

FRASERS PROPERTY THAILAND INDUSTRIAL FREEHOLD AND LEASEHOLD REIT

No. 92/2024
31 May 2024

CORPORATES

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

Last Review Date: 14/03/24

Rating History:

Date	Rating	Outlook/Alert
23/04/18	A	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT or trust) and the ratings on its existing senior unsecured debentures at “A” with a “stable” outlook. The ratings continue to reflect the trust’s healthy occupancy, growing revenue and cashflow from ongoing asset acquisitions, and modest financial leverage. The ratings also take into consideration intensified competition and our concerns over the slowdown of the local and global economy, which are likely to put pressure on the occupancy and rental rates of industrial properties.

KEY RATING CONSIDERATIONS

Satisfactory occupancy

TRIS Rating expects FTREIT to sustain a satisfactory average occupancy rate (OR) (with undertaking) of above 80% during the fiscal years 2024-2026 (FY2024-FY2026, with the trust’s financial year running from 1 October to 30 September). Normally, the sponsor will provide a lease undertaking for assets sold to the trust that are vacant at the acquisition date for one year. The trust has reported an average occupancy rate of above 80% since December 2019. As of 31 March 2024, the average occupancy rate remained at around 85%. FTREIT’s high occupancy is mainly supported by the strategic locations and the quality of its assets and services. Its properties are located in three key strategic areas for industrial and logistics investments in Thailand, comprising the Eastern Economic Corridor (EEC) (58%), Northern Bangkok (23%), and the Central Region (19%).

A high tenant renewal rate also contributes to the satisfactory level of occupancy. We expect the renewal rate of the trust’s properties to be around 80% over the forecast period, consistent with historical renewal rates of 80%-84% over the past three fiscal years. For the first six months of FY2024 (6MFY2024), around 83% of the expired contracts have already been renewed. Tenant concentration is low due to the diverse mix of tenants. The 10 largest tenants contributed around 24% of rental and service income in 6MFY2024.

Heightened competition amid the slowdown in investment activities may result in a marginal increase in rental rates

FTREIT’s ability to increase rental rates while maintaining high occupancy could come under pressure due to concerns over an economic slowdown, both locally and globally. Over the past few years, demand has been supported by growing private consumption and the continuing surge in e-commerce sales. However, heightened competition from both existing and new players could negatively affect both occupancy and rental rates. This competitive pressure is likely to be more pronounced in the warehouse segment, where more new supply is expected to enter the market.

Looking ahead, we expect the average rental rate of the trust’s factory and warehouse space to remain flat during FY2024-FY2026. The rental rate for factories is expected to edge up marginally, driven by increasing demand in several strategic locations where supply is limited. In contrast, the rental rate for warehouses is expected to face challenges in sustaining the rental rates over the forecast period due to increased competition and a potential oversupply. Despite these challenges, FTREIT’s strategic locations and diversified tenant base are expected to provide some resilience against

market fluctuations.

Growing revenue and cashflow from ongoing portfolio expansion

We expect the trust's rental and service income to grow steadily in tandem with its expanding investment portfolio. Total operating revenue is forecast to increase to THB3.9-THB4.2 billion annually during FY2024-FY2026, up from around THB3.8 billion in FY2023. Earnings before interest, taxes, depreciation, and amortization (EBITDA) are expected to rise to THB3.0-THB3.2 billion, with an EBITDA margin of around 76% during FY2024-FY2026. The growth in revenue and EBITDA is underpinned by ongoing asset acquisitions. In FY2023, the trust completed two acquisitions worth around THB3.2 billion, with a total leasable area of 128,634 sq.m. and an average occupancy rate of over 90%.

Looking forward, we expect the trust to invest around THB1.0-THB2.0 billion per annum in new properties. The trust normally uses short-term debt financing for new acquisitions before converting it into debentures, long-term loans, or raising new capital to repay its short-term debt. Given the trust's financial discipline, we expect it to maintain a loan to fair value of total assets ratio (LTV), including lease liabilities, of around 30%. As of 31 March 2024, the LTV remained around 26%.

Modest financial leverage

FTREIT's financial leverage is expected to remain modest during FY2024-FY2026. The trust's debt to EBITDA ratio is expected to stay at around 4-5 times while the funds from operations (FFO) to debt is forecast to remain above 15% over the forecast period. However, the EBITDA interest coverage ratio is forecast to decline, falling to around 6 times over the forecast period from around 7 times in FY2023 and 6MFY2024 due to the high-interest rate environment. Despite this, the trust's financial stability remains intact, supported by its prudent financial management practices.

Under TRIS Rating's base case, we assume a budget for new property acquisitions of around THB1.0-THB2.0 billion per annum during FY2024-FY2026, with only marginal maintenance capital expenditures (CAPEX) over the forecast period. The trust has no plans to develop its own properties. Additionally, we expect the trust to manage its capital structure satisfactorily, ensuring its LTV stays below 30% over the forecast period.

The financial covenant on FTREIT's debt obligations requires the trust to maintain its LTV (excluding lease liabilities) below 60%. At the end of March 2024, the ratio was approximately 26%. The trust should have no problems complying with the covenant over the forecast period.

Manageable liquidity

FTREIT's liquidity is considered manageable for the next 12 months. The trust's sources of liquidity as of March 2024 included cash on hand of THB305 million and available credit lines from financial institutions of THB2.6 billion. We forecast FFO to stay around THB2.5 billion over the next 12 months, and EBITDA interest coverage to remain at 6 times over the next three years.

As of 31 March 2024, FTREIT's uses of funds for the next 12 months include THB4.2 billion debt repayments (excluding lease liabilities) and forecast dividend payments of around THB2.4 billion, in line with its requirement to distribute at least 90% of its net income as dividends. The trust should be able to refinance its debts, given its relatively low LTV ratio, ability to access the capital market, and good relationships with financial institutions.

Debt structure

As of 31 March 2024, FTREIT's consolidated debt, excluding lease liabilities, was THB12.7 billion, comprising THB11.3 billion debentures and THB1.4 billion short-term borrowings. FTREIT had no priority debt. This results in a priority debt to total debt ratio of 0%.

BASE-CASE ASSUMPTIONS

- OR (with undertaking) of around 85%-87% during FY2024-FY2026
- Relatively flat growth in rental rates during FY2024-FY2026
- EBITDA margin of around 75%-77%
- Budget for new asset acquisitions of THB1-THB2 billion per annum during FY2024-FY2026

RATING OUTLOOK

The "stable" outlook reflects our expectation that FTREIT will be able to deliver operating performance as targeted with an average OR above 80% and an EBITDA margin above 70% over the next three years. We also expect the trust to keep its LTV ratio below 30% in accordance with its policy.

RATING SENSITIVITIES

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 debt to EBITDA ratio to exceed 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 of below 2.5 times on a sustained basis.

COMPANY OVERVIEW

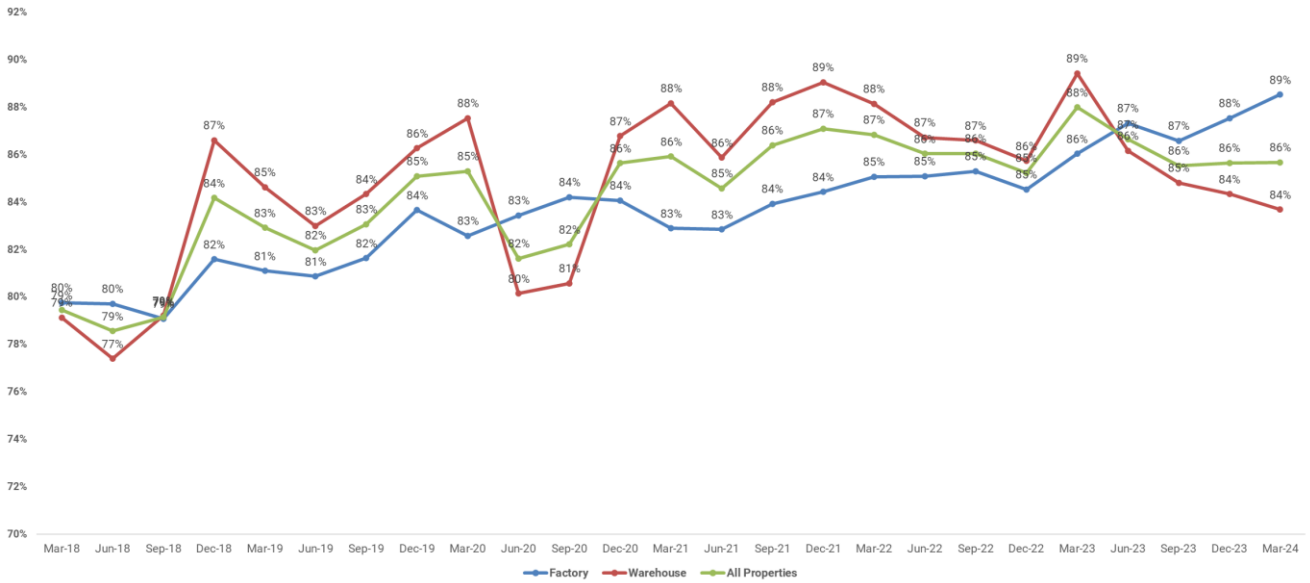
FTREIT was established in December 2014 and listed on the Stock Exchange of Thailand (SET) in January 2015, with registered capital of THB3.4 billion. The REIT manager of the trust is Frasers Property Industrial REIT Management (Thailand) Co., Ltd. (FIRM) (formerly TICON Management Co., Ltd. (TMAN)) which is 70% owned by Frasers Property (Thailand) Public Company Limited (FPT) (formerly TICON PCL. (TICON)), the property manager and main sponsor of the trust. The REIT manager has appointed Frasers Property Industrial (Thailand) Co., Ltd. (FPIT) (formerly TICON Logistics Park Co., Ltd. (TPARK)), the ex-owners of the properties, as the property managers for factories and warehouses, respectively. The REIT manager also appointed Sahathai Property and Development Co., Ltd. as the temporary property manager for free trade zone-related operation in a logistics center.

At the end of December 2017, FPT Group's three property funds (TFUND, TGROWTH, and TLOGIS) were merged into FTREIT. After the conversion, FTREIT became the largest industrial REIT in Thailand with assets amounting to THB50.4 billion. FTREIT's property portfolio has expanded continually from THB4.2 billion at its inception to THB49.8 billion as of Mar 2024. Its leasable area increased from 214,523 sq.m. to 2,266,430 sq.m. over the same period.

FTREIT is one of the leaders in the warehouse and factory rental business in Thailand. At the end of 31 March 2024, it owns and manages 702 properties, with a total leasable area of 2,266,430 sq.m., located in key industrial estates and strategic logistics areas including the EEC (58%), north of Bangkok (23%), and eastern Bangkok (19%). Around 72% of the investment properties are freehold while the remainder are leasehold.

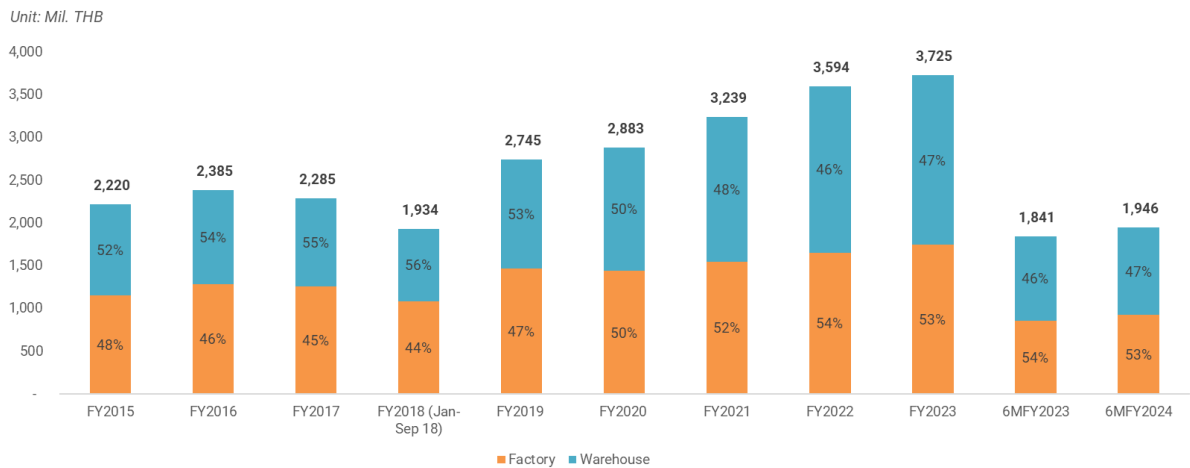
KEY OPERATING PERFORMANCE

Chart 1: Occupancy Rate (including Undertaking)



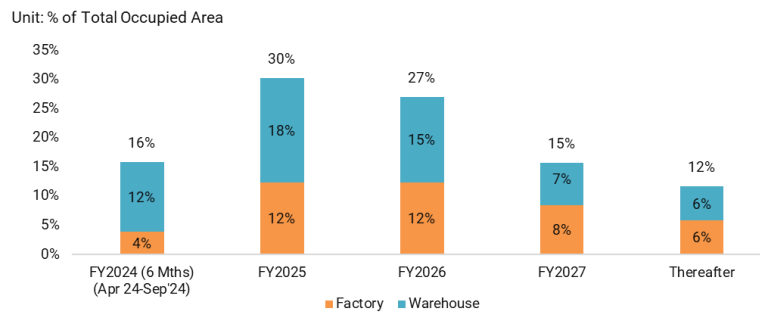
Source: FTREIT

Chart 2: Breakdown of Rental Income



Source: FTREIT

Chart 3: Lease Expiry



Source: FTREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Mil. THB

	Oct 2023 - Mar 2024	-----Year Ended 30 September -----			
		FY2023	FY2022	FY2021	FY2020
Total operating revenues	1,972	3,776	3,642	3,412	3,036
Earnings before interest and taxes (EBIT)	1,502	2,894	2,880	2,692	2,374
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,502	2,896	2,892	2,706	2,410
Funds from operations (FFO)	1,275	2,496	2,531	2,335	2,085
Adjusted interest expense	227	400	361	371	326
Investments in properties and leasehold rights over properties at fair value	49,805	49,825	46,319	44,758	41,144
Total assets	50,363	50,400	46,891	46,066	42,870
Adjusted debt	12,686	14,888	12,028	10,830	10,480
Adjusted equity	35,822	33,768	33,207	32,911	29,975
Adjusted Ratios					
EBITDA margin (%)	76.2	76.7	79.4	79.3	79.4
Pretax return on permanent capital (%)	6.2 **	6.1	6.4	6.2	6.0
EBITDA interest coverage (times)	6.6	7.2	8.0	7.3	7.4
Debt to EBITDA (times)	4.3 **	5.1	4.2	4.0	4.3
FFO to debt (%)	19.7 **	16.8	21.0	21.6	19.9
Debt to capitalization (%)	26.2	30.6	26.6	24.8	25.9

* 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
- Issue Rating Criteria, 15 June 2021

Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT)

Company Rating:	A
Issue Ratings:	
FTREIT246A: THB850 million senior unsecured debentures due 2024	A
FTREIT24DA: THB1,000 million senior unsecured debentures due 2024	A
FTREIT255A: THB1,000 million senior unsecured debentures due 2025	A
TREIT256A: THB380 million senior unsecured debentures due 2025	A
FTREIT263A: THB1,000 million senior unsecured debentures due 2026	A
FTREIT266A: THB700 million senior unsecured debentures due 2026	A
FTREIT268A: THB500 million senior unsecured debentures due 2026	A
FTREIT274A: THB450 million senior unsecured debentures due 2027	A
FTREIT274B: THB1,000 million senior unsecured debentures due 2027	A
FTREIT275A: THB600 million senior unsecured debentures due 2027	A
FTREIT283A: THB150 million senior unsecured debentures due 2028	A
FTREIT286A: THB700 million senior unsecured debentures due 2028	A
TREIT286A: THB1,260 million senior unsecured debentures due 2028	A
TREIT28DA: THB600 million senior unsecured debentures due 2028	A
FTREIT294A: THB500 million senior unsecured debentures due 2029	A
FTREIT303A: THB350 million senior unsecured debentures due 2030	A
FTREIT304A: THB550 million senior unsecured debentures due 2030	A
FTREIT314A: THB500 million senior unsecured debentures due 2031	A
FTREIT316A: THB250 million senior unsecured debentures due 2031	A
Rating Outlook:	Stable

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