

# DUSIT THANI FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 220/2024  
26 November 2024

## CORPORATES

**Issuer Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 20/12/23

### Issuer Rating History:

Date	Rating	Outlook/Alert
11/10/22	BBB-	Stable
28/08/20	BBB-	Negative
27/03/20	BBB	Alert Negative
19/12/19	BBB	Stable

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## RATIONALE

TRIS Rating affirms the issuer rating on Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT or trust) at “BBB-” with a “stable” outlook. The rating reflects DREIT’s rental income structure, which provides downside protection to its cash flow over the leaseback period. This is subject to the credit quality of Dusit Thani PLC (DUSIT), the sole lessee and principal source of cash flow. The rating also factors in the trust’s increasing leverage from a potential new investment. Additionally, the trust’s small and concentrated asset portfolio, comprising only three hotels, may expose it to greater risks from adverse operating conditions or event risks compared to peers with more geographically diversified and larger portfolios.

## KEY RATING CONSIDERATIONS

### Revenue downside protection

The trust’s revenue downside risk is limited by a committed minimum rental fee scheme. The laws governing real estate investment trusts (REIT) prohibit a REIT from operating a hotel. Because of this, DREIT leases Dusit Thani Laguna Phuket and subleases Dusit Thani Hua Hin to Dusit Management Co., Ltd. (DMCO). DREIT also subleases Dusit Thani Maldives to Dusit Maldives Management Pvt., Ltd. (DMM). Both DMCO and DMM are subsidiaries of DUSIT.

DMCO pays DREIT fixed and variable rental fees. The fixed portion of the rent is reset each year depending on the actual operating results of each hotel but is not less than THB186 million per year. The variable portion of the rent is 80% of what DMCO makes after deducting hotel operating expenses and the fixed portion of the rent.

For Dusit Thani Maldives, DMM is renting the hotel for 21 years, ending in 2040. DMM pays a minimum fixed rental fee of USD7 million per year. The variable portion of the rent is 90% of what DMM makes after deducting hotel operating expenses and the fixed portion of the rent.

When the trust’s assets perform weakly such that the minimum fixed rental fee committed by DUSIT is the main source of the trust’s cash flow, we might consider DUSIT’s credit risk to be a factor constraining the trust’s credit profile. However, we could assign a rating on DREIT higher than the rating on DUSIT if the trust’s hotels can generate sufficient cash flow to warrant a higher rating by themselves, irrespective of the rental scheme.

### Solid Performance of Dusit Thani Laguna Phuket

Dusit Thani Laguna Phuket continues to demonstrate robust post-pandemic performance, contributing significantly to the trust’s rental income projections over the next two years. Despite a slow return of Chinese tourists, Phuket remains a favored destination for European tourists, particularly from Russia. Given the strong demand and competitive quality of the assets, we forecast Dusit Thani Laguna Phuket’s average revenue per available room (RevPAR) to reach THB4,500-THB5,000 per room per night during 2024-2026, compared to THB4,014 per room per night in 2023.

### Challenging conditions for Hua Hin and Maldives properties

Dusit Thani Hua Hin primarily depends on the domestic market. Its performance, particularly within the leisure segment, is influenced by local

consumer sentiment. The prevailing weak consumption trend and increased competition from other destinations, such as Pattaya, are expected to present ongoing challenges for Dusit Thani Hua Hin. Consequently, we anticipate a RevPAR growth of low- to mid-single digits, ranging between THB2,300-THB2,500 per room per night during the period of 2024-2026.

Dusit Thani Maldives continues to encounter challenges due to the increasing supply of accommodations within the islands. Furthermore, demand from European and Middle Eastern tourists is anticipated to remain subdued because of cautious spending, influenced by macroeconomic headwinds and ongoing geopolitical tensions. As a result, we project the RevPAR for Dusit Thani Maldives to be in the range of USD330-USD375 per room per night during 2024-2026, markedly lower than the USD427 per room per night in 2019. A potential improvement in hotel performance hinges on a robust return of Chinese tourists. Additionally, completion of the expanded airport capacity in 2025 could help boost tourist arrivals, potentially having a positive impact on Dusit Thani Maldives's performance.

#### **Leverage to rise due to a new investment**

During 2024-2026, our baseline projection assumes that DREIT's rental revenue from the three hotels will range from THB530-THB560 million per annum, with EBITDA expected to be around THB485-THB500 million annually. The projection is based on the anticipated strong performance of Dusit Thani Laguna Phuket, which is expected to generate variable rental income in addition to the fixed rent of THB100-THB120 million per year during 2024-2026. Meanwhile, Dusit Thani Maldives is expected to primarily contribute fixed rent.

DREIT's leverage is anticipated to increase due to a new investment. DREIT plans to invest THB500 million in a new greenfield project, with construction scheduled from mid-2025 to 2026. Since the new investment will primarily be financed by debt, DREIT's adjusted debt is expected to reach approximately THB2.2 billion in 2026, up from THB1.8 billion at the end of September 2024. The adjusted debt to EBITDA ratio is projected to peak at around 4.5 times during the construction period, compared to 3.5 times (annualized from the trailing 12 months) at the end of September 2024. Additionally, the trust is expected to maintain the ratio of adjusted debt to capitalization below 30% throughout the forecast period.

All DREIT's interest-bearing debt is secured debt. The main financial covenants on DREIT's loan obligations require the trust to maintain an interest-bearing debt to EBITDA ratio below 5 times and a loan to fair value (LTV) of asset ratio below 60%. As of September 2024, the ratios were 3.7 times and 24%, respectively. We believe that DREIT should have no problems complying with the financial covenants over the forecast period.

We assess DREIT's liquidity position to be adequate over the next 12 months. The primary sources of funds are cash and cash equivalents of THB334 million as of September 2024 and estimated funds from operations (FFO) of around THB370 million. Uses of funds are capital expenditures of around THB250-THB350 million and dividend payments estimated at around THB300 million.

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

TRIS Rating's base-case assumptions for DREIT's operations in 2024-2026 are as follows:

- DREIT to receive rental income totaling THB530-THB560 million per annum.
- EBITDA at around THB485-THB500 million per annum.
- Hotel maintenance and renovation budget of THB250-THB300 million in total.
- Investment in a new project of THB500 million in 2025-2026.

#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that DREIT's property portfolio will continue to generate reliable cash flow from rental income and DREIT will maintain sufficient liquidity to weather any adverse conditions.

#### **RATING SENSITIVITIES**

A rating upside could happen if the trust's properties consistently demonstrate stronger-than-expected performance, resulting in an enlarged earnings base without any weakening of the balance sheet. Conversely, rating downside pressure could arise if the trust's properties perform weakly while the credit profile of the trust's current sole renter and source of cash flow, DUSIT, materially deteriorates.

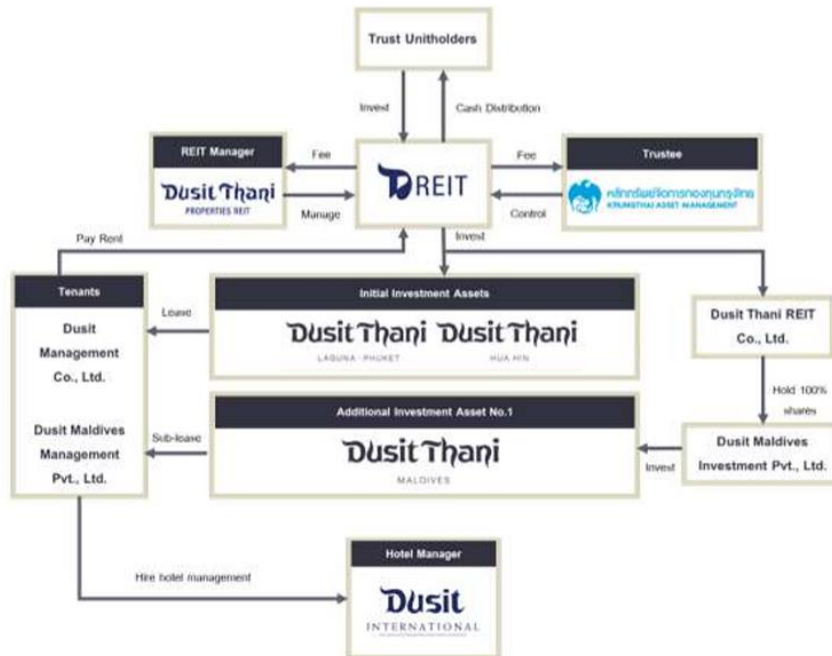
**TRUST OVERVIEW**

DREIT is a non-redeemable and indefinite REIT. It was established on 29 November 2017 and received assets and liabilities transferred from Dusit Thani Freehold and Leasehold Property Fund (DTCPF) on 8 December 2017. DREIT was listed on the Stock Exchange of Thailand (SET) on 15 December 2017. As of August 2024, the major shareholders of the trust consisted of DUSIT with a stake of 30.2% and the Social Security Office (SSO) with 25.4%. The REIT manager is Dusit Thani Properties REIT Co., Ltd., a subsidiary of DUSIT.

DREIT has a policy to generate benefits from hotel investments by leasing assets and subleasing leasehold rights to DMCO, a subsidiary of DUSIT. The property portfolio currently comprises three hotels, Dusit Thani Laguna Phuket, Dusit Thani Hua Hin, and Dusit Thani Maldives, after divesting Dusit D2 Chiangmai in December 2022. As of September 2024, the fair value of DREIT’s properties was THB7.5 billion.

At the asset level, for the first nine months of 2024, Dusit Thani Laguna Phuket and Dusit Thani Hua Hin together generated revenue of THB670 million and EBITDA of THB216 million while Dusit Thani Maldives generated USD16 million in revenue and USD4.6 million in EBITDA.

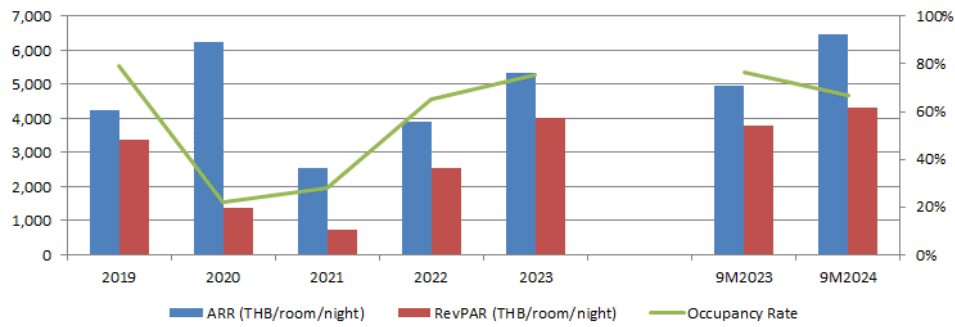
**Chart 1: Trust Structure**



Source: DREIT

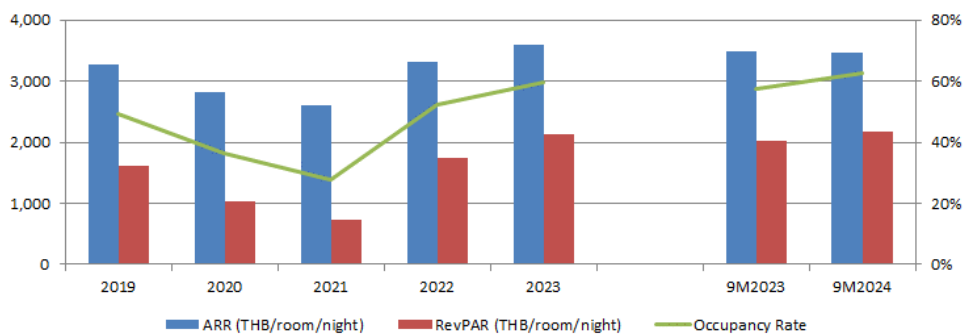
**KEY OPERATING PERFORMANCE**

**Chart 2: Average Room Rate and Occupancy Rate of Dusit Thani Laguna Phuket**



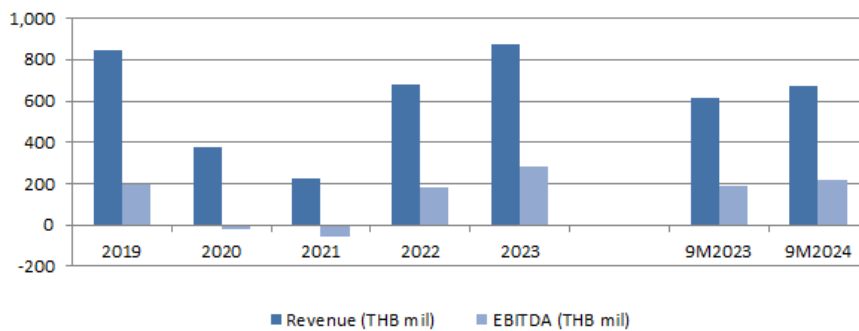
Source: DREIT

**Chart 3: Average Room Rate and Occupancy Rate of Dusit Thani Hua Hin**



Source: DREIT

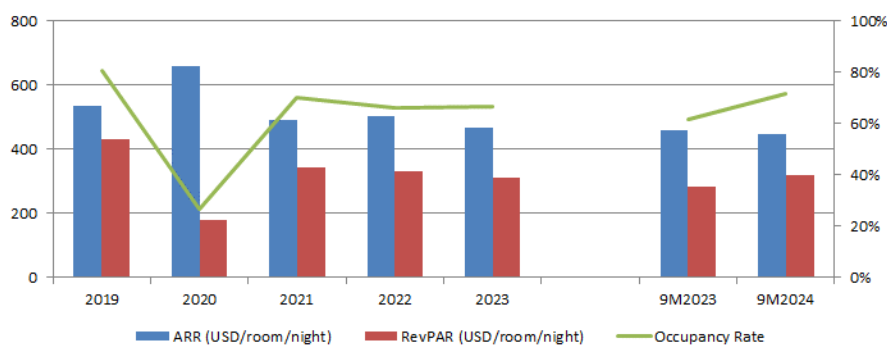
**Chart 5: Performance of Three Hotels in Thailand (Dusit Thani Laguna Phuket, Dusit Thani Hua Hin, and Dusit D2 Chiangmai\*)**



\* DREIT divested Dusit D2 Chiangmai in December 2022

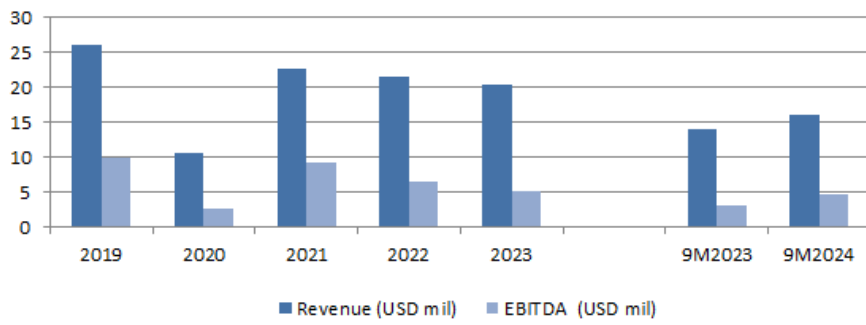
Source: DREIT

**Chart 6: Average Room Rate and Occupancy Rate of Dusit Thani Maldives**



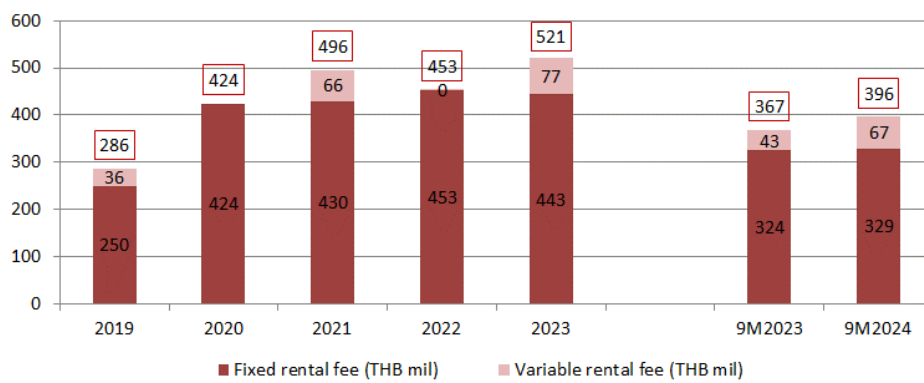
Source: DREIT

**Chart 7: Performance of Dusit Thani Maldives**



Source: DREIT

**Chart 8: Rental Revenue of DREIT**



Source: DREIT

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	398	513	454	499	426
Earnings before interest and taxes (EBIT)	356	453	391	441	370
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	365	465	403	453	382
Funds from operations (FFO)	276	359	322	369	305
Adjusted interest expense	88	105	80	74	73
Capital expenditures	107	108	146	90	196
Total assets	7,870	7,738	7,910	7,795	7,492
Adjusted debt	1,758	1,742	1,617	1,927	1,836
Adjusted equity	5,703	5,594	5,764	5,693	5,477
<b>Adjusted Ratios</b>					
EBITDA margin (%)	91.6	90.6	88.8	90.9	89.6
Pretax return on permanent capital (%)	6.2 *	5.8	5.0	5.8	5.0
EBITDA interest coverage (times)	4.2	4.4	5.0	6.1	5.2
Debt to EBITDA (times)	3.5 *	3.7	4.0	4.3	4.8
FFO to debt (%)	21.6 *	20.6	19.9	19.2	16.6
Debt to capitalization (%)	23.6	23.7	21.9	25.3	25.1
Loan to fair value of total assets (%)	22.6	23.1	22.5	22.3	22.5

\* Annualized from the 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
- Issue Rating Criteria, 15 June 2021

## Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT)

<b>Issuer Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

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