

# DAD SPV CO., LTD.

No. 185/2018  
28 November 2018

## STRUCTURED FINANCE/CMBS Monitor Report

**Issue Ratings:**  
Structured finance AAA(sf)

**Last Review Date:**  
Date Rating  
24/11/17 AAA(sf)

**Issue Rating History:**  
Date Rating  
08/11/05 AAA(sf)

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## RATIONALE

TRIS Rating affirms the “AAA(sf)” rating on the existing Bt20,499.90 million debentures of DAD SPV Co., Ltd. (DAD SPV or Issuer). The rating reflects the creditworthiness of the Treasury Department (TD or Tenant) of the Ministry of Finance (MOF) as the sole tenant of the Bangkok Metropolitan Government Office Center (Government Office Center). The rating also reflects the certainty of the cash flow streams from the lease and service payments made by the TD and the low refinancing risk of the debentures.

## KEY RATING CONSIDERATIONS

### Strong credit quality of the sole tenant

The issue rating reflects the credit profile of the TD, the sole tenant of the Government Office Center. The TD is a department of the Thai government. Thus, the credit profile of the TD reflects the credit strength of the Thai government.

The Cabinet resolution on 25 May 2004 allowed the TD, on behalf of other government-related entities, to set up a budget and lease the Government Office Center from Dhanarak Asset Development Co., Ltd. (DAD) for 30 years, starting from 2008.

### Certainty of cash flow streams from lease and service payments

Under the lease agreements, the TD is not allowed to terminate the lease as long as the debentures issued under this securitization program, or any new debentures issued to replace the existing debentures, are not completely redeemed. During the lease term, even if DAD fails to maintain the buildings in usable condition, the TD is still obliged to make lease and service payments in a full and timely manner.

The total Bt82,114 million budget for the entire 30-year lease period was approved by the Cabinet on 9 May 2006 and is allocated to the TD on an annual basis, without the need for any further approval from the Cabinet. However, the budget amount must be approved by the Parliament every year. Generally, the budget appropriation process will be finished within September of each year. However, if the budget appropriation process cannot be finalized within the specified date, the TD can still disburse the funds to pay the lease and service payments using the budget received in the prior year as a reference. This year, the 2019 budget bill was approved by the National Legislative Assembly on 30 August 2018 and announced in the Royal Gazette on 17 September 2018. DAD SPV received the payment from the TD on 29 October 2018.

### Low refinancing risk

In 2025, approximately Bt10,700 million of the outstanding debentures is expected to be refinanced. The cash inflows from the lease and service payments during 2025-2037 (net of value added tax or VAT) will total approximately Bt36,000 million. These cash flows are sufficient to cover the debt service payments of Bt10,700 million for the amortized debentures, at a refinancing rate as high as approximately 23%, assuming DAD SPV has to maintain cash in a general reserve account and maintain a liquidity reserve account as before. Thus, DAD SPV should have no problem refinancing its bonds in 2025.

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**RATING SENSITIVITIES**

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In this transaction, the issue rating reflects the creditworthiness of the TD, which is the sole tenant of the Government Office Center. Under the terms of this transaction, the TD is obliged to make the specified annual lease and service payments to DAD SPV for 30 years despite the condition of the buildings. As a result, the rating will be revised downward only if the TD breaches the underlying agreements that it has contracted with DAD. However, a breach of the agreements is unlikely for this transaction.

**TRANSACTION OVERVIEW**

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A Cabinet resolution on 25 May 2004 approved the construction of the Government Office Center on Chaeng Wattana Road to be financed through the issuance of securitized debentures. DAD was responsible for the construction of the buildings and renting the buildings to the TD. The Cabinet resolution allowed the TD, on behalf of other government-related entities, to set up a budget and lease the Government Office Center from DAD for the whole 30-year period.

**The Originator:**

DAD is a government wholly-owned state enterprise. The company was established in 2004 by the MOF to build and operate the Government Office Center and other government real estate projects. Under the terms of this transaction, DAD entered into two land lease agreements with the MOF for a total of 33 years. The first agreement is a three-year land lease for building construction, while the second agreement covers building administration spanning the next 30 years. DAD is also responsible for property management after the construction is complete. In 2017 and the first nine months of 2018, DAD reported an unconsolidated net profit of Bt346.25 million and Bt188.25 million, respectively. DAD's reported unconsolidated shareholders' equity turned positive since 2017. At the end of September 2018, its unconsolidated shareholders' equity was Bt466.58 million.

**The Issuer:**

DAD SPV is a limited liability company established under the laws of Thailand on 31 March 2005 and granted a special purpose vehicle status by the the Securities and Exchange Commission (SEC) on 18 November 2005. Its major shareholders are DAD (49%), Asset Backed Holdings Co., Ltd. (48%), and individuals (3%). DAD SPV has already paid DAD for the rights to receive the 30-year lease payments from the TD using the proceeds from the bonds and the issuance of the sub promissory notes (P/Ns). DAD SPV's excess future cash flow will be used to redeem the sub P/Ns owed to DAD. In this transaction, SPV is only responsible for paying VAT under the terms of the underlying agreements. The current VAT rate is 7% of revenue. DAD is responsible for paying the withholding tax on lease and service payments received from the TD. DAD must also pay the property taxes. Under the terms of the underlying agreements, any future increases in taxes, fees, and other expenses will be absorbed by the TD.

**The Assets:**

The assets comprise the rights to receive lease and service payments from the TD under the following agreements: (1) the 30-year Building Space Lease Agreement (2008-2038); (2) the 30-year Service Agreement (2008-2038); and (3) the five-year Furniture Procurement Agreement (2008-2013).

**The Property:**

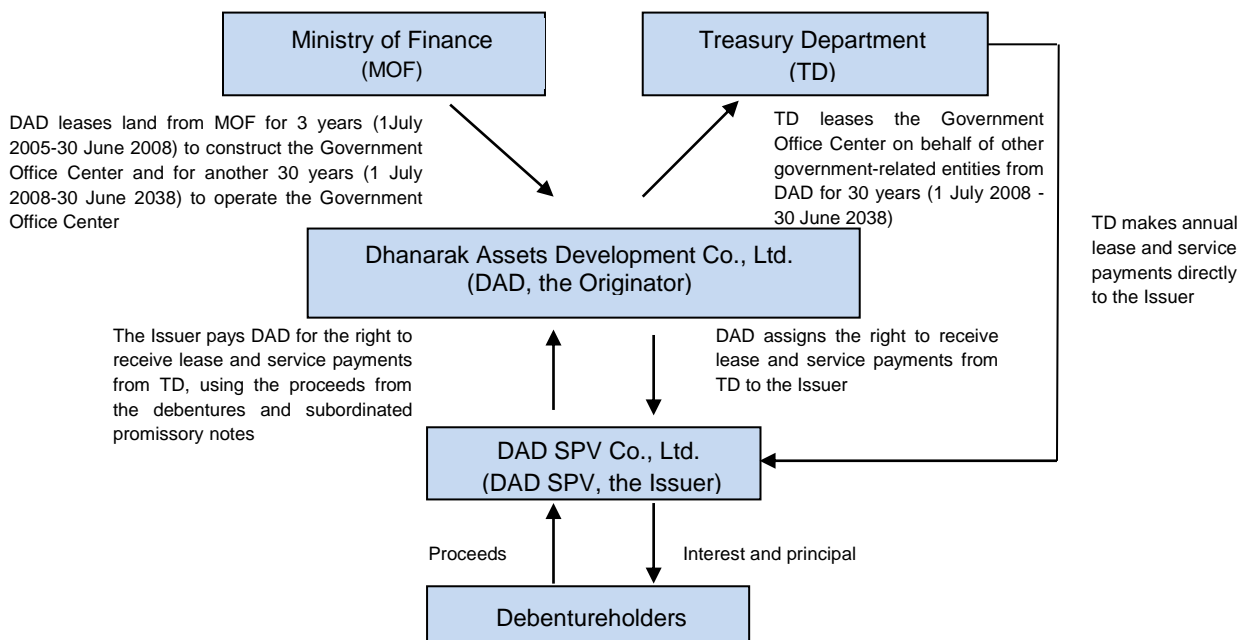
The Government Office Center, located on Chaeng Wattana Road, comprises three main buildings: the Administrative Court, Building A, and Building B. The office rental space totals 484,000 square meters (sq.m.). The construction was complete by the end of 2010, behind the original completion date of June 2008. Currently, 42 government office units have moved in, occupying 100% of the office rental space.

**Table 1: Structure Summary**

MAJOR PARTICIPANTS	
Issuer	DAD SPV Co., Ltd. (DAD SPV)
Seller/originator	Dhanarak Asset Development Co., Ltd. (DAD)
Transaction administrator	Conduit Management Services Co., Ltd.
Debentureholders' representative	Bangkok Bank PLC (BBL)
Registrar and paying agent	Thai Military Bank PLC (TMB)
Financial advisors and underwriters	BBL, The Hongkong and Shanghai Banking Corporation Ltd. (HSBC), and TMB
Swap counterparty	HSBC
COLLATERAL DETAILS	
Assets	The rights to receive lease and service payments from the TD under the following agreements to the Issuer: <ul style="list-style-type: none"> <li>1. the 30-year Building Space Lease Agreement (2008-2038);</li> <li>2. the 30-year Service Agreement (2008-2038); and</li> <li>3. the 5-year Furniture Procurement Agreement. (2008-2013)</li> </ul>
PROPERTY - THE GOVERNMENT OFFICE CENTER	
Project development budget	Bt21,182 million (increasing from Bt19,016 million)
Construction commencement date	September 2004
Completion date	At the end of 2010 (extended from June 2008)
Project developer and property manager	DAD
Total usable area	Office rental space: 484,000 square meter (sq.m.) Commercial area: 27,500 sq.m. Common area: 49,000 sq.m.
Rental rate (inclusive of services)	Bt360 per sq.m. for the first five years, increasing 10% every five years, plus Bt50 per sq.m. (for the first five years only) for the furniture procurement service payments.

Source: DAD

**Chart 1: Transaction Diagram**



Source: TRIS Rating

## PERFORMANCE ANALYSIS

The rating approach taken by TRIS Rating is to assess whether the cash flows from the lease and service payments made by the TD to DAD SPV are sufficient to enable DAD SPV to make timely interest payments and repay the principal by the final legal maturity date. Since DAD SPV has to refinance a portion of the debentures in 2025, the analysis also focuses on the possibility of refinancing the debentures due in 2025.

### Debt Service Coverage Ratio (DSCR):

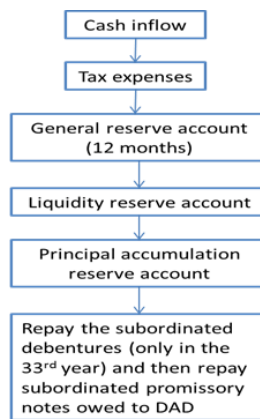
In this transaction, the cash inflows from the TD are specified in the underlying agreements. All expenses to third parties, taxes, and fees are already fixed. The interest income on cash in the reserve accounts is set at 1%. Based on the annual lease payments from the TD, DAD SPV should be able to keep the DSCR during 2007-2025 (except for the refinancing date in 2025) at a minimum of 1 times. At the end of October 2018, the lease payments from the TD covered DAD SPV's obligations over the next 12 months.

However, DAD SPV has to refinance approximately Bt10,700 million in debentures in 2025. The cash inflows from the lease payments during 2025-2037 will total around Bt36,000 million (net of VAT). DAD SPV should be able to cover the debt service payments of Bt10,700 million for the amortized debentures at a refinancing rate as high as approximately 23%. This relatively high refinancing rate is adequate for a "AAA" rated transaction.

### Reserve Accounts:

On 30 October 2018, the TD made a 12-month lease payment to DAD SPV as planned. After receiving the lease and service payments, the transaction administrator put the money in three reserve accounts, as shown in Chart 2. DAD SPV then has enough cash to fulfill its obligations until the end of September 2019. The unused cash in the reserve accounts is invested in eligible investments. At the end of October 2018, the DAD SPV's unused cash was deposited with state-owned banks and commercial banks that have ratings higher than "AA-" for short-term investments (<365 days). The term of DAD SPV's investments ranged between 3-12 months.

**Chart 2: Cash Flow Waterfall (From 1 Jul 2008)**



Source: Dhanarak Assets Development Co., Ltd. (DAD)

### General Reserve Account:

The cash reserve in this account is used to pay taxes, fees, third-party expenses, and interest payments on the senior and subordinated debentures. At the end of October 2018, the cash balance in this account was Bt1,424.90 million, sufficient to cover the estimated expenses during November 2018-September 2019.

### Liquidity Reserve Account:

Starting from July 2008, DAD SPV must maintain a cash reserve in the liquidity reserve account equal to taxes, fees, third-party expenses, and interest payments due in the next three months. At the end of October 2018, the cash in this account totaled Bt353.03 million, sufficient to cover all of DAD SPV's expenses during the three months following September 2018.

### Principal Accumulation Reserve Account:

Any cash remaining after satisfying the general reserve and the liquidity reserve accounts will be deposited into the principal accumulation reserve account every year, in an amount determined by the transaction administrator. To mitigate the negative carry risk of the cash in this account, the Issuer has entered into a swap agreement with the Hongkong and Shanghai Banking Corporation Ltd. (HSBC).

**Table 2: Swap and Bond Payment Schedules**

Unit: Bt million

Period	Required Principal Reserve Amount	Amount Delivered to HSBC*	Amount Received from HSBC	Bond Repayment Schedule
2008	960	960	-	-
2009	497	497	-	-
2010	497	497	-	-
2011	497	497	-	-
2012	572	572	1,500	1,500
2013	526	526	-	-
2014	526	526	-	-
2015	635	354	2,000	2,000
2016	671	952	-	-
2017	670	670	-	-
2018	892	892	-	-
2019	892	892	-	-
2020	1,085	1,085	4,000	4,000
2021	1,000	1,000	-	-
2022	377	377	-	-
2023	-	-	-	-
2024	-	-	-	-
2025	-	-	5,800	16,500
<b>Total</b>	<b>10,297</b>	<b>10,297</b>	<b>13,300</b>	<b>24,000</b>

\* Each year, DAD SPV pays HSBC in November and in March of the following year.

Sources: Transaction agreements

Under the terms of the swap agreement, the Issuer must make the payments periodically in order to receive the specified return on the specified date. At the end of October 2018, the cash reserve in this account was Bt892 million, which is enough to cover the Bt736 million DAD SPV has to pay HSBC in November 2018 and the Bt155 million to be paid in March 2019. The principal accumulation reserve account at the end of October 2018 was Bt3,443 million. HSBC was rated "AA-" by S&P Global Ratings and "Aa3" by Moody's Investors Service (Moody's).

### MONITORING PROCESS

TRIS Rating will monitor the assigned ratings of DAD SPV's debentures regularly, through information from the following reports:

- Property management report (if any),
- Transaction administrator's report, and
- Auditor's report

Surveillance will be maintained on this transaction until the debentures mature or are otherwise retired, to ensure that the ratings of the debentures reflect current risks.

### RELATED CRITERIA

- Guidelines on Securitization Rating Methodology, 31 May 2010

**DAD SPV Co., Ltd. (DAD SPV)****Issue Ratings:**

DAD20NA: Bt1,800 million structured finance securities due 2020	AAA(sf)
DAD20NB: Bt2,200 million structured finance securities due 2020	AAA(sf)
DAD25NA: Bt5,000 million structured finance securities due 2025	AAA(sf)
DAD25NB: Bt6,000 million structured finance securities due 2025	AAA(sf)
DAD25NC: Bt5,499.90 million structured finance securities due 2025	AAA(sf)

The issuer has not informed TRIS Rating whether the issuer is publicly disclosing all relevant information about the structured finance instruments that are subject to this rating report or whether relevant information remains non-public.

**TRIS Rating Co., Ltd.**

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