

WHA CORPORATION PLC

No. 153/2019
27 September 2019

CORPORATES

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

Last Review Date: 13/06/19

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 senior unsecured debentures at "A-", but revises the rating outlook to "negative" from "stable".

The outlook reflects the expectation that WHA's financial leverage will remain high over the next two years. The ratings continue to reflect WHA's strong competitive position and track records in the built-to-suit warehouse and the industrial estate industry. The ratings also incorporated a sizable base of recurring income from rental properties, utility services, and dividends from power plants, as well as the financial flexibility from selling its assets to real estate investment trusts (REIT). Nevertheless, WHA's business profile is constrained by the volatile nature of the industrial property market.

KEY RATING CONSIDERATIONS

Increasing financial leverage

WHA's leverage has increased, following its ongoing expansion and weaker-than-expected operating performance.

The sluggish economy has affected investment sentiments and the demand of WHA's industrial estates and rental properties during the past few years. In spite of weakening revenue and earnings, WHA has maintained its sizable capital expenditures. As a result, adjusted net debt increased to Bt34.0 billion at the end of June 2019 from Bt32.3 billion in 2017. The ratio of net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) leaped to around 8 times at the end of 2018 and the first half of 2019 from 5.6 times in 2016.

Going forward, we expect WHA's leverage to stay high in view of several large investments lying ahead. WHA's total capital expenditures are projected to total Bt27 billion during 2019-2022, mainly for the development of industrial properties for sale and warehouses for rent. Additionally, the sizable capital expenditures are earmarked for the investment in utility projects in Vietnam. However, the company expects to repay part of its debt by proceeds from warrants to be exercised in 2020.

In TRIS Rating's base case projection, WHA's EBITDA is projected to stay at Bt4.7-Bt5.4 billion per year during 2019-2022. Given the expected levels of cash flow, debt repayment, and the aforementioned capital expenditures, the adjusted net debt to EBITDA ratio is forecast to be 7-8 times during the next three years. The EBITDA interest coverage ratio should stay at about 3-4 times during the same period. Note that WHA recognized almost of all performance of power business in form of share profit.

Leader in built-to-suit warehouses and industrial estates

WHA's business profile is supported by its leading position in two segments: warehouses for rent and industrial estate development. WHA is a top-tier provider of built-to-suit warehouses for rent in Thailand with an extensive track record over the past ten years. 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 (WHAID), formerly 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; 28% share) and Rojana Industrial Park PLC (ROJNA; 20% share).

After acquiring WHAID, WHA's portfolio of properties for rent has enlarged. At the end of June 2019, total leasable area including preleased¹ area was 2,349,149 square meter (sq.m.). In terms of leased area, WHA's leased area under management was 1,675,708 sq.m. at the end of June 2019, comprising 1,418,916 sq.m. owned by property funds and REITs, plus 167,737 sq.m. owned by WHA and its joint ventures, and 89,055 sq.m. owned by WHAID.

Decrease in rental and service income in exchange of profit from asset monetization to REIT

WHA's rental and service revenue declined to Bt1.1 billion in 2018 and Bt0.5 billion in the first half of 2019 from Bt1.7 billion in 2016. The revenue decline was caused by the company selling a number of rental properties to REITs, while the new take-up rate was slow due to the sluggish economy. However, the demand is rising in the e-commerce sector and we expect the Eastern Economic Corridor (EEC) development 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, about one-fifth of WHA's total revenue per year, grew to Bt2.1 billion in 2018 and to Bt1.1 billion in the first half of 2019 from Bt2.0 billion in 2016.

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 a price adjustment in service charges and better product mix. The volume of utility services rose to 105 million cubic meters (cbm) per year in 2018 and 54 million cbm per year in the first half of 2019, from 96 million cbm per year in 2016, a compound annual growth rate (CAGR) of 4.6% per year. The average selling price rose at a CAGR of about 2% per annum during the same period.

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

Consistently receiving a dividend income from power segment

Through its subsidiaries, WHA owns equity stakes in several power projects. At present, based on its ownership stakes, WHA has the equivalent of 554 megawatts (MW) of power generating capacity. Capacity will rise to 577 MW in the first quarter of 2020.

WHA received fewer dividends from power projects at about Bt0.4 billion in 2018, compared with Bt0.7 billion in 2017. Additionally, dividends are expected to remain low in 2019. The drop will cause mainly by less dividend distribution from GHECO-1, as a result of change in accounting standard and a maintenance shutdown. In our view, dividend from power projects will be around Bt0.4 million in 2019 and ramp up to Bt0.7 billion in 2020 and Bt1.0 billion in 2021-2022. These amounts of dividend account for 14% of WHA's EBITDA in 2020 and 20% in 2021-2022.

Volatile nature of industrial estate business

The industrial property market tends to move in tandem with the state of the economy and investor confidence. WHA's land sales over the past few 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 933 rai of land in 2018. During the first half of 2019, WHA sold 259 rai, compared with 173 rai during the same period of 2018.

However, TRIS Rating views the prospect of WHA's industrial land sales to improve gradually, supported by the privileges granted under the EEC development plan. Currently, WHA has about 9,600 rai of land (including new projects to be developed). About 85% of this land is located in Rayong and Chonburi, the two Eastern Seaboard provinces. The prospect is also boosted by the increasing signs of demand from international manufacturers looking to relocate their production bases out of China because of the US-China trade tensions.

BASE CASE ASSUMPTIONS

- Operating revenue is expected to grow to Bt15.0 billion in 2019 and hover around Bt11-Bt12 billion in 2020-2022, from Bt8.7 billion in 2018.
- Gross profit margin is forecast at 31% in 2019 and 43%-47% in 2020-2022.
- Total capital spending will be around Bt27 billion during 2019-2022.

RATING OUTLOOK

The "negative" outlook reflects WHA's increased leverage and weaker-than-our expected operating performance.

¹ Preleased area is counted when the company has signed the memorandum of understanding (MOU) on rental properties with tenant.

RATING SENSITIVITIES

The outlook could be revised back to “stable” if WHA is able to lower its leverage with the net debt to EBITDA ratio to stay below 7 times on a sustained basis. On the contrary, WHA’s ratings could be downgraded if the company is not able to lower its leverage such that the adjusted net debt to EBITDA ratio staying below 7 times.

COMPANY OVERVIEW

Established in 2007 and listed on the Stock Exchange of Thailand (SET) in 2012, WHA is the leading provider of built-to-suit warehouses in Thailand. Presently, Ms. Jareeporn Jarukornsakul, one of the co-founders, is the Chairman and Group Chief Executive Officer. WHA’s services are classified into four business hubs comprising logistics, industrial development, utilities & power, and digital platform.

For the logistics business, WHA’s warehouses are located on main logistical routes, namely Bangna-Trad road, and Ayudhya province. WHA has expanded through several partnerships. The company’s major partnerships include Central Group, KPN, Daiwa House, and JD.com. With supports from partnerships, the company can leverage expertise, secure land plots, and gain more customers. Recently, WHA developed the first E-commerce Park in Chachoengsao province. The first phase covering 130,000 sq.m. has completed construction in September 2019 and the second phase (approximately 64,000 sq.m.) is expected to complete in 2020.

WHA expanded into the industrial development business by acquiring 98.5% equity stake of WHAID (formerly named HEMRAJ), a leading industrial estate developer in Thailand, during 2014-2015. Total consideration of this transaction was Bt43.3 billion. At the end of June 2019, the company operated 10 industrial estates in Thailand with 5,348 rai of land available for sale and 4,229 rai to be developed. Apart from Thailand, the company has expanded its footprint in 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 are expected to start in 2020.

WHA through its subsidiary, WHA Utility and Power PLC (WHAUP), provides utility services to customers in its industrial estates in Thailand and Vietnam. The company recently expanded its business to provide utility services outside its industrial estates, by purchasing 34% of equity stake in Duong River Surface Water Plant JSC (SDWTP) with total consideration of VND2,073 billion (or Bt2.76 billion). SDWTP was established in 2016 and became one of the main water suppliers in Hanoi, Vietnam. SDWTP has commenced operation with capacity of 54.75 million cbm per year since the first quarter of 2019 and is scheduled to double capacity by the end of 2019.

The company also owns equity stakes in several power plants. Based on the equity holding in each project, WHA has 554 MW of power generating capacity as of June 2019. Capacity will rise to 577 MW in the first quarter of 2020.

For the digital platform hub, WHA provides data center service and also develops the optical fiber service in its industrial estates.

WHA has some financial flexibility from selling asset to REITs and proceed from warrants. WHA has a plan to sell its rental properties to WHA Premium Growth Freehold and Leasehold Real estate Investment Trust (WHART) amounting to Bt1.5 billion in the last quarter of 2019. As of June 2019, WHA had remaining warrants of about 110 million units (these warrants can be exercised to WHA’s common stock of around 800 million shares with the exercise price of Bt3.4 per share), which will expire in the first quarter of 2020.

KEY OPERATING PERFORMANCE

Table 1: WHA's Revenue Breakdown

Unit: %

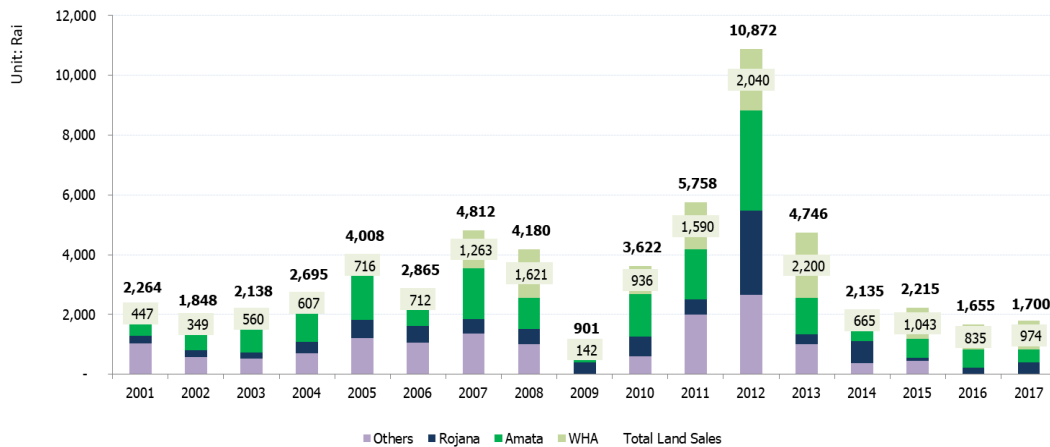
Revenue	2014	2015	2016	2017	2018	Jan-Jun 2019
Sales						
- Industrial land	-	35	14	34	26	30
- Sales of investment properties	89	39	66	32	36	39
Total sales	89	74	79	66	62	69
Recurring income						
- Rental and services	11	12	9	12	13	10
- Utility services	-	14	11	22	25	21
Total recurring income	11	26	21	34	38	31
Total revenues	100	100	100	100	100	100
Total revenues (Bt million)	4,888	11,437	17,855	9,514	8,322	5,388

Source: WHA

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

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

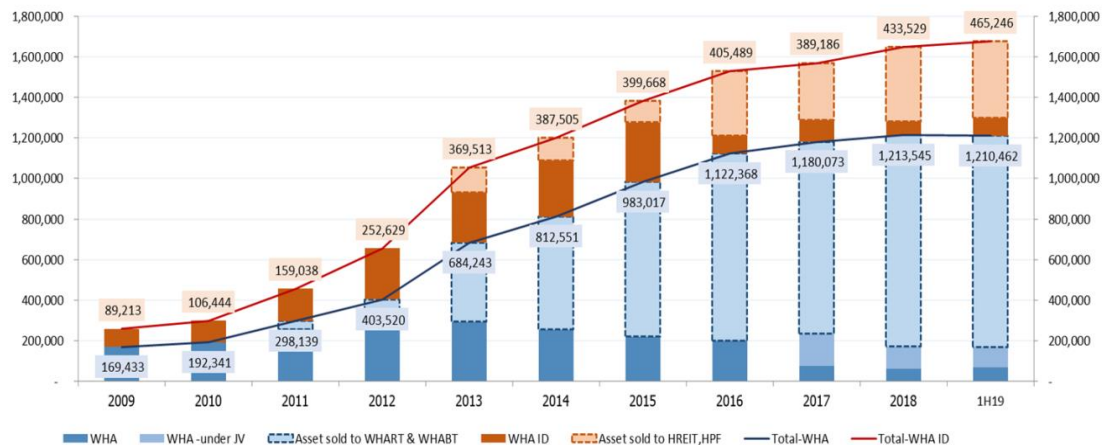
Chart 1: WHA's Industrial Land Sales



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

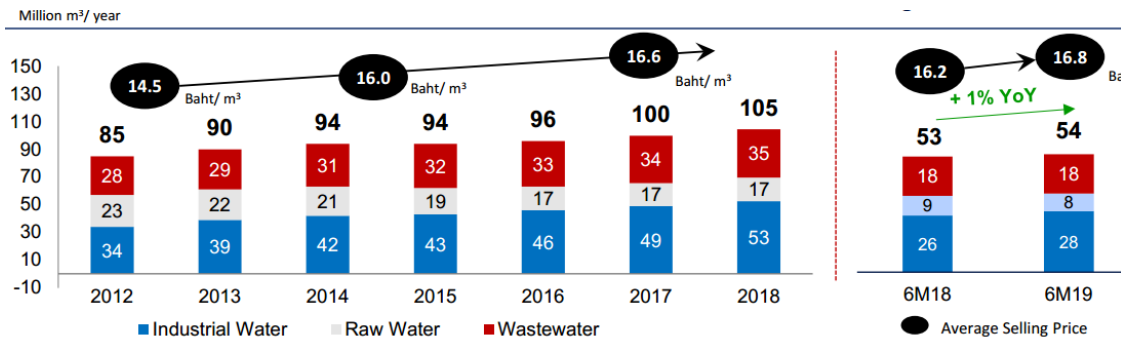
Chart 2: Leased Area Owned and Managed by WHA

Unit: sq. m.



Source: WHA

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



Source: WHA

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

Portfolio Summary	Project Name	Type	JV Partner	Location	Installed Capacities (MW)	WHAUP Portion	Equity MW	COD	
	Operating Phase								
	Gheco-I	IPP	Coal	Glow	Map Ta Phut IE	660	35.00%	231	Q3'12
	Glow IPP	IPP	Gas Combined Cycle	Glow	WHA CIE 1	713	5.00%	36	Jan-03
	Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152	12.75%	19	Sep-99
	GJP NLL	SPP	Gas Co-gen	Gulf JP	WHA RIL	123	25.01%	31	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 Ayudhaya	3.3	74.99%	2.5	Apr – Jul-14
	BGWHA-1	SPP	Gas Co-gen	B Grimm	WHA CIE 1	130	25.01%	33	Nov-16
	GVTP	SPP	Gas Co-gen	Gulf MP	ESIE	137	25.01%	34	May-17
	GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34	Jul-17
	GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34	Sep-17
	GTS3	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32	Nov-17
	GTS4	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32	Jan-18
	GNLL2	SPP	Gas Co-gen	Gulf MP	WHA RIL	127	25.01%	32	Jan-19
	Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center	4.5	100.0%	4.5	May'18-Mar'19
	Total					2,578		554	
Construction Phase									
	Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center	19.7	100.0%	19.7	Q3'19-Q1'20
	CCE	VSPP	Waste-to-energy	Glow& Suez	WHA CIE 1	8.6	33.33%	2.9	Q4'19
	Total					28		23	

Source: WHA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	Jan-Jun 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues ²	5,812	8,688	9,817	18,004	11,699
Operating income	1,735	2,982	3,606	5,718	3,907
Earnings before interest and taxes (EBIT)	2,558	5,378	5,478	6,403	4,413
Earnings before interest, taxes, depreciation, and amortization (EBITDA) ³	2,098	4,202	4,716	6,735	5,260
Funds from operations (FFO)	1,429	2,682	2,831	3,460	2,860
Adjusted interest expense	564	1,194	1,631	2,462	2,312
Capital expenditures	1,494	1,949	1,497	1,964	3,005
Total assets	80,002	78,345	73,619	74,784	79,066
Adjusted debt	33,978	32,960	32,299	37,950	44,138
Adjusted equity	31,262	31,014	28,533	21,962	21,659
Adjusted Ratios					
Operating income as % of total operating revenues (%)	29.85	34.32	36.73	31.76	33.40
Pretax return on permanent capital (%)	8.10	8.21	8.61	9.58	10.61
EBITDA interest coverage (times)	3.72	3.52	2.89	2.74	2.27
Debt to EBITDA (times)	7.68	7.84	6.85	5.64	8.39
FFO to debt (%)	8.95	8.14	8.76	9.12	6.48
Debt to capitalization (%)	52.08	51.52	53.10	63.34	67.08

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

² Not include share of any profit (loss) from investments accounted for using the equity method

³ EBITDA is equal to EBIT plus depreciation and amortization (D&A) expenses, minus the share of any profit (loss) from investments accounted for using the equity method, plus dividends received from investments accounted for under the equity method, plus all other applicable adjustments (if any)

WHA Corporation PLC (WHA)

Company Rating:	A-
Issue Ratings:	
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-
WHA200A: Bt338 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-
WHA224A: Bt454 million senior unsecured debentures due 2022	A-
WHA224B: Bt2,100 million senior unsecured debentures due 2022	A-
WHA226B: Bt2,000 million senior unsecured debentures due 2022	A-
WHA234A: Bt1,100 million senior unsecured debentures due 2023	A-
WHA230A: Bt328 million senior unsecured debentures due 2023	A-
WHA244A: Bt1,000 million senior unsecured debentures due 2024	A-
WHA247A: Bt280 million senior unsecured debentures due 2024	A-
WHA250A: Bt2,380 million senior unsecured debentures due 2025	A-
WHA264A: Bt400 million senior unsecured debentures due 2026	A-
Rating Outlook:	Negative

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