

# WHA PREMIUM GROWTH FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 8/2020

31 January 2020

## CORPORATES

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

Last Review Date: 14/11/19

### Company Rating History:

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

### Contacts:

Hattayanee Pitakpatapee  
hattayanee@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 company rating on WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART or “trust”) and the ratings on WHART’s senior unsecured debentures at “A” with a “stable” outlook. The ratings reflect the trust’s predictable cash flow from contract-based rental income, its ability to maintain a high occupancy rate (OR), plus the growth prospects of the trust supported by assets from its sponsor, WHA Corporation PLC (WHA). However, the ratings are partially constrained by portfolio concentration risk in terms of tenant base. The ratings also take into consideration the inherent volatility of the industrial property for rent business, which is somewhat linked to economic conditions, consumer spending, and market competition.

## KEY RATING CONSIDERATIONS

### Favorable occupancy rate

TRIS Rating holds the view that WHART should be able to maintain its strong operating performance in the medium-term, supported by WHART’s properties located in strategic areas including Bangna-Trad road, Ladkrabang, and Rama 2 areas, as well as Ayudhaya, Rayong, Saraburi, Chonburi, and Pathum Thani provinces. Fifty four percent of total leasable space is located along Bangna-Trad road, an alternative business location with access to both Bangkok’s central business areas and the Eastern Economic Corridor.

The trust’s good-quality and prime-located industrial properties reflects in its high OR. WHART has enjoyed high OR of over 90% since its inception in 2014. At the end of December 2019, the average OR was 92%. TRIS Rating expects the trust could maintain an average OR higher than 90% over the next three years, based on the historical performance of replacement and renewal managed by the trust’s property manager and asset enhancement supported by its sponsor.

### Stable cash flow from contract-based rental and service income

TRIS Rating expects the trust to be able to generate stable income streams over the next three years based on mostly medium-term lease contracts from tenants. As of December 2019, the leases in WHART’s properties portfolio covered a period of three years, accounting for 59% of the total area. The weighted average lease life stood at 3.8 years. Most tenants are well-known domestic and multinational corporations with high credit quality. Rental collection risk seems minimal, considering the sound financial positions of these reputable companies.

Under current leased occupancy, 24% of total occupied area will expire in 2020, 21% will expire in 2021, 13% in 2022, and the rest will expire thereafter. The lease contract expirations are relatively concentrated in 2020 and 2021. However, WHART’s management normally approaches the lessees in advance to discuss about the contract renewal or expansion plan. Given the strategic location for logistics and quality of the properties, they have the confidence to secure the renewal on most of their contracts. The contract renewal rate of WHART was still good at 71% in 2019.

### Growth prospects from assets under sponsor

Given the continued support of its sponsor, we believe WHART has the potential to increase its scale. WHA, the trust’s sponsor, is one of only two major

developers of warehouses and factories for rent in Thailand. WHA has regularly transferred built-to-suit and standard warehouses and factories with high OR to the trust every year. In addition, WHA also undertakes to pay rental income to WHART for three years for any vacant space to enhance OR to 100% at the time of sale.

WHART's investment portfolio consistently grew from Bt4.4 billion at inception in 2014 to Bt30.9 billion in September 2019. In mid-December 2019, WHART acquired additional assets valued at approximately Bt4.9 billion. Going forward, WHA still plans to sell assets to WHART every year. The continually growing size of the quality industrial properties portfolio results in a boost to rental and service income, as well as operating cash flow in the future. WHART's total revenue is assumed to grow to about Bt2.2 billion in 2019, rising from Bt2.0 billion in 2018. TRIS Rating expects the trust's total revenue will grow to around Bt2.5-Bt2.9 billion per annum during 2020-2022.

#### **Exposure to tenant concentration risk**

WHART is exposed to tenant concentration risk. The top-ten tenants occupied 55% of the total occupied area and contributed 56% of total rental and service income in 2019. However, the tenant concentration risk is partly alleviated by the high credit profiles of its top largest tenants. Moreover, the property manager negotiates lease renewal agreements with tenants about three to twelve months in advance of expiration. Thus, the trust has time to look for new tenants should the lessees decide to terminate their contracts. TRIS Rating expects the tenant concentration risk to gradually dissipate as asset size grows.

#### **Moderate financial leverage**

WHART's financial leverage is moderate. In December 2019, WHART spent Bt4.9 billion for latest asset acquisition with a 100% equity funding. As a result, the loan to fair value of total assets ratio (LTV) is expected to drop to 25% at the end of 2019, from 29% as of September 2019.

However, WHART's financial leverage is expected to rise given the trust's investment plan. In accordance with the trust's financial policy, WHART targets to keep LTV not higher than 30% in the medium- to long-term. TRIS Rating anticipates the trust to fund its future acquisitions using a combination of capital raised and debt, resulting in the LTV to range between 28%-30% over the next three years.

According to its financial covenant, the trust has to keep the LTV ratio below 35% and the interest-bearing debt to earnings before interest, tax, depreciation and amortization (EBITDA) less than 5.5 times. We believe the trust should be able to comply with its financial covenants.

#### **Manageable refinancing risk**

TRIS Rating views that WHART's refinancing risk is manageable given its access to financial markets and availability of back-up facilities for debt coming due in 2020.

As of December 2019, WHART's outstanding debt was Bt9.5 billion. The trust has scheduled bullet debt repayments of Bt1.5 billion coming due in December 2020. WHART plans to refinance this bullet repayment by using the proceeds from new debenture issuance and/or long-term loans. Moreover, WHART has already prepared a back-up long-term loan with a financial institution to repay the debt maturity in 2020 to mitigate the refinancing risk. TRIS Rating believes the trust to have no difficulty refinancing its debts, given its ability to access financial markets.

#### **BASE-CASE ASSUMPTIONS**

- WHART's assets to increase by around Bt2-Bt3 billion per year during 2020-2022.
- OR to hold around 90% over the next three years.
- Revenue to range between Bt2.5-Bt2.9 billion per annum.
- EBITDA margin to hover around 90%.
- Acquisition of new assets from 2020 onwards to be financed by a combination of debt and equity, with LTV not more than 30%.

#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that WHART's property portfolio will continue to generate steady cash flow during 2020-2022. TRIS Rating also expects the trust's assets to sustain high level of OR 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**

WHART’s ratings and/or outlook could be revised downward if the OR meaningfully drops below expectations and/or the LTV ratio stays above 35% for a prolonged period. On the contrary, the ratings and/or outlook could be revised upward if WHART’s capital structure improves notably, leading to higher cash flow protection over an extended period.

**COMPANY OVERVIEW**

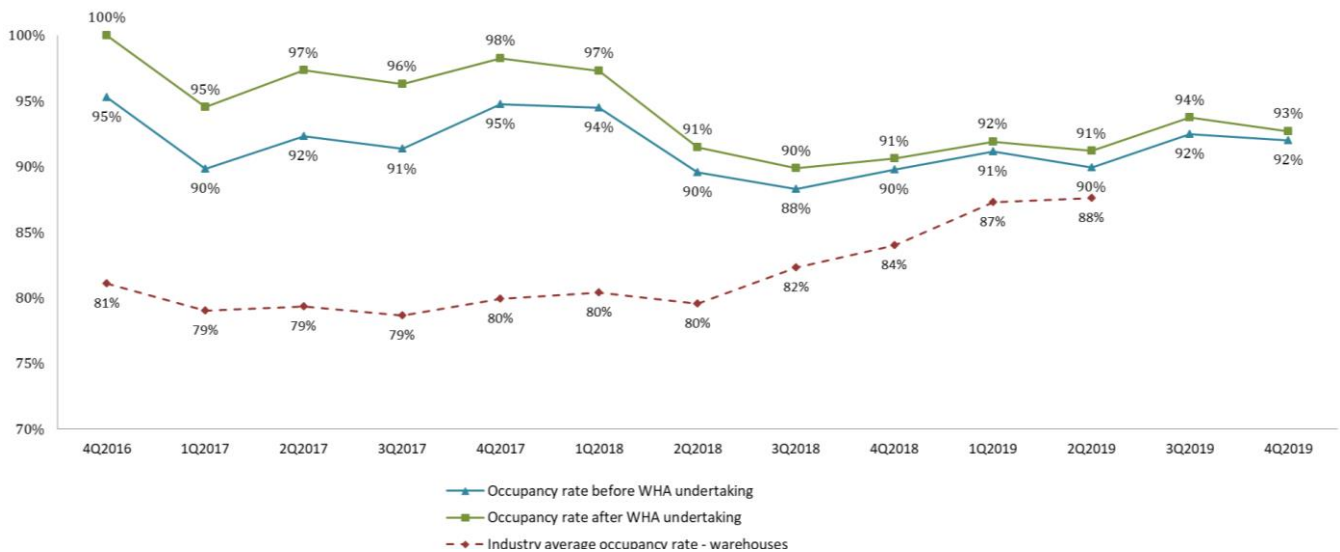
WHART was established and listed on the Stock Exchange of Thailand (SET) in December 2014 as Thailand’s first industrial trust. At present, WHA holds a 15% of WHART’s stake in total. WHART’s REIT manager is WHA Real Estate Management Co., Ltd. (WHAREM) which is 99.9% owned by WHA, the property manager 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 Bt4.4 billion at its inception to Bt13.1 billion as of September 2017. Its leasable area increased from 167,107 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 jumped to Bt25.9 billion, comprising 20 properties of warehouses and factories properties with total leasable area of 971,559 sq.m.

At present, WHART is one of the leaders in the warehouses and factories rental business in Thailand. It owns 29 properties, with a total leasable area of 1,283,351 sq.m., located in prime strategic areas including along Bangna-Trad road, Ladkrabang, Rama 2, Ayudhaya, Rayong, Saraburi, Chonburi, and Pathum Thani. About 54% of the leasable properties are located along Bangna-Trad road. 61% of the investment properties are freehold while the remaining are long-term leasehold.

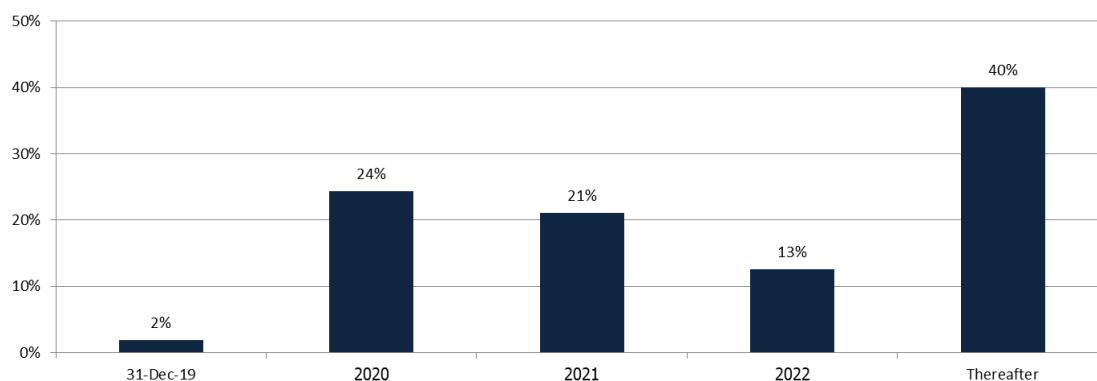
**KEY OPERATING PERFORMANCE**

**Chart 1: Occupancy Rate**



Note: Occupancy rate as of end of period

Sources: WHART and CB Richard Ellis (CBRE)

**Chart 2: Lease Expiry by Occupied Area**


Source: WHART

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

Unit: Bt million

	Jan-Sep 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	1,677	1,978	1,079	709	332
Operating income	1,564	1,794	991	650	309
Earnings before interest and taxes (EBIT)	1,473	1,697	927	609	290
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,564	1,697	992	651	309
Funds from operations (FFO)	1,240	1,408	793	517	236
Adjusted interest expense	325	387	199	134	73
Capital expenditures	0	4,491	3,107	4,209	4,663
Total assets	33,102	32,651	27,814	13,923	9,595
Adjusted debt	9,434	9,457	6,884	3,651	2,465
Adjusted equity	22,440	21,983	19,099	9,541	6,542
<b>Adjusted Ratios</b>					
EBITDA margin (%)	93.27	90.76	91.87	91.83	93.07
Pretax return on permanent capital (%)	6.33 **	5.71	4.56	5.31	4.16
EBITDA interest coverage (times)	4.82	4.64	4.98	4.85	4.24
Debt to EBITDA (times)	4.65 **	5.27	6.94	5.61	7.97
FFO to debt (%)	17.01 **	14.89	11.51	14.15	9.58
Debt to capitalization (%)	29.60	30.08	26.49	27.68	27.37

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Real Estate Investment Trust, 12 October 2016

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

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
WHART212A: Bt500 million senior unsecured debentures due 2021	A
WHART213A: Bt3,000 million senior unsecured debentures due 2021	A
WHART222A: Bt950 million senior unsecured debentures due 2022	A
WHART22DA: Bt1,000 million senior unsecured debentures due 2022	A
WHART242A: Bt850 million senior unsecured debentures due 2024	A
WHART253A: Bt1,200 million senior unsecured debentures due 2025	A
WHART26DA: Bt500 million senior unsecured debentures due 2026	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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

© Copyright 2020, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)