

# WHA PREMIUM GROWTH FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 2/2024

12 January 2024

## CORPORATES

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

Last Review Date: 31/03/23

### Issuer Rating History:

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

### Contacts:

Suchana Chantadisai  
suchana@trisrating.com

Nauwarut Temwattanangkul  
nauwarut@trisrating.com

Wajee Pitakpaibulkij  
wajee@trisrating.com

Sasiporn Vajarodaya  
sasiporn@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the issuer rating on WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART or trust) and the ratings on its existing senior unsecured debentures at “A”, with a “stable” rating outlook. At the same time, TRIS Rating assigns the rating of “A” to WHART’s proposed issue of up to THB850 million senior unsecured debentures due within three years. The proceeds from the new debentures will be used to refinance debentures maturing in February 2024.

The ratings reflect the good quality and locations of the trust’s assets, its continuing earnings growth supported by the acquisition of new assets from its sponsor, predictable cash flow from contract-based rental income, strong cash-flow protection, and moderate financial leverage. The ratings are partially constrained by tenant concentration and lease renewal risks. In addition, the rising supply of rental space and the economic slowdown could pressure the occupancy and rental rates of industrial properties.

## KEY RATING CONSIDERATIONS

### Quality assets in good locations, with high occupancy rates (ORs)

WHART’s asset portfolio comprises ready-built and built-to-suit warehouses and factories, in which 56% are built-to-suit projects with long-term contract. These assets are in strategic locations, along Bangna-Trad Road, in the Eastern Economic Corridor (EEC), and in north and west of Bangkok.

The trust’s tenants are well-diversified by nationality and industrial sector. As of September 2023, tenants from Thailand made up the highest proportion by lease area at 33%, followed by Asia (excluding Japan) at 23%, Europe 19%, and Japan 15%. Global geopolitical tensions have driven many international manufacturers to relocate their production facilities to Southeast Asia, including Thailand which can be beneficial to the trust. In terms of industrial sector, the trust’s tenants include logistics providers (39%), fast-moving consumer goods (FMCG) (22%), e-commerce (15%), and home supplies (14%).

WHART’s OR has been at a satisfactory level, above 90%, over the past five years. With the good quality and locations of its assets, along with one to three-year guarantees of 100% OR for newly acquired assets from its sponsor, we expect WHART’s OR to sustain above 90% during 2023-2025.

### Future growth supported by new acquisitions from its sponsor

WHART is expected to expand its revenue base from new assets acquired from its sponsor, WHA Corporation PLC (WHA). WHA is one of two leading developers of warehouses and factories for rent in Thailand. WHA has regularly transferred built-to-suit and standard warehouses and factories to the trust every year. In addition, WHA also guarantees payment of rental income to WHART for any vacant space to ensure OR of 100% for three years from the time of sale. As of September 2023, the trust’s investment properties were worth THB49.2 billion.

On 25 December 2023, WHART acquired new assets from WHA Group amounting to THB3.6 billion to expand its portfolio in its current strategic locations. We assume WHART will acquire approximately THB4 billion of new assets annually from WHA Group during 2024-2025. The average rental rate is expected to increase by around 1% yearly with estimated revenue of around THB3.4-THB4.0 billion annually in 2023-2025.

### **Strong cash-flow protection**

We expect the trust to maintain strong cash flow protection, supported by reliable cash flow from contract-based rental income, incremental cash flow from regular asset acquisitions, as well as from relatively low operating costs. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) reached THB2.4 billion in the first nine months of 2023, up by 10% from the same period in 2022. Its EBITDA margin was 92%. We expect WHART's EBITDA to be around THB3.1-THB3.7 billion per annum with an EBITDA margin of 90% over the next three years.

WHART's EBITDA interest coverage ratio in the first nine months of 2023 declined to 7.7 times, from 9.0 times in 2022. The decline was due to a higher proportion of debt funding and a rise in interest rates. With interest rates still assessed to trend upward, we forecast the ratio to remain in the 7.0-7.8 times range while the trust's debt to EBITDA ratio should stay at around 4.5 times during the forecast years.

### **Tenant concentration and lease renewal risks**

We assess WHART as having a degree of tenant concentration risk as its top-ten tenants occupied 58% of its total occupied areas and contributed 63% of its total rental and service income for the first nine months of 2023. However, the concentration risk is partly mitigated by the reliable credit profiles of these tenants, which are well-known domestic and multinational companies. The strong financial positions of its tenants alleviate the rental collection risk to a large degree. In addition, the growth of trust's assets every year gradually dissipates the concentration risk.

The renewal rate was around 70% in 2023, compared with 80% in 2021-2022. Target of renewal rate each year is 70%. The real estate investment trust (REIT) manager and property manager typically negotiate with existing tenants three to six months in advance of lease expirations which gives the trust time to source new tenants and mitigates renewal risk to some extent. With the good quality and location of the trust's assets and the proactive REIT and property managers, we expect WHART's contract renewal rate to remain around 70% during 2024-2025.

### **Moderate financial leverage**

We expect WHART to keep its loan to fair value of total assets ratio (LTV) (including lease liabilities) below 35%. For the past five years and at the end of September 2023, the LTV was below 30%. In December 2023, the trust acquired THB3.6 billion in new assets with 48% debt financing. As a result, we expect the trust's LTV to stay around 29% at the end of 2023. In our base case, we assume WHART will acquire new assets worth around THB4 billion annually in 2024-2025. We expect the trust to balance the funding mix for its future acquisitions to keep the LTV within 30%.

At the end of September 2023, WHART's secured debt to fair value of total assets ratio was 2.7%. As the percentage of secured debt was lower than 35% of the fair value of total assets, we do not view WHART's unsecured creditors to be significantly disadvantaged with respect to the priority of claims against assets.

### **Adequate liquidity profile**

We assess WHART's liquidity as manageable over the next 12 months, given the trust's ability to access the capital market and its good relationships with financial institutions. The trust's sources of liquidity included cash on hand of THB2 billion and available credit lines from financial institutions of THB450 million, as of September 2023. We forecast its EBITDA of around THB3 billion over the next 12 months.

As of September 2023, WHART's outstanding debt was THB13.6 billion, comprising THB11.2 billion in debentures and THB2.4 billion in long-term loans. WHART has a series of debt repayments due in the years ahead, including THB3.5 billion in 2024, THB4.6 billion in 2025, and THB5.5 billion due thereafter. WHART plans to refinance its coming maturing debentures of THB850 million with new debentures, while the trust plans to refinance the rest of its maturing debentures and bank loans with debenture issuances and/or bank borrowings where appropriate. We do not expect the trust to have difficulties refinancing its debts, considering its sizable asset portfolio and relatively low LTV.

The financial covenant on WHART's bank loan obligations requires the trust to maintain the LTV ratio below 50% and an interest-bearing debt to EBITDA ratio of less than 6.5 times. The ratios at the end of September 2023 were 28% and 4.7 times, respectively. The financial covenant on WHART's debentures requires the trust to maintain the LTV ratio (excluding lease liabilities) below 50% and the secured debt to fair value of total assets ratio below 20%. The ratios at the end of September 2023 were 26% and 2.7%, respectively.

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## BASE-CASE ASSUMPTIONS

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Here are our key base-case assumptions for WHART's operations during 2023-2025:

- OR (with undertaking) to remain around 90%.
- EBITDA margin to hover around 90%.
- New asset acquisitions of THB3.6 billion in 2023 and around THB4 billion per annum during 2024-2025.
- Debt financing of 48% for new acquisitions in 2023 and a combination of debt and equity for the acquisition of new assets in 2024-2025 with a targeted LTV of below 35%.

## RATING OUTLOOK

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The "stable" outlook reflects our expectation that WHART's property portfolio will continue to generate steady cash flow and an EBITDA margin above 90% over the next three years. We also expect the trust to keep its LTV ratio below 35%.

## RATING SENSITIVITIES

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We could lower the ratings if the trust's OR drops significantly below our expectations and/or larger-than-anticipated debt-funded acquisitions cause the LTV ratio to rise above 35% and/or the debt to EBITDA ratio exceeds 5.5 times for a prolonged period. In contrast, a rating upward revision could occur if the trust can enlarge its cash generation and improve its capital structure meaningfully, leading to a debt to EBITDA ratio below 2.5 times on a sustained basis.

## TRUST OVERVIEW

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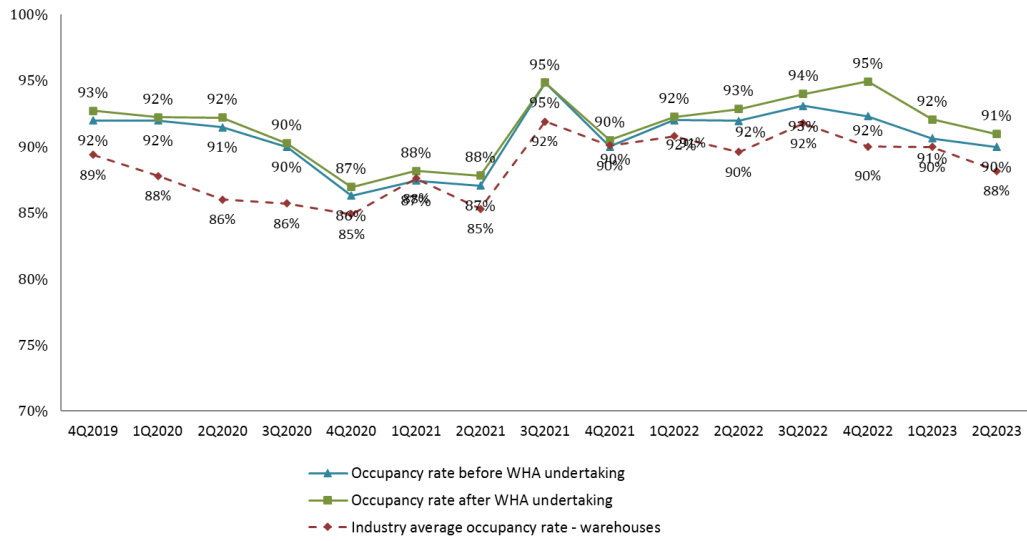
WHART was established and listed on the Stock Exchange of Thailand (SET) in December 2014 as Thailand's first industrial trust. At present, WHA holds a 15% stake in WHART. WHART's REIT manager is WHA Real Estate Management Co., Ltd. (WHAREM), which is 99.9% owned by WHA, the property manager and main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

WHART's property portfolio had expanded continually to THB13.08 billion as of September 2017 from THB4.41 billion since its inception. Its leasable area increased to 499,236 square meters (sq.m.) over the same period from 167,107 sq.m. In November 2017, WHAPF was merged into WHART. After the conversion, WHART's asset size jumped to THB25.95 billion, comprising 20 warehouse and factory properties with a total leasable area of 971,559 sq.m.

As of December 2023, WHART was one of the leaders in the warehouse and factory rental business in Thailand. The trust's investment properties were worth around THB53 billion with total leasable area of 1,886,876 sq.m. The properties are located in key industrial estates and strategic logistics areas including Bangna-Trad Road (60%), Ayudhya, Saraburi, and Pathumthani (20%), EEC (19%), and Samut Sakorn (1%). Around 49% of the investment properties are freehold while the remainder are leasehold.

**KEY OPERATING PERFORMANCE**

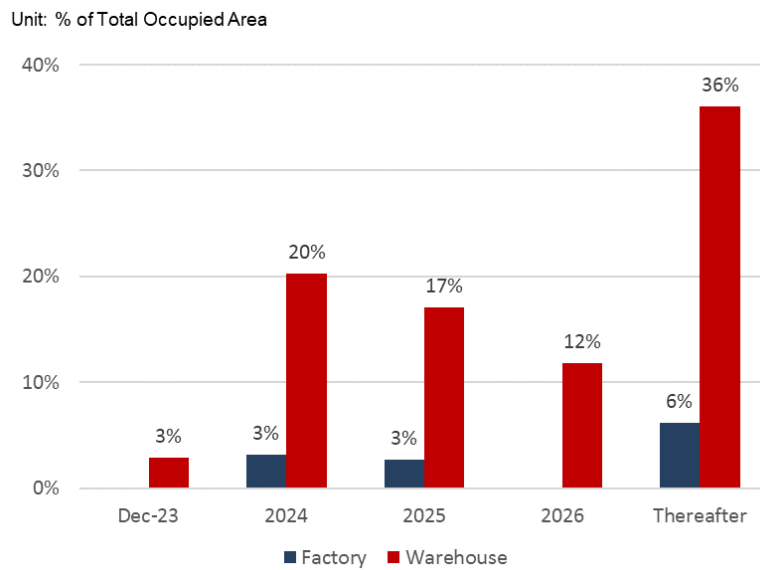
**Chart 1: Occupancy Rate**



Note: Occupancy rate as of end of period

Sources: WHART and CB Richard Ellis (CBRE)

**Chart 2: Lease Expiry**



Source: WHART

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	2,544	3,168	2,568	2,552	2,263
Earnings before interest and taxes (EBIT)	2,316	2,816	2,116	2,125	1,973
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,350	2,893	2,216	2,247	2,091
Funds from operations (FFO)	2,045	2,568	1,911	1,954	1,666
Adjusted interest expense	305	325	305	294	425
Capital expenditures	0	4,245	5,625	3,284	4,918
Total assets	51,683	51,815	48,455	42,595	38,154
Adjusted debt	12,252	12,498	10,415	9,206	9,604
Adjusted equity	35,960	35,919	33,937	30,413	27,316
<b>Adjusted Ratios</b>					
EBITDA margin (%)	92.39	91.33	86.31	88.08	92.41
Pretax return on permanent capital (%)	6.30 **	5.80	4.80	5.36	5.60
EBITDA interest coverage (times)	7.70	8.90	7.27	7.65	4.92
Debt to EBITDA (times)	3.95 **	4.32	4.70	4.10	4.59
FFO to debt (%)	22.11 **	20.55	18.35	21.22	17.35
Debt to capitalization (%)	25.41	25.81	23.48	23.24	26.01

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021

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

<b>Issuer Rating:</b>	A
<b>Issue Ratings:</b>	
WHART242A: THB850 million senior unsecured debentures due 2024	A
WHART245A: THB500 million senior unsecured debentures due 2024	A
WHART245B: THB1,000 million senior unsecured debentures due 2024	A
WHART252A: THB1,700 million senior unsecured debentures due 2025	A
WHART253A: THB1,200 million senior unsecured debentures due 2025	A
WHART262A: THB300 million senior unsecured debentures due 2026	A
WHART265A: THB1,500 million senior unsecured debentures due 2026	A
WHART265B: THB800 million senior unsecured debentures due 2026	A
WHART26DA: THB500 million senior unsecured debentures due 2026	A
WHART271A: THB950 million senior unsecured debentures due 2027	A
WHART272A: THB300 million senior unsecured debentures due 2027	A
WHART275A: THB200 million senior unsecured debentures due 2027	A
WHART288A: THB1,000 million senior unsecured debentures due 2028	A
Up to THB850 million senior unsecured debentures due within 3 years	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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