

# WHA CORPORATION PLC

No. 155/2020  
5 October 2020

## CORPORATES

|                        |          |
|------------------------|----------|
| <b>Company Rating:</b> | A-       |
| <b>Issue Ratings:</b>  |          |
| Senior unsecured       | A-       |
| <b>Outlook:</b>        | Negative |

**Last Review Date:** 24/03/20

### 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-", with a "negative" outlook.

The "negative" outlook reflects heightened downside risks, arising from a material increase in leverage, weaker-than-expected financial performance in 2020 owing to the impact of the Coronavirus Disease 2019 (COVID-19) pandemic, and the severe drought in the first half of 2020.

The ratings continue to reflect WHA's strong competitive position and proven track record in built-to-suit warehouse and the industrial estate development. The ratings also incorporate a 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 the company gains from selling its assets to real estate investment trusts (REIT). However, the ratings are constrained by the country risks associated with WHA's operations and investments abroad, and the volatile nature of the industrial property for sale market.

## KEY RATING CONSIDERATIONS

### Deleveraging remains challenging

WHA's leverage has remained at high levels over the past few years, following its ongoing sizable investments amid a stagnant economy. Adjusted net debt increased to THB38.3 billion at the end of June 2020 from THB32.3 billion in 2017. The ratio of net debt to earnings before interest, tax, depreciation, and amortization (EBITDA) surged to around 8 times in 2018-2019 and 7.2 times in the first half of 2020, up from 5.6 times in 2016.

Going forward, we project WHA's leverage to stay high due to some large investments lying ahead. Based on the capital expenditure plan provided by WHA's management, WHA's total capital expenditures are projected to total THB20 billion during 2020-2022. These mainly concern the development of new industrial estates in Thailand and Vietnam, as well as investment in warehouses for rent. Additionally, the large capital expenditures are earmarked for utility projects.

Based on our projection, EBITDA could stay at THB4.9- THB6 billion per year during 2020-2022. The adjusted net debt to EBITDA ratio is forecast to be 6.7-7.8 times during the next three years. The EBITDA interest coverage ratio should stay at about 3-4 times during the same period.

### Land sales slowdown following COVID-19 pandemic

The industrial property market has been pressured by the COVID-19 pandemic. Travel restrictions imposed across countries, together with the global economic fallout have caused a slowdown in the industrial property sector nationwide. Thailand's industrial land sale slipped to about 300 rai in the first half of 2020, compared with more than 700 rai during the same period of the previous year.

We revised our forecast to reflect a deeper contraction in the industrial property market in 2020 and slow recovery over the next few years. We project WHA's revenue from land sales to slip to THB1.5 billion in 2020 from THB3.5 billion in 2019 before bouncing back to the levels of THB3-THB3.6 billion in 2021-2022.

The industrial property market is facing several uncertainties, including potential political unrest, the evolving circumstances surrounding the COVID-19, coupled with the slow speed of economic recovery. However, TRIS Rating holds the view that the prospects for the industrial property sector in the medium to long term will remain reasonably positive, supported by the country's strategic location, and Eastern Economic Corridor (EEC) development. The relocation of production bases driven by supply chain disruptions during the height of the pandemic and the ongoing US-China trade tensions are also supportive factors. Additionally, WHA continues to benefit from its plentiful land banks of about 8,800 rai in Thailand (including land to be developed), 83% of which are in Rayong and Chonburi provinces, the EEC area.

### **Increasing demand for rental properties**

Despite the sluggish economy, demand for rental properties has markedly increased. This is due mainly to the rapid growth of the e-commerce sector during the pandemic. WHA's rental and service revenue increased by 20.3% year-on-year (y-o-y) to THB623 million in the first six months of 2020.

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

### **Recurring income from utility services**

WHA's revenue 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. This is in addition to the price adjustment in service charges and better product mix. Revenue from utility services grew to THB2.3 billion in 2019, from THB2 billion in 2016, a compound annual growth rate (CAGR) of 4.1%.

However, revenue declined by 10.7% y-o-y to THB1 billion in the first half of 2020. The drop was attributed mainly to the lower water sales volume induced by the drought during the first half of 2020. Several power plants and petrochemical plants shifted their maintenance schedules to curb water usage during the drought. In addition, some operators, particularly in the automotive sector, temporarily shut down their operations because of the sharp decline in demand during the height of the COVID-19 fallout. Nonetheless, we expect the impact will be temporary, and that the demand for utility services will increase steadily as the economy recovers and buyers of industrial land gradually commence operations.

### **Reliable dividend income from power segment**

Through its subsidiaries, WHA owns equity stakes in several power plants. At the end of June 2020, proportionate to its equity stakes in the power plants, WHA has a combined power generating capacity of 570 megawatts (MW). We project the company's dividend income from the power business to be THB1-THB1.2 billion in 2020-2022, accounting for 19%-20% of WHA's EBITDA in 2020-2022.

### **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 10 years.

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 41% over the past 10 years, well ahead of Amata Corporation PLC (AMATA; 29% share) and Rojana Industrial Park PLC (ROJNA; 18% share).

After acquiring WHAID, WHA's portfolio of properties for rent has enlarged significantly. At the end of June 2020, total leasable area increased to 2,438,335 square meters (sq.m.). In terms of leased areas, WHA's leased area under management were 1,999,301 sq.m.

### **Adequate liquidity**

Over the next 12 months, we assess WHA's liquidity to be adequate. Sources of funds comprise funds from operations (FFO) of about THB3.3 billion, as well as cash and cash equivalents of THB3.6 billion at the end of June 2020. The company has undrawn credit facilities of around THB9 billion. The uses of funds are scheduled debt repayments of approximately THB8.7 billion, and capital expenditures of THB6-THB7 billion. Additionally, WHA and its subsidiaries are able to access the capital market. It could also sell rental properties to Real Estate Investment Trusts (REITs) as a funding alternative. These options give WHA a significant amount of financial flexibility.

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## BASE CASE ASSUMPTIONS

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- Total operating revenue to decline by 29% to THB8.2 billion in 2020 and ramp up to THB11.2- THB12 billion in 2021-2022.
- The adjusted EBITDA margin to be 46%-60% during 2020-2022.
- Total capital spending of approximately THB20 billion in the next three years.

## RATING OUTLOOK

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The “negative” outlook reflects our concerns over WHA’s increased leverage and below-our-expectation operating performance. A potential slow recovery in the demand for industrial properties coupled with the unprecedented risks induced by the COVID-19 pose significant risks to WHA’s operating performance in the medium term.

## RATING SENSITIVITIES

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The outlook could be revised back to “stable” if WHA is able to lower its leverage with its net debt to EBITDA ratio to stay below 7 times on a sustained basis. However, WHA’s ratings could be downgraded if the impact of the COVID-19 on WHA’s operating performance is prolonged or if the company makes any sizable debt-funded investments that further weaken its balance sheet and cash flow protection.

## COMPANY OVERVIEW

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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, Daiwa House, and JD.com. With the support of these partners, the company is able to leverage expertise, secure land plots, and gain 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. Total consideration of this transaction was THB43.3 billion.

At the end of June 2020, the company operated 10 industrial estates in Thailand with 4,349 rai of land available for sale and 4,433 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 for 498 hectares (or 3,100 rai) of land. The initial development will cover approximately 1,000 rai. At the end of June 2020, the amount of land sold in Vietnam was 28 rai, plus 260 rai under letter of intent.

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 a 34% equity stake in Duong River Surface Water Plant JSC (SDWTP) with total consideration of VND2.07 trillion (or THB2.76 billion). SDWTP was established in 2016 and became one of the main water suppliers in Hanoi, Vietnam.

WHA also 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 570 MW of power generating capacity as of June 2020.

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

WHA has some financial flexibility from selling assets to REITs. WHA has a plan to sell its rental properties to WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART) and Hemaraj Leasehold Real Estate Investment Trust (HREIT) amounting to THB3.2 billion and THB1.3 billion, respectively, in the last quarter of 2020.

**KEY OPERATING PERFORMANCE**

**Table 1: WHA's Revenue Breakdown**

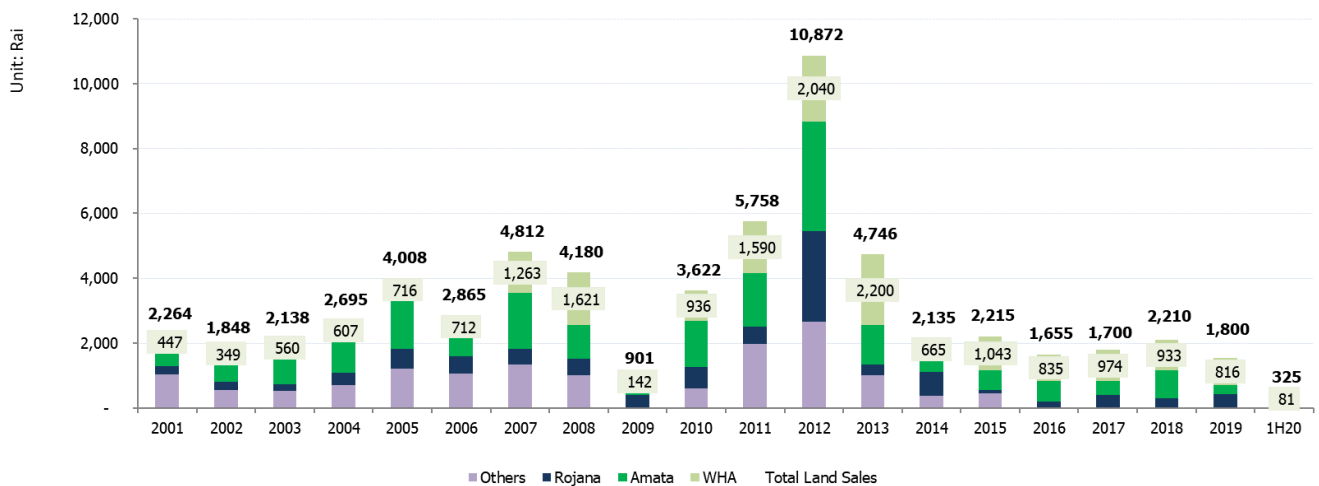
Unit: %

| Revenue                          | 2015          | 2016          | 2017         | 2018         | 2019          | Jan-Jun 2020 |
|----------------------------------|---------------|---------------|--------------|--------------|---------------|--------------|
| <b>Sales</b>                     |               |               |              |              |               |              |
| - Industrial land                | 35            | 14            | 34           | 25           | 33            | 29           |
| - Sales of investment properties | 39            | 66            | 32           | 36           | 35            | -            |
| <b>Total sales</b>               | <b>74</b>     | <b>79</b>     | <b>66</b>    | <b>61</b>    | <b>68</b>     | <b>29</b>    |
| <b>Recurring income</b>          |               |               |              |              |               |              |
| - Rental and services            | 12            | 9             | 12           | 14           | 10            | 27           |
| - Utility services               | 14            | 11            | 22           | 25           | 22            | 44           |
| <b>Total recurring income</b>    | <b>26</b>     | <b>21</b>     | <b>34</b>    | <b>39</b>    | <b>32</b>     | <b>71</b>    |
| <b>Total revenues</b>            | <b>100</b>    | <b>100</b>    | <b>100</b>   | <b>100</b>   | <b>100</b>    | <b>100</b>   |
| <b>Total revenues (mil. THB)</b> | <b>11,437</b> | <b>17,855</b> | <b>9,514</b> | <b>8,410</b> | <b>10,463</b> | <b>2,324</b> |

Source: WHA

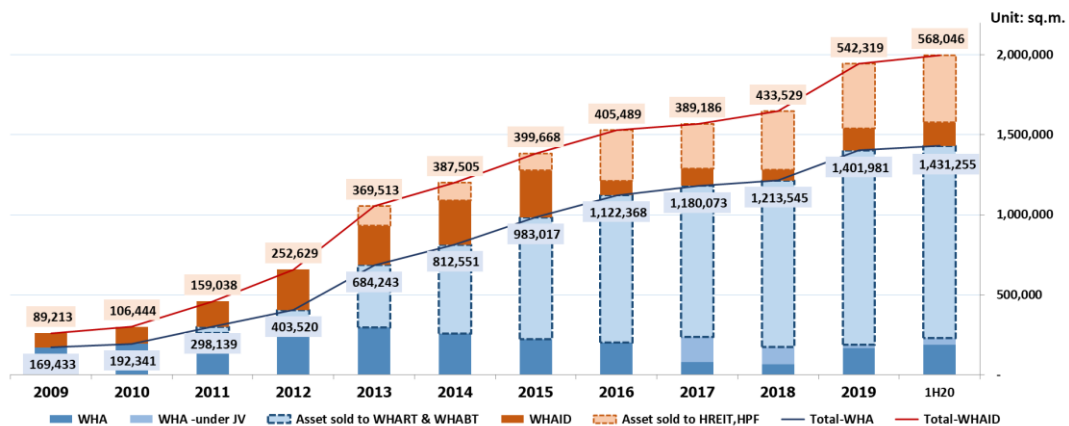
Note: Figures in this table do not include the share of profit from investments in power companies.

**Chart 1: WHA's Industrial Land Sales in Thailand**



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

**Chart 2: Leased Area 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          |                 |
|--------------------------|-------------|--------------------|------------|---------------------------------------|---------------|-----------|--------------|-----------------|
| <b>Operating Phase</b>   |             |                    |            |                                       |               |           |              |                 |
| 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          |
| CCE                      | VSPP        | 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                  | 17.5          | 100.0%    | 17.5         | May'18-Jun'20   |
| <b>Total</b>             |             |                    |            |                                       | <b>2,600</b>  |           | <b>570.0</b> |                 |
| <b>Development Phase</b> |             |                    |            |                                       |               |           |              |                 |
| Solar Rooftop Projects   | Private PPA | Solar              | 100% Owned | IEs/ Logistic Center                  | 21.8          | 100.0%    | 21.8         | Q3'20-Q4'20     |
| <b>Total</b>             |             |                    |            |                                       | <b>21.8</b>   |           | <b>21.8</b>  |                 |

Source: WHA

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

|  | Jan-Jun<br>2020 | -----Year Ended 31 December ----- |        |        |        |
|--|-----------------|-----------------------------------|--------|--------|--------|
|  |                 | 2019                              | 2018   | 2017   | 2016   |
| Total operating revenues   | 2,905           | 11,440                            | 9,080  | 9,817  | 18,004 |
| Earnings before interest and taxes (EBIT)                              | 1,395           | 5,271                             | 5,398  | 5,478  | 6,403  |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) | 2,785           | 4,635                             | 4,222  | 4,716  | 6,735  |
| Funds from operations (FFO)  | 2,172           | 3,290                             | 2,699  | 2,831  | 3,460  |
| Adjusted interest expense  | 570             | 1,040                             | 1,197  | 1,631  | 2,462  |
| Capital expenditures   | 1,631           | 3,910                             | 1,974  | 1,497  | 1,964  |
| Total assets   | 82,540          | 82,264                            | 78,345 | 73,619 | 74,784 |
| Adjusted debt  | 38,340          | 36,700                            | 32,960 | 32,299 | 37,950 |
| Adjusted equity  | 31,560          | 33,101                            | 31,014 | 28,533 | 21,962 |
| <b>Adjusted Ratios</b>   |                 |                                   |        |        |        |
| EBITDA margin (%)  | 95.84           | 40.52                             | 46.50  | 48.03  | 37.41  |
| Pretax return on permanent capital (%)                                 | 5.72            | 7.51                              | 8.25   | 8.61   | 9.58   |
| EBITDA interest coverage (times)                                       | 4.88            | 4.46                              | 3.53   | 2.89   | 2.74   |
| Debt to EBITDA (times)   | 7.20            | 7.92                              | 7.81   | 6.85   | 5.64   |
| FFO to debt (%)  | 10.56           | 8.97                              | 8.19   | 8.76   | 9.12   |
| Debt to capitalization (%)   | 54.85           | 52.58                             | 51.52  | 53.10  | 63.34  |

## RELATED CRITERIA

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

**WHA Corporation PLC (WHA)**

|  |          |
|--|----------|
| <b>Company Rating:</b>   | A-       |
| <b>Issue Ratings:</b>  |          |
| WHA200A: THB338 million senior unsecured debentures due 2020   | A-       |
| WHA214A: THB1,900 million senior unsecured debentures due 2021 | A-       |
| WHA217A: THB600 million senior unsecured debentures due 2021   | A-       |
| WHA219A: THB1,500 million senior unsecured debentures due 2021 | A-       |
| WHA224A: THB454 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-       |
| 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-       |
| WHA247A: THB280 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-       |
| <b>Rating Outlook:</b>   | Negative |

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