WHA INDUSTRIAL DEVELOPMENT PLC

No. 154/2019
27 September 2019

CORPORATES

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

Last Review Date: 26/09/18

Company Rating History:

Date	Rating	Outlook/Alert
14/11/17	A-	Stable
18/09/15	BBB+	Stable
19/11/14	A	Developing
15/11/13	A-	Positive
06/08/10	A-	Stable
11/06/09	A-	Negative
25/01/08	A-	Stable
14/09/05	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on WHA Industrial Development PLC (WHAID), formerly Hemaraj Land and Development PLC (HEMRAJ), and also affirms the ratings on WHAID's senior unsecured debentures at "A-", but revises the rating outlook to "negative" from "stable".

The rating outlook on WHAID follows the rating outlook revision on its parent company, WHA Corporation PLC (WHA) ("A-" rating with "negative" outlook). Currently, WHAID is wholly owned by WHA. Based on TRIS Rating's Group Rating Methodology, WHAID is a core subsidiary of WHA. Therefore, the ratings on WHAID are equal to and move in tandem with the ratings on WHA.

WHAID's stand-alone rating takes into consideration its proven record of developing industrial estates and strong base of recurring income. WHAID earns substantial recurring income from the sale of utility services, rental income and the dividends from investments in power projects. However, the ratings are constrained by the volatile nature of the industrial property market.

KEY RATING CONSIDERATIONS

Core subsidiary of WHA Group

WHAID is a core subsidiary of WHA, given its strategic importance and predominant contribution to the WHA Group. WHAID and its subsidiaries are responsible for two key businesses, industrial estates and utility services. WHA controls WHAID's business direction and financial policies. As a result, WHAID's credit profile is closely tied to WHA's credit profile.

In 2018, WHAID contributed 86% of WHA's total operating revenues and nearly all of WHA's earnings before interest and taxes, depreciation, and amortization (EBITDA).

Leader in the industrial estate industry

WHAID is the largest industrial estate developer in Thailand, based on the total amount of industrial land sold in Thailand. WHAID's market share hovered around 42%-58% during 2013-2018. WHAID's market share has averaged 38% over the past 10 years. Competitors such as Amata Corporation PLC (AMATA; 28% share) and Rojana Industrial Park PLC (ROJNA; 20.0% share) are the second and the third-largest firms in the industry.

Recently, WHAID has 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 are expected to begin in 2020.

Volatile nature of the industrial estate business

The industrial property market tracks the state of the economy and investor confidence. Reductions in investment spending and low capacity utilization rates have curbed sales of industrial lands nationwide during the past few years.

After peaking above 2,000 rai in 2013, WHAID's sales dropped to about 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. Nevertheless, we are seeing brighter industry prospects. The government has launched the Eastern Economic Corridor (EEC) development program to enhance investment along the Eastern Seaboard. WHAID stands to benefit because it has about 9,600 rai of land (including new projects to be developed). About 85% of which is located in Rayong and Chonburi. In addition, the rising demand stems from more requirements from the Chinese and Taiwanese investors, caused by the ongoing United States-China trade tensions.

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

Rental income has declined significantly as WHAID sold a significant amount of assets to Hemaraj Leasehold Real Estate Investment Trust (HREIT) in late 2016 and early 2018. The slowdown in the economy also affects demand for the company's rental properties. As a result, rental income fell to Bt178 million in 2018 and Bt88 million in the first half of 2019 from Bt618 million in 2016. However, the industry prospect is improving, which can be seen by a recent rise in occupancy rate. The occupancy rate of WHAID's assets under management improved from 62% in 2018 to 66% at the end of June 2019.

Going forward, TRIS Rating views the demand of ready-built factories and warehouses, most of which are located in the EEC area, will improve gradually, aligned with the industrial estate industry.

Reliable cash flows from utility services and power segment

Income from utility services has grown steadily, as there are more customers and new power plants in WHAID's industrial estates. Income is also higher because WHAID adjusted its product mix and raised service charges. For example, WHAID is trying to sell more industrial water and value-added water because these products yield higher prices and margins than raw water. Utility services income increased to Bt2.1 billion in 2018 and Bt1.1 billion in the first half of 2019, from Bt1.6 billion in 2013, a compound annual growth rate (CAGR) of 6.0%.

WHAID also receives a reliable stream of dividends from its investment in power plants. At present, based on its ownership stakes, WHAID has the equivalent of 554 megawatts (MW) of power generating capacity. Capacity will rise to 577 MW in early 2020.

The company received fewer dividends from power projects of 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 of GHECO-1. In our view, dividend from power projects will be around Bt0.4 million in 2019 and escalate to Bt0.7 billion in 2020 and Bt1.0 billion in 2021-2022. These amounts of dividend account for 15% of WHAID's EBITDA in 2020 and 19% in 2021-2022.

Both utility services and the power segment have helped stabilize WHAID's cash flows and partly mitigate the effect of the fluctuations in industrial land sales.

Leverage likely to rise

Leverage has improved during the past few years. WHAID gradually repaid its debt by using the proceeds from an initial public offering of WHA Utility and Power PLC (WHAUP), funds received from selling assets to HREIT, and loan repayment from its parent company, WHA. Adjusted debt declined to Bt15.1 billion at the end of June 2019, from a peak of Bt23.7 billion in 2016. The debt to capitalization ratio improved to 38.1% as of June 2019, from 56.4% in 2016.

Nevertheless, TRIS Rating forecasts a rise in leverage because several large investments lie ahead. We forecast WHAID's capital expenditures will be about Bt13 billion in total during 2019-2022. Available funds will be used to acquire land and develop sites in Thailand and Vietnam and make new investments in utility plants and power companies. We forecast the debt to capitalization ratio will rise but stay below 50% over the next three years.

TRIS Rating forecasts WHAID's EBITDA to be Bt4.0-Bt5.0 billion per year during 2019-2022. Funds from operations (FFO) will be around Bt2.7-Bt4.0 billion during the same period. Given the expected levels of cash flow, debt repayments, and capital expenditures, the FFO to total debt ratio is projected to be 15%-29% during the next three years. Adjusted net debt to EBITDA will hover around 2.7-4.7 times during the same period.

BASE CASE ASSUMPTIONS

- Operating revenue to decline by 5% in 2019, and surge by 27% in 2020 and edge up by 1%-2% in 2021-2022.
- Gross profit margin is forecast at 57%-60% in 2019-2022.
- Capital spending will be about Bt13 billion in total during 2019-2022.

RATING OUTLOOK

The "negative" outlook reflects the outlook revision on WHA, according to TRIS Rating's Group Rating Methodology.

RATING SENSITIVITIES

As a core subsidiary of WHA, the ratings on WHAID are aligned with WHA's credit profile. Any change in WHA's ratings will affect WHAID's ratings accordingly.

COMPANY OVERVIEW

Established in 1988 and listed on the Stock Exchange of Thailand (SET) in 1992, WHAID originally developed and operated an industrial estate in Chonburi province. After being acquired by WHA, WHAID was delisted from the SET in March 2016. At the end of June 2019, WHA was the major shareholder, holding 98.5% of WHAID's shares.

In Thailand, WHAID owns 10 industrial estates, plus three industrial estates yet to be developed. WHAID's industrial estates, except for WHA Saraburi Industrial Land (WHA SIL), are located in the eastern part of Thailand in Rayong and Chonburi provinces. WHAID had more than 750 customers in its industrial estates. Across all the estates, 33% of the customers are in the automotive industry. Apart from Thailand, WHAID has its first overseas project in Nghe An province, the northern part of Vietnam. 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.

In addition to industrial estate development, WHAID provides ready-built factories and ready-built warehouses for rent and for sale. As of June 2019, the leased areas managed by WHAID totaled 465,246 square meters (sq.m.), comprising 376,191 sq.m. owned by a property fund and a real estate investment trust (REIT), and 89,055 sq.m. owned by WHAID.

Through its subsidiary, WHAID provides utility services to clients in the industrial estates. The services include raw water, potable water, clarified water, and wastewater treatment. Additionally, the company also explores and expands its investment to tap the growing demand in neighboring countries. Recently, the company's subsidiary entered into a share purchase agreement to buy 34% of equity stake in a water supplier in Hanoi, Duong River Surface Water Plant JSC (SDWTP), at a cost of VND2.07 trillion (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 cubic meters (cbm) per year since the first quarter of 2019 and is scheduled to double capacity by the end of 2019.

WHAID receives an ample flow of dividends from the power projects, property funds, and an investment in HREIT. WHAID owns stakes in several power producers under the independent power producer (IPP), small power producer (SPP), and very small power producer (VSPP) schemes.

KEY OPERATING PERFORMANCE

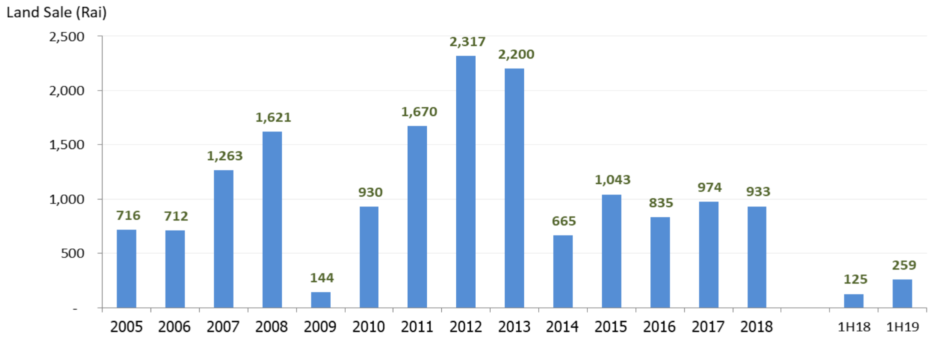
Table 1: WHAID's Revenue Breakdown

Unit: %

Revenue Breakdown	2014	2015	2016	2017	2018	Jan-Jun 2019
Property sales						
- Industrial land	54	62	21	55	34	53
- Sales of investment properties	1	-	54	1	26	-
- Sale of residential properties	3	-	-	-	-	-
Total sales	**58**	**62**	**75**	**56**	**60**	**53**
Recurring income						
- Rental and services	13	11	7	7	6	7
- Utility services	27	24	15	35	32	37
- Others	2	3	2	1	2	3
Total recurring income	**42**	**38**	**25**	**44**	**40**	**47**
Total revenues (%)	**100**	**100**	**100**	**100**	**100**	**100**
Total revenues (Bt million)	**6,333**	**7,471**	**11,548**	**5,930**	**6,506**	**3,070**

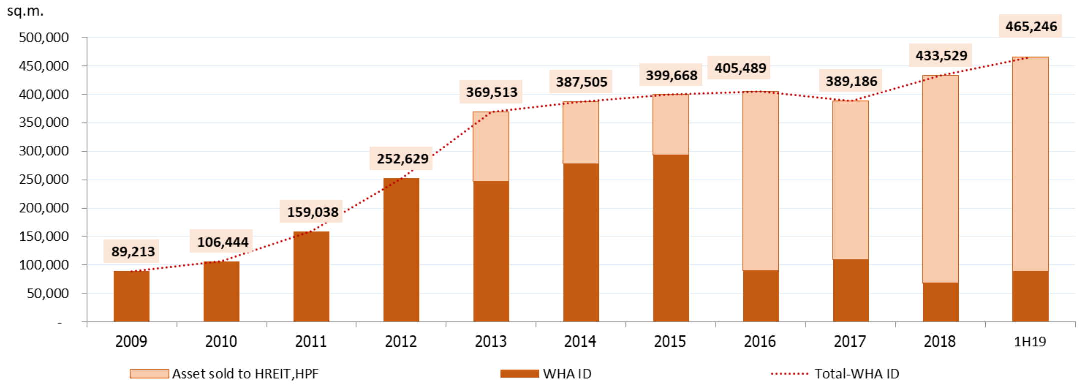
Source: WHAID

Chart 1: WHAID's Industrial Land Sales



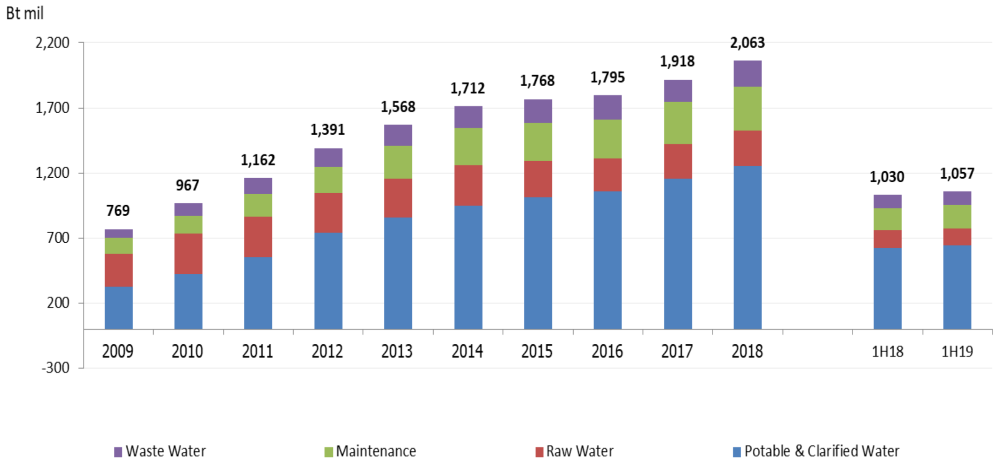
Source: WHAID

Chart 2: Leased Area Owned and Managed by WHAID



Source: WHAID

Chart 3: WHAID's Utility Service Income



Source: WHAID

Table 2: Summary of WHAID'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 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
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: WHAID

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

		----------------Year Ended 31 December ------------			
	Jan-Jun 2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues[1]	3,485	7,502	7,298	11,630	7,615
Operating income	1,682	3,800	3,623	6,177	2,945
Earnings before interest and taxes (EBIT)	2,501	5,393	5,390	7,453	4,114
Earnings before interest, taxes, depreciation, and amortization (EBITDA)[2]	1,998	4,296	4,342	7,449	4,256
Funds from operations (FFO)	1,683	3,212	3,063	5,370	3,334
Adjusted interest expense	244	666	1,065	1,130	765
Capital expenditures	268	474	402	267	409
Total assets	46,420	49,371	48,428	49,619	32,491
Adjusted debt	15,143	14,341	17,176	23,663	12,616
Adjusted equity	24,641	27,325	24,752	18,313	14,295
Adjusted Ratios					
Operating income as % of total operating revenues (%)	48.27	50.66	49.65	53.12	38.67
Pretax return on permanent capital (%)	11.21	12.25	12.26	20.18	13.59
EBITDA interest coverage (times)	8.20	6.45	4.08	6.59	5.57
Debt to EBITDA (times)	3.88	3.34	3.96	3.18	2.96
FFO to debt (%)	20.50	22.40	17.83	22.69	26.43
Debt to capitalization (%)	38.06	34.42	40.97	56.37	46.88

[1] *Not include profit (loss) from investments accounted for using the equity method*

[2] *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)*

RELATED CRITERIA

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

WHA Industrial Development PLC (WHAID)

Company Rating:	A-
Issue Ratings:	
HEMRAJ217A: Bt2,000 million senior unsecured debentures due 2021	A-
HEMRAJ222A: Bt1,000 million senior unsecured debentures due 2022	A-
HEMRAJ252A: Bt1,500 million senior unsecured debentures due 2025	A-
Rating Outlook:	Negative

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