

# FRASERS PROPERTY THAILAND INDUSTRIAL FREEHOLD AND LEASEHOLD REIT

No. 72/2020  
18 May 2020

## CORPORATES

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

Last Review Date: 18/03/20

### 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. The ratings reflect the trust's strong market position, supported by its large scale with diversified tenant groups and strategic locations, and its moderate financial leverage. The ratings also take into consideration the adverse effects of the coronavirus (COVID-19) outbreak which may affect the demand for industrial properties in the short to medium-term.

## KEY RATING CONSIDERATIONS

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

In TRIS Rating's view, FTREIT holds a strong market position in Thailand's industrial estate sector. The trust is the largest industrial REIT in Thailand with investment properties valued at Bt39.2 billion and leasable area of 1.76 million square meters (sq. m.) as of March 2020. The trust's sponsor is Frasers Property (Thailand) PLC (FPT), the leading developer of warehouses and factories for rent in Thailand. FTREIT has grown continuously over the past three years with the acquisition of new assets from its sponsor and others. Its rental and services income has grown from less than Bt1 billion in 2017 to Bt2.8 billion in fiscal year 2019 (FY2019, the period of the trust's financial year is from 1 October to 30 September).

Due to the growing demand from logistics businesses, the trust plans to invest more in warehouses for rent. In August 2019, the trust acquired 18,354 sq.m. of cold storage from CT Distribution Center Co., Ltd. (CTD) and then leased it back to CTD for 12 years, from 28 August 2019 to 27 August 2031. In November 2019, FTREIT purchased 80,012 sq. m. of warehouses at Laem Chabang with an investment cost of Bt2.1 billion from a non-sponsor, Sahathai Property and Development Co., Ltd. The trust plans to acquire additional assets worth around Bt3.5 billion within FY2020. Going forward, the trust intends to invest around Bt2-Bt3 billion per annum on new rental assets.

### Diversified tenant groups and locations with satisfactory occupancy rate

FTREIT's leasable area comprises 55% warehouses and 45% factories for rent. Its assets are well diversified in terms of geography and tenants. The trust's rental assets are scattered across three strategic locations for logistics and industrial properties in Thailand, comprising the eastern economic corridor (EEC) (62%), north of Bangkok (25%), and eastern Bangkok (13%). FTREIT's tenants are engaged in various industries, ranging from logistics providers to auto suppliers, electronics and electric manufacturers, and retailers. The top 10 largest tenants contributed around 20% of total rental and service income and leased area in FY2019 and in the first half of FY2020.

Based on the strategic location of its assets, FTREIT should be able to maintain a satisfactory occupancy rate (OR) in the medium-term. As of March 2020, the average OR was 85%, up from around 79% during FY2016-FY2018. The relocation of manufacturing bases to Thailand by global hard disk drive manufacturers such as Western Digital has led to rising demand for industrial properties from its supply chains. The trade tensions between the USA and China have also raised the prospect of increasing ORs thanks to the potential relocation of supply chain out of China. In addition, regular injections of

assets with high ORs supported by the trust's sponsor and the divestment of some non-performing assets have helped improve portfolio performance.

### **COVID-19 pandemic to affect occupancy and rental rates in the short to medium-term**

TRIS Rating believes the COVID-19 pandemic could put pressure on the occupancy and rental rates of FTREIT's assets. The COVID-19 outbreak has impacted the overall economy since late January 2020. The trust's tenants are mainly logistics providers (27%), automotive industry (24%), and electronics industry (22%), based on occupied area. Since March 2020, many automotive factories were reported to have closed temporarily due to a slump in demand caused by the pandemic fallout, which is currently affecting some of automotive-related tenants of the trust. FTREIT may need to offer rent reductions for a certain period of time to aid some of its tenants.

Under TRIS Rating's base case, we assume the COVID-19 pandemic to be largely contained in the second half of this year. Thus, we forecast the trust's rental rate for warehouses and factories to drop by 10% in FY2020, followed by a rebound to current level in FY2021. The average OR is expected to be in the 82%-84% range over the next three years. The trust's revenue in FY2020 is expected to decline to around Bt2.6 billion, and recover to Bt3 billion per annum in FY2021 and FY2022. However, if the pandemic is prolonged, the trust's performance could be hurt more from lower occupancy and lease renewal rates. Currently, most of its rental contracts have a 3-year lease term, 17% of the total area under lease will expire in the second half of FY2020, 29% in FY2021, 21% in FY2022, and the rest will expire thereafter. The contract renewal rate has been above 75% over the past four years but dropped to around 61% in the first half of FY2020.

### **Moderate financial leverage**

TRIS Rating expects FTREIT to maintain its financial profile at the current level. Despite its growth plan, we expect the trust to keep its loan to fair value of total assets ratio (LTV) at lower than 30% and the ratio of debt to earnings before interest, tax, depreciation, and amortization (EBITDA) at around 4-5 times. At the end of March 2020, the trust's LTV ratio stood at 21%. Its debt to EBITDA ratio has stood at around 4.4- 4.5 times during the past two years. In order to maintain financial leverage as targeted, we expect the trust to fund its future acquisitions by using a mix of equity and debt, and maintain good operating performance.

In TRIS Rating's view, the trust should be able to manage its capital structure as targeted. The trust usually raises new equity to match the debt needed to finance the acquisition of new assets. In November 2019, the trust acquired Bt2.1 billion of new assets using 100% debt funding, causing its LTV to rise to 29%. Subsequently, in January 2020, the trust issued new equity amounting to Bt3.1 billion to repay most of its bridge loans. The ratio dropped to around 21% as a result. However, FTREIT plans to acquire new assets worth around Bt3.5 billion by September 2020. If the trust uses 100% debt to finance the acquisition of new assets, its LTV could elevate to 27% at the end of FY2020. Its debt to EBITDA ratio may rise slightly above 5 times in FY2020 if the negative impacts from the COVID-19 fallout worsen. However, we expect the ratio to decline in the following year once the economy is on a post-pandemic recovery path.

### **Manageable liquidity**

TRIS Rating assesses FTREIT's liquidity to be manageable given its ability to access financial markets and its abundant unencumbered assets. The ratio of funds from operations (FFO) to debt was around 24% and the EBITDA interest coverage ratio was 6.9 times during the first half of FY2020. We expect FTREIT's FFO to drop to Bt1.5 billion in FY2020 and recover to Bt1.8-Bt1.9 billion per annum in the following years. The FFO to debt ratio is forecast to drop to 13% in FY2020 and rebound to around 15%-16% in the next 2-3 years. The interest coverage ratio is projected to hover around 5 times over the next three years.

As of March 2020, FTREIT's outstanding debt was Bt8.6 billion, comprising debentures of Bt8.4 billion and a bridge loan of Bt206 million. The trust has already repaid Bt800 million of bonds due in April 2020 and the whole amount of the bridge loan with the proceeds from new debentures issues. FTREIT has a number of bullet debt repayments due in the years ahead, including Bt2.1 billion due in FY2021, followed by Bt1.3 billion due in FY2022, and Bt5.2 billion due thereafter. The trust plans to refinance these bullet repayments with the proceeds from new debentures and/or long-term loans. However, considering the liquidity crunch in the bond market with most investors turning risk adverse amid the pandemic fallout, refinancing risk exists for all rated issuers. To mitigate the refinancing risk, FTREIT is working on back-up loan facilities of Bt1.5 billion from a financial institution as an alternate funding source to repay some of the debt due in FY2021.

### **BASE-CASE ASSUMPTIONS**

- Investment assets to increase by round Bt5.6 billion in FY2020 and Bt2 billion per year during FY2021-FY2022.
- OR to range 82%-84% over the next three years.
- Rental rates of warehouses and factories to slip by 10% in FY2020 owing to the COVID-19 pandemic and rebound to the

current level in FY2021-FY2022.

- Total revenue of Bt2.6-Bt3.2 billion per annum during FY2020-FY2022.
- EBITDA margin to drop to 71% in FY2020 and recover to a range of 73%-74% in FY2021-FY2022.

#### **RATING OUTLOOK**

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The “stable” outlook reflects our expectation that FTREIT’s property portfolio will continue to generate stable cash flows during FY2020-FY2022. TRIS Rating also expects the trust’s assets to maintain the level of OR above 80%, and the operating margin to stay at around 70%. In addition, TRIS Rating expects the trust will be able to keep its debt to EBITDA ratio at around 4-5 times and the LTV ratio below 30%.

#### **RATING SENSITIVITIES**

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FTREIT’s ratings and/or outlook could be revised downward if the OR drops significantly below expectations and/or larger-than-expected debt-funded expansion causing its debt to EBITDA ratio to stay above 6 times for a prolonged period. On the contrary, the ratings and/or outlook could be revised upward 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**

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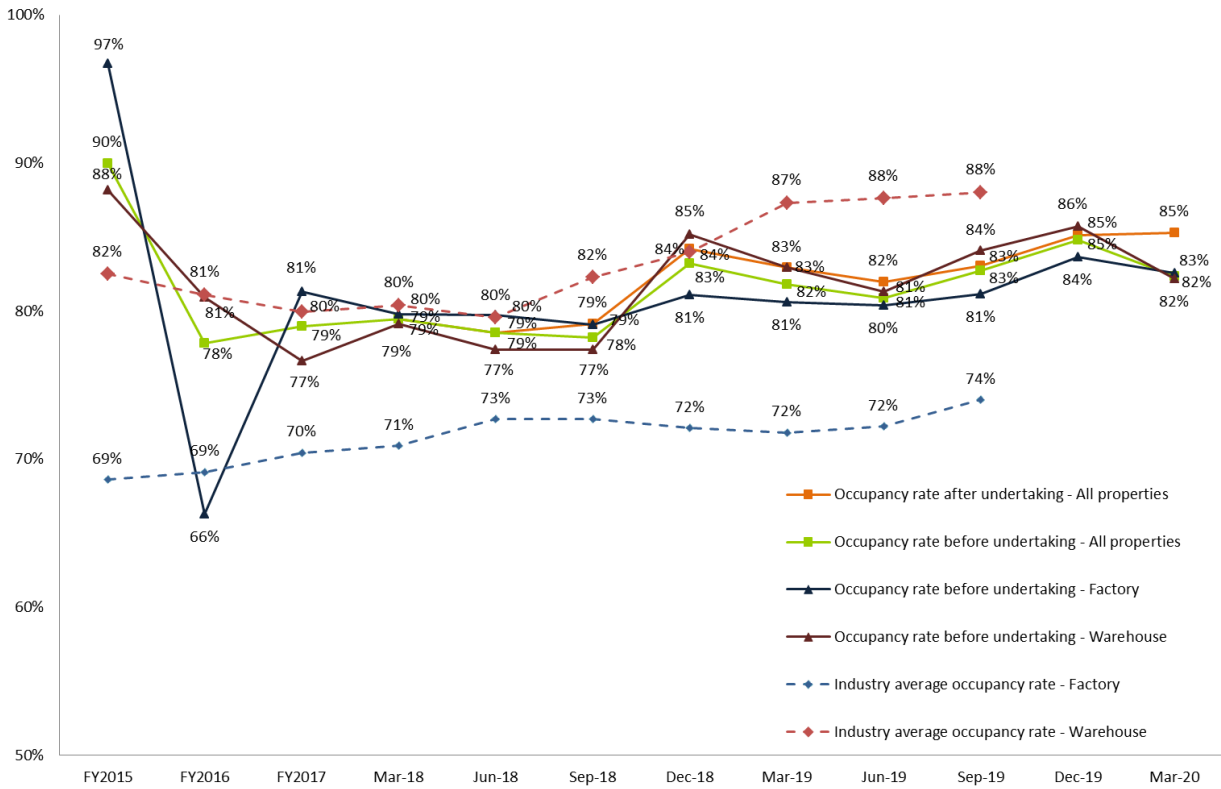
FTREIT was established in December 2014 and listed on the Stock Exchange of Thailand (SET) in January 2015, with registered capital of Bt3.4 billion. The REIT manager of the trust is Frasers Property Industrial REIT Management (Thailand) Co., Ltd. (FIRM) (formerly TICON Management Co., Ltd. (TMAN)) which is 70% owned by FPT, 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 became the largest industrial REIT in Thailand with assets amounting to Bt30.5 billion. FTREIT’s property portfolio has expanded continually from Bt4.2 billion at its inception to Bt39.2 billion as of March 2020. Its leasable area increased from 214,523 square meters (sq.m.) to 1,758,487 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 578 properties, with a total leasable area of 1,758,487 sq.m., located in key industrial estates and strategic logistics areas including the EEC (62%), north of Bangkok (25%), and eastern Bangkok (13%). Seventy five percent of the investment properties are freehold while the remainder are leasehold.

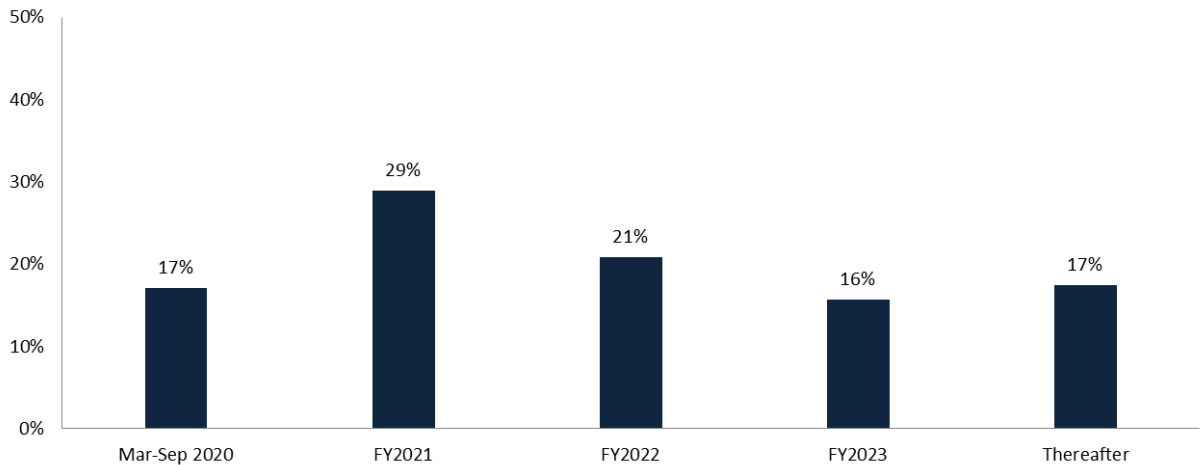
**KEY OPERATING PERFORMANCE**

**Chart 1: Occupancy Rate**



Note: Occupancy rate as of end of period  
Sources: FTREIT and CB Richard Ellis (CBRE)

**Chart 2: Lease Expiry by Occupied Area**



Source: FTREIT

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Bt million

	----Year Ended 30 Sep----		---- Year Ended 31 Dec---		
	Oct 19- Mar 20	2019	2018	2017	2016
Total operating revenues	1,509	2,791	1,944	592	652
Earnings before interest and taxes (EBIT)	1,141	2,021	1,352	454	480
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,160	2,061	1,392	480	496
Funds from operations (FFO)	991	1,779	1,249	394	412
Adjusted interest expense	169	282	142	85	83
Capital expenditures	2,135	3,225	1,785	0	0
Total assets	40,853	38,497	35,433	31,961	7,771
Adjusted debt	7,731	9,066	6,219	4,433	1,724
Adjusted equity	30,720	27,489	27,362	25,468	5,747
<b>Adjusted Ratios</b>					
EBITDA margin (%)	76.87	73.85	71.56	81.09	76.03
Pretax return on permanent capital (%)	5.62 **	5.62	4.12	2.34	6.30
EBITDA interest coverage (times)	6.88	7.31	9.77	5.63	5.95
Debt to EBITDA (times)	3.56 **	4.40	4.47	9.24	3.48
FFO to debt (%)	23.94 **	19.63	20.08	8.90	23.91
Debt to capitalization (%)	20.11	24.80	18.52	14.83	23.08

\* 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>	
TREIT20DA: Bt300 million senior unsecured debentures due 2020	A
TREIT216A: Bt1,800 million senior unsecured debentures due 2021	A
TREIT21DA: Bt1,000 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
TREIT28DA: Bt600 million senior unsecured debentures due 2028	A
FTREIT238A: Bt500 million senior unsecured debentures due 2023	A
FTREIT268A: Bt500 million senior unsecured debentures due 2026	A
FTREIT274A: Bt450 million senior unsecured debentures due 2027	A
FTREIT304A: Bt550 million senior unsecured debentures due 2030	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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