

GOLDEN VENTURES LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 200/2024

31 October 2024

CORPORATES

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

Last Review Date: 20/10/23

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the issuer 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, low financial leverage, and adequate liquidity.

However, the ratings are constrained by its relatively small scale and portfolio concentration risks related to assets, tenants, and lease expirations. The ratings also take into account our concerns regarding the increasing pressure on the trust’s occupancy and rental rates, stemming from softening demand for office space and anticipated excess office supply in the central business district (CBD) in the coming years.

KEY RATING CONSIDERATIONS

Credit profile supported by high-quality assets situated in prime locations

We view that GVREIT should sustain its satisfactory operating performance in the medium term. This is buoyed by the trust’s high-quality and well-situated assets. The trust’s assets comprise two office buildings for rent, “Park Ventures Ecoplex” (PKV) and “Sathorn Square” (SSQ), with total net leasable area of around 100,000 square meters (sq.m.). PKV is classified as grade-A+ CBD office building and SSQ is classified as grade-A. Both buildings have direct access to BTS Skytrain stations. In the fiscal year 2024 (FY2024), PKV and SSQ have undergone asset enhancement initiatives (AEI) to upgrade the facilities and improve the appearance. We expect that this should sustain the competitiveness of two buildings in response to a substantial increase in office building supply.

For the fiscal year 2023 (FY2023) through the first nine months of FY2024 (9MFY2024), occupancy rates (OR) for the trust’s buildings remained above the industry average. The OR of PKV was recorded at 95%-96%, compared to the industry average of around 60% for grade-A+ office buildings. Although the OR of SSQ dropped to 87% in 9MFY2024 from 91% in FY2022-FY2023, it remained higher than the industry average of around 80% for grade-A CBD office space. The two properties also achieved satisfactory average rental rates (ARR): THB1,100 per sq.m. per month for PKV and THB890 per sq.m. per month for SSQ.

Operating performance challenged by supply influx and softening demand

We view that an influx of new office supply in 2024-2025, coupled with weakening demand for office space due to the hybrid working trend, will negatively impact the OR and ARR of the trust’s properties over the next three years. According to CB Richard Ellis (CBRE), around 610,000 sq.m. of new supply is expected to be added in the market in the second half of 2024 (2H2024) -2025. Around one-third of the new supply will be grade-A+ and grade-A CBD office buildings. The net take-up is predicted to be only 50,000 sq.m. per annum in 2024-2025. The wider gap between new office supply and take-up demand, particularly in the CBD, may further depress OR and ARR in coming years.

Our base-case scenario projects the OR of PKV to remain at 96% in FY2024; however, it is forecast to decline to 86% in FY2025-FY2026. The drop is based on our assumption that the tenants affiliated with the TCC Group totaling

7,800 sq.m. will gradually move to a new building in FY2025-FY2026, while the take-up rate from new tenants will come at a slower pace. We also project the OR of SSQ to sustain at 84%-86%. The contract renewal rate might lower, while ARR is expected to remain flat over the next three years. As a result, we expect the trust's revenue to stay around THB1.0-THB1.1 billion per year, or a 1%-5% year-on-year (y-o-y) drop. Its EBITDA is likely to decrease but should remain above THB750 million, with an EBITDA margin of 70%-72%.

Ratings are constrained by its modest scale and portfolio concentration risk

The ratings on GVREIT are constrained by its relatively small scale and portfolio concentration risk. The trust's rental income and earnings rely on only two assets in two locations, Wireless Road and Sathorn Road. SSQ contributes around two-thirds of the trust's total income and EBITDA, while PKV constitutes the remaining portion. Thus, adverse operating performance in any single asset could substantially impact the trust's overall performance. In addition, the trust is exposed to a certain degree of major tenant concentration risk as the top-ten tenants occupied for 38% of the trust's total occupied area and contributed around 35% of total rental and service income in FY2023-9MFY2024. GVREIT is also exposed to contract renewal risk as the majority of its lease agreements have a three-year term. As of June 2024, 13% of the occupied area under existing contracts is scheduled to expire in the fourth quarter of FY2024, with approximately 30% expected to expire annually in FY2025-FY2027.

Looking ahead, GVREIT's potential for portfolio expansion remains uncertain. The trust continues to explore opportunities to acquire assets from both its sponsor, Golden Land Property Development PLC (GOLD), and non-sponsors. These potential assets may extend beyond office buildings for rent to include other property types such as hotels or shopping malls. New assets could be either freehold or leasehold. However, with its current assets being leasehold, the shorter remaining leased period will pressure earnings over the long term. Thus, the addition of freehold assets or assets with longer lease will help sustain earnings in the long run. Currently, the remaining lease period of its existing assets is around 16 years.

Financial leverage expected to remain low

We expect GVREIT to continue its prudent financial management by maintaining the loan (excluding lease liabilities) to total asset value (LTV) ratio below 20% over the forecast period. In our base-case scenario, we assume that there will be no new asset acquisition in FY2024-FY2026. However, we incorporate a capital expenditure for AEI amounting to around THB100 million in FY2024. We project the trust's debt to EBITDA ratio to hover around 2 times and debt to capitalization ratio to range between 14%-15% in FY2024-FY2026. As of June 2024, the trust's debt to EBITDA ratio was 2.1 times and debt to capitalization ratio was 15.9%. Should GVREIT engage in future asset acquisitions, we anticipate that the trust should sustain its financial leverage aligned with our target.

The financial covenants on GVREIT's debentures require the trust to maintain its LTV ratio below 60%. The ratio was 16.4% as of June 2024. We believe the trust should have no problems complying with the financial covenants over the next three years.

Adequate liquidity

We expect GVREIT to maintain adequate liquidity over the next 12 months, supported by its relatively low financial leverage and no maturing debt in the near term. At the end of June 2024, the trust had THB2 billion of outstanding debentures due in April 2027. The trust is currently exploring funding options for its debenture repayment, considering either refinancing or alternative repayment methods. Given its ability to access the capital market and strong support from its sponsors, the trust should be able to refinance its debentures with no difficulty. The trust's unencumbered assets can also be used as collateral for bank loans, if needed. The market value of its unencumbered assets as of June 2024 was around THB11 billion.

As of June 2024, the trust's sources of liquidity included THB94 million cash on hand, THB160 million available credit lines from a financial institution, and THB1.3 billion investments in securities at fair value. The trust's funds from operations (FFO) are expected to stay around THB700 million in the next 12 months.

BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for GVREIT's operations in FY2024-FY2026 are as follows:

- OR of PKV to stay at 96% in FY2024 but decline to 86% in FY2025-FY2026, while OR of SSQ to range between 84%-86%
- Stagnation in average rental rates
- EBITDA margin to remain at 70%-72%
- Absence of new asset acquisition

RATING OUTLOOK

The “stable” outlook reflects our expectation that GVREIT’s property portfolio will consistently generate reliable cash flow stream over the forecast period. Despite increasing industry risks from a surge in supply and weakening demand for office space, we expect the trust to sustain high OR and attain favorable rental rates as our target. We also expect the trust to continue its strong financial profile, with the debt to capitalization ratio below 30% and the debt to EBITDA ratio not exceeding 3.5 times.

RATING SENSITIVITIES

The ratings and/or outlook on GVREIT could be revised downward should its operating results significantly deviate from our base-case scenario and/or debt-funded acquisitions exceeds our expectation, resulting in the trust’s debt to EBITDA ratio rising above 4 times for an extended period. In addition, a downward scenario could occur if increasing industry risk leads to a significant mismatch between supply and demand in the office space sector, which could severely impact the trust's credit profile.

On the other hand, a rating upward revision would materialize if the trust can enlarge its property portfolio as well as diversify its sources of cash flow while maintaining a strong financial profile.

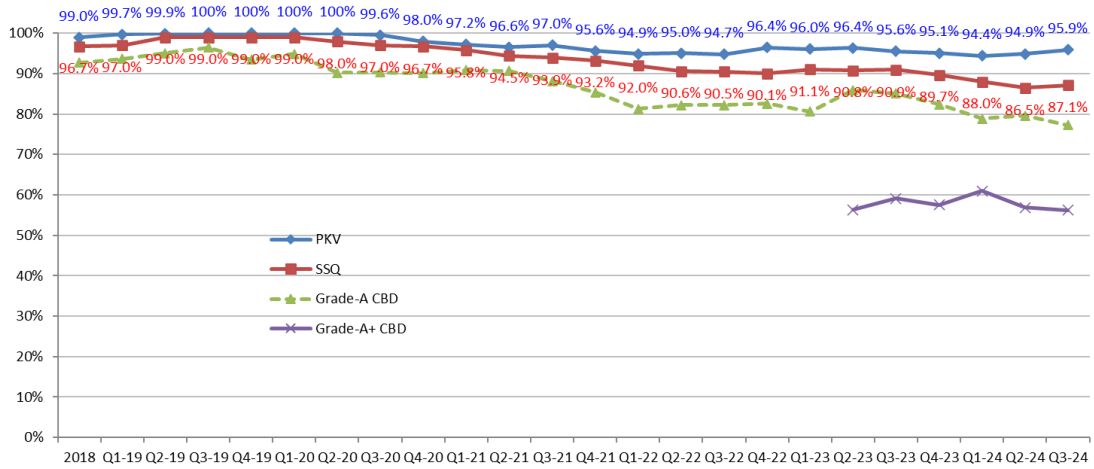
COMPANY OVERVIEW

GVREIT was founded in March 2016. The REIT is a non-redeemable and indefinite trust. GOLD is the trust’s major unitholder with a 25.8% stake as of August 2024. 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 net leasable area of 99,907 sq.m. as of June 2024. 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 grade-A office space in the Sathorn Road area for SSQ.

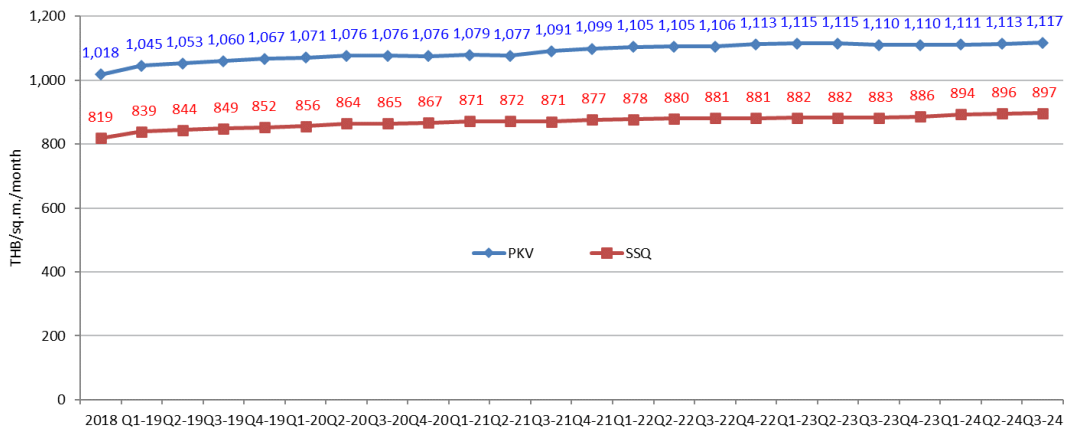
KEY OPERATING PERFORMANCE

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



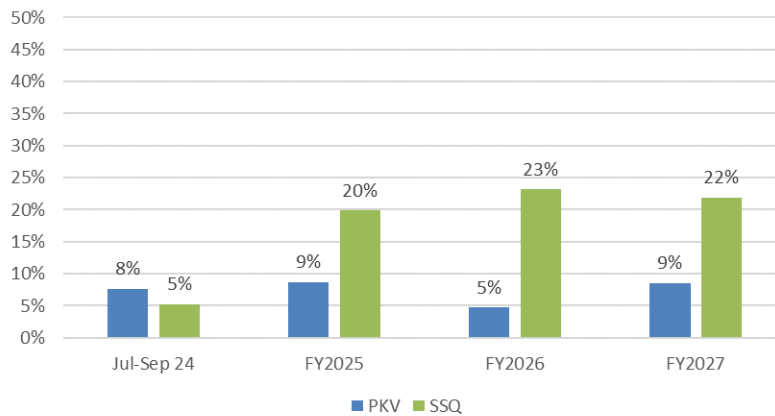
Source: GVREIT and CB Richard Ellis (CBRE)

Chart 2: Rental Rate for Overall Tenants



Source: GVREIT

Chart 3: Lease Expiry by Occupied Area



Source: GVREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct 2023- Jun 2024	-----Year Ended 30 September -----			
		2023	2022	2021	2020
Total operating revenues	860	1,159	1,135	1,122	1,183
Earnings before interest and taxes (EBIT)	621	824	842	826	839
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	621	824	842	840	880
Funds from operations (FFO)	544	719	737	732	762
Adjusted interest expense	77	105	105	108	118
Investments in leasehold properties at fair value	10,753	10,731	10,890	10,989	10,198
Total assets	12,168	12,111	12,213	12,200	11,348
Adjusted debt	1,706	1,681	1,803	1,898	1,820
Adjusted equity	9,002	8,936	9,010	8,990	8,930
Adjusted Ratios					
EBITDA margin (%)	72.2	71.1	74.2	74.9	74.3
Pretax return on permanent capital (%)	6.9 **	7.0	7.1	7.1	7.3
EBITDA interest coverage (times)	8.0	7.9	8.0	7.8	7.5
Debt to EBITDA (times)	2.1 **	2.0	2.1	2.3	2.1
FFO to debt (%)	41.7 **	42.8	40.9	38.6	41.8
Debt to capitalization (%)	15.9	15.8	16.7	17.4	16.9
Loan to fair value of total assets (%) (including lease liability)	22.8	22.7	22.9	23.0	17.6
Loan to fair value of total assets (%) (according to bond covenants)	16.4	16.5	16.4	16.4	17.6

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios 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

Golden Ventures Leasehold Real Estate Investment Trust (GVREIT)

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

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