

ALLY FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 93/2024

31 May 2024

CORPORATES

Issuer Rating: BBB+
Outlook: Stable

Last Review Date: 31/05/23

Issuer Rating History:

Date	Rating	Outlook/Alert
13/05/22	BBB+	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Ally Freehold and Leasehold Real Estate Investment Trust (ALLY) at “BBB+” with a “stable” outlook. The rating reflects our expectation of the trust’s revenue and earnings growth prospect from satisfactory operating performance of existing properties topped up by potential new asset acquisition. The rating also takes into consideration the trust’s highly predictable cash flow from contract-based income and adequate liquidity. However, the rating is constrained by the trust’s modest scale with concentrated portfolio and expected increase in financial leverage from portfolio expansion.

KEY RATING CONSIDERATIONS

Expected moderate revenue and earnings growth in 2025-2026

We expect ALLY’s operating revenue and earnings to be flat this year, but it should generate a moderate revenue and profit growth in the following years. The growth will be buoyed by continued robust occupancy rate (OR), expected rebounded average rental rates (ARR), and portfolio expansion. However, ALLY’s profitability may be threatened by rising operating costs and intense competition among leading players.

The trust’s operating revenue increased by 7% year-on-year (y-o-y) to THB1.7 billion and its EBITDA grew by 10% y-o-y to THB880 million in 2023. This was attributed to high OR at 94% for shopping malls with sustained ARR. However, ALLY’s operating revenue in the first quarter of 2024 (1Q2024) slightly decreased by 3% y-o-y, while its EBITDA was maintained. The trust’s operating performance in 1Q2024 was pressured by a drop in OR and ARR of The Crystal SB Ratchapruek, one out of three main assets of the trust. The drop came because intense competition from newly launched large shopping center and renovation of road surface in that area. ALLY continues providing discounts to tenants in this asset to retain acceptable OR for a certain period.

Looking forward, we anticipate that ALLY will be able to maintain its operating revenue at THB1.7 billion and EBITDA at THB900 million in 2024. We expect a 10%-15% y-o-y growth in revenue and EBITDA in 2025-2026, with estimated EBITDA margin of around 50%. This is based on our assumption that the trust should sustain OR at above 90% for community malls and at 97% for office building in 2024-2026. We project ARR to sink by 3%-5% this year as the trust is likely to provide discounts to tenants in particular assets. However, we expect a slight ARR growth in 2025-2026. In addition, our projected moderate growth will be partly supported by revenue and earnings contribution from planned new asset acquisition.

Portfolio enlarged by future assets in pipeline

ALLY’s credit profile factors in its growth opportunities from new asset acquisitions from either KE Group, existing partners, or new partners. KE Group currently owns one community mall and one lifestyle office building in its property portfolio. ALLY also has the first right to acquire assets from its existing partners. The trust normally adds matured properties with acceptable OR and consistent rental rate growth to the portfolio.

The trust has a concrete plan to acquire a community mall named Happy Avenue Don Muang from new partner. The project has a net leaseable area (NLA) of around 4,300 square meters (sq.m.) and is 96% occupied. The

investment size will be THB225 million or around 2% of total existing asset value. The trust completed this transaction on 30 May 2024.

Our baseline assumes that ALLY will acquire new assets worth THB350 million this year (including Happy Avenue Don Muang) and around THB1.5 billion annually in 2025-2026. We project the trust's NLA to increase by around 35%-40% by 2026. The NLA from community malls will constitute 98% of total portfolio, while office building will remain negligible. Larger scale of quality property portfolio will help boost income and earnings growth as well as diversify sources of cash flow of the trust in the long run.

Reliable cash flow from contract-based income

We view that the trust's rental and service income is highly predictable since most tenants are bound by three-year contracts. Across the entire portfolio, fixed-rent contracts accounted for around 80% of total occupied area, while revenue-sharing contracts made up the rest. Based on the area currently under lease, 35% of total occupied area will expire in 2024, 32% in 2025, 30% in 2026, and the rest will expire from 2027 onwards. The renewal rate has been relatively high at around 90% in the past three years.

The trust's shopping malls focus on tenant mix offering in-store experiences to draw customer traffic to the retail space and to mitigate the risk from changing customer behavior trends towards online shopping. The tenant mix for each mall is designed to serve the lifestyles of those people in its catchment areas and serve the everyday needs of people located in the neighboring community or residential areas. At the end of March 2024, tenants in the food and beverages category accounted for 21% of total occupied area, home and furniture 15%, supermarket 11%, and other lifestyle-related categories such as beauty and health, education, entertainment, fitness, and fashion accounted for 5%-10% each of total occupied area.

Modest scale with concentrated portfolio

We consider ALLY's portfolio as modest with investment property at fair value of THB12.5 billion and a total NLA of 160,175 sq.m. as of March 2024. Despite owning the leasehold rights in 12 community malls and one office building, the trust's overall operating performance depends largely on only three main assets in two locations: Crystal Design Center, The Crystal Ekamai-Ramindra, and The Crystal SB Ratchapruek. Combined NLA from three assets contributes around 60% of the trust's total NLA. In terms of revenue and earnings, these assets generated revenue of 60%-70% and EBITDA of 70%-80% of the trust portfolio. Negative event risk in any major assets could pose a significant impact on the trust's overall performance.

Financial leverage is expected to moderately increase

We view that the trust's financial leverage is heading in an upward trend in consequence of anticipated new asset acquisitions. Our base-case scenario incorporates potential new assets worth THB3.4 billion in total over 2024-2026. We project ALLY to finance most of the acquisitions by debts and inject an equity of around THB1 billion in 2025. Thus, the loan (excluding lease liabilities) to total asset (LTV) ratio could increase to 32% in 2026 from 27% as of March 2024. The adjusted net debt to EBITDA ratio will elevate to nearly 5 times from 4.3 times in 1Q2024. Despite pursuing new asset acquisition, we expect the trust to maintain prudent financial policy with the LTV ratio, excluding lease liabilities, staying below 35%.

The financial covenants on ALLY's debt obligations require the trust to maintain the debt-to-equity ratio below 1.5 times, the interest-bearing debt (IBD) to EBITDA ratio (excluding lease liabilities) below 5.5 times, and loan to value (LTV) ratio (excluding lease liabilities) below 50%. As of March 2024, the debt-to-equity ratio was 0.6 times, the IBD to EBITDA ratio was 4.1 times, and the LTV ratio was 27%. We believe the trust should have no problems complying with the financial covenants over the next 12 to 18 months.

Adequate liquidity

We assess ALLY's liquidity as adequate for the next 12 months. The trust's sources of liquidity as of March 2024 include cash on hand of THB627 million plus undrawn committed credit facilities from banks of THB419 million. We forecast funds from operations (FFO) to stay at THB665 million in 2024. The trust's unencumbered assets can also be used as collateral for bank loans, if needed. The market value of its unencumbered assets as of March 2024 was THB3.8 billion. ALLY's uses of funds include debt repayment of THB108 million in 2024, maintenance capital expenditures of 3% of total rental and service income, and dividend payment of at least 90% of adjusted net investment income.

Debt structure

As of March 2024, ALLY's total debt, excluding lease liability, was THB3.6 billion. All debts were secured long-term loans from bank, pledged by some assets of the trust. The ratio of secured debt to fair value of total assets was 27%, below the threshold of 35% according to TRIS Rating's "Rating Methodology for Real Estate for Rent Companies".

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for ALLY's operations in 2024-2026:

- Average OR to stay above 90% for community malls and at 97% for office building.
- Average rental rate to decline by 3%-5% in 2024, but to revive by 1%-2% per annum in 2025-2026.
- EBITDA margin to hover around 50%.
- New asset acquisition totaling THB3.4 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ALLY's property portfolio will continue generating steady cash flow steam over the forecast period. We expect the trust to retain high OR and achieve favorable rental rates as targeted. In addition, ALLY should maintain a conservative financial policy by keeping the loan (excluding lease liabilities) to total asset ratio below 35%.

RATING SENSITIVITIES

The rating and/or outlook on ALLY could be revised downward should there be a deeper-than-expected deterioration in the trust's operating results and/or financial profile. An increase in the adjusted net debt to EBITDA ratio to a level of above 7.5 times for a prolonged period could trigger a downward revision for the rating and/or outlook. On the flip side, a credit upside would materialize if the trust can significantly enlarge its cash generation, while maintaining its financial profile at the current level.

COMPANY OVERVIEW

ALLY, originally named Bualuang K.E. Retail Leasehold Real Estate Investment Trust (BKER), was founded in November 2019 as part of the process to convert the CRYSTAL, a property fund, into a real estate investment trust (REIT). The CRYSTAL was established and listed on the Stock Exchange of Thailand (SET) in 2013. Upon the conversion in November 2019, BKER acquired CRYSTAL's entire property portfolio (The Crystal Ekamai-Ramintra and Crystal Design Center) and invested in an additional eight community shopping malls from six project owners. In 2021, BKER was renamed to ALLY and expanded its investment portfolio to cover all types of commercial properties. KE Group, through its subsidiaries, has been the trust's major unitholder with a 22.4% stake as of 30 December 2023. ALLY REIT Management Co., Ltd. (ARM) and K.E. Property Management Co.,Ltd. (KEPM), KE Group's subsidiaries, acts as the trust's REIT manager and property manager, respectively.

After the conversion in 2019, the trust's property portfolio consisted of 10 community shopping malls. The trust acquired two community shopping malls in 2021 and one office building in 2022. As of March 2024, ALLY had 13 properties with a total net leasable area of 160,175 sq.m.

As of May 2024, the trust successfully acquired a new community mall, "Happy Avenue Don Muang" to its portfolio with a total investment of THB225.5 million. The property has around 4,300 sq.m. of NLA.

KEY OPERATING PERFORMANCE

Table 1: ALLY's Property Portfolio

	Crystal Design Center	The Crystal Ekamai-Ramintra	The Crystal SB Ratchapruet	Amorini	I'm Park	Plearnary	Sammakorn Place Ramkhamhaeng
Type	Community mall	Community mall	Community mall	Community mall	Community mall	Community mall	Community mall
Location	Bangkok	Bangkok	Bangkok	Bangkok	Bangkok	Bangkok	Bangkok
Net leasable area (sq.m.)	35,967	30,803	24,578	5,213	6,720	11,342	10,305
OR (%) (as of 31 Mar 2024)	97.2	98.8	89.8	89.2	98.8	86.4	95.4
Investment at fair value (Mil. THB) (as of 31 Mar 2024)	3,814	2,864	1,762	285	246	840	566
Remaining leasehold period (years)	25	25	19	25	10	25	25

	Sammakorn Place Rungsit	Sammakorn Place Ratchapruk	The Scene Town-in-Town	Kadfarang Village	The Crystal Chaiyapruet	The Prime Hua Lamphong
Type	Community mall	Community mall	Community mall	Community mall	Community mall	Office
Location	Bangkok	Bangkok	Bangkok	Chiangmai	Bangkok	Bangkok
Net leasable area (sq.m.)	3,389	4,618	6,895	7,005	9,010	4,330
OR (%) (as of 31 Mar 2024)	85.5	86.2	93.3	92.8	73.4	97.3
Investment at fair value (Mil. THB) (as of 31 Mar 2024)	203	302	658	373	367	191
Remaining leasehold period (years)	25	25	21	27	18	19

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	405	1,699	1,591	1,127	1,132
Earnings before interest and taxes (EBIT)	211	859	778	530	569
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	216	880	799	551	590
Funds from operations (FFO)	161	669	640	405	455
Adjusted interest expense	55	211	159	146	134
Investments in leasehold properties at fair value	12,472	12,613	12,497	12,162	11,349
Total assets	13,438	13,614	13,508	13,094	12,251
Adjusted debt	3,806	3,793	3,796	3,562	2,740
Adjusted equity	8,402	8,536	8,456	8,393	8,378
Adjusted Ratios					
EBITDA margin (%)	53.3	51.8	50.2	48.9	52.1
Pretax return on permanent capital (%)	6.7 **	6.6	6.1	4.4	4.9
EBITDA interest coverage (times)	3.9	4.2	5.0	3.8	4.4
Debt to EBITDA (times)	4.3 **	4.3	4.7	6.5	4.6
FFO to debt (%)	17.5 **	17.6	16.9	11.4	16.6
Debt to capitalization (%)	31.2	30.8	31.0	29.8	24.6
Loan to fair value of total assets (%)	33.0	32.8	32.8	31.4	26.9
Loan to fair value of total assets (%) (excluding lease liability from loan)	26.7	26.5	26.7	26.2	22.5

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Ally Freehold and Leasehold Real Estate Investment Trust (ALLY)

Issuer Rating:	BBB+
Rating Outlook:	Stable

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