

TICON INDUSTRIAL CONNECTION PLC

No. 65/2018
24 May 2018

CORPORATES

Company Rating:	A
Issue Rating:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
25/05/17	A	Stable
27/04/16	A-	Stable
07/05/15	A	Negative
02/05/12	A	Stable
14/10/11	A	Alert Negative
21/11/05	A	Stable

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RATIONALE

TRIS Rating affirms the company rating and the ratings of the senior unsecured debentures of TICON Industrial Connection PLC (TICON) at "A". The ratings reflect TICON's business position as the biggest provider of both ready-built factories (RBFs) and warehouses for rent as well as its financial flexibility via selling assets to TICON Freehold and Leasehold Real Estate Investment Trust (TREIT). However, the strengths are partially offset by the volatile nature of the industrial property market.

The ratings also reflect TICON's status as a strategically important subsidiary of Frasers Property Holdings Thailand Co., Ltd., a wholly-owned subsidiary of Frasers Property Ltd. (FPL) controlled by the Sirivadhanabhakdi family. FPL is one of the leading real estate companies in Singapore, listed on the main board of the Singapore Exchange (SGX). FPL's scope of business covers residential, commercial, retail, and industrial property in Singapore and Australia, as well as the hospitality business in more than 80 cities worldwide.

KEY RATING CONSIDERATIONS

Maintaining the biggest provider of both RBFs and warehouses for rent in Thailand

According to CB Richard Ellis' Bangkok Property Report (the fourth quarter of 2017), TICON and TREIT remained the biggest providers in RBFs market at 48.6% of total RBF supply, outpacing the second-largest provider, Hemaraj Land and Development PLC (HEMRAJ) and its related funds at 22.2%. However, market shares of the top two developers in warehouse market were not much different. TICON and TREIT had a 45.3% market share, meanwhile WHA Corporation PLC (WHA) and WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART) had a 42.3% market share.

TICON's property portfolio is well diversified geographically. Currently, TICON's assets under management consist of 450 factories and 408 warehouses for rent located in good locations such as well-known industrial estates, parks, and promotion zones. Approximately 60% of TICON's properties are located in the Eastern Economic Corridor (EEC) area.

Low occupancy rate expects to gradually improve from synergies with FPL

In 2017, TICON added 91,661 square meters (sq.m.) of leased area (before selling to TREIT), 82% of the total was from warehouses. The leased area in TICON's warehouses rose by 74,786 sq.m. in 2017, compared with an average yearly increase of 156,649 sq.m. during 2012-2016 due to a change in focus to the built-to-suit platform. While, the leased area in RBF increased by 16,875 sq.m. in 2017, compared with around 21,000 sq.m. net increase in 2012-2016 due to a slower-than-expected recovery demand in flooding areas. Overall occupancy rate (OR) remained quite flat at 61% (versus 55%-61% in 2013-2016).

To boost the OR, TICON will focus on the built-to-suit platform with targeted pre-leased area to be taken by companies within Thai Beverage Group. Meanwhile OR of the RBFs will be increased through asset enhancements (resizing, combination, modification, and renovation).

Rising Leverage with fair cash flow protection

TICON's capital structure strengthened significantly after a capital injection from FPHT of Bt13,230 million. The total debt to capitalization ratio improved from 66.9% in 2016 to 37.3% in 2017 as the proceeds from the capital increase was used to pay-down debt. Currently, TICON has cash on hand and marketable securities totaling Bt8,165 million to support the planned capital expenditures in 2018-2020 which are estimated to be in the range of Bt1,700-Bt3,000 million per year. In addition, TICON plans to acquire the new land plots in 2018. Under TRIS Rating's base case scenario, TICON's total debt to capitalization ratio is projected to be around 40%-45% during 2018-2020.

RATING OUTLOOK

The "stable" outlook reflects the expectation that TICON will be able to maintain its leading position in factories and warehouses for rent. The company is expected to remain as a strategically important subsidiary of FPHT, and gradually increase its OR as planned. Under TRIS Rating's base-case scenario, TICON's funds from operations (FFO) are projected to be around Bt1,000-Bt1,700 million per year in 2018-2020. The FFO to total debt ratio is projected to stay around 5%-10% in 2018-2020, assuming that TICON will sell assets to TREIT around 60,000-100,000 sq.m. per year.

RATING SENSITIVITIES

The rating upside will materialize should the company increase its OR, and enlarge its rental income base considerably on a sustainable basis while capital structure remains healthy. A rating downgrade could occur if its operating performance was weaker than expected for an extended period of time, or any aggressive investments drive the total debt to capitalization ratio significantly higher than expectation and weaken cash flow protection.

COMPANY OVERVIEW

TICON was incorporated in 1990 by City Realty Group and H&Q Asia Pacific Co., Ltd. (H&Q), a venture capital firm. The company was listed on the Stock Exchange of Thailand (SET) in 2002. As of March 2018, TICON's major shareholders were FPHT, holding 41% of the company's share, Rojana Industrial Park PLC (ROJNA) (26.1%), City Realty Group (4.2%), and TICON's management team (0.8%).

As of 2 April 2018, ROJNA completed the sale of 478.7 million shares to Frasers Assets Co. Ltd., a joint venture held by FPHT and TCC Asset (Thailand) Co., Ltd., at 49% and 51%, respectively. As a result, Frasers Assets has become the major shareholder and has submitted a tender offer for all outstanding shares of the company. FPHT has nominated three directors out of total nine directors of TICON's board of directors.

KEY OPERATING PERFORMANCE

Table 1: TICON's Revenue Breakdown

Unit: %

Type of Revenue	2013	2014	2015	2016	2017	Jan-Mar 2018
Rental income	1,110	966	1,049	1,172	1,373	380
Asset sales to funds/TREIT *	4,663	4,460	3,037	-	-	-
Asset sales to tenants	-	101	309	-	194	592
Construction services	56	54	30	47	81	16
Utility services	26	38	36	32	36	3
Sales of land	-	-	-	251	-	-
Total revenue (Bt mil.)	5,855	5,619	4,460	1,502	1,684	991

* Assets sold to TFUND, TLOGIS, TGROWTH, and TREIT

Source: TICON

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Rental Income	380	1,373	1,172	1,049	966
Factory sales to tenants	592	194	-	309	101
Properties sales to funds	-	-	-	3,037	4,460
Gross interest expenses	127	585	833	823	752
Net income from operation	257	427	(124)	563	932
Funds from operations (FFO)	649	1,024	321	1,493	1,866
Capital expenditures	92	1,277	1,879	7,012	7,935
Total debt	17,600	13,397	22,358	17,414	16,254
Shareholders' equity	24,979	24,934	11,418	11,466	8,688
Operating income before depreciation and amortization as % of sales	36.3	53.1	53.5	38.8	34.0
Pretax return on permanent capital (%)	3.2 **	2.8	2.4	4.6	6.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.2	2.6	1.5	2.3	2.8
FFO/total debt (%)	8.3 **	7.9	1.7	8.0	12.1
Total debt/capitalization (%)	49.9	37.3	66.9	67.8	60.5

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized with trailing 12 months

TICON Industrial Connection PLC (TICON)

Company Rating:	A
Issue Ratings:	
TICON187A: Bt350 million senior unsecured debentures due 2018	A
TICON188A: Bt700 million senior unsecured debentures due 2018	A
TICON189A: Bt300 million senior unsecured debentures due 2018	A
TICON191A: Bt600 million senior unsecured debentures due 2019	A
TICON195A: Bt1,000 million senior unsecured debentures due 2019	A
TICON190A: Bt620 million senior unsecured debentures due 2019	A
TICON205A: Bt500 million senior unsecured debentures due 2020	A
TICON205B: Bt100 million senior unsecured debentures due 2020	A
TICON208A: Bt600 million senior unsecured debentures due 2020	A
TICON213A: Bt1,500 million senior unsecured debentures due 2021	A
TICON217A: Bt800 million senior unsecured debentures due 2021	A
TICON225A: Bt1,000 million senior unsecured debentures due 2022	A
TICON229A: Bt1,000 million senior unsecured debentures due 2022	A
TICON233A: Bt2,500 million senior unsecured debentures due 2023	A
TICON235A: Bt2,300 million senior unsecured debentures due 2023	A
TICON238A: Bt700 million senior unsecured debentures due 2023	A
TICON283A: Bt1,000 million senior unsecured debentures due 2028	A
Up to Bt1,000 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

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