

# WHA PREMIUM GROWTH FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 14/2019  
22 January 2019

## CORPORATES

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

Last Review Date: 08/03/18

### Company Rating History:

Date	Rating	Outlook/Alert
26/01/18	A	Stable

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## RATIONALE

TRIS Rating affirms the company rating on WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART), and its existing senior unsecured debentures at “A” with a “stable” outlook. At the same time, TRIS Rating assigns the rating of “A” to WHART’s proposed issue of up to Bt2,300 million in senior unsecured debentures due within seven years. The trust plans to use the proceeds from these debentures to repay some of its existing loans.

The ratings reflect WHART’s predictable income stream from medium- to long-term rental contracts with well-recognized tenants, and the high occupancy rate (OR) of industrial properties. The ratings are also supported by the growth prospects from asset injection from the trust’s sponsor, WHA Corporation PLC (WHA). The ratings are partially constrained by tenant concentration plus the volatile nature of the industrial property for rent business, which are sensitive to economic condition and market competition.

## KEY RATING CONSIDERATIONS

### Able to maintain high occupancy rate

Despite the economic slowdown and oversupply situation in the warehousing industry, WHART has enjoyed high ORs of over 90% since its inception in 2014. This is because most rental contracts are medium to long term and its properties are located in strategic logistics areas.

As 38% of total leased area expired in 2018, OR slipped to 88% in the third quarter of 2018, compared with 90%-95% from 2015 to 2017. However, in the last quarter of 2018, the OR rebounded to 90% as the trust’s property manager was able to replace the vacant properties given strategic locations for logistics, and asset enhancement supported by its sponsor.

By 2019, about 25% of total leased area will expire. So far, around 70% of the expiring contracts tend to renew. Thus, TRIS rating expects the trust can keep average OR stay above 90% in 2019-2021.

### Growth prospect from regular asset injection from sponsor

WHART’s assets have expanded every year. WHA, the trust’s sponsor, is one of only two major developers of warehouses and factories for rent in Thailand. WHA has regularly sold built-to-suit warehouses to the trust every year. WHA also undertakes to pay rental income to WHART for three years for any vacant space in the warehouses to be sold in order to enhance OR to 100% at the time of the sale.

WHART’s investment portfolio continues to grow from Bt4,406 million in 2014 to Bt13,083 million in 2016, and to Bt25,949 million in the end of 2017, after the merger WHA Premium Factory and Warehouse Fund (WHAPF) into WHART. In December 2018, WHART acquired additional assets valued at approximately Bt4,491 million. WHART’s total revenue is assumed to grow to about Bt1,900 million in 2018, rising from Bt1,079 million in 2017. Going forward, WHA still plans to sell assets to WHART every year. The growing size of the quality industrial properties regularly results in the boost in its revenue. TRIS Rating expects the trust’s total revenue will grow to around Bt2,200-Bt2,700 million per annum during 2019-2021.

### Medium- to longterm contracts with high creditability tenants

WHART has medium- to long-term contracts with quality tenants. As of December 2018, about three-fifths of all contracts span more than three years. As a result, WHART's cash flow is secured with these medium- to long-term contracts. Most of WHART's tenants are well-known domestic and multinational corporations with high credit quality. Rental collection risk is minimal, considering the sound financial positions of these reputable companies.

### Tenant concentration risk

The top 10 largest tenants occupy more than half of total rental and service income. However, this concentration risk is partly mitigated by the high credit standing of the tenants. In addition, some contracts contain penalties for early termination. A tenant might have to pay the remaining rental value if the lessee terminates the contracts ahead of the expiration date. Moreover, tenant concentration will gradually temper as asset size grows. As of September 2018, the top 10 largest tenants contributed 56% of total rental and service income, down from 61% in the same period of the prior year. The leased area was mainly driven by demand from the logistics providers, fast-moving consumer goods business, and manufacturers with 43%, 32%, and 13% of the tenants' portfolio, respectively. We assume WHART's tenant base will be more diversified as it grows.

### Leverage expected to rise from investment, but stay below 35% to total asset value

WHART's financial leverage is expected to rise, the result of its investment plan. In December 2018, WHART spent Bt4,491 million for new asset acquisition from its sponsor with a 37% debt financing. As a result, the interest-bearing debt to total assets ratio (LTV) is projected to rise to 29% and WHART's debt to capitalization ratio is expected to rise to 27% at the end of 2018. During 2019-2021, the LTV is forecast to rise to 30%-31% as WHART intends to expand its property portfolio continually mainly from its sponsor. However, the LTV will stay below 35%, in accordance with its financial policy.

### Manageable refinancing risk

Given its access to financial markets and availability of back-up credit facilities for bullet repayments, TRIS Rating believes its refinancing risk is manageable. Due to the growing size of its portfolio, we expect WHART's funds from operations (FFO) in 2018 to come in around Bt1,440 million, up from Bt793 million in 2017. During 2019-2021, FFO is forecast to increase continually from Bt1,600 million to Bt2,000 million per annum. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is forecast to range from 4.5 to 5.5 times.

Out of the Bt9,469 million in debt, including a bridge loan of Bt1,675 million to finance the assets purchased in December 2018, WHART has scheduled bullet debt repayment of Bt1,675 million due in 2019, followed by Bt1,342 million due in 2020, Bt3000 million due in 2021, and Bt2,247 million due in 2022. WHART plans to refinance these bullet repayments by using the proceeds from new debentures issuance. WHART will also prepare the back-up long-term loan with a financial institution to repay the scheduled repayments in 2019-2020 to mitigate the refinancing risk.

### BASE-CASE ASSUMPTIONS

- WHART's assets will increase by Bt2,500-Bt4,000 million per year during 2019-2021. The OR will hold at approximately 91%-92%.
- WHART's total revenue will grow to around Bt2,200-Bt2,700 million per annum during 2019-2021.
- The operating margin (operating income before depreciation and amortization as a percentage of revenue) will stay around 91% over the next three years.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that WHART's property portfolio will generate reliable cash flows and can sustain high level of occupancy rate above 90% with sound profitability. In addition, TRIS Rating expects the trust will be able to keep the LTV below 35% as per the trust's policy and able to comply its financial covenants.

### RATING SENSITIVITIES

The credit ratings of WHART could be under downward pressure if the OR notably drops below expectations and/or the LTV ratio stays above 35% for a prolonged period. On the other hand, the ratings could be revised upward if WHART's capital structure improves significantly, leading to higher cash flow protection over an extended period.

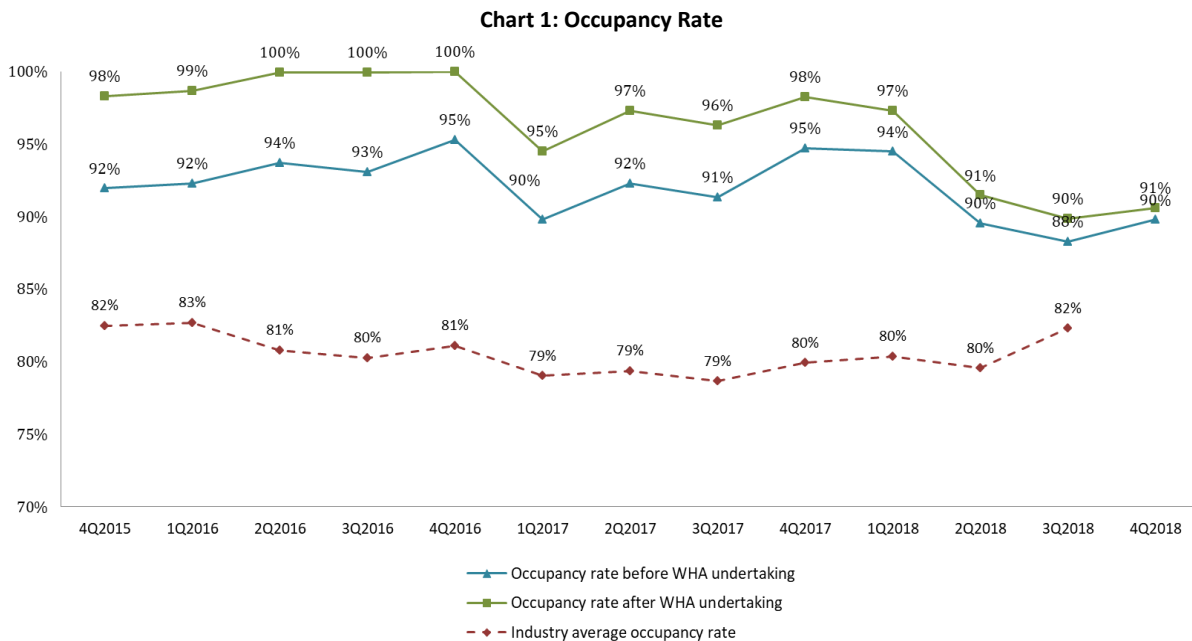
**COMPANY OVERVIEW**

WHART was established and listed on the Stock Exchange of Thailand (SET) in December 2014 as Thailand’s first industrial Trust. At present, WHA holds a 15% of WHART’s stake in total. WHART’s REIT manager is WHA Real Estate Management Co., Ltd. (WHAREM) which is 99.9% owned by WHA, the property manager and main sponsor of the trust. WHART has focused on the acquisition of freehold and leasehold rights in good-quality and well-occupied industrial properties mainly built-to-suit warehouses and factories. More than 96% of WHART’s total revenue comes from warehouses and factories for rent.

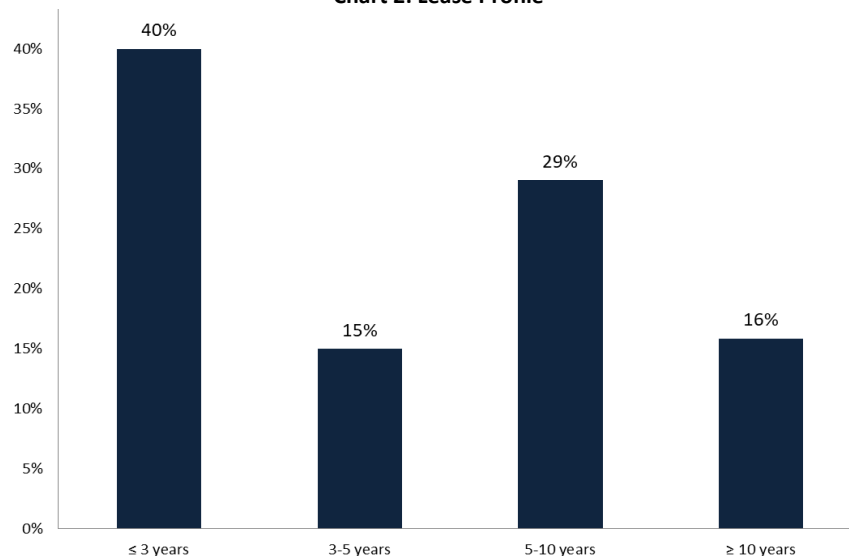
WHART’s property portfolio has expanded continually from Bt4,406 million at its inception to Bt13,083 million as of September 2017. Its leasable area increased from 167,333 square meters (sq.m.) to 499,236 sq.m. over the same period. In November 2017, WHAPF was merged into WHART. After the conversion, WHART asset size increased to Bt25,949 million, comprising 20 properties of warehouses and factories properties with total leasable area of 971,557 sq.m.

At present, WHART is one of the leaders in the warehouses and factories rental business in Thailand. It owns 24 properties, with a total leasable area of 1,128,113 sq.m., located in prime strategic areas including along Bangna-Trad road, Ladkrabang, Rama 2, Ayudhaya, Rayong, Saraburi, Chonburi, and Pathum Thani. About 49% of the leasable properties are located along Bangna-Trad road. 69% of the investment properties are freehold while the remaining are leasehold.

**KEY OPERATING PERFORMANCE**



Note : Occupancy rate as of end of period  
Source: WHART and CB Richard Ellis (CBRE)

**Chart 2: Lease Profile**


Source: WHART

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Sep 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	1,472	1,079	709	332	14
Operating income	1,332	992	651	309	16
Earnings before interest and taxes (EBIT)	1,258	928	610	290	15
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,333	993	652	310	16
Funds from operations (FFO)	1,043	793	517	236	8
Adjusted interest expense	290	201	135	74	8
Capital expenditures	0	3,107	4,209	4,663	4,406
Total assets	28,084	27,814	13,923	9,595	4,613
Adjusted debt	7,152	7,118	3,793	2,566	1,458
Adjusted equity	19,270	19,099	9,541	6,542	3,115
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	90.48	91.94	91.85	93.15	114.75
Pretax return on permanent capital (%)	5.66 **	4.53	5.27	4.13	0.65
EBITDA interest coverage (times)	4.59	4.95	4.82	4.20	1.94
Debt to EBITDA (times)	4.35 **	7.17	5.82	8.28	88.55
FFO to debt (%)	17.99 **	11.13	13.63	9.20	0.55
Debt to capitalization (%)	27.07	27.15	28.44	28.17	31.88

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Key Financial Ratios and Adjustments, 5 September 2018
- Real Estate Investment Trust, 12 October 2016

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**WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART)**

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<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
WHART213A: Bt3,000 million senior unsecured debentures due 2021	A
WHART253A: Bt1,200 million senior unsecured debentures due 2025	A
Up to Bt2,300 million senior unsecured debentures due within 7 years	A
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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