due to the large investments ahead. AMATA needs to acquire and develop new sites in Thailand. At the same time, the company plans to develop several industrial estates abroad, in Vietnam, and the Lao People's Democratic Republic (Lao PDR). We forecast AMATA's capital expenditure to be around THB4-THB7 billion per annum over the next three years. Based on our projections, EBITDA should remain around THB2.1- THB3 billion per year during 2021-2023. The adjusted net debt to EBITDA ratio is forecast to be 6-7 times during the next three years, while total debt to capitalization could jump to 48% during the same period. The EBITDA interest coverage ratio should stay at 3.3-4.1 times during 2021-2023.

As of March 2021, AMATA's debt consisted of THB7.0 billion of priority debt out of its total interest-bearing debt of THB15.5 billion. Most of AMATA's priority debts is unsecured debt at the subsidiaries' level. As its priority debt is below the threshold of 50%, we view that AMATA's unsecured creditors are broadly not significantly disadvantaged with respect to the priority of claim against the company's operating assets.

### **Recurring revenue provides some cushion against slowdown**

AMATA's strong business profile is underpinned by steady growth from the revenue it earns from utility services. Utility services are a stable revenue source that can partially offset fluctuations in land sales. Utility services include supplying raw water, processed water, and wastewater treatment. Revenue from utility services rose to THB1.8 billion in 2020 (44% of total revenue), from THB1.3 billion in 2013 (17% of total revenue), driven by an increase in the number of customers and rising demand from new power plants located in AMATA's industrial estates.

However, revenue from utility services has been adversely affected by the COVID-19. Some manufacturers have decided to temporarily halt or scale down their operations in the wake of the pandemic. The THB1.8 billion revenue from utility services in 2020 was a decline by 5.2% from the previous year, and further slipped by 0.5% year-on-year (y-o-y) to THB0.5 billion in the first quarter of 2021. Nevertheless, we maintain the view that the prospects for utility services remain strong. We expect the recurring revenue to recover in late-2021.

### **Dividends from power business provide highly predictable cash flow**

AMATA receives highly predictable dividend income from a number of joint investments with B. Grimm Power Ltd. in power generation. The company has a total installed power generation capacity of 260 megawatts (MW), proportionate to its stakes in the power generation plants. AMATA, through a joint venture (JV), also 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, investments in the power business are expected to yield dividends totaling Bt0.4 billion per year.

### **Manageable liquidity**

We assess AMATA's liquidity to be manageable over the next 12 months. As of March 2021, AMATA's sources of funds consisted of THB2.6 billion in cash on hand plus short-term investments. We project funds from operations (FFO) to be around THB1.4 billion over the next 12 months. The company has undrawn credit facilities of around THB2.6 billion. Primary uses of funds are debt repayments of THB1.3 billion, and capital expenditures of THB4 billion. We expect the company to

maintain sufficient liquidity to weather potential business slowdown until business recovery is on a firm and sustainable path.

The financial covenant on AMATA's debentures requires the company to maintain its interest-bearing debt to equity ratio below 2.5 times. As of March 2021, AMATA's interest-bearing debt to equity ratio was 0.8 times. We expect the company will remain in compliance with this covenant over the forecast period.

#### BASE CASE ASSUMPTIONS

- Total operating revenue to increase by 17% to THB5.1 billion in 2021 and range from THB7.0-THB7.4 billion annually in 2022-2023.
- Gross profit margin is forecast at 48%, while the EBITDA margin should stay around 40%-42%.
- Total capital spending to range from THB4-THB7 billion per annum during 2021-2023.

#### RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that AMATA will be able to maintain its leading position in the domestic industrial property industry. We expect the recurring income from the utility service business, dividend from the power plants, and income from rental properties to provide significant cushion against the adverse effect of unfavourable economic environment.

#### RATING SENSITIVITIES

AMATA's could be upgraded if the company is able to lower its leverage, with the net debt to EBITDA ratio staying below 4 times on a sustained basis and increase the revenue contribution from its Vietnam and/or other overseas operations. On the contrary, AMATA's ratings could be downgraded if the company's leverage rises to the extent of the adjusted net debt to EBITDA ratio remains above 8 times for an extended period.

#### COMPANY OVERVIEW

AMATA was founded in 1989 by Mr. Vikrom Kromadit (Chief Executive Officer) and listed on the Stock Exchange of Thailand in 1997. Since the company's inception, the Kromadit family has been the main shareholder and is actively involved in the management of AMATA. The Kromadit family held approximately 25.9% of the outstanding shares of the company as of April 2021.

AMATA owns industrial estates in Chonburi and Rayong provinces. AMATA has also entered into a joint venture (JV) with a Chinese partner to develop a Thai-Chinese industrial estate in Rayong province, to serve demand from Chinese investors. AMATA has more than 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 2021, AMATA had 2,032 rai of land available for sale in Thailand. The company also had 9,325 rai of raw land, mostly in Chonburi, awaiting development.

The company has signed joint venture agreements and memoranda of understanding with many government-related entities and universities in order to study and develop several smart city projects in Amata City Chonburi province.

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

All of the developed land in ACBH has been sold. The company is waiting for an investment certificate before it can develop a new phase with 19 hectares (119 rai) of saleable area. AMATA is in process of developing two new industrial estates in Vietnam: ACLT in the southern part of the country, and ACHL in the north. During the first quarter of 2021, AMATA sold 204 rai of land in ACHL. The company expects land transfer and revenue recognition from this industrial estate to commence in late-2021. For ACLT, the company is awaiting the land lease agreement before applying for construction licenses. Additionally, AMATA has entered into a joint venture agreement with Vietnam-Singapore Industrial Park (VSIP) and Sumitomo Corporation in order to develop new industrial estate, Quang Tri Industrial Park, in the central part of Vietnam.

AMATA is also involved industrial estate developments in Myanmar and the Lao PDR. The company plans to kick off construction in Lao PDR this year. However, investments in Myanmar has been suspended owing to the ongoing political turbulence.

In addition to selling land, AMATA provides infrastructure, facilities, and maintenance services to customers in the industrial estates. These services include supplying raw water, potable and clarified water, wastewater treatment, and maintenance. 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 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	2016	2017	2018	2019	2020	Jan-Mar 2021
<b>Sales</b>						
- Industrial land	49	46	42	54	37	15
<b>Total sales</b>	<b>49</b>	<b>46</b>	<b>42</b>	<b>54</b>	<b>37</b>	<b>15</b>
<b>Recurring income</b>						
- Utilities & services	38	40	42	33	44	59
- Rental	13	14	16	13	20	26
<b>Total recurring income</b>	<b>51</b>	<b>54</b>	<b>58</b>	<b>46</b>	<b>63</b>	<b>85</b>
<b>Total revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Total revenue (THB million)	4,484	4,491	4,354	5,914	4,202	819

Source: AMATA

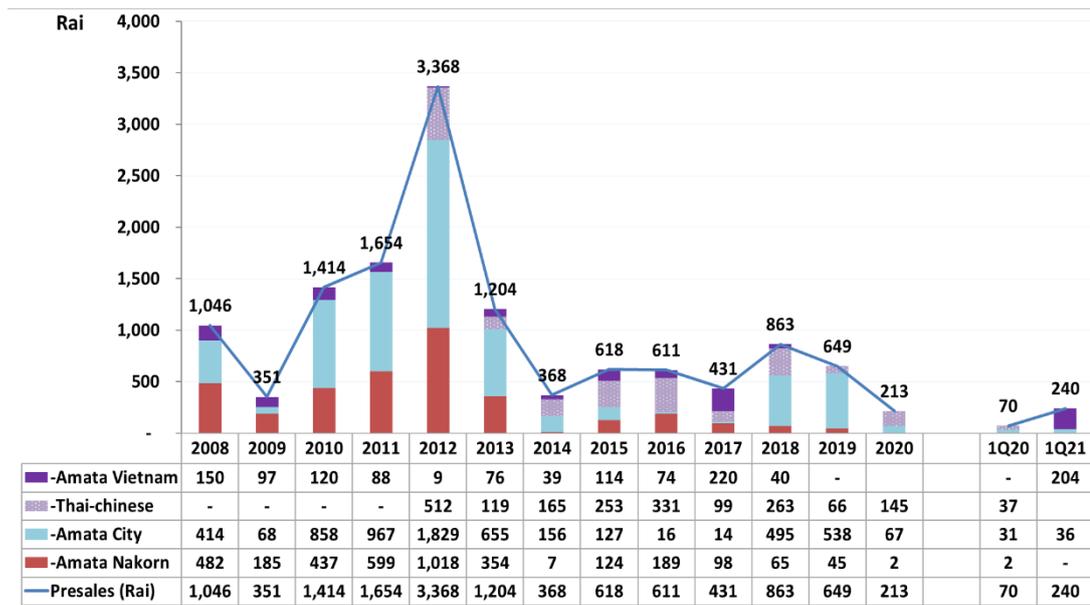
**Table 2: AMATA's EBITDA Breakdown**

*Unit: %*

EBITDA	2016	2017	2018	2019	2020	Jan-Mar 2021
<b>Sales</b>						
- Industrial land	55	53	38	53	35	15
<b>Total sales</b>	<b>55</b>	<b>54</b>	<b>38</b>	<b>53</b>	<b>35</b>	<b>15</b>
<b>Recurring income</b>						
- Utilities & services	19	19	22	18	22	31
- Rental	15	13	17	16	22	29
- Dividend from power business	10	14	23	13	21	25
<b>Total recurring income</b>	<b>45</b>	<b>46</b>	<b>62</b>	<b>47</b>	<b>65</b>	<b>85</b>
<b>Total EBITDA</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

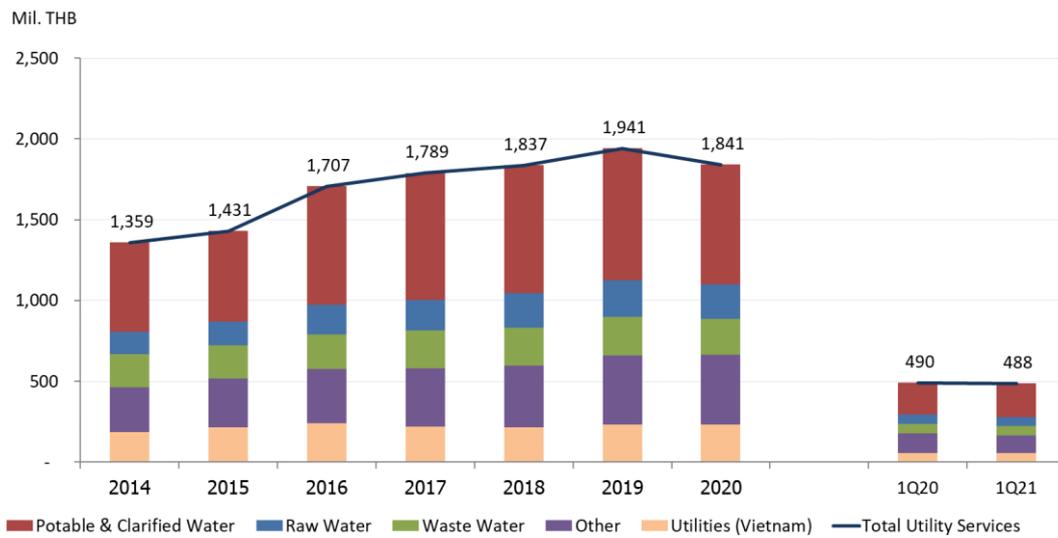
Source: AMATA

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: Mil. THB

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	857	4,318	6,056	4,453	4,585
Earnings before interest and taxes (EBIT)	428	2,002	2,832	2,065	2,247
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	494	2,230	2,774	2,112	2,180
Funds from operations (FFO)	338	1,630	2,129	1,595	1,669
Adjusted interest expense	131	436	330	246	228
Capital expenditures	69	611	1,131	1,402	770
Total assets	41,499	40,222	36,397	33,021	29,280
Adjusted debt	14,165	14,237	11,540	9,826	6,955
Adjusted equity	19,471	18,753	16,976	15,569	14,971
<b>Adjusted Ratios</b>					
EBITDA margin (%)	57.66	51.64	45.80	47.42	47.54
Pretax return on permanent capital (%)	5.72	6.12	9.81	8.04	9.95
EBITDA interest coverage (times)	3.77	5.12	8.41	8.59	9.56
Debt to EBITDA (times)	7.03	6.38	4.16	4.65	3.19
FFO to debt (%)	9.80	11.45	18.45	16.23	23.99
Debt to capitalization (%)	42.11	43.16	40.47	38.69	31.72

## RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**AMATA Corporation PLC (AMATA)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
AMATA22OA: THB2,000 million senior unsecured debentures due 2022	A-
AMATA23OA: THB500 million senior unsecured debentures due 2023	A-
AMATA24OA: THB2,000 million senior unsecured debentures due 2024	A-
AMATA258A: THB250 million senior unsecured debentures due 2025	A-
AMATA25OA: THB1,000 million senior unsecured debentures due 2025	A-
AMATA27OA: THB500 million senior unsecured debentures due 2027	A-
AMATA288A: THB750 million senior unsecured debentures due 2028	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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