

WHA CORPORATION PLC

No. 138/2018

26 September 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
14/11/17	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on WHA Corporation PLC (WHA) and the ratings on WHA's existing senior unsecured debentures at "A-". At the same time, TRIS Rating assigns the rating on WHA's proposed issue of up to Bt3,500 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance the company's debt, as well as for planned capital expenditures and working capital.

The ratings reflect WHA's strong competitive position in the built-to-suit warehouse and the industrial estate industry in Thailand. The ratings are enhanced by a sizable base of recurring income from properties for rent, sale of utility services, and dividends from investments in power projects. The ratings also incorporate the financial flexibility from selling its assets to real estate investment trusts (REITs). However, WHA's business profile is weighed down by the volatile nature of the industrial property market.

KEY RATING CONSIDERATIONS

Leading in built-to-suit warehouses and industrial estates

WHA's strong business profile is underpinned by its leadership in two segments: built-to-suit warehouses for rent and industrial estates.

WHA is a top-tier provider of built-to-suit warehouses for rent in Thailand with extensive track record for a decade. The company's competitive edge stems from its record of providing high quality warehouses to well-known multinational companies and large local enterprises.

WHA strengthened its market position by acquiring WHA Industrial Development PLC (WHA ID), formerly named Hemaraj Land and Development PLC (HEMRAJ), in 2015. This acquisition made WHA the largest industrial estate developer in Thailand. Its market share has averaged 38% over the past 10 years, well ahead of Amata Corporation PLC (AMATA; 26% share) and Rojana Industrial Park PLC (ROJNA; 20% share).

After acquiring WHA ID, WHA's portfolio of properties for rent has enlarged. At the end of June 2018, total leasable area including preleased area was 2,150,930 sq.m. In terms of leased area, WHA's leased area under management was 1,573,017 sq.m. at the end of June 2018, comprising 1,211,456 sq.m. owned by property funds and REITs, plus 276,691 sq.m. owned by WHA and its joint ventures, and 84,870 sq.m. owned by WHA ID.

Volatile nature of industrial estate business

The industrial property market tends to move in tandem with the state of economy and investor confidence. WHA's land sales in recent years reflected the slowdown in the industry. After peaking above 2,000 rai in 2013, sales dropped to 800-1,000 rai in 2015-2017. WHA sold merely 173 rai in the first half of 2018.

Nevertheless, we expect WHA will be the beneficiary of the recent approval of Thailand's new Eastern Economic Corridor (EEC) bill. WHA has about 10,000 rai of land (including land owned by new joint venture with IRPC PLC). About 85% of which is located in Rayong and Chonburi, the two Eastern seaboard provinces.

Weak demand in rental segment

WHA's rental and service revenue tumbled to Bt1.1 billion in 2017 and Bt0.5 billion in the first half of 2018 from Bt1.7 billion in 2016. The revenue decline was attributed to the sizable asset sale to REITs and a drop in demand for rental property due to the sluggish economy. However, demand is rising in the e-commerce sector and we expect the EEC bill will boost sentiment and attract more foreign direct investment.

Recurring income from utility services

WHA receives a reliable stream of income from utility services. Revenue from utility services grew from Bt2.0 billion in 2016 to Bt2.1 billion in 2017 and to Bt1.0 billion in the first half of 2018, or 22% of WHA's revenue in 2017 through the first half of 2018.

Income from utility services has grown steadily, supported by continued growth in the number of customers and rising water demand from new power plants in WHA's industrial estates, as well as price adjustment of service charges and better product mix. The volume of utility services rose to 100 million cubic meters (cbm) per year in 2017 and 53 million cbm per year in the first half of 2018 from 85 million cbm per year in 2012, a compound annual growth rate (CAGR) of 3.3% per year. The average selling price rose at a CAGR of 2.7% per annum during the same period.

TRIS Rating expects the prospects for this segment would remain strong. Demand for utility services will rise as buyers of industrial land gradually start operations.

Robust dividends from power segment

Through its subsidiaries, WHA owns equity stakes in several power projects. At present, based on its ownership stakes, WHA ID has the equivalent of 510.5 megawatts (MW) of power generating capacity. Capacity will rise to 544.8 MW in 2019. In our view, the investments in the power segment will provide dividends of Bt1.0-Bt1.3 billion per year during the next three years, equivalent to 20%-30% of EBITDA for WHA in a given year.

Leverage and cash flow protection likely to weaken

TRIS Rating forecasts WHA's leverage will rise but the company has shown it has enough financial flexibility to manage its leverage overtime. Leverage peaked in 2015 after WHA acquired WHA ID. During 2015-2017, WHA took several steps to improve its capital structure and delever the balance sheet. As a result, the total debt to capitalization ratio improved to 53.1% in 2017 and 54.2% as of June 2018 from 67.1% in 2015.

TRIS Rating forecasts WHA's capital expenditures of about Bt25 billion during the next three years, which are mainly for land acquisition and the development of industrial estates and warehouses for rent. Some of the planned capital expenditures are earmarked for the utility services segment and investments in power plants.

In our base case projection, WHA's EBITDA is projected to be Bt4.5-Bt5.5 billion per year during 2018-2021. Funds from operations (FFO) will hover around Bt3 billion during the same period. Given the expected levels of cash flow, debt repayment, and the aforementioned capital expenditures, the FFO to total debt ratio is estimated to be 7%-9% during the next three years. The EBITDA interest coverage ratio should stay at about three times during the same period.

We expect WHA's liquidity and refinancing risk would be manageable. Repayments of long-term debts and debentures will vary in the range of Bt4-Bt9 billion per year during the next three years. WHA and its subsidiaries have the ability to access the capital market, and it can sell rental properties to REITs. These options give WHA a significant amount of financial flexibility.

RATING OUTLOOK

The "stable" outlook reflects the expectation that WHA can maintain its leading position in the warehouse segment and the industrial property industry. Leverage will be kept under control even as the company continues to pursue its growth strategy. WHA earns significant amount of recurring income from the sale of utilities, dividends from power projects, and rental fees. These cash streams, plus the sale of assets to REITs, will help protect the company from the volatility inherent in the sale of industrial land.

RATING SENSITIVITIES

The ratings of WHA could be under downward pressure if the private investment stays persistently low nationwide, pushing revenues and cash flow from operations to fall significantly below expectations. Any sizeable, debt-funded investments, which deteriorate the balance sheet and stress debt serviceability, would also be a negative factor for the

ratings.

The ratings could be revised upward should the company make significant, sustainable increases in cash flow while improving the balance sheet.

COMPANY OVERVIEW

WHA is the leading provider of built-to-suit warehouses in Thailand. The company was incorporated in 2007 by the Dr.Somyos Anantaprayoon and Ms.Jareeporn Jarukornsakul. WHA was listed on the Stock Exchange of Thailand (SET) in November 2012. Presently, Ms. Jareeporn Jarukornsakul is one of co-founders and is also the current chairman and group CEO.

Apart from providing warehouses for rent, the company expanded its business scope to offices for rent, and solar rooftop projects in 2013-2014. WHA Infonite Holding Co., Ltd. was set up in 2015 to provide customers with information technology (IT) solutions, such as data centers and fiber optic services.

WHA escalated its opportunities by acquiring WHA ID (formerly named HEMRAJ), a leading industrial estate developer in Thailand. In late 2014 through 2015, WHA acquired nearly all (98.5%) of the equity of WHA ID at a cost of Bt43.3 billion.

WHA also earns a substantial base of recurring income from the sale of utility services and receives dividends from the power projects WHA ID made earlier. Recurring income from rental properties and utility services accounted for 21%-34% of total revenues during 2015-2017, compared with about 10% of total revenues in the pre-acquisition period.

WHA recently expanded into Vietnam. Its first overseas project is located in Nghe An province. WHA has been granted an Investment Registration Certificate on 498 hectares (or 3,100 rai) of land. The initial development will cover approximately 1,000 rai. Land transfers will start in 2019.

KEY OPERATING PERFORMANCE

Table 1: WHA's Revenue Breakdown

Unit: %

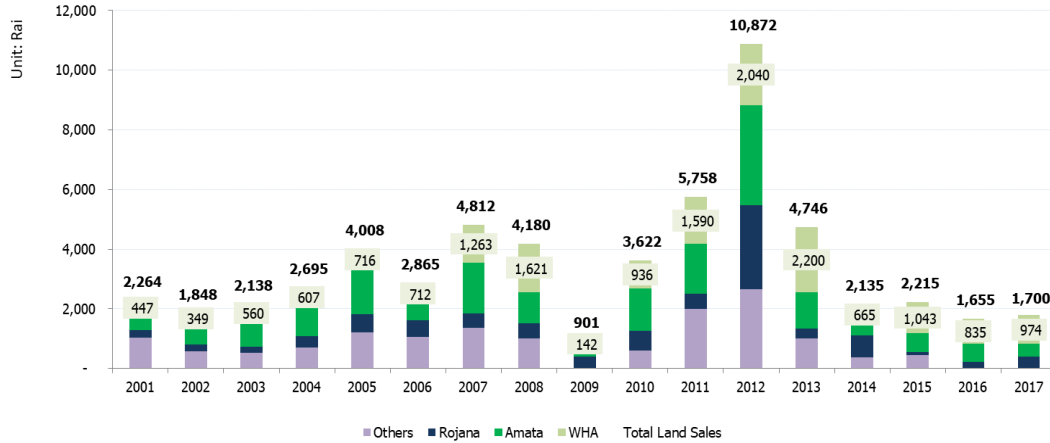
Revenue	2013	2014	2015	2016	2017	Jan-Jun 2018
Sales						
- Industrial land	-	-	35	14	34	29
- Sales of investment properties	93	89	39	66	32	34
Total sales	93	89	74	79	66	63
Recurring income						
- Rental and services	7	11	12	9	12	12
- Utility services	-	-	14	11	22	24
Total recurring income	7	11	26	21	34	37
Total revenues	100	100	100	100	100	100
Total revenues (Bt million)	7,085	4,888	11,437	17,855	9,514	4,245

Source: WHA

Note: WHA has consolidated WHA ID's financial results since March 2015.

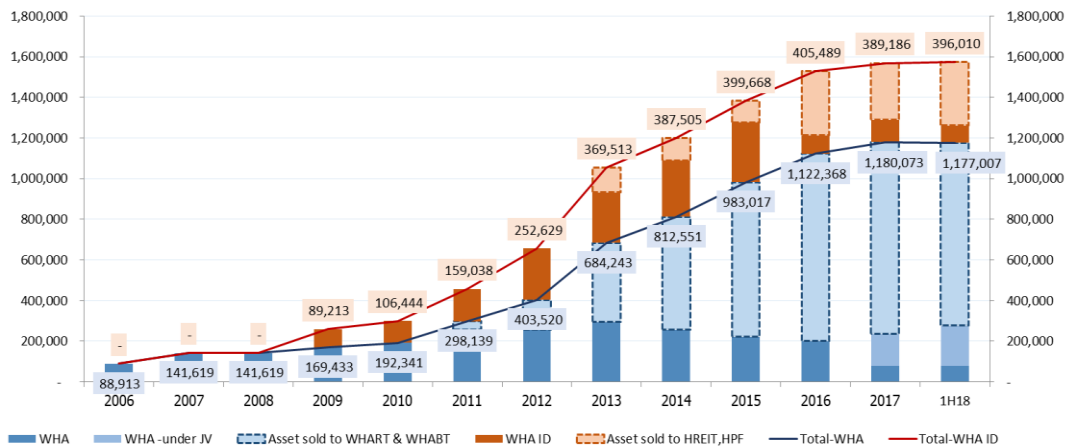
Figures in this table are not include the share of profit from investments in power companies

Chart 1: WHA's Industrial Land Sales



Sources: WHA, AMATA, ROJNA, CB Richard Ellis (CBRE)

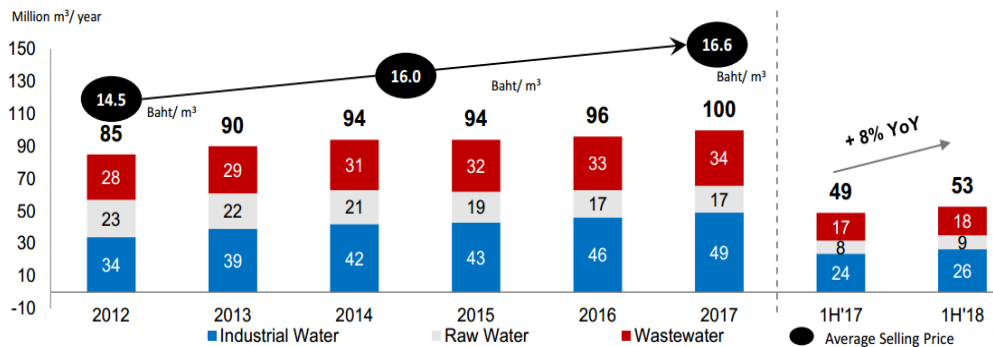
Chart 2: Leased Area Owned and Managed by WHA



Source: WHA

Note: WHA has consolidated WHA ID's financial results since March 2015.

Chart 3: WHA's Utility Portfolio-Volume and Selling Price



Source: WHA

Table 2: Summary of WHA's Investment in Power Companies

Project Name	Type	JV Partner	Location	Contracted Capacities (MW)	WHAUP Portion	Equity MW	COD	
Operating Phase								
Gheco-I	IPP	Coal	Glow	Map Ta Phut IE	660.0	35.00%	231.0	Q3'12
Glow IPP	IPP	Gas Combined Cycle	Glow	WHA CIE 1	713.0	5.00%	35.7	Jan-03
Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152.0	12.75%	19.4	Sep-99
GJP NLL	SPP	Gas Co-gen	Gulf JP	WHA RIL	122.5	25.01%	30.6	May-13
Gulf Solar	VSPP	Solar	Gulf	WHA LP 1, WHA CIE 1, WHA ESIE 1, ESIE	0.6	25.01%	0.2	Jun-14 – Jan-15
WHA Gunkul	VSPP	Solar	Gunkul	Bangna and Ayudthaya	3.3	74.99%	2.5	Apr – Jul-14
BGWHA-1	SPP	Gas Co-gen	B Grimm	WHA CIE 1	121.0	25.01%	30.3	Nov-16
GVTP	SPP	Gas Co-gen	Gulf MP	ESIE	130.0	25.01%	32.5	May-17
GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	130.0	25.01%	32.5	Jul-17
GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	130.0	25.01%	32.5	Sep-17
GTS3	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	125.0	25.01%	31.3	Nov-17
GTS4	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	125.0	25.01%	31.3	Jan-18
Solar Rooftop Projects	VSPP	Solar	-	Samutprakan	0.9	100.0%	0.9	May-18
Total					2,413.3		510.5	
Construction Phase								
Solar Rooftop Projects*	VSPP	Solar	-	-	2.0	100.0%	2.0	Oct-18
GNNL2	SPP	Gas Co-gen	Gulf MP	WHA RIL	120.0	25.01%	30.0	Jan-19
CCE	VSPP	Waste-to-energy	Glow& Suez	WHA CIE 1	6.9	33.33%	2.3	2019
Total					128.9		34.3	

Source: WHA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Jun 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	4,554	9,817	18,004	11,699	4,948
Operating income	1,730	3,606	5,718	3,907	1,592
Earnings before interest and taxes (EBIT)	2,390	5,478	6,403	4,413	1,500
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,875	4,716	6,735	5,260	1,693
Funds from operations (FFO)	1,070	2,831	3,460	2,860	1,096
Adjusted interest expense	658	1,631	2,462	2,312	373
Capital expenditures	424	1,497	1,964	3,005	6,641
Total assets	76,705	73,619	74,784	79,066	15,952
Adjusted debt	33,631	32,299	37,950	44,138	7,445
Adjusted equity	28,386	28,533	21,962	21,659	4,480
Adjusted Ratios					
Operating income as % of total operating revenues (%)	37.99	36.73	31.76	33.40	32.17
Pretax return on permanent capital (%)	8.63 **	8.61	9.58	10.61	13.28
EBITDA interest coverage (X)	2.85	2.89	2.74	2.27	4.54
Debt to EBITDA (X)	6.68	6.85	5.64	8.39	4.40
FFO to debt (%)	9.70 **	8.76	9.12	6.48	14.72
Debt to capitalization (%)	54.23	53.10	63.34	67.08	62.43

* Consolidated financial statements

** Annualized with trailing 12 months

WHA Corporation PLC (WHA)

Company Rating:

A-

Issue Ratings:

WHA18NA: Bt290 million senior unsecured debentures due 2018	A-
WHA194A: Bt1,000 million senior unsecured debentures due 2019	A-
WHA195A: Bt1,110 million senior unsecured debentures due 2019	A-
WHA195B: Bt150 million senior unsecured debentures due 2019	A-
WHA196A: Bt230 million senior unsecured debentures due 2019	A-
WHA196B: Bt100 million senior unsecured debentures due 2019	A-
WHA197A: Bt385 million senior unsecured debentures due 2019	A-
WHA197B: Bt280 million senior unsecured debentures due 2019	A-
WHA197C: Bt300 million senior unsecured debentures due 2019	A-
WHA204A: Bt1,500 million senior unsecured debentures due 2020	A-
WHA204B: Bt1,000 million senior unsecured debentures due 2020	A-
WHA204C: Bt2,600 million senior unsecured debentures due 2020	A-
WHA208A: Bt100 million senior unsecured debentures due 2020	A-
WHA214A: Bt1,900 million senior unsecured debentures due 2021	A-
WHA217A: Bt600 million senior unsecured debentures due 2021	A-
WHA219A: Bt1,500 million senior unsecured debentures due 2021	A-
WHA234A: Bt1,100 million senior unsecured debentures due 2023	A-
WHA247A: Bt280 million senior unsecured debentures due 2024	A-
Up to Bt3,500 million senior unsecured debentures due within 7 years	A-

Rating Outlook:

Stable

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