

WHA CORPORATION PLC

No. 183/2021
27 October 2021

CORPORATES

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

Last Review Date: 18/03/21

Company Rating History:

Date	Rating	Outlook/Alert
27/09/19	A-	Negative
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-" and revises the rating outlook to "stable" from "negative".

The ratings still reflect WHA's strong competitive position and proven track record in built-to-suit warehouses and industrial estate development. The ratings also incorporate the sizable base of WHA's recurring income from rental properties, utility services, and dividends from power plants. This is in addition to the financial flexibility that the company gains from the sale of assets to a real estate investment trust (REIT). Nonetheless, the ratings are weighed down by the country risks associated with WHA's operations and investments abroad, and the volatile nature of the industrial property for sale market.

The outlook revision reflects our expectation that WHA's financial leverage will improve significantly on the back of sizable asset sale to REIT, coupled with the recovery in the industrial estate and utility service businesses, following the relaxation of travel restrictions and the prospect of a post Coronavirus Disease 2019 (COVID-19) recovery.

KEY RATING CONSIDERATIONS

Leverage will decrease substantially after sale of assets to REIT

We expect WHA's leverage to decrease substantially at the end of 2021, thanks to sizable proceeds from the sale of assets to WHA Premium Growth Freehold & Leasehold Real Estate Investment Trust (WHART). During the last quarter of 2021, WHA will sell its leasable areas of approximately 180,000 square meters (sq.m.) worth a total of about THB5.5 billion to WHART. This transaction is significantly larger than previous transactions as it is a wholly owned asset and fully realized revenue through WHA. Previous transactions were a mix of owned and assets under joint venture companies. We estimate this transaction could improve WHA's ratio of adjusted net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) to 5.9 times in 2021 from 7.4 times in the first half of 2021.

Nonetheless, we project WHA's leverage to elevate over the next few years as the company continues its growth strategy. WHA's capital expenditures are projected to be THB5-THB8 billion per year during 2021-2023, based on the committed capital expenditure plan. These mainly involve the development of new industrial estates in Thailand and Vietnam, as well as investments in utility projects and properties for rent. However, we expect WHA to keep its financial leverage under control through asset monetization and diversified cash generation.

In our base-case scenario, we expect WHA's EBITDA to stay in the THB5.4-THB6.2 billion range per annum during 2021-2023. The adjusted net debt to EBITDA ratio is forecast to be 5.9 times at the end of 2021 and the ratio could rise to hover around 7 times during 2022-2023. The EBITDA interest coverage ratio should stay at about 4.6 times in 2021 and decline to 3.2-3.3 times in 2022-2023.

Land sales plummeted but strong recovery expected

We project WHA's revenue from land sales to decrease in 2021 but expect a strong recovery in 2022-2023. Industrial real estate has been materially hurt

by the ongoing COVID-19 pandemic. The pace of recovery has been slower than we previously expected following the escalating COVID-19 situation, which resulted in prolonged travel restrictions and sluggish private investment activities. As a result, the volume of WHA's land sales in Thailand stood at 218 rai in 2020 and 241 rai in the first half of 2021, a substantial decline from 800-1,000 rai per year in 2016-2019. Revenue from land sales was THB1.5 billion in 2020 and THB0.6 billion in the first half of 2021, a dip from THB3.5 billion in 2019.

However, we expect a strong recovery in the next couple of years in tandem with anticipated easing of travel restrictions and resumption of normal levels of investment activities. Additionally, we also expect the pent-up demand to drive land sales over the next few years.

TRIS Rating holds the view that the prospects for the industrial property sector still remain reasonably positive, supported by the country's strategic location and the Eastern Economic Corridor (EEC) development. We expect Thailand to benefit from the wave of relocation of production bases driven by the ongoing US-China trade tensions, as well as supply chain disruptions. Additionally, WHA is well positioned to capitalize on new business opportunities from its plentiful land banks of about 8,058 rai in Thailand (including land to be developed), 82% of which are in the EEC area of Rayong and Chonburi provinces.

Our base-case forecast projects WHA's land presales in Thailand of around 500 rai in 2021 before bouncing back to the pre-COVID-19 levels of 800-900 rai annually in 2022-2023. Revenue from land transfers in Thailand is projected to reach THB1.3 billion in 2021 and rise to THB2.3-THB2.9 billion per year in 2022-2023.

Expanding industrial estate footprint in Vietnam

WHA has been granted an investment certificate to develop its first industrial estate in Nghe-An province in northern Vietnam, with a total area of 498 hectares (or 3,113 rai). The first phase covers 631 rai of land available for sale, of which 334 rai is the remaining sellable area at the end of June 2021. The next phase is waiting for site clearance and construction approval.

Industrial estate development in Vietnam has been in a phase of rapid growth, driven by the country's low labor costs and proximity to China. This is in addition to the benefits from the country's free trade agreements with major economies. However, the shortage of available land for sale, resulting in the disruption of revenue stream from its operation in Vietnam, will be a key issue for WHA over the next few years. The company is likely to face several uncertainties arising from regulatory changes and delays in the license approval process. To incorporate these uncertainties, we project revenues from land sales in Vietnam to be around THB400-THB500 million per annum in 2022-2023.

Increasing demand for rental properties

Despite the stagnant economy, demand for rental properties has increased substantially. The rapid growth in the e-commerce business has been accelerated by the pandemic. This, combined with supply chain disruption and container shortage problems, has resulted in growing demand for WHA's rental properties. WHA's rental and service revenue increased by 27% year-on-year (y-o-y) to THB1.3 billion in 2020 and edged up by 25% y-o-y to THB0.8 billion in the first six months of 2021.

TRIS Rating sees the continued momentum of demand growth for warehouses and factories in the coming years, following the shift of consumer behavior towards online channels. We also expect the EEC development to boost sentiment and attract more foreign direct investment.

Recurring income from utility services

WHA's revenue from utility services recovered strongly from the plunge in 2020. Revenue from utility services grew steadily at a compound annual growth rate (CAGR) of 4.1% to THB2.3 billion in 2019 from THB2 billion in 2016, before dipping by 9.5% y-o-y to THB2 billion in 2020. A strong rebound was seen in the first half of 2021 as revenue from utility services surged by 16.4% y-o-y to THB1.2 billion. The improvement was attributed by the resumption of production, suspended during the beginning of pandemic, as well as higher demand from several plants, which had water usage curbed during the severe drought in 2020. Additionally, there was incremental water demand from two power plants, which commenced operations in the first half of 2021.

Looking forward, WHA's revenue from utility services is expected to grow steadily, supported by continued growth in the number of customers and rising water demand from new power plants in WHA's industrial estates.

Subsidiaries in power segment continue to provide reliable cash flow

Through its subsidiaries, WHA owns equity stakes in several power plants. At the end of June 2021, proportionate to its equity stakes in the power plants, WHA has a combined power generating capacity of 592 megawatts (MW). We project the

company's dividend income from the power business to reach THB0.9-THB1 billion in 2021-2023, accounting for 16%-17% of WHA's EBITDA in 2021-2023.

Leader in built-to-suit warehouses and industrial estates

WHA's strong business profile is underpinned 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 decade.

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 44% over the past 10 years, well ahead of Amata Corporation PLC (AMATA; 30% share) and Rojana Industrial Park PLC (ROJNA; 22% share).

Manageable liquidity

Over the next 12 months, we assess WHA's liquidity to be adequate. Sources of funds comprise funds from operations (FFO) of about THB4.5 billion, as well as cash and cash equivalents of THB4 billion at the end of June 2021. The company has undrawn credit facilities of around THB14 billion. The uses of funds are scheduled debt repayments of approximately THB11 billion, and capital expenditures of about THB7 billion. Additionally, WHA and its subsidiaries are able to access the capital market. It could also sell rental properties to REIT as a funding alternative. These options give WHA significant financial flexibility.

BASE CASE ASSUMPTIONS

- Total operating revenue to surge by 35% to THB11.1 billion in 2021 because of its sizable asset sale to WHART and the revenue to hover around THB9.7-THB10.8 billion in 2022-2023.
- The adjusted EBITDA margin to be 53%-56% during 2021-2023.
- Total capital spending of THB5-THB8 billion per year during 2021-2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that WHA will keep its leverage under control, with an adjusted net debt to EBITDA ratio of around 7 times. WHA earns significant amount of recurring income from the sale of utilities and rental fees, as well as dividends from power generation assets. These cash streams, plus the sale of assets to REIT, should provide adequate cushion against the volatility inherent in the sale of industrial land.

RATING SENSITIVITIES

The ratings on 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 materially deteriorate its balance sheet and debt serviceability, could also lead to a downgrade scenario.

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

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 provides four core business services: logistics, industrial development, utilities & power, and digital platform.

For the logistics business, WHA's warehouses are located on main logistical routes, namely Bang Na-Trad road, and Ayudhya province. WHA has expanded through several partnerships. The company's major partnerships include Central Group, KPN Group Corporation Co., Ltd. (KPN), Daiwa House, and JD.com. With the support of these partners, the company is able to leverage expertise, secure land plots, and acquire more customers.

During 2014-2015, WHA expanded into the industrial development business by acquiring a 98.5% equity stake in WHAID (formerly named HEMRAJ), a leading industrial estate developer in Thailand. The total consideration of this transaction was THB43.3 billion. At the end of June 2021, the company operated 11 industrial estates in Thailand with 4,552 rai of land available for sale and 3,506 rai to be developed. Apart from Thailand, the company has expanded its footprint in Vietnam, with its first overseas project located in Nghe An province. WHA has been granted an investment registration certificate for

498 hectares (or 3,100 rai) of land. The first phase covers 631 rai of land available for sale. At the end of June 2021, the amount of land available for sale was 334 rai.

Apart from Nghe An province, WHA is expanding in Thanh Hoa province in northern Vietnam. WHA has signed a memorandum of understanding (MOU) with the Thanh Hoa Provincial People's Committee for the development of another two industrial zones representing a total gross area of 1,150 hectares (7,188 rai). The construction is scheduled in 2023-2024.

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 has expanded its business to provide utility services outside its industrial estates, by purchasing a 34% equity stake in Duong River Surface Water Plant JSC (SDWTP) with a total consideration of VND1.89 trillion (or THB2.47 billion). SDWTP was established in 2016 and became one of the main water suppliers in Hanoi, Vietnam. Recently, WHA's subsidiary initiated an arbitration process to sell its SDWTP's shares to Aqua One Water Corporation, SDWTP's major shareholder, as SDWTP could not deliver the amended investment certificate stated in the share purchase agreement. WHA's management expects the arbitration process to take 12 months to conclude and this arbitration process will not impact SDWTP's normal operation.

Additionally, WHA owns equity stakes in several power plants, including Independent Power Producers (IPP), Small Power Producers (SPP), and Very Small Power Producers (VSPP). Based on the equity holding in each project, WHA had 596 MW of power generating capacity as of June 2021.

WHA has some financial flexibility from selling assets to REIT. WHA has a plan to sell its rental properties to WHART amounting to THB5.5 billion in the last quarter of 2021.

KEY OPERATING PERFORMANCE

Table 1: WHA's Revenue Breakdown

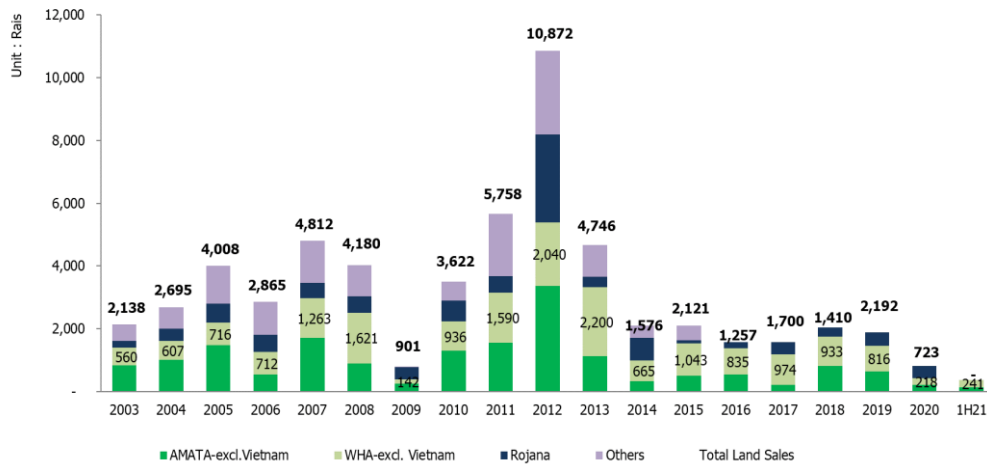
Unit: %

Revenue	2016	2017	2018	2019	2020	Jan-Jun 2021
Sales						
- Industrial land	14	34	25	33	22	22
- Sales of investment properties	66	32	36	35	30	-
Total sales	79	66	61	68	51	29
Recurring income						
- Rental and services	9	12	14	10	19	31
- Utility services	11	22	25	22	30	47
Total recurring income	21	34	39	32	49	77
Total revenues	100	100	100	100	100	100
Total revenues (mil. THB)	17,855	9,514	8,410	10,463	6,914	2,540

Source: WHA

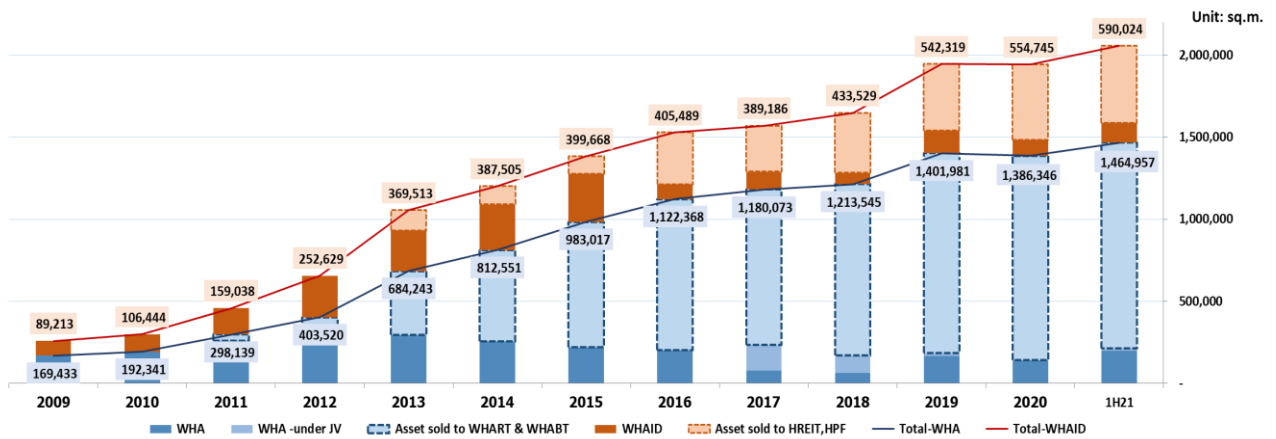
Note: Figures in this table do not include the share of profit from investments in power companies.

Chart 1: WHA's Industrial Land Sales in Thailand



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

Chart 2: Leased Areas Owned and Managed by WHA



Source: WHA

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

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	VSP	Solar	Gulf	WHA LP 1, WHA CIE 1, WHA ESIE 1, ESIE	0.6	25.01%	0.2	Jun-14 – Jan-15
WHA Gunkul	VSP	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	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
CCE	VSP	Waste-to-energy	Glow & Suez	WHA CIE 1	8.6	33.33%	2.9	Q4'19
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center/Outside IEs	46	100.0%	46	May'18-Q2'21
Total					2,628		596	
Development Phase								
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center/Outside IEs	16.7	100.0%	16.7	Q3'21-Q4'21
Total					16.7		16.7	

Source: WHA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	3,179	8,198	11,440	9,080	9,817
Earnings before interest and taxes (EBIT)	1,213	4,273	5,271	5,398	5,478
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,444	5,657	4,635	4,222	4,716
Funds from operations (FFO)	1,764	4,222	3,290	2,699	2,831
Adjusted interest expense	587	1,142	1,040	1,197	1,631
Capital expenditures	1,233	3,577	3,910	1,974	1,497
Total assets	84,315	82,621	82,264	78,345	73,619
Adjusted debt	39,480	37,989	36,700	32,960	32,299
Adjusted equity	32,115	32,167	33,101	31,014	28,533
Adjusted Ratios					
EBITDA margin (%)	76.89	69.00	40.52	46.50	48.03
Pretax return on permanent capital (%)	5.47	5.83	7.51	8.25	8.61
EBITDA interest coverage (times)	4.16	4.95	4.46	3.53	2.89
Debt to EBITDA (times)	7.43	6.72	7.92	7.81	6.85
FFO to debt (%)	9.65	11.11	8.97	8.19	8.76
Debt to capitalization (%)	55.14	54.15	52.58	51.52	53.10

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

WHA Corporation PLC (WHA)

Company Rating:	A-
Issue Ratings:	
WHA222A: THB1,000 million senior unsecured debentures due 2022	A-
WHA224A: THB454.2 million senior unsecured debentures due 2022	A-
WHA224B: THB2,100 million senior unsecured debentures due 2022	A-
WHA226B: THB2,000 million senior unsecured debentures due 2022	A-
WHA234A: THB1,100 million senior unsecured debentures due 2023	A-
WHA234B: THB1,000 million senior unsecured debentures due 2023	A-
WHA237A: THB2,050 million senior unsecured debentures due 2023	A-
WHA230A: THB328 million senior unsecured debentures due 2023	A-
WHA244A: THB1,000 million senior unsecured debentures due 2024	A-
WHA244B: THB2,000 million senior unsecured debentures due 2024	A-
WHA247B: THB1,450 million senior unsecured debentures due 2024	A-
WHA257A: THB500 million senior unsecured debentures due 2025	A-
WHA250A: THB2,380 million senior unsecured debentures due 2025	A-
WHA264A: THB400 million senior unsecured debentures due 2026	A-
WHA264B: THB1,000 million senior unsecured debentures due 2026	A-
Rating Outlook:	Stable

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