

FRASERS PROPERTY THAILAND INDUSTRIAL FREEHOLD AND LEASEHOLD REIT

No. 64/2019
3 May 2019

CORPORATES

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

Last Review Date: 04/12/18

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) (formerly known as TICON Freehold and Leasehold Real Estate Investment Trust (TREIT)) and the issue ratings on FTREIT's outstanding senior unsecured debentures at "A" with a "stable" outlook. The ratings reflect the trust's reliable stream of cash flow from contract-based rental income and large portfolio of industrial property for rent with geographical diversification. However, the ratings are partially offset by the volatile nature of the industrial property for rent business, which is sensitive to economic conditions and market competition. The ratings also incorporate FTREIT's rising leverage to support its investment plans.

KEY RATING CONSIDERATIONS

Largest industrial REIT in Thailand with growth prospects from regular asset injections by sponsor

As a result of the merger of TICON Property Fund (TFUND), TICON Industrial Growth Leasehold Property Fund (TGROWTH), and TPARK Logistics Property Fund (TLOGIS) into the trust at the end of 2017, FTREIT becomes the largest industrial REIT in Thailand in terms of asset size. Presently, its investment properties total Bt35,696 million.

The growing asset size results in a boost in revenue. After the aforementioned merger, FTREIT's total revenue grew significantly to Bt1,944 million in financial year ended 30 September 2018 (FY2018 comprised nine-month period as the financial year end was changed from 31 December to 30 September since 2018), from Bt592 million in FY2017.

Frasers Property (Thailand) PLC (FPT), the trust's sponsor, is one of Thailand's leading factory and warehouse for rent developers. FPT regularly sells rental properties to the trust. FTREIT is also exploring investments in qualified assets from non-sponsors.

FTREIT plans to acquire assets totaling around Bt2,600 million in FY2019. As of December 2018 (or the first quarter of FY2019 (1Q2019)), the trust had acquired assets worth Bt1,907 million. The trust targets to purchase property assets worth Bt2,000 million per annum during FY2020-FY2021. Thus, TRIS Rating expects the trust's total revenue will grow to around Bt2,800-Bt3,100 million per annum.

Geographical diversification and various tenant industries

The trust's assets are scattered across three strategic locations of industrial properties in Thailand, including the eastern economic corridor (EEC) (60%), eastern Bangkok (14%), and north of Bangkok (26%). On top of geographical diversification, FTREIT also has a diverse tenant base. The top 10 largest tenants contributed only 18% in the first quarter of FY2019. The leased area was mainly driven by demand from logistics providers, automotive industry, and electronics industry.

Satisfactory occupancy rate

Despite the lingering investment activities and high competition in the rental factory and warehouse business, FTREIT can achieve a satisfactory average occupancy rate (OR) of 84%, up from around 79% during FY2016-2018. This is because there is a strong demand for industrial properties in the eastern

area. In addition, the asset enhancement with high OR supported by its sponsor and the sale of some non-performing properties help improve its portfolio's performance. The contract renewal rate of FTREIT was still good; the trust maintained the rate at above 70% over the past three years. TRIS rating expects the trust could keep an average OR higher than 80% in FY2019-FY2021.

Medium term contract-based income

The leases of FTREIT's properties portfolio are usually medium term covering a period of three years; therefore, cash flow is secured from contract-based rental income. Three-year contracts make up 75% of the total area under lease. Around one-third of all tenant contracts will expire each year. The weighted average lease life stood at 2.09 years as of December 2018.

Leverage expected to rise, but stay below 30% to total asset value

FTREIT's financial leverage is expected to rise as a result of its investment plan. After merging funds of the FPT Group (formerly TICON Group), FTREIT spent Bt1,783 million in FY2018. The loan to fair value of total assets ratio (LTV) increased to 19.6% in FY2018, up from 17.3% in FY2017.

FTREIT targets to acquire additional assets totaling around Bt2,600 million in FY2019. Consequently, TRIS Rating expects LTV will increase to around 24% at the end of FY2019. Over the next three years, LTV is forecast to rise as FTREIT intends to continually expand its property portfolio, amounted approximately Bt2,000 million per year. However, FTREIT has a policy to keep LTV below 30%.

Manageable refinancing risk

Given its market access capability and abundant unencumbered assets, TRIS Rating believes its refinancing risk is manageable. Due to the growing size of its portfolio, we expect FTREIT's earnings before interest, taxes, depreciation, and amortization (EBITDA) to come in around Bt2,200-Bt2,300 million per annum during FY2019-FY2021. The interest coverage ratio is forecast to range from 5.5 to 7.5 times.

As of December 2018, FTREIT has scheduled bullet debt repayments of Bt1,400 million due in FY2019, followed by Bt800 million due in FY2020, and Bt2,100 million due in FY2021. FTREIT plans to refinance these bullet repayments by using the proceeds from new debentures and/or long-term loans. In addition, FTREIT intends to engage credit facilities with financial institutions in order to be used as back-up facilities for bullet repayments each year. Also, its capability to access equity market is another option to help mitigate the refinancing risk.

BASE-CASE ASSUMPTIONS

- FTREIT's investment assets is assumed to increase around Bt2,600 million in FY2019 and will increase by Bt2,000 million per year during FY2020-FY2021. OR will hold at approximately 84%.
- Total revenue will grow to around Bt2,800-Bt3,100 million per annum during FY2019-FY2021.
- Operating margin (operating income before depreciation and amortization as a percentage of revenue) will stay around 74% over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that FTREIT's property portfolio will generate reliable cash flows and can maintain the level of OR around 80%, and the operating margin will stay around 70%. In addition, TRIS Rating expects the trust will be able to keep the LTV below 30% as per the trust's policy and able to comply with its financial covenant.

RATING SENSITIVITIES

The credit ratings of FTREIT could be under downward pressure if the OR notably drops below expectations and/or larger than expected debt-funded expansion for a prolonged period. On the other hand, the ratings could be revised upward if FTREIT increases its cash flow generation or strengthens its balance sheet noticeably, which will lead to higher cash flow protection over an extended period.

COMPANY OVERVIEW

FTREIT was established in December 2014 and listed on the Stock Exchange of Thailand (SET) in January 2015, with registered capital of Bt3,425 million. 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, 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

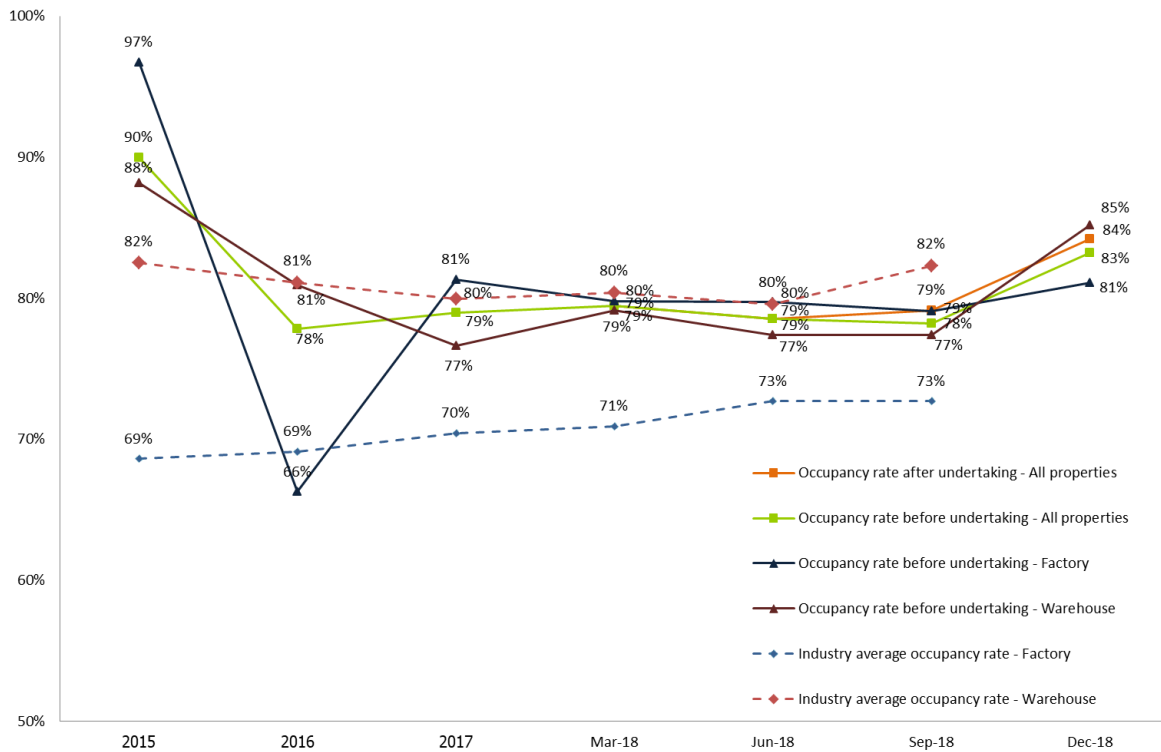
managers for factories and warehouses, respectively.

At the end of December 2017, FPT Group’s three property funds (TFUND, TGROWTH, and TLOGIS) were merged into FTREIT. After the conversion, FTREIT becomes the largest industrial REIT in Thailand with asset size at the amount of Bt30,451 million. FTREIT’s property portfolio has expanded continually from Bt4,228 million at its inception to Bt35,696 million as of December 2018. Its leasable area increased from 214,523 square meters (sq.m.) to 1,629,471 sq.m. over the same period.

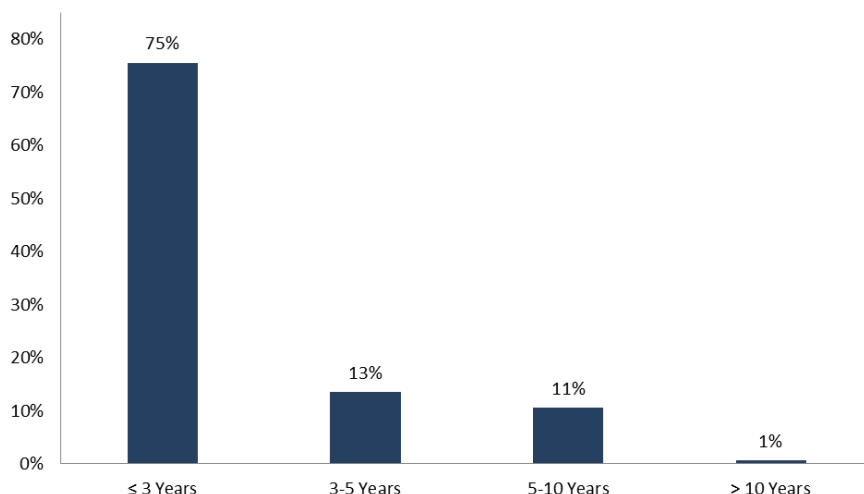
At present, FTREIT is one of the leaders in the warehouse and factory rental business in Thailand. It owns 547 properties, with a total leasable area of 1,631,171 sq.m., located in key industrial estates and along strategic logistics areas including the EEC (60%), eastern Bangkok (14%), and north of Bangkok (26%). 73% of the investment properties are freehold while the remaining 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 Profile


Source: FTREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Year Ended 30		----- Year Ended 31 December ----		
	Oct-Dec 2018	September 2018	2017	2016	2015
Total operating revenues	673	1,944	592	652	413
Operating income	490	1,379	476	492	342
Earnings before interest and taxes (EBIT)	481	1,349	454	480	333
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	494	1,389	480	496	345
Funds from operations (FFO)	434	1,246	394	412	299
Adjusted interest expense	59	142	85	83	46
Capital expenditures	1,921	1,785	0	0	3,159
Total assets	37,437	35,433	31,961	7,771	7,687
Adjusted debt	8,565	6,898	4,540	1,927	1,927
Adjusted equity	27,430	27,362	25,468	5,747	5,601
Adjusted Ratios					
Operating income as % of total operating revenues (%)	72.80	70.93	80.46	75.43	82.91
Pretax return on permanent capital (%)	5.41 **	4.55	2.34	6.30	5.58
EBITDA interest coverage (times)	8.31	9.75	5.63	5.95	7.50
Debt to EBITDA (times)	4.55 **	4.48	9.46	3.89	5.58
FFO to debt (%)	19.62 **	19.87	8.69	21.39	15.52
Debt to capitalization (%)	23.79	20.13	15.13	25.11	25.60

* 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 onwards. Consequently, FY2018, the financial statements comprise only 9 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)

Company Rating:	A
Issue Ratings:	
TREIT204A: Bt800 million senior unsecured debentures due 2020	A
TREIT216A: Bt1,800 million senior unsecured debentures due 2021	A
TREIT226A: Bt300 million senior unsecured debentures due 2022	A
TREIT244A: Bt1,000 million senior unsecured debentures due 2024	A
TREIT256A: Bt380 million senior unsecured debentures due 2025	A
TREIT286A: Bt1,260 million senior unsecured debentures due 2028	A
TREIT20DA: Bt300 million senior unsecured debentures due 2020	A
TREIT21DA: Bt1,000 million senior unsecured debentures due 2021	A
TREIT28DA: Bt600 million senior unsecured debentures due 2028	A
Rating Outlook:	Stable

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