

GOLDEN VENTURES LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 162/2018

18 October 2018

CORPORATES

Issuer Rating:	A-
Issue Rating: Senior unsecured	A-
Outlook:	Stable

Issuer Rating History:

Date	Rating	Outlook/Alert
15/12/17	A-	Stable

Contacts:

Jutamas Bunyanichkul

jutamas@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Suchada Pantu, Ph. D.

suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Golden Ventures Leasehold Real Estate Investment Trust (GVREIT) and the rating on GVREIT's senior unsecured debentures at "A-". The ratings reflect the trust's high quality assets located in prime areas of Bangkok, its reliable cash flow stream from contract-based rental income, and its conservative financial policy. The ratings also take into consideration the future growth opportunities of the trust, supported by assets from its sponsors and ultimate shareholders. However, the ratings are partially constrained by portfolio concentration on two assets and top-10 tenant concentration in terms of leasable area and revenue contribution.

KEY RATING CONSIDERATIONS

High OR and rental rate from high quality assets and prime locations

The trust consists of two office buildings, Park Ventures Ecoplex (PKV) and Sathorn Square (SSQ), with a total leasable area of 100,511 square metres (sq.m.) as of June 2018. The office buildings are located in the central business district (CBD) of Bangkok. Each building is connected to the BTS Skytrain station. PKV and SSQ are classified as grade-A office space in CBD areas. Due to the good asset quality and the prime locations of its properties, both office buildings generated relatively strong operating performance. At the end of June 2018, the average occupancy rate (OR) was 99.6% for PKV and 97.0% for SSQ. The OR of the trust has held above the industry average of 92%-94% for grade-A CBD office space during 2017-2018. The average rental rates in 2018 were Bt1,000-Bt1,024 per sq.m. per month for PKV and Bt803-Bt823 per sq.m. per month for SSQ. The industry average of achieved rental rate for grade-A CBD office space was Bt1,005 per sq.m. per month in the second quarter of 2018. The rental rates of PKV and SSQ have grown by 3%-5% per annum during 2016-2018.

Reliable cash flow stream from contract-based rental income, with high profitability

The rental income of the trust is quite predictable since nearly all tenants have three-year contracts. Based on the floor area currently under lease, 22% of total occupied area will expire in 2018, 14% will expire in 2019, 44% in 2020, and 20% in 2021. The renewal rate has been high at more than 90%. Due to strong demand for office space in prime areas and good asset quality, TRIS Rating views that the REIT manager will be able to keep the high renewal rate with a favorable rental rate. During 2018-2021, TRIS Rating expects the trust will be able to maintain the OR at above 95% and the rental rate is expected to increase by at least 2% per annum.

GVREIT's rental and service income was Bt1,082 million in 2017 and Bt844 million during the first nine months of 2018. Around two-thirds of the rental and service income came from SSQ with one-third from PKV. During 2018-2019, TRIS Rating forecasts the two office buildings will generate rental and service income of Bt1,100-Bt1,200 million per annum. However, the REIT manager plans to add new asset to its portfolio in 2020. Thus, GVREIT's rental and service income is projected to increase to Bt1,700 million per annum during 2020-2021.

GVREIT's operating income held at 77%-82% during 2016 through the first nine months of 2018. The EBITDA (earnings before interest, tax, depreciation, and

amortization) margin has been high at around 80% since its inception. The trust's ability to maintain high OR, increase rental rates, and control operating costs have sustained high profitability. Going forward, TRIS Rating forecasts the operating income and the EBITDA margin to be held at least 70%.

Growth prospect from assets under the group

GVREIT's REIT manager and property manager are wholly-owned subsidiaries of Univentures PLC (UV) and Golden Land Property Development PLC (GOLD), respectively. The ultimate shareholders of UV and GOLD are companies affiliated with the TCC Group. One of the investment arms of the Group is a property development business in both property for rent and property for sale. The TCC Group has a number of types of rental assets including office buildings, serviced apartments, hotels, and shopping malls. The subsidiaries own a number of office buildings in and outside the CBD. Thus, TRIS Rating forecasts GVREIT will add new properties to its portfolio regularly every 3-4 years. The assets will come primarily from the sponsors and assets the Group holds. TRIS Rating expects GVREIT will inject matured properties with high OR and stable rental rate growth into the trust. The growing size of the quality property portfolio is expected to boost rental and service income and operating cash flow for the trust in the future. Currently, there is an office building, FYI Center, in the pipeline. As of June 2018, the OR of FYI Center was 94% with average rental rate of Bt750 per sq.m. per month. TRIS Rating forecasts the trust will acquire FYI Center during late 2019 through beginning 2020.

Tenant concentration risk

The portfolio of GVREIT is exposed to concentration risk. Operating performance depends on two assets in two locations, Wireless road and Sathorn road. At the end of June 2018, the number of tenants, by contract, was 84 for PKV and 131 for SSQ. The 10 largest tenants occupied 40% of the total occupied area and contributed 30% of total rental and service income during 2017 through the first nine months of 2018. Tenants affiliated with the TCC Group occupied 11% of the total occupied area and contributed 9% of total rental and service income. However, this concentration risk is partly mitigated by the high credit profiles of its top largest tenants.

Conservative financial leverage policy

As a REIT, GVREIT has to comply with several regulations of the Securities and Exchange Commission (SEC). The trust has to distribute more than 90% of its net adjusted investment income to unit holders. Thus, the trust will have less financial flexibility compared with other real estate companies. However, GVREIT's financial leverage is relatively low as the debt to capitalization ratio has been maintained at 19%-22% since its inception. The ratio of interest-bearing debt to earnings before interest, tax, depreciation and amortization (EBITDA) was 2-3 times during 2016 through the first nine months of 2018.

According to its debenture covenant, the trust has to keep the loan to fair value of total assets below 60%. As of June 2018, the ratio was 19%. Although the trust plans to expand its portfolio in the future, the purchase of new assets should be funded with both financial debt and new equity from unit holders. TRIS Rating expects the trust should have no problem to keep the ratio of loans to fair value of total assets in compliance with the debenture covenant. Also, we forecast the trust will keep the debt to capitalization ratio below 30% and the interest-bearing debt to EBITDA ratio below 3.5 times.

Adequate liquidity

Due to its relatively low debt leverage and no debt repayments due during 2018-2026, the trust's liquidity is considered adequate. The ratio of funds from operations (FFO) to total debt was 35%-41% during 2016 through the first nine months of 2018. The EBITDA interest coverage ratio held at 7 times in 2017 and 8 times in the first nine months of 2018. As of June 2018, the financial flexibility of the trust was supported by cash on hand of Bt122 million and investments in securities at a fair value of Bt721 million. In addition, TRIS Rating forecasts the trust's FFO over the next 12 months will be around Bt800 million.

At the end of June 2018, GVREIT had outstanding debentures valued at Bt1,999 million to be due in April 2027. GVREIT plans to refinance its maturing bond by long-term bond issuance. TRIS Rating expects the trust will be able to refinance its debts with no difficulty, given the expected higher income from its larger portfolio, stable operating performance, and strong support from its sponsors.

RATING OUTLOOK

The "stable" outlook reflects our expectation that GVREIT's property portfolio will generate reliable streams of cash flow during 2018-2021. TRIS Rating expects the trust's assets to sustain high OR and achieve favorable rental rates as targeted. In addition, GVREIT's financial profile should remain strong as the debt to capitalization ratio stays below 30% and the interest-bearing debt to EBITDA ratio stays below 3.5 times.

RATING SENSITIVITIES

GVREIT’s ratings and/or outlook could be revised downward if the interest-bearing debt to EBITDA ratio increases above 4 times for a prolonged period or there are any larger-than-expected debt-financed property acquisitions. In contrast, GVREIT’s future ratings and/or outlook could be revised upward if the trust acquires more properties and can diversify the location base and tenant base in its portfolio while maintaining a strong financial profile.

COMPANY OVERVIEW

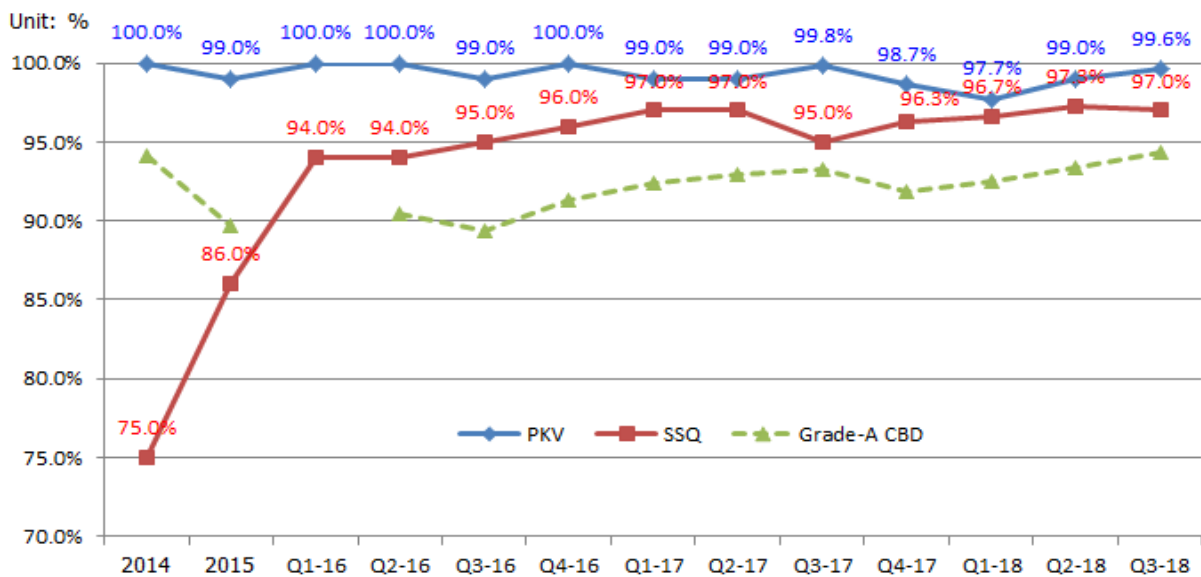
GVREIT was founded in March 2016. The REIT is a non-redeemable and indefinite trust. GOLD has been the trust’s major unit holder with a 22.64% stake as of August 2018. GVREIT’s REIT manager and property manager are Univentures REIT Management Co., Ltd. (UVRM) and North Sathorn Realty Co., Ltd. (NSR), two wholly-owned subsidiaries of UV and GOLD, respectively. The ultimate shareholders of UV and GOLD are companies affiliated with the TCC Group.

GVREIT’s property portfolio is small and concentrated. The trust consists of two office buildings, PKV and SSQ, with a total leasable area of 100,511 sq.m. as of June 2018. The trust’s total leasable area in a portion of 95% is for office space; 3% is for retail space, and the rest is for other uses. The two office buildings are located in the CBD area of Bangkok and each is connected to BTS Skytrain stations. The assets are classified as grade-A office space in the Wireless road area for PKV and in the Sathorn road area for SSQ.

GVREIT’s rental and service income was Bt1,082 million in 2017 and Bt844 million during the first nine months of 2018. Around two-thirds of rental and service income came from SSQ with one-third from PKV. The 10 largest tenants constituted 40% of the total occupied area and contributed 30% of total rental and service income during 2017 through the first nine months of 2018.

KEY OPERATING PERFORMANCE

Chart 1: Occupancy Rate and Industry Average of Grade-A CBD Offices

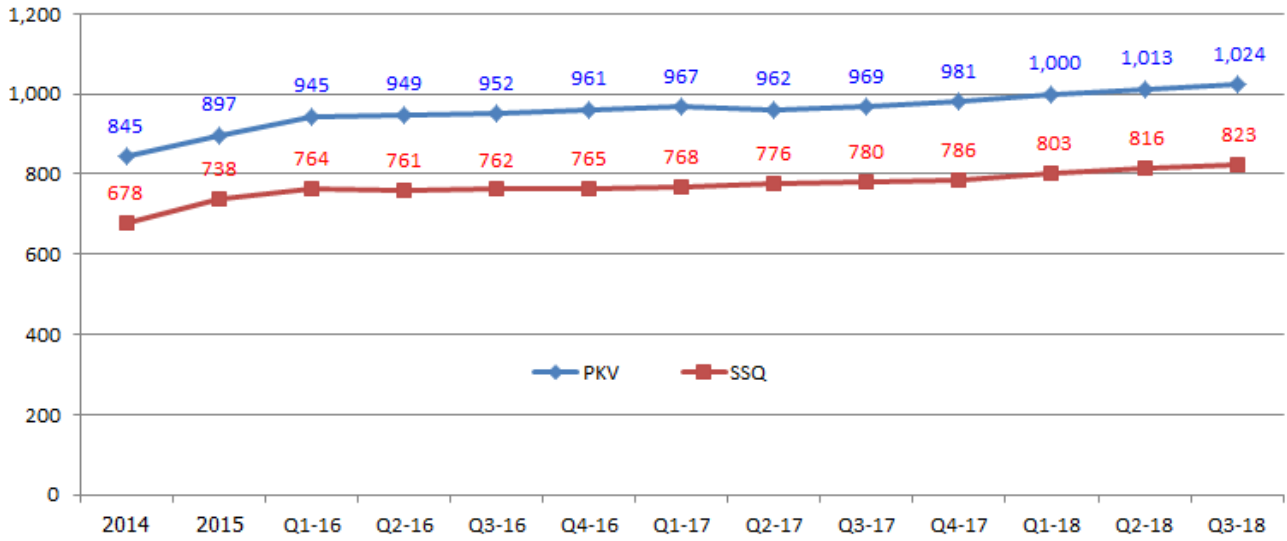


- Notes: 1) OR (%) during 2014 through the first quarter of 2016 came from operating performance before GVREIT was established.
2) Comparing with industry average during the same period

Sources: GVREIT and CB Richard Ellis (CBRE)

Chart 2: Rental Rate for Overall Tenants

Unit: Baht/sq.m./month

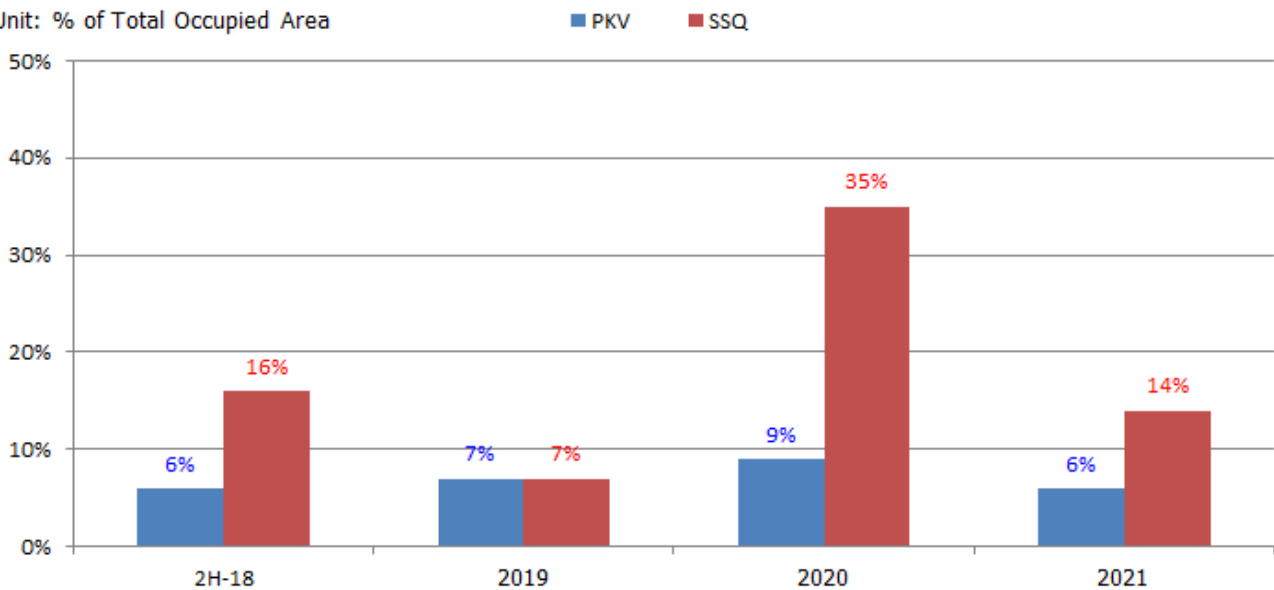


Note: Rental rate for overall tenants during 2014 through the first quarter of 2016 came from operating performance before GVREIT was established.

Source: GVREIT

Chart 3: Lease Expiry by Occupied Area

Unit: % of Total Occupied Area



Source: GVREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	--Year Ended 30 September --		
	Oct 2017- Jun 2018	2017	2016
Rental and service income	844	1,082	534
Adjusted interest expense	82	129	93
Operating income	591	761	369
Earnings before interest and taxes (EBIT)	639	828	430
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	654	858	445
Funds from operations (FFO)	614	791	412
Investment in leasehold properties at fair value	9,756	9,756	9,814
Total assets	10,704	10,562	10,538
Reported debts	1,999	2,000	2,000
Adjusted debts	1,986	2,131	2,364
Net asset value	8,319	8,216	8,224
Adjusted Ratios			
Operating income as % of rental and service income (%)	76.72	78.25	82.36
Pretax return on permanent capital (%)	7.76 **	7.61	7.89
EBITDA interest coverage (times)	8.00	6.67	4.77
Debt to EBITDA (times)	2.26 **	2.49	2.65
FFO to debt (%)	41.29 **	37.13	34.86
Debt to capitalization (%)	19.27	20.60	22.33
Loan to fair value of total assets (%)	18.67	18.94	18.98

* Consolidated financial statements

** Annualized with trailing 12 months

Golden Ventures Leasehold Real Estate Investment Trust (GVREIT)

Issuer Rating: A-

Issue Rating:
 GVREIT274A: Bt2,000 million senior unsecured debentures due 2027 A-

Rating Outlook: Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2018, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria