

GOLDEN VENTURES LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 197/2021
29 October 2021

CORPORATES

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

Last Review Date: 30/10/20

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” rating outlook. The ratings reflect the trust’s high-quality assets in prime areas of Bangkok, predictable cash flow from contract-based rental income, low financial leverage, and growth prospects supported by assets from its sponsors. However, the ratings are constrained by portfolio concentration risk with respect to assets, tenants, and lease expiry dates. The ratings also take into consideration mounting pressure on the occupancy and rental rates of the trust’s assets driven by weak demand for office space and expected excess office supply in the central business district (CBD) over the next three years.

KEY RATING CONSIDERATIONS

High-quality assets in prime locations

Despite unfavorable conditions in the wake of a drawn-out COVID-19 pandemic, we expect GVREIT to maintain satisfactory operating performance in the medium term, supported by its high-quality assets in prime business areas. GVREIT’s assets comprise two office buildings, “Park Ventures Ecoplex” (PKV) and “Sathorn Square” (SSQ), with total leasable area of 100,317 square meters (sq.m.) at the end of June 2021. PKV and SSQ are classified as grade-A office buildings located in the CBD of Bangkok with direct access to BTS Skytrain stations.

The trust’s high-quality and well-located assets have recorded historically high occupancy rates (OR) and favorable rental rates. GVREIT has achieved healthy OR of above 94% for each building since fiscal year (FY) 2016. Although demand for office space came to a halt during the ongoing pandemic, the trust was able to keep OR at a high level. The OR of PKV and SSQ were 97% and 94%, respectively, while the industry average OR for grade-A CBD office space stood at around 88% at the end of June 2021. Average rental rates during FY2020 through the first nine months of FY2021 remained satisfactory ranging from THB1,072-THB1,091 per sq.m. per month for PKV and THB856-THB872 per sq.m. per month for SSQ, in line with industry-wide rental rates for grade A office buildings.

Mild impact from COVID-19, but rising pressure on occupancy and rental rates

The COVID-19 pandemic did not have a significant impact on the trust’s operating performance given the contract-based nature of rental properties. The trust’s revenue declined by only 2% year-on-year (y-o-y) to THB1.18 billion in FY2020 and declined by 2% y-o-y to THB868 million during the first nine months of FY2021. The decline was mainly from relief measurements provided to tenants during only the COVID-19 pandemic and also lower occupancy rate.

Despite the minimal impact on the trust’s operations amid the prolonged COVID-19 pandemic, we foresee continuing pressure on OR and rental rates of office buildings for rent over the next three years. The adoption of remote working and virtual meetings, together with an expected influx of office supply over the next 2-3 years will create a downward trend of office space demand. According to CBRE, around 500,000 sq.m. and 300,000 sq.m. of new supply is expected to add to the market in 2022 and 2023, respectively. The

expected slowdown in demand coupled with the rising supply, especially in the CBD, could depress OR and rental rates over the next few years.

In our base-case forecast, we assume flat growth in GVREIT's rental rates over the next three years. We project the average occupancy rate for each building to fall slightly, but both should remain above 90% over the forecast period. We expect the trust's revenue to be around THB1.1 billion per annum in FY2021-FY2022, jumping to THB1.6 billion in FY2023 following a new asset injection. The trust's earnings before interest, tax, depreciation, and amortization (EBITDA) margin are expected to be in the 68%-75% range during FY2021-FY2023.

Future growth opportunities

We view that GVREIT has the potential to enlarge its asset portfolio supported by the trust's sponsors. GVREIT is held 23% by Golden Land Property Development PLC (GOLD). In addition, the REIT manager is a wholly owned subsidiary of GOLD. GOLD is a core subsidiary of Frasers Property (Thailand) PLC (FPT), whose ultimate shareholders are companies affiliated with the TCC Group. One of the group's businesses is property development, including property for rent and property for sale. Thus, we expect the REIT to acquire more assets from its sponsors in the coming years. Initially, the trust plans to acquire "FYI Center" (FYI), an office building owned by GOLD in FY2022. However, unfavorable sentiment in the capital market driven by the COVID-19 pandemic has forced the trust to postpone its new asset acquisition to FY2023. As of June 2021, the OR of FYI Center stood at 96% with an average rental rate of THB805 per sq.m. per month.

Looking forward, the trust intends to invest in additional assets from both sponsors and non-sponsors, in order to enlarge the scale and diversity of its portfolio. Besides office buildings for rent, the trust is exploring investments in other types of recurring-income assets, including retail property and serviced apartments. We view the growing size and diversity of its portfolio to help alleviate concentration risk and boost the trust's rental and service income in the future.

Portfolio concentration risk

We view that GVREIT's asset portfolio remains highly concentrated with respect to numbers of properties, tenants, and lease expiry dates. The trust's performance depends solely on two assets in two locations, Wireless Road and Sathorn Road. SSQ contributes around two-thirds of total rental and service income and PKV makes up the rest. In addition, the top-ten tenants occupied 40% of the total occupied area and contributed 34% of total rental and service income during the first nine months of FY2021. Tenants affiliated with the TCC Group occupied 8% of the total occupied area and contributed 7% of total rental and service income. However, the tenant concentration risk is mitigated by the strong creditworthiness of its large tenants.

GVREIT is also subject to contract renewal risk. Most of GVREIT's lease contracts have a three-year lease term while some retail tenants have a one-year term. As of June 2021, around 14% of the existing contracts based on leased area will expire in the fourth quarter of FY2021, 22% in FY2022, 34% in FY2023, and 30% will expire in FY2024. Lease contract expirations are highly concentrated in FY2023 and FY2024, since the lease agreements of 10 major lessees of both buildings will expire during the period. However, the property manager normally negotiates lease renewal agreements with tenants about six to 12 months in advance of expiration. Hence, the trust has time to seek new tenants in the event of contract terminations.

Prudent financial policy

We expect GVREIT to maintain its conservative financial policy, that aims to keep the loan to total asset value (LTV) below 20%, over the next three years. Based on this policy, we expect the trust to fund its future acquisitions through a mix of equity and debt. In our base-case forecast, we assume GVREIT to acquire new assets worth around THB6 billion with 25% debt financing in FY2023. As a result, the trust's debt to capitalization is forecast to stay in the 16%-18% range and the debt to EBITDA ratio to be 2-3 times during FY2021-FY2023. As of June 2021, GVREIT's debt to capitalization ratio stood at 18% and the debt to EBITDA ratio was 2.2 times.

At the end of June 2021, GVREIT's debts were all senior unsecured debentures. As the trust's secured debt to fair value of total assets ratio is less than the threshold of 35% according to TRIS Rating's "Issue Rating criteria", we view that GVREIT's unsecured creditors are not significantly disadvantaged with respect to claims against the trust's assets.

The financial covenant on its debentures requires GVREIT to maintain the LTV below 60%. The ratio at the end of June 2021 was 16%. We believe the trust should be able to comply with the financial covenant over the next three years.

Adequate liquidity

We assess GVREIT to have adequate liquidity and should be able to withstand adverse market circumstances over the next two to three years, supported by its low leverage with no debt repayments due in the near term. As of June 2021, GVREIT had THB2 billion of outstanding debentures due in April 2027. The trust plans to refinance the maturing debentures with

new debenture issues. We believe the trust should be able to refinance its debentures in FY2027, given its ability to access the capital market and strong support from its sponsors.

As of June 2021, the trust's sources of liquidity included cash on hand of THB57 million, investments in securities at fair value of THB1.16 billion, and available credit lines from financial institutions of THB160 million. We forecast funds from operations (FFO) to stay around THB700 million over the next 12 months. The trust's high-quality unencumbered assets can also be used as collateral for bank loans, if needed. The market value of its unencumbered assets as of September 2021 was THB10.19 billion.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for GVREIT's operations during FY2021-FY2023:

- PKV's OR to range from 92%-97% and SSQ's OR to range from 90%-94% during FY2021-FY2023. The OR of new assets should stay above 90% in FY2023.
- No growth in rental rates.
- New asset acquisitions of around THB6 billion in FY2023.
- EBITDA margin to be in the 68%-75% range.

RATING OUTLOOK

The "stable" outlook reflects our expectation that GVREIT's property portfolio will continue to generate highly predictable cash flow during FY2021-FY2023. Despite the uncertainty in medium- to long-term demand for office space and an expected influx of new office supply to the market over the next few years, we expect the trust to sustain high OR and achieve favorable rental rates as targeted. We also expect the trust to maintain its solid financial profile with the debt to capitalization ratio below 30% and the debt to EBITDA ratio below 3.5 times.

RATING SENSITIVITIES

We could lower the ratings if the trust's operating performance drops significantly below our expectations and/or aggressive debt-funded acquisitions cause the debt to EBITDA ratio to stay above 4 times for a sustained period. On the contrary, a rating upward revision could occur if the trust can enlarge its property portfolio as well as diversify location and tenant bases while maintaining a strong financial profile.

COMPANY OVERVIEW

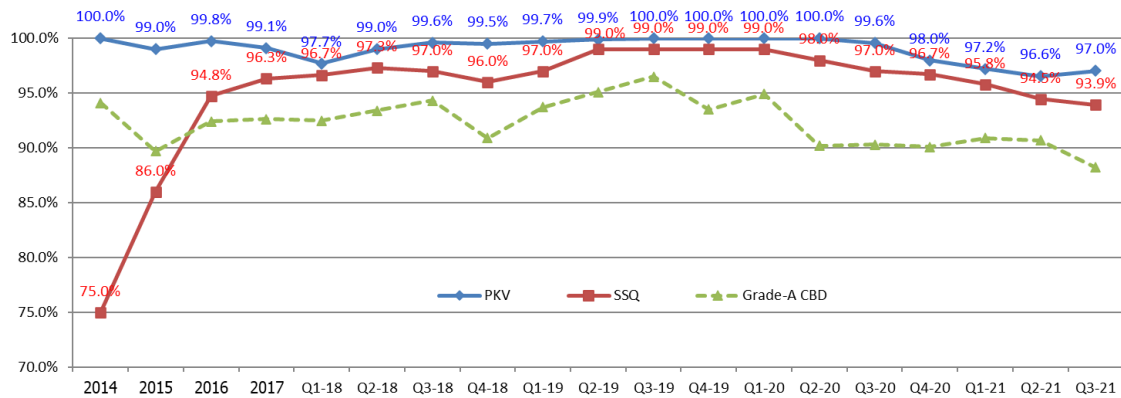
GVREIT was founded in March 2016. The REIT is a non-redeemable and indefinite trust. GOLD is the trust's major unit holder with a 23.33% stake as of June 2021. GVREIT's REIT manager and property manager are Frasers Property Commercial Asset Management (Thailand) Co., Ltd. (FPCAMT) (formerly Univentures REIT Management Co., Ltd. (UVRM)) and North Sathorn Realty Co., Ltd. (NSR), two wholly-owned subsidiaries of GOLD. The ultimate shareholders of 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 100,317 sq.m. as of June 2021. 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 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 THB1.18 billion in FY2020 and THB859 million in the first nine months of FY2021. Around two-thirds of rental and service income was derived from SSQ with one-third from PKV. The 10 largest tenants constituted 40% of the total occupied area and contributed 34% of total rental and service income during the first nine months of FY2021.

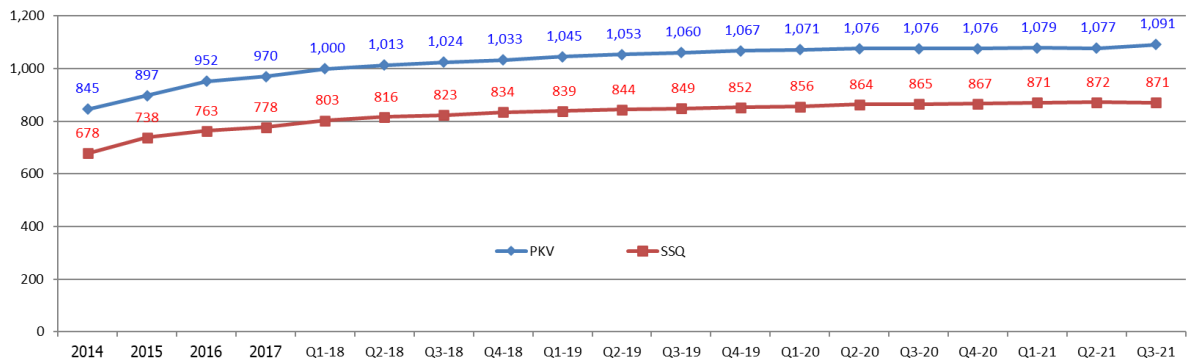
KEY OPERATING PERFORMANCE

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



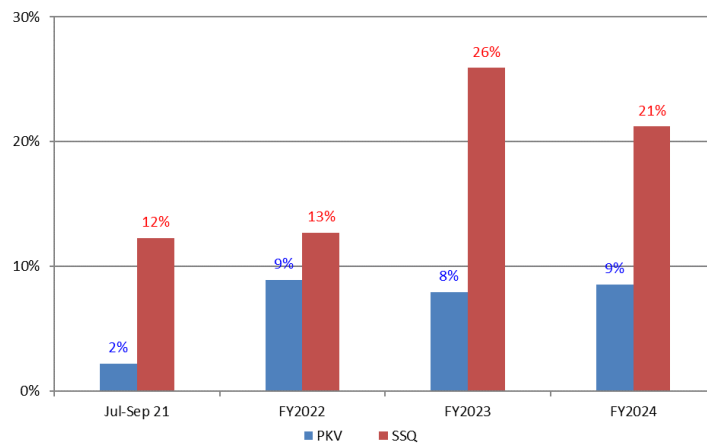
Notes: 1) OR (%) during 2014 through the first quarter of 2016 came from operating performance before GVREIT was established.
 2) Comparing with industry average during the same period
 Sources: GVREIT and CB Richard Ellis (CBRE)

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: Mil. THB

	Oct 2020- Jun 2021	-----Year Ended 30 September -----			
		2020	2019	2018	2017
Total operating revenues	868	1,183	1,212	1,143	1,091
Earnings before interest and taxes (EBIT)	639	839	875	844	818
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	653	880	916	884	858
Funds from operations (FFO)	572	762	799	780	738
Adjusted interest expense	81	118	117	104	119
Capital expenditures	0	0	0	0	0
Total assets	12,315	11,348	11,259	11,041	10,562
Adjusted debt	1,938	1,820	1,866	1,964	2,120
Adjusted equity	9,066	8,930	8,849	8,648	8,216
Adjusted Ratios					
EBITDA margin (%)	75.24	74.35	75.57	77.34	78.57
Pretax return on permanent capital (%)	7.29 **	7.28	7.69	7.62	7.53
EBITDA interest coverage (times)	8.08	7.45	7.83	8.50	7.20
Debt to EBITDA (times)	2.21 **	2.07	2.04	2.22	2.47
FFO to debt (%)	39.51 **	41.83	42.81	39.71	34.83
Debt to capitalization (%)	17.61	16.93	17.41	18.51	20.51

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Golden Ventures Leasehold Real Estate Investment Trust (GVREIT)

Company Rating:	A-
Issue Rating:	
GVREIT274A: THB2,000 million senior unsecured debentures due 2027	A-
Rating Outlook:	Stable

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