

# WHA INDUSTRIAL DEVELOPMENT PLC

No. 139/2018

26 September 2018

## CORPORATES

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

### 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

### Contacts:

Nauwarut Temwattanangkul  
nauwarut@trisrating.com

Jutatip Chitphromphan  
jutatip@trisrating.com

Sasiporn Vajarodaya  
sasiporn@trisrating.com



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## RATIONALE

TRIS Rating affirms the company rating on WHA Industrial Development PLC (WHA ID), formerly named Hemaraj Land and Development PLC (HEMRAJ), and the ratings on WHA ID's senior unsecured debentures at "A-".

The ratings reflect WHA ID's position as a core subsidiary of WHA Corporation PLC (WHA; rated "A-/Stable"). WHA ID's ratings are aligned with the credit profile of WHA, according to TRIS Rating's group rating methodology.

WHA ID's standalone rating takes into consideration WHA ID's proven record of developing industrial estates and strong base of recurring income. WHA ID earns substantial recurring income from the sale of utility services and the dividends from investments in power projects. The ratings also incorporate the volatile nature of the industrial property market and the slow recovery of demand for industrial land.

## KEY RATING CONSIDERATIONS

### Core subsidiary of WHA Group

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

In 2017, WHA ID contributed 89% of WHA's earnings before interest and taxes, depreciation and amortization (EBITDA).

### Leader in the industrial estate industry

WHA ID is the largest industrial estate developer in Thailand, based on the total amount of industrial land sold in Thailand. WHA ID's market share climbed to 42%-58% during 2013-2017, up from 16%-28% during 2009-2012. WHA ID's market share has averaged 38% over the past 10 years. Competitors such as Amata Corporation PLC (AMATA; 26% share) and Rojana Industrial Park PLC (ROJNA; 20.0% share) are the second and the third-largest firms in the industry.

WHA ID has recently expanded into Vietnam. Its first overseas project is located in Nghe An province. WHA ID 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 slated to begin in 2019.

### Volatile nature of the industrial estate business

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

WHA ID's sales of land reflected the slump in the industry. After peaking above 2,000 rai in 2013, sales dropped to about 800-1,000 rai in 2015-2017. WHA ID sold merely 173 rai in the first half of 2018. Nevertheless, we are seeing brighter industry prospect. The government has passed the Eastern Economic Corridor (EEC) bill, a bill designed to boost investment along the Eastern seaboard. WHA ID stands to benefit because it has about 10,000 rai (including land owned by new joint venture with IRPC PLC) of land. About 85% of which is located in Rayong and Chonburi, the two Eastern seaboard provinces.

## Sluggish demand of ready-built factory and warehouse

Rental income has declined significantly as WHA ID sold a significant amount of assets to Hemaraj Leasehold Real Estate Investment Trust (HREIT) in late 2016 and early 2018. As a result, rental income fell from Bt0.6 billion in 2016, to Bt0.2 billion in 2017 and Bt0.08 billion in the first half of 2018. For the overall trend, the sluggish economy affects the demand for the company's rental property.

## Reliable cash flows from utility services and robust dividends from power segment

Income from utility services has grown steadily as there are more customers and new power plants in WHA ID's industrial estates. Income is also higher because WHA ID adjusted the product mix and raised the service charges. For example, WHA ID is trying to sell more industrial water and value-added water because these products yield higher price and margin than raw water. Utility services income increased to Bt2.1 billion in 2017 and Bt1.0 billion in the first half of 2018 from Bt1.6 billion in 2013, a compound annual growth rate (CAGR) of 7.3%.

WHA ID also receives a reliable stream of dividends from its investment in power plants. Through its subsidiaries, WHA ID 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 about Bt1.0-Bt1.3 billion per year in dividends during the next three years. This value is equivalent to 20%-30% of EBITDA for WHA ID in a given year.

Both utility services and power segment have helped stabilize WHA ID'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 two years. WHA ID repaid its debt by using the proceeds from an initial public offering of WHA Utility and Power PLC (WHAUP), together with the fund received from selling assets to HREIT. Adjusted debt declined to Bt16.9 billion at the end of June 2018 from a peak of Bt23.7 billion in 2016. The debt to capitalization ratio improved to 41.0% in 2017 and 39.9% as of June 2018 from 56.4% in 2016.

TRIS Rating's forecast assumes WHA ID's capital expenditures will be about Bt20 billion during the next three years. 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 EBITDA to be Bt4.5-Bt5.0 billion per year during 2018-2021. Funds from operations (FFO) will be Bt3.2-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%-18% during the next three years. The EBITDA interest coverage ratio should stay at about five times during the same period.

## RATING OUTLOOK

The "stable" outlook reflects the expectation that WHA ID can maintain its leading position in the industrial property industry. The ample and predictable cash flow from the sale of utility services, and the dividend income from power projects, will help protect the company from the volatility of industrial land sales.

## RATING SENSITIVITIES

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

## COMPANY OVERVIEW

Established in 1988 and listed on the SET in 1992, WHA ID originally developed and operated an industrial estate in Chonburi province. After being acquired by WHA, WHA ID was delisted from the Stock Exchange of Thailand (SET) in March 2016. At the end of June 2018, WHA was the major shareholder, holding 98.5% of WHA ID's shares.

WHA ID owns nine active industrial estates, plus five industrial estates yet to be developed. WHA ID's industrial estates, except for WHA Saraburi Industrial Land (WHA SIL), are located in the eastern part of Thailand in Rayong and Chonburi provinces. WHA ID had 730 customers in its industrial estates. Across all the estates, 34% of the customers are in the automotive industry.

Apart from industrial land sales, WHA ID provides ready-built factory and ready-built warehouses for rent and for sale. As

of June 2018, the leased areas managed by WHA ID totaled 396,010 square meters (sq.m.), comprising 311,140 sq.m. owned by a property fund and a REIT, and 84,870 sq.m. owned by WHA ID.

Through its subsidiary, WHA ID provides utility services to clients in the industrial estates. The services include raw water, potable water, clarified water, and wastewater treatment.

WHA ID receives an ample flow of dividends from the power projects, property funds, and an investment in HREIT. HEMRAJ owns stakes in several power producers under the Independent Power Producer (IPP), Small Power Producers (SPP), and Small Power Producers (VSPP) schemes.

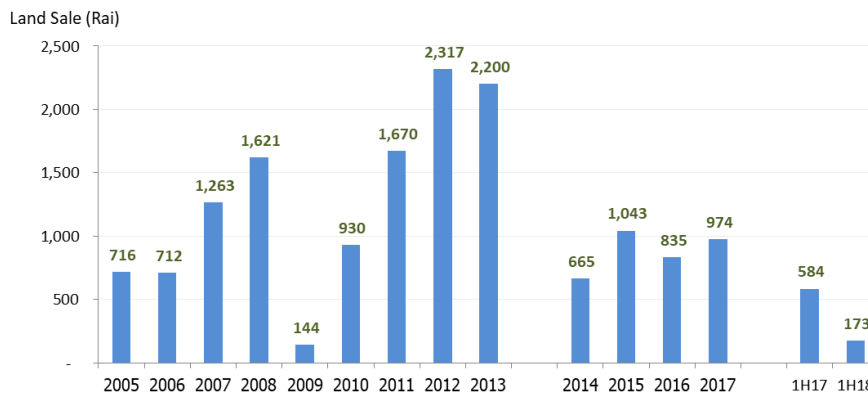
## KEY OPERATING PERFORMANCE

**Table 1: WHA ID's Revenue Contribution**

Revenue breakdown	2013	2014	2015	2016	2017	Jan-Jun 2018
<b>Property sales</b>						
- Industrial land	66	54	62	21	55	34
- Sales of investment properties	1	1	-	54	1	33
- Sale of Residential properties	4	3	-	-	-	-
<b>Total sales</b>	<b>71</b>	<b>58</b>	<b>62</b>	<b>75</b>	<b>56</b>	<b>67</b>
<b>Recurring income</b>						
- Rental and services	11	13	11	7	7	5
- Utility services	18	27	24	15	35	27
- Others	1	2	3	2	1	1
<b>Total recurring income</b>	<b>29</b>	<b>42</b>	<b>38</b>	<b>25</b>	<b>44</b>	<b>33</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 (Bt million)</b>	<b>8,770</b>	<b>6,333</b>	<b>7,471</b>	<b>11,548</b>	<b>5,930</b>	<b>3,804</b>

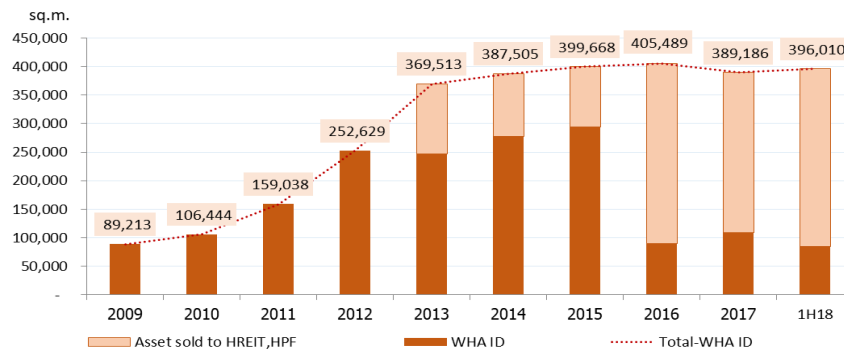
Source: WHA ID

**Chart 1: WHA ID's Industrial Land Sales**



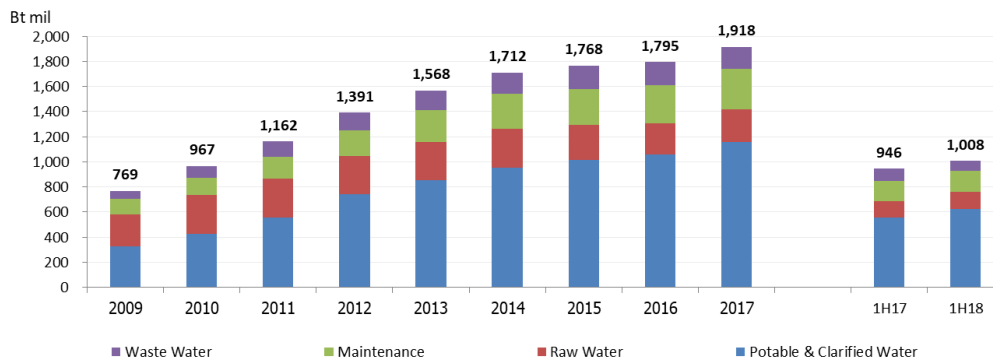
Source: WHA ID

**Chart 2: Leased Area Owned and Managed by WHA ID**



Source: WHA ID

**Chart 3: WHA ID's Utility Service Income**



Source: WHA ID

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

Project Name	Type	JV Partner	Location	Contracted Capacities (MW)	WHAUP Portion	Equity MW	COD
<b>Operating Phase</b>							
Gheco-I	IPP	Coal	Glow	Map Ta Phut IE	660.0	35.00%	231.0
Glow IPP	IPP	Gas Combined Cycle	Glow	WHA CIE 1	713.0	5.00%	35.7
Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152.0	12.75%	19.4
GJP NLL	SPP	Gas Co-gen	Gulf JP	WHA RIL	122.5	25.01%	30.6
Gulf Solar	VSPP	Solar	Gulf	WHA LP 1, WHA CIE 1, WHA ESIE 1, ESIE	0.6	25.01%	0.2
WHA Gunkul	VSPP	Solar	Gunkul	Bangna and Ayudthaya	3.3	74.99%	2.5
BGWHA-1	SPP	Gas Co-gen	B Grimm	WHA CIE 1	121.0	25.01%	30.3
GVTP	SPP	Gas Co-gen	Gulf MP	ESIE	130.0	25.01%	32.5
GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	130.0	25.01%	32.5
GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	130.0	25.01%	32.5
GTS3	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	125.0	25.01%	31.3
GTS4	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	125.0	25.01%	31.3
Solar Rooftop Projects	VSPP	Solar	-	Samutprakan	0.9	100.0%	0.9
<b>Total</b>					<b>2,413.3</b>		<b>510.5</b>
<b>Construction Phase</b>							
Solar Rooftop Projects*	VSPP	Solar	-	-	2.0	100.0%	2.0
GNLL2	SPP	Gas Co-gen	Gulf MP	WHA RIL	120.0	25.01%	30.0
CCE	VSPP	Waste-to-energy	Glow& Suez	WHA CIE 1	6.9	33.33%	2.3
<b>Total</b>					<b>128.9</b>		<b>34.3</b>

Source: WHA ID

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	-----Year Ended 31 December -----				
	Jan-Jun 2018	2017	2016	2015	2014
Total operating revenues	4,309	6,055	11,630	7,615	6,381
Operating income	2,251	2,381	6,177	2,945	2,604
Earnings before interest and taxes (EBIT)	3,035	5,179	7,459	4,114	4,117
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,396	4,217	7,449	4,256	3,978
Funds from operations (FFO)	1,790	2,938	5,370	3,334	3,125
Adjusted interest expense	366	1,065	1,130	765	754
Capital expenditures	283	402	267	409	502
Total assets	50,028	48,428	49,619	32,491	33,902
Adjusted debt	16,919	17,176	23,663	12,616	13,662
Adjusted equity	25,473	24,752	18,313	14,295	15,297
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	52.23	39.32	53.12	38.67	40.80
Pretax return on permanent capital (%)	11.84 **	11.78	20.20	13.59	13.77
EBITDA interest coverage (X)	6.55	3.96	6.59	5.57	5.27
Debt to EBITDA (X)	3.73	4.07	3.18	2.96	3.43
FFO to debt (%)	20.10 **	17.11	22.69	26.43	22.88
Debt to capitalization (%)	39.91	40.97	56.37	46.88	47.18

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

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**WHA Industrial Development (WHA ID)**

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<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
HEMRAJ217A: Bt2,000 million senior unsecured debentures due 2021	A-
HEMRAJ222A: Bt1,000 million senior unsecured debentures due 2022	A-
HEMRAJ231A: Bt2,500 million senior unsecured debentures due 2023	A-
HEMRAJ244A: Bt2,500 million senior unsecured debentures due 2024	A-
HEMRAJ252A: Bt1,500 million senior unsecured debentures due 2025	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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