

# FRASERS PROPERTY THAILAND INDUSTRIAL FREEHOLD AND LEASEHOLD REIT

No. 82/2021  
31 May 2021

## CORPORATES

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

Last Review Date: 18/05/20

### Company Rating History:

Date	Rating	Outlook/Alert
23/04/18	A	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT or trust) and the issue ratings on FTREIT's outstanding senior unsecured debentures at "A" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "A" to FTREIT's proposed issue of up to THB2.5 billion in senior unsecured debentures due within 10 years. The trust plans to use the proceeds from these debentures to repay some of its existing debts.

The ratings reflect the trust's strong market position, well-diversified portfolio, solid cash flow protection, and moderate financial leverage. The ratings also take into consideration our concerns over the trust's relatively short lease terms and the resurgence of the Coronavirus Disease 2019 (COVID-19) outbreak, which may put pressure on the demand and renewal rate for industrial properties.

## KEY RATING CONSIDERATIONS

### Strong market presence as the largest industrial REIT in Thailand

TRIS Rating expects that FTREIT should be able to maintain its strong market presence in the industrial property sector. As of March 2021, FTREIT was Thailand's largest industrial REIT with invested properties worth THB 44.14 billion and total leasable area of 2.03 million square meters (sq. m.). The trust continued to enlarge its portfolio through investments in new assets from its sponsor, Frasers Property (Thailand) PLC (FPT), the leading developer of warehouses and factories for rent in Thailand. FTREIT also seeks opportunities to invest in industrial and logistics assets from others.

In fiscal year (FY) 2020 (1 October to 30 September), the trust acquired new assets worth THB4.97 billion, comprising THB2.87 billion from its sponsor and THB2.1 billion from a non-sponsor, Sahathai Property and Development Co., Ltd. During the first half of FY2021, FTREIT acquired new assets worth THB2.79 billion from its sponsor. The trust plans to acquire more assets worth around THB2.1 billion within the second half of FY2021. Going forward, the trust intends to invest around THB2 billion per annum on new rental assets.

### Diversified portfolio with satisfactory occupancy rates

FTREIT's investment portfolio remains well diversified across geographies and tenants. Based on leasable area, FTREIT's assets currently consist of warehouses (57%) and factories for rent (43%). The trust's properties are strategically located in three key industrial and logistics areas in Thailand, comprising the eastern economic corridor (EEC) (59%), north of Bangkok (23%), and eastern Bangkok (18%). Based on occupied area, FTREIT's tenants are engaged in various industries, including logistics (34%), automotive (22%), electronics (19%), and retailers (6%). The top 10 largest tenants occupied 27% of total leased area and contributed around 24% of total rental and service income in the first half of FY2021.

Despite the impact of the COVID-19 pandemic, the trust was able to keep its occupancy rate (OR) at around 80%-83% during FY2020 through the first half of FY2021. A drop in demand in the automotive sector in FY2020 was compensated by rising demand for warehouses among logistics providers. In addition, trade tensions between the US and China prompted some manufacturers to relocate their manufacturing bases from China to Thailand. For FY2021, strong recoveries in the US and other developed economies after

the rollouts of COVID-19 vaccines should benefit FTREIT's export-oriented tenants. In addition, the acquisition of new assets with high ORs supported by the trust's sponsor and the divestment plan of some non-performing assets should help maintain portfolio performance at the current level.

### **Resurgence of COVID-19 may put pressure on lease rental rate and contract renewal rates**

In TRIS Rating's view, FTREIT is exposed to contract renewal risk. Amid the uncertain circumstances of a prolonged COVID-19 pandemic, some tenants may decide to renew their contracts only one to two months before their contracts expire. New demand from foreign investors is also slack due to the ongoing travel restrictions. Added to this, a certain portion of tenants, especially in the logistics sector, have decided to enter into contracts of shorter terms than usual. Hence, the trust has less time to seek new tenants in the event of contract terminations. The contract renewal rate in FY2020 dropped to 59%, from above 75% in the previous three years, before improving to 67% in the first half of FY2021. Currently, most rental contracts have a three-year lease term; 17% of the total area under lease will expire in the second half of FY2021, 26% in FY2022, 22% in FY2023, and the rest will expire thereafter.

Going forward, growth in new demand from foreign investors will depend largely on the vaccination rate in Thailand. Slow growth in new demand could constrain FTREIT's ability to raise lease rental rates over the next few years. Under TRIS Rating's base-case forecast, we project FTREIT's average OR (with undertaking) to remain in the 81%-84% range, while average rental rates are likely to stay flat over the next three years. The trust's revenue is expected to range between THB3.2-THB3.4 billion per annum in FY2021-FY2023.

### **Robust cash flow protection**

We anticipate FTREIT's cash flow protection to remain solid, supported by rising revenue from frequent acquisitions of good-quality assets and lower property tax expenses. In FY2020, the trust's earnings before interest, tax, depreciation, and amortization (EBITDA) rose by 16% year-on-year (y-o-y) to THB2.41 billion due to a growth in revenue and lower expenses. The trust's revenue grew by 9% y-o-y to THB3.04 billion, mainly from injections of new assets with high ORs. In addition, the change in the property tax rate from 12.5% of rental and service income to 0.3%-0.7% of asset value (depending on the asset value) as defined by government authority, and the reduction in tax collection by 90% during the COVID-19 year, significantly lowered the trust's tax expenses. As a result, its EBITDA margin rose to 79% in FY2020, compared with 74% in FY2019.

FTREIT's EBITDA interest coverage ratio in FY2020 stood at 7 times, the same level as FY2019, due to increased financing costs from new asset acquisitions. Going forward, the trust's EBITDA margin is expected to stay in the 75%-77% range and EBITDA to range between THB2.5-THB2.6 billion during FY2021-FY2023. The EBITDA interest coverage ratio is projected to stay at around 5-6 times and the ratio of debt to EBITDA at around 5-5.5 times.

### **Moderate financial leverage**

TRIS Rating expects FTREIT to maintain its financial profile at a moderate level. Under its growth strategy, we expect FTREIT to fund its future acquisitions through a combination of debt and equity. Under TRIS Rating's base case, we forecast the trust to maintain its loan to fair value of total assets ratio (LTV) below 30% while its debt to EBITDA ratio is expected to hover around 5 times.

At the end of March 2021, the trust's LTV ratio and the debt to EBITDA ratio stood at 24% and 3.95 times, respectively. Under its financial policy, FTREIT normally manages its funding mix to ensure the LTV ratio remains below 30%. In the first half of FY2021, the trust acquired THB2.79 billion in new assets using 100% debt funding and subsequently raised new equity amounting to THB2.82 billion in January to repay most of its bridge loans. However, FTREIT plans to acquire additional assets worth around THB2.1 billion by September 2021 with 100% debt financing. As a result, we expect the trust's LTV to reach 28% at the end of FY2021.

The financial covenant on FTREIT's debt obligations requires the trust to keep its LTV ratio below 60% and its EBITDA interest coverage ratio above 5 times. The ratios at the end of March 2021 were 24% and 7 times, respectively. We assess the trust should have no problems complying with this financial covenant over the next 12 months.

### **Manageable liquidity**

We assess FTREIT's liquidity to remain manageable over the next 12 months, given its ability to access financial markets. The trust's sources of liquidity include cash on hand of THB692 million and available credit lines from financial institutions of THB1.6 million. We forecast EBITDA to stay around THB2-THB2.5 billion over the next 12 months. FTREIT's EBITDA interest coverage is expected to remain at around 6-7 times over the next 2-3 years.

As of March 2021, FTREIT's outstanding debt was THB10.78 billion, comprising debentures of THB8.34 billion, and long-term loans totaling THB2.44 billion. The trust intends to use the proceeds from the new debentures to refinance THB1.8

billion of bonds due in June 2021 and some of debts incurred from investments in additional assets. FTREIT has a series of debt repayments due in the years ahead, including THB1.3 billion in FY2022, THB500 million in FY2023, and THB7.18 billion thereafter. Based on its sizable assets and relatively low LTV, we believe the trust should have no difficulty refinancing its debts.

#### BASE-CASE ASSUMPTIONS

- OR (with undertaking) to remain at 80%-85% over the next three years.
- EBITDA margin to be in the 75%-77% range in FY2021-FY2023.
- Budget for new asset acquisitions set at THB4.8 billion in FY2021 and THB2 billion per year during FY2022-FY2023.
- Acquisition of new assets to be financed by a combination of debt and equity to keep LTV below 30%.

#### RATING OUTLOOK

The “stable” outlook reflects our expectation that FTREIT’s property portfolio will continue to generate stable cash flows and maintain the level of OR above 80% with EBITDA margin above 70% over the next three years. TRIS Rating also expects the trust to keep the LTV ratio below 30% and the debt to EBITDA ratio at around 4.5-5.5 times.

#### RATING SENSITIVITIES

We could lower the ratings if the OR drops significantly below expectations and/or larger-than-anticipated debt-funded acquisitions causing the debt to EBITDA ratio to stay above 6 times for a prolonged period. On the contrary, we would consider an upgrade for the ratings if FTREIT increases its cash flow generation or improves its capital structure meaningfully, causing its debt to EBITDA ratio to stay below 3 times on a sustained basis.

#### COMPANY OVERVIEW

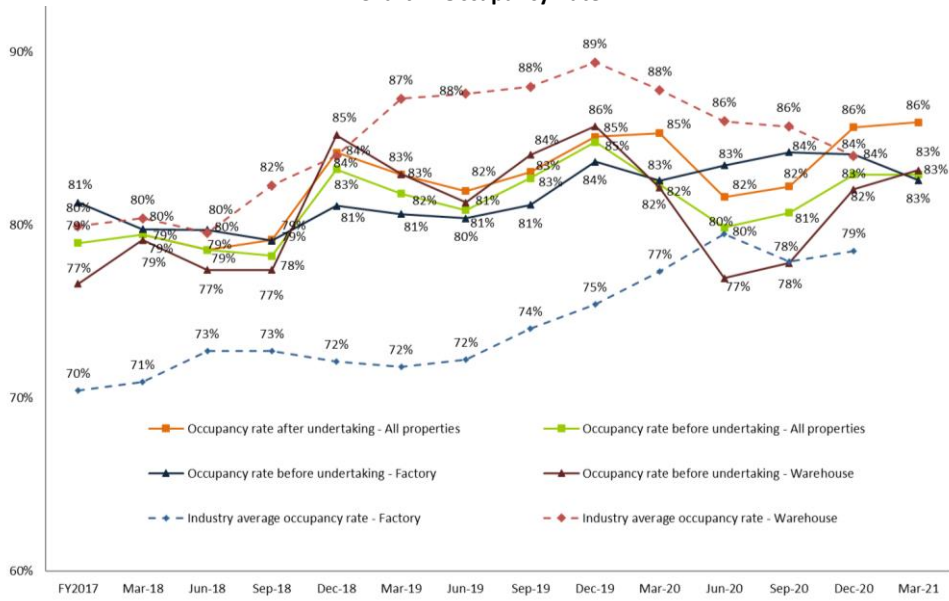
FTREIT was established in December 2014 and listed on the Stock Exchange of Thailand (SET) in January 2015, with registered capital of THB3.4 billion. The REIT manager of the trust is Frasers Property Industrial REIT Management (Thailand) Co., Ltd. (FIRM) (formerly TICON Management Co., Ltd. (TMAN)) which is 70% owned by FPT (formerly TICON PCL. (TICON)), the property manager and main sponsor of the trust. The REIT manager has appointed FPT and Frasers Property Industrial (Thailand) Co., Ltd. (FPIT) (formerly TICON Logistics Park Co., Ltd. (TPARK)), the ex-owners of the properties, as the property managers for factories and warehouses, respectively. Recently, the REIT manager appointed Sahathai Property and Development Co., Ltd. as the temporary property manager for warehouses operated in free trade zones.

At the end of December 2017, FPT Group’s three property funds (TFUND, TGROWTH, and TLOGIS) were merged into FTREIT. After the conversion, FTREIT became the largest industrial REIT in Thailand with assets amounting to THB30.5 billion. FTREIT’s property portfolio has expanded continually from THB4.2 billion at its inception to THB44.14 billion as of March 2021. Its leasable area increased from 214,523 square meters (sq.m.) to 2,030,396 sq.m. over the same period.

At present, FTREIT is one of the leaders in the warehouse and factory rental business in Thailand. It owns and manages 636 properties, with a total leasable area of 2,030,396 sq.m., located in key industrial estates and strategic logistics areas including the EEC (59%), north of Bangkok (23%), and eastern Bangkok (18%). 72% of the investment properties are freehold while the remainder are leasehold.

**KEY OPERATING PERFORMANCE**

**Chart 1: Occupancy Rate**

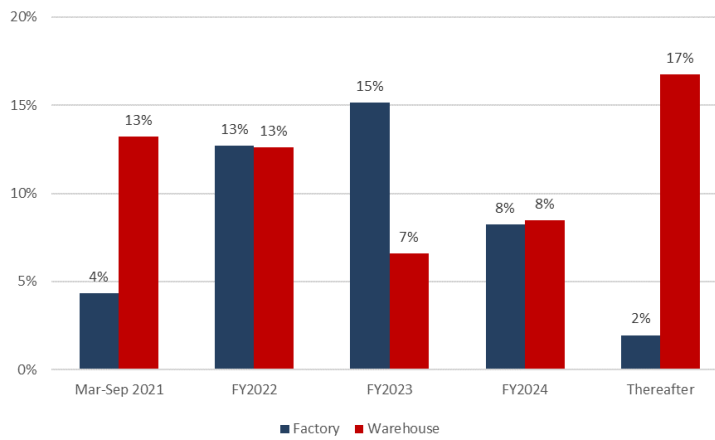


Note: Occupancy rate as of end of period

Sources: FTREIT and CB Richard Ellis (CBRE)

**Chart 2: Lease Expiry**

Unit: % of Total Occupied Area



Source: FTREIT

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

	Oct 20- Mar 21	-----Year Ended 30 September-----			
		2020	2019	2018	2017
Total operating revenues	1,671	3,036	2,791	1,944	592
Earnings before interest and taxes (EBIT)	1,320	2,374	2,031	1,352	454
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,328	2,410	2,071	1,392	480
Funds from operations (FFO)	1,139	2,085	1,790	1,249	394
Adjusted interest expense	189	326	282	142	85
Capital expenditures	2,813	4,999	3,225	1,785	0
Total assets	45,279	42,870	38,495	35,433	31,961
Adjusted debt	10,173	10,480	9,064	6,219	4,433
Adjusted equity	32,942	29,975	27,489	27,362	25,468
<b>Adjusted Ratios</b>					
EBITDA margin (%)	79.44	79.39	74.21	71.56	81.09
Pretax return on permanent capital (%)	6.11 **	6.00	5.64	4.12	2.34
EBITDA interest coverage (times)	7.02	7.40	7.35	9.77	5.63
Debt to EBITDA (times)	3.95 **	4.35	4.38	4.47	9.24
FFO to debt (%)	21.94 **	19.89	19.74	20.08	8.90
Debt to capitalization (%)	23.59	25.91	24.80	18.52	14.83

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

Note: FTREIT has changed its financial year end from 31 December to 30 September from financial year 2018 (FY2018) onwards. Consequently, FY2018, the financial statements comprise only nine months.

**RELATED CRITERIA**

- Key Financial Ratios and Adjustments, 5 September 2018
- Real Estate Investment Trust, 12 October 2016

**Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
TREIT216A: THB1,800 million senior unsecured debentures due 2021	A
TREIT21DA: THB1,000 million senior unsecured debentures due 2021	A
TREIT226A: THB300 million senior unsecured debentures due 2022	A
TREIT244A: THB1,000 million senior unsecured debentures due 2024	A
TREIT256A: THB380 million senior unsecured debentures due 2025	A
TREIT286A: THB1,260 million senior unsecured debentures due 2028	A
TREIT28DA: THB600 million senior unsecured debentures due 2028	A
FTREIT238A: THB500 million senior unsecured debentures due 2023	A
FTREIT268A: THB500 million senior unsecured debentures due 2026	A
FTREIT274A: THB450 million senior unsecured debentures due 2027	A
FTREIT304A: THB550 million senior unsecured debentures due 2030	A
Up to THB2,500 million senior unsecured debentures due within 10 years	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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