

GOLDEN VENTURES LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 181/2019

31 October 2019

CORPORATES

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

Last Review Date: 18/10/18

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Golden Ventures Leasehold Real Estate Investment Trust (GVREIT or “trust”) and the rating on GVREIT’s senior unsecured debentures at “A-” with a “stable” outlook. The ratings reflect the trust’s high quality assets in prime locations of Bangkok, predictable cash flow from contract-based rental income, and conservative financial policy. The ratings also take into consideration the growth prospects of the trust, supported by assets from sponsors and ultimate shareholders. However, the ratings are partially constrained by portfolio concentration risk in terms of location base and tenant base.

KEY RATING CONSIDERATIONS

High quality assets in prime locations is a key

TRIS Rating holds the view that GVREIT should be able to maintain its strong operating performance in the medium term supported by its high quality assets in prime business areas. GVREIT’s investment properties comprise 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 2019. Both PKV and SSQ are classified as grade-A office buildings located in the central business district (CBD) of Bangkok with direct access to BTS Skytrain stations.

The trust’s high-quality and well-located properties translate into high occupancy rates (OR) and favorable rental rates. GVREIT has enjoyed high OR of over 94% for both buildings since its inception in fiscal year 2016 (FY2016). At the end of June 2019, the average OR was 100% for PKV and 99% for SSQ, compared with the industry average of 97% for grade-A CBD office space during the same period. The average rental rates in FY2019 were Bt1,045-Bt1,060 per sq.m. per month for PKV and Bt839-Bt849 per sq.m. per month for SSQ, while the industry average rental rate stood around Bt782-Bt1,046 per sq.m. per month for CBD office buildings. The rental rates of PKV and SSQ have grown by 3%-5% per annum from FY2016 through the first nine months of FY2019. Over the next three years, TRIS Rating expects the trust to maintain the OR at above 95% for PKV and 90% for SSQ. The rental rate is expected to increase by at least 2% per annum.

Stable cash flow from contract-based rental and service income

TRIS Rating expects the trust to be able to generate stable income streams over the next three years based on mostly three-year lease contracts from tenants. Under current leased occupancy, 4% of total occupied area will expire in the last quarter of FY2019, 36% will expire in FY2020, 44% in FY2021, 15% in 2022, and the rest will expire in FY2023. The lease contract expirations are relatively concentrated in FY2020 and FY2021, since the lease agreement of 10 major tenants of both buildings will expire in the same period. However, GVREIT’s management believes that most lessees will renew their contracts, given strong demand for office space in prime areas and good asset quality.

Looking at GVREIT’s track record, the renewal rate has been relatively high at above 90% for PKV and 80% for SSQ over the past three years. GVREIT’s rental and service income has increased gradually over the past three years, growing from Bt1.08 billion in FY2017 to Bt1.14 billion in FY2018, and Bt899 million during the first nine months of FY2019. Its profitability has also stood at a relatively high level. The operating margin (operating income as a percentage of

total operating revenues) has held steady at 76%-78% during FY2016 through the first nine months of FY2019. In TRIS Rating's base-case forecast, GVREIT's operating margin is expected to be at least 70% during FY2019-FY2021.

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 Group's businesses is property development, including property for rent and property for sale. Given the continued support of sponsors, we believe GVREIT has potential to increase its scale. TRIS Rating expects GVREIT to add matured properties in and outside the CBD with high OR and stable rental rate growth into its portfolio every 3-4 years. The consistently growing size of the quality properties portfolio results in a boost to rental and service income, as well as operating cash flow in the future. At present, one of assets in the pipeline is "FYI Center" (FYI), an office building. As of June 2019, the OR of FYI Center stood at 98% with an average rental rate of Bt752 per sq.m. per month.

Concentration risks pose challenges

GVREIT is exposed to concentration risk in regards to the locations of assets and tenant base. The trust's performance relies on only two assets in two locations, Wireless road and Sathorn road. Around two-thirds of the rental and service income was contributed by SSQ and the rest by PKV. The trust partly mitigates this concentration risk through insurance coverage, including public liability insurance, all-risk insurance, and business interruption insurance.

The tenant concentration risk is another challenge for the trust. At the end of June 2019, the number of tenants, by contract, was 83 for PKV and 138 for SSQ. The top-ten tenants occupied 41% of the total occupied area and contributed 30% of total rental and service income during FY2018 through the first nine months of FY2019. Tenants affiliated with the TCC Group occupied 11% of the total occupied area and contributed 9% of total rental and service income. However, the tenant concentration risk is partly alleviated by the strong credit profiles of its top largest tenants. Moreover, the property manager normally negotiates lease renewal agreements with tenants about six months in advance of expiration. Thus, the trust has time to look for new tenants should the lessees decide to terminate their contracts. Based on the prime locations of its assets, the company should have no problem finding new tenants to replace the expired ones. This year, one of the trust's major tenants, GOLD, ended its lease contracts for 3,526 sq.m. of space effective at the end of October 2019. GVREIT was subsequently able to find new replacement tenants with better rental rates.

Conservative financial policy

TRIS Rating views GVREIT's financial policy as conservative. GVREIT's debt to capitalization ratio was 19% in FY2018 and 18% at the end of June 2019. The debt to earnings before interest, tax, depreciation and amortization (EBITDA) was 2-3 times during FY2018 through the first nine months of FY2019. According to the trust's financial policy, the trust will maintain the loan to total asset value (LTV) at less than 20% in the medium term.

According to its debenture covenant, the trust has to keep the LTV ratio below 60%. However, the assets owned by the trust are leasehold properties and the trust is obligated to pay at least 90% of adjusted net income as dividends. Thus, the trust is not expected to incur a significant amount of debt. Although the trust plans to expand its portfolio in the future, TRIS Rating anticipates the trust to fund its additional investment using a combination of capital raised and debt. Based on its current business profile, we expect GVREIT to keep the debt to capitalization ratio below 30% and the debt to EBITDA ratio below 3.5 times in order to maintain its rating at the current level.

Adequate liquidity

TRIS Rating views that GVREIT's liquidity profile is adequate due to its low leverage as well as no debt repayments coming due in the near term. The funds from operations (FFO) to debt ratio was 40% in FY2018 and 43% during the first nine months of FY2019. The EBITDA interest coverage ratio stood at 9 times in FY2018 and 8 times in the first nine months of FY2019. As of 30 June 2019, the financial flexibility of the trust was supported by cash on hand of Bt93 million, investments in securities at fair value of Bt902 million, and undrawn committed credit facilities from banks of Bt160 million. TRIS Rating expects the FFO to range around Bt700-Bt800 million per annum during FY2019-FY2020. At the end of June FY2019, GVREIT had outstanding debentures valued at Bt2 billion coming due in April 2027. GVREIT intends to refinance its maturing bond by new bond issuance. TRIS Rating believes the trust to have no difficulty refinancing its debts, given its ability to access financial markets and strong support from its sponsors.

BASE-CASE ASSUMPTIONS

- New asset acquisitions of around Bt5-Bt6 billion over the next couple of years.
- PKV's OR to range between 95%-100% and SSQ's OR to range between 90%-98% during FY2019-FY2021. FYI's OR to stay above 90% in FY2021.

- Average rental rates of PKV and SSQ to grow at 2%-3% per annum over the next three years.
- Rental and service income to hover around Bt1.2 billion in FY2019-FY2020, and to increase to Bt1.6 billion per annum in FY2021 given new asset acquisitions.
- EBITDA margin should be held at least 73% during FY2019-FY2021.

RATING OUTLOOK

The “stable” outlook reflects our expectation that GVREIT’s property portfolio will continue to generate steady cash flow during FY2019-FY2021. 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 with the debt to capitalization ratio staying below 30% and the interest-bearing debt to EBITDA ratio staying 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-funded property acquisitions. On the contrary, the 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

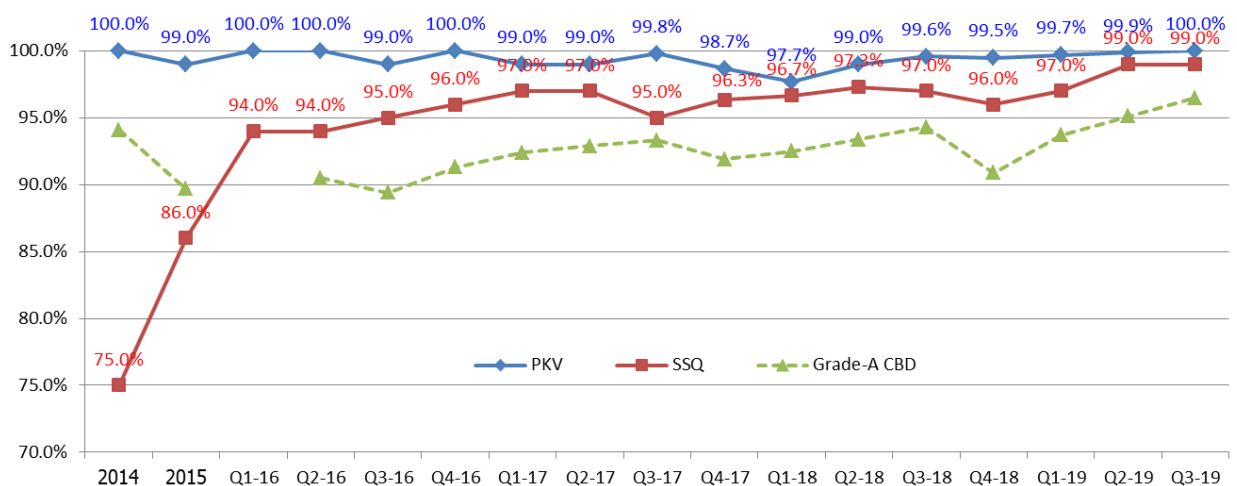
GVREIT was founded in March 2016. The REIT is a non-redeemable and indefinite trust. GOLD is the trust’s major unit holder with a 22.64% stake as of June 2019. GVREIT’s REIT manager and property manager are Univentures REIT Management Co., Ltd. (UVRM) and North Sathorn Realty Co., Ltd. (NSR), two wholly-owned 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’s assets consist of two office buildings, PKV and SSQ, with a total leasable area of 100,511 sq.m. as of June 2019. The trust’s total leasable area is split into 95% for office space; 3% for retail space, and the remainder for other uses. The two office buildings are located in the CBD area of Bangkok and each is connected to a BTS Skytrain station. 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 Bt1.14 billion in FY2018 and Bt899 million in the first nine months of FY2019. Around two-thirds of rental and service income was derived from SSQ with one-third from PKV. The 10 largest tenants constituted 41% of the total occupied area and contributed 30% of total rental and service income during FY2018 through the first nine months of FY2019.

KEY OPERATING PERFORMANCE

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

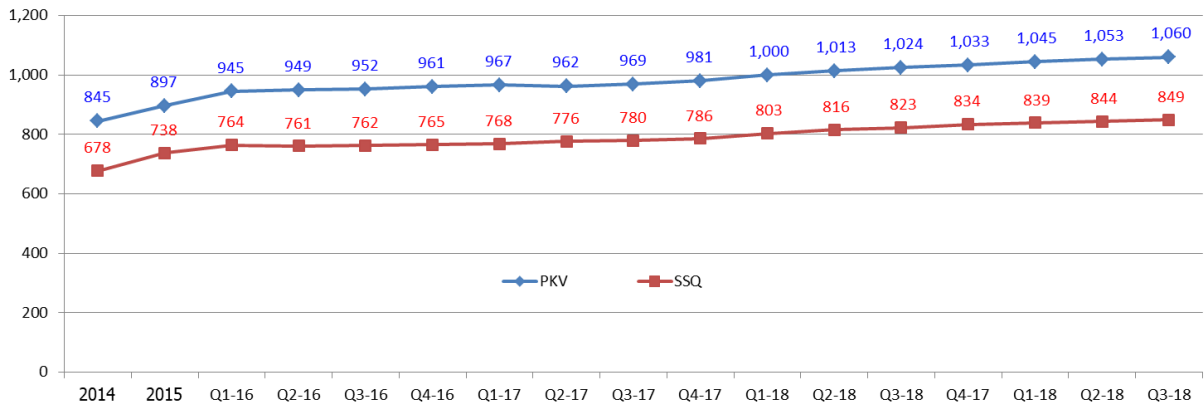


Notes: 1) OR (%) during 2014 through the first quarter of 2016 came from operating performance before GVREIT was established.

2) Comparing with industry average during the same period

Sources: GVREIT and CB Richard Ellis (CBRE)

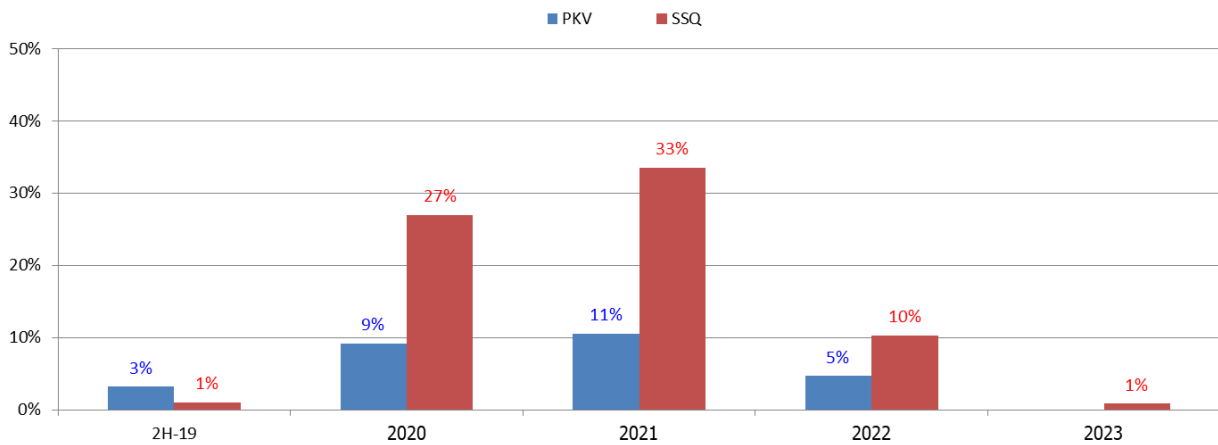
Chart 2: Rental Rate for Overall Tenants



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



Source: GVREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

| | -----Year Ended 31 September ----- | | | |
|--|------------------------------------|--------|--------|--------|
| | Oct 2018- Jun 2019 | 2018 | 2017 | 2016 |
| Total operating revenues | 903 | 1,143 | 1,091 | 536 |
| Operating income | 683 | 883 | 856 | 409 |
| Earnings before interest and taxes (EBIT) | 654 | 844 | 818 | 397 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 684 | 884 | 858 | 413 |
| Funds from operations (FFO) | 597 | 780 | 738 | 352 |
| Adjusted interest expense | 87 | 104 | 119 | 61 |
| Capital expenditures | 0 | 0 | 0 | 9,683 |
| Total assets | 11,135 | 11,041 | 10,562 | 10,538 |
| Adjusted debt | 1,860 | 1,964 | 2,120 | 2,354 |
| Adjusted equity | 8,709 | 8,648 | 8,216 | 8,224 |
| Adjusted Ratios | | | | |
| Operating income as % of total operating revenues (%) | 75.72 | 77.22 | 78.44 | 76.44 |
| Pretax return on permanent capital (%) | 7.77 ** | 7.62 | 7.53 | 3.65 |
| EBITDA interest coverage (times) | 7.82 | 8.50 | 7.20 | 6.74 |
| Debt to EBITDA (times) | 2.05 ** | 2.22 | 2.47 | 5.69 |
| FFO to debt (%) | 42.47 ** | 39.71 | 34.83 | 14.96 |
| Debt to capitalization (%) | 17.60 | 18.51 | 20.51 | 22.25 |

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Real Estate Investment Trust, 12 October 2016

Golden Ventures Leasehold Real Estate Investment Trust (GVREIT)

| | |
|--|--------|
| Company Rating: | A- |
| Issue Rating: | |
| GVREIT274A: Bt2,000 million senior unsecured debentures due 2027 | A- |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

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