

FRASERS PROPERTY THAILAND INDUSTRIAL FREEHOLD AND LEASEHOLD REIT

No. 88/2022

31 May 2022

CORPORATES

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

Last Review Date: 27/04/22

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 highly predictable cash flow from contract-based rental income, well-diversified portfolio, robust cash flow protection, and prudent financial policy. The ratings also take into consideration our concerns over the impacts of the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, rising inflation, and the Russia-Ukraine conflict which are likely to weigh on the occupancy, rental rates, and renewal rate of industrial properties.

KEY RATING CONSIDERATIONS

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 (58%) and factories for rent (42%). The trust's properties are strategically located in three key industrial and logistics areas in Thailand, comprising the eastern economic corridor (EEC) (58%), north of Bangkok (24%), and eastern Bangkok (18%). Based on occupied area, FTREIT's tenants are engaged in various industries, including logistics (34%), electronics (25%), automotive (19%), and retailers (7%). The top 10 largest tenants occupied 28% of total leased area and contributed around 27% of total rental and service income in the first half of fiscal year 2022 (FY2022).

During the COVID-19 pandemic, the trust was able to deliver favorable occupancy rates (OR). The average OR gradually rose to 87% in the first half of FY2022, from 85% in FY2021 and 83% in FY2020. The global economic recovery after the height of the pandemic benefited FTREIT's export-oriented tenants. Moreover, the relocation of production from China to Thailand, especially in the electronics sector, as well as continued growth in the e-commerce market have led to rising demand for warehouses and factories. The acquisition of new assets with high ORs supported by the trust's sponsor and the divestment of some non-performing assets have also helped maintain satisfactory portfolio performance.

Decent operating performance but under pressure on lease rental rate and renewal rate

The COVID-19 pandemic has not had a significant impact on the trust's operating performance given the contract-based nature of rental properties. Its operating revenue grew by 12% year-on-year (y-o-y) to THB3.4 billion in FY2021. Operating revenue in the first half of FY2022 also rose by 8% year-on-year (y-o-y) to THB1.8 billion.

However, we view the trust's rental rates and lease renewal rates to come under pressure from several challenges including the prolonged pandemic, the rising inflation rate, and the Russia-Ukraine conflict. Amid the uncertain circumstances, some tenants may decide to renew their contracts only one to two months before their contracts expire. In addition, a certain portion of tenants, especially in the logistics sector, have decided to enter into contracts of shorter terms than usual. This will mean the trust has less time to seek new tenants in the event of contract terminations. However, FTREIT is confident it will be able to secure renewals on most contracts given its strategic locations for logistics, the quality of its properties, and its good services. The lease

contract expirations are relatively concentrated in FY2022 and FY2023. However, around 85% of the contracts that expired in the first half of FY2022 have already been renewed. We expect the contract renewal rate to stay above 70% over the next three years.

In our base-case forecast, we assume average OR (with undertaking) to stay in the 83%-85% range, while average rental rates are likely to remain flat over the forecast period. The trust's revenue is forecast to range between THB3.6-THB3.8 billion per annum in FY2022-FY2024.

Robust cash flow protection

We view FTREIT's cash flow protection to remain strong, supported by increasing cash flows from regular acquisitions of good-quality assets and lower costs after the implementation of a new property tax law. 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 government relief measure of a 90% reduction in payable tax during the COVID-19 year, substantially lowered the trust's tax expenses. Its earnings before interest, tax, depreciation, and amortization (EBITDA) margin rose and has stayed at 79% since FY2020, compared with 74% in FY2019. Its EBITDA rose by 12% y-o-y to THB2.7 billion in FY2021. Looking forward, we expect FTREIT's profitability to decline slightly due to the cessation of tax reductions in December 2021. We project EBITDA margin to range between 77%-78.5% during FY2022-FY2024. As a result, the trust's EBITDA is expected to stay in the THB2.8-THB2.9 billion per annum range over the forecast period while its debt to EBITDA ratio should stay at 4-4.5times.

Prudent financial policy

We expect FTREIT to maintain its loan to fair value of total assets ratio (LTV) (including lease liabilities) below 30% over the next three years, based on the trust's financial policy. FTREIT plans to acquire new assets worth not more than THB1.7 billion with 100% debt financing within September 2022. Based on that, we estimate its LTV to reach 27% at the end of FY2022.

Under its growth strategy, FTREIT intends to enlarge its asset portfolio by 5% annually. We expect the trust to fund its future acquisitions through a combination of debt and equity. Its LTV will likely hover around 27% over the forecast period.

Adequate liquidity

We assess FTREIT's liquidity to be adequate over the next 12 months, given the trust's ability to access the capital market, good relationships with financial institutions, and strong support from its sponsor. FTREIT's sources of liquidity included THB648 million cash on hand and THB950 million in available credit lines from financial institutions. We forecast EBITDA of around THB2.8 billion over the next 12 months.

As of March 2022, FTREIT's outstanding debt was THB10.89 billion, comprising THB9.04 billion debentures, THB1.3 billion long-term loans, and THB550 million promissory notes (P/Ns). All debts were unsecured debts. The trust has a series of debt repayments due in the years ahead, including THB850 million during the rest of FY2022, THB500 million in FY2023, THB1.85 billion in FY2024 and THB7.69 billion thereafter. The trust should have no difficulty refinancing its debts, supported by its sizable assets and relatively low LTV. FTREIT's EBITDA interest coverage ratio is expected to remain at 6.5-7.5 times over the next three years.

BASE-CASE ASSUMPTIONS

Here are our key base-case assumptions for FTREIT's operations during FY2022-FY2024:

- OR (with undertaking) in the 83%-85% range.
- EBITDA margin to range between 77%-78.5%
- Budget for new asset acquisitions set at THB1.7 billion in FY2022 and THB2 billion per annum during FY2023-FY2024.
- 100% debt financing for new acquisitions in FY2022 and a combination of debt and equity for the acquisition of new assets in FY2023-FY2024 with a target LTV of below 30%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that FTREIT's property portfolio will continue to generate steady cash flows with average OR above 80% and EBITDA margin above 70% over the next three years. We also expect the trust to keep the LTV ratio below 30% in accordance with the trust's policy and the debt to EBITDA ratio at around 4-4.5 times.

RATING SENSITIVITIES

We could lower the ratings if the trust's OR drops significantly below our expectations and/or larger-than-anticipated debt-funded acquisitions cause the debt to EBITDA ratio to rise above 5.5 times for a prolonged period. On the other hand, a

rating upward revision could occur if FTREIT enlarges its cash generation and/or improves its capital structure meaningfully, leading to a debt to EBITDA ratio below 2.5 times on a sustained basis.

COMPANY OVERVIEW

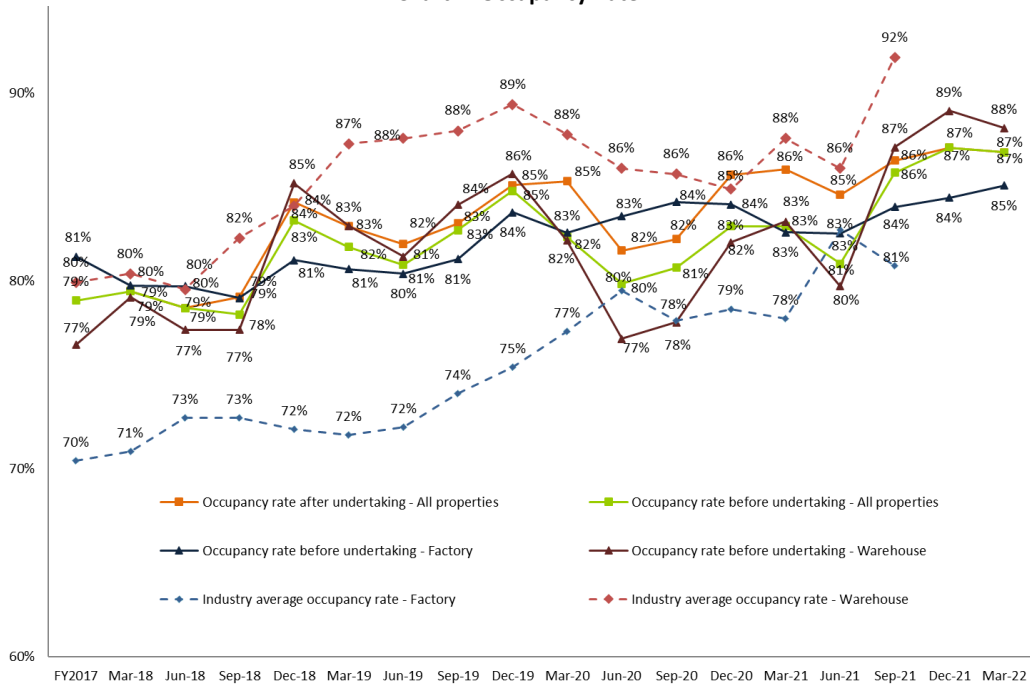
FTREIT was established in December 2014 and listed on the Stock Exchange of Thailand (SET) in January 2015, with registered capital of THB3.4 billion. The REIT manager of the trust is Frasers Property Industrial REIT Management (Thailand) Co., Ltd. (FIRM) (formerly TICON Management Co., Ltd. (TMAN)) which is 70% owned by FPT (formerly TICON PCL. (TICON)), the property manager and main sponsor of the trust. The REIT manager has appointed 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 free trade zone relating operation in a logistics center.

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 THB44.53 billion as of March 2022. Its leasable area increased from 214,523 square meters (sq.m.) to 2,062,481 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 641 properties, with a total leasable area of 2,062,481 sq.m., located in key industrial estates and strategic logistics areas including the EEC (58%), north of Bangkok (24%), and eastern Bangkok (18%). Around 72% of the investment properties are freehold while the remainder are leasehold.

KEY OPERATING PERFORMANCE

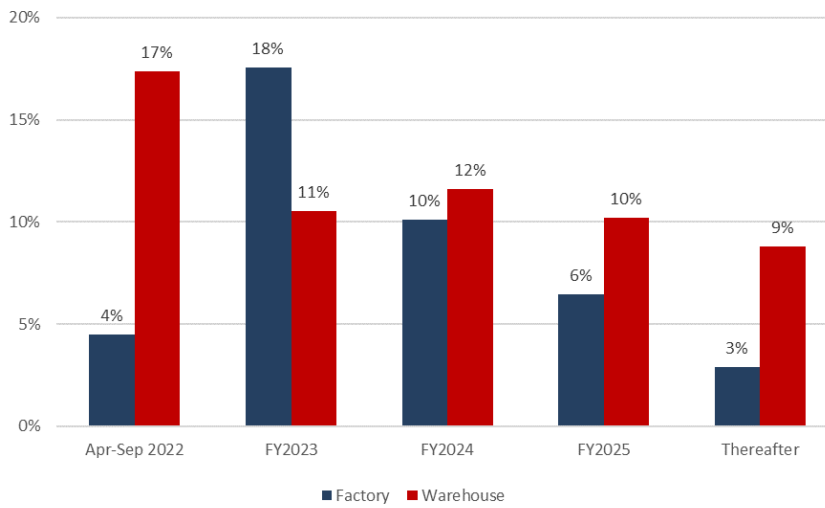
Chart 1: Occupancy Rate



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

Chart 2: Lease Expiry

Unit: % of Total Occupied Area



Sources: FTREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct 21- Mar 22	-----Year Ended 30 September -----			
		2021	2020	2019	2018
Total operating revenues	1,811	3,412	3,036	2,791	1,944
Earnings before interest and taxes (EBIT)	1,450	2,692	2,374	2,031	1,352
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,457	2,706	2,410	2,071	1,392
Funds from operations (FFO)	1,277	2,335	2,085	1,790	1,249
Adjusted interest expense	179	371	326	282	142
Capital expenditures	3	3,644	4,999	3,225	1,785
Total assets	45,385	46,066	42,870	38,495	35,433
Adjusted debt	10,503	10,830	10,480	9,064	6,219
Adjusted equity	32,968	32,911	29,975	27,489	27,362
Adjusted Ratios					
EBITDA margin (%)	80.42	79.31	79.39	74.21	71.56
Pretax return on permanent capital (%)	6.41 **	6.23	6.00	5.64	4.12
EBITDA interest coverage (times)	8.11	7.30	7.40	7.35	9.77
Debt to EBITDA (times)	3.70 **	4.00	4.35	4.38	4.47
FFO to debt (%)	23.55 **	21.56	19.89	19.74	20.08
Debt to capitalization (%)	24.16	24.76	25.91	24.80	18.52

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021

Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT)

Company Rating:	A
Issue Ratings:	
TREIT226A: THB300 million senior unsecured debentures due 2022	A
FTREIT238A: THB500 million senior unsecured debentures due 2023	A
TREIT244A: THB1,000 million senior unsecured debentures due 2024	A
FTREIT246A: THB850 million senior unsecured debentures due 2024	A
FTREIT24DA: THB1,000 million senior unsecured debentures due 2024	A
TREIT256A: THB380 million senior unsecured debentures due 2025	A
FTREIT266A: THB700 million senior unsecured debentures due 2026	A
FTREIT268A: THB500 million senior unsecured debentures due 2026	A
FTREIT274A: THB450 million senior unsecured debentures due 2027	A
TREIT286A: THB1,260 million senior unsecured debentures due 2028	A
FTREIT286A: THB700 million senior unsecured debentures due 2028	A
TREIT28DA: THB600 million senior unsecured debentures due 2028	A
FTREIT304A: THB550 million senior unsecured debentures due 2030	A
FTREIT316A: THB250 million senior unsecured debentures due 2031	A
Up to THB1,600 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

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