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WHA CORPORATION PLC

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Company Rating: A-

Outlook: Stable

Rating Rationale

TRIS Rating assigns the company rating of WHA Corporation PLC (WHA) at "A-". The rating reflects WHA's strong competitive position in warehouse business, and one of leaders in the industrial property market in Thailand. The rating is also supported by the sizable base of recurring income the company earns from its properties for rent, the sale of utility services, and investments in power projects. The strengths are partially offset by the volatile nature of the industrial property market. The rating also incorporates the financial flexibility WHA has via selling assets to a real estate investment trust (REIT).

WHA is the leading provider of built-to-suit warehouses in Thailand. The company was founded in 2007 and listed on the Stock Exchange of Thailand (SET) in 2012. As of May 2017, the group of Dr. Somyos Anantaprayoon and Ms.Jareeporn Jarukornsakul was the major shareholder, controlling about 47% of WHA's outstanding shares.

As a springboard to growth, WHA acquired nearly all, 98.5% of the outstanding shares of Hemaraj Land and Development PLC (HEMRAJ), one of leading industrial estate developers in Thailand. The acquisition came about through a share purchase agreement and tender offer made in late 2014 through 2015. Total consideration from this transaction was Bt43,258 million.

With HEMRAJ, WHA can now provide a broader range of services which are more tightly integrated. WHA's lines of business cover warehouses for rent, industrial estate, utility services and power businesses. WHA earns substantial base of recurring income from the sale of utility services and receives dividends from the power projects HEMRAJ made earlier.

WHA becomes the leading developer of industrial estates in Thailand. The market share of WHA, through HEMRAJ, has averaged 35% over the past 10 years. Amata Corporation PLC (AMATA; 28% share) and Rojna Industrial Park PLC (ROJNA; 20%) are the second-and third-largest firms in the industry. As of September 2017, WHA had a total of 9,229 rai of land available for sale in its industrial estates. Of this area, approximately 84% were located in the eastern part of Thailand, namely Rayong and Chonburi provinces.

WHA is also a well-known provider of built-to-suit warehouse for rent with extensive track records and well-recognized tenants. WHA's leased area has grown significantly. Excluding HEMRAJ, total leased area owned and managed by WHA increased from 298,139 square meters (sq.m.) in 2011 to 1,145,204 sq.m. at the end of September 2017, a compound annual growth rate (CAGR) of 26%. After acquiring HEMRAJ, WHA's portfolio of properties for rent has enlarged. At the end of September 2017, total leasable area including preleased area was 2,123,989 sq.m. In terms of leased area, WHA's leased area under management was 1,536,682 sq.m. at the end of September 2017, comprising 1,160,167 sq.m. owned by property funds and REITs, plus 275,989 sq.m. owned by WHA and its joint ventures, and 100,526 sq.m. owned by HEMRAJ.

WHA's business profile strengthened after it acquired HEMRAJ. However, WHA's balance sheet deteriorated. Of the Bt43,258 million paid in the transaction, WHA funded 74% with bank loans and 26% with new equity. Total debt increased significantly to Bt47,627 million at the end of 2015, up from Bt10,503 million as of December 2014. However, WHA took several steps to improve its capital structure and deleverage the balance sheet. WHA repaid debt by using dividend received

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from HEMRAJ, together with sales of non-core assets and several rentable assets, including office space, ready-built factories, and warehouses for rent, to REITs. Some of the proceeds from an initial public offering (IPO) of its utility and power subsidiary, WHA Utility and Power PLC. (WHAUP), went to repay outstanding debts. WHA used 80% of the proceeds from the IPO, worth approximately Bt6,000 million, to repay debts in the first half of 2017. As a result, total debt to capitalization ratio improved to 56.9% as of September 2017, from 70.1% in 2014. A rise in funds from operations (FFO) and a drop in total debt pushed the FFO to total debt ratio to 9.3% (annualized, from the trailing 12 months) in the first nine months of 2017, up from about 6% in 2015 and 8% in 2016.

WHA's revenues more than doubled after absorbing HEMRAJ, rising from Bt4,888 million in 2014 to Bt11,437 million in 2015. Recurring income from the sale of utilities services and rental income also rose, climbing to Bt2,971 in 2015, up from Bt551 million in rental income in 2014. In 2016, revenues from the sale of industrial land dropped by half. However, WHA's revenue increased drastically, surging from Bt11,437 million in 2015 to Bt17,821 million in 2016. The sales of utility services and rental income proved resilient, rising by 23.1% to Bt3,658 million in 2016. In addition, WHA and HEMRAJ sold assets to REITs and booked the sales as revenue worth Bt11,737 million in 2016. For comparison, asset sales were approximately Bt4,300-Bt4,500 million in 2014-2015. As a result, earnings before interest, taxes, depreciation, and amortization (EBITDA) escalated from Bt1,677 million in 2014 to Bt5,201 million in 2015 and Bt7,026 million in 2016. FFO climbed from Bt1,152 million in 2014 to Bt2,865 million in 2015, and Bt3,406 million in 2016.

WHA's financial performance improved during the first nine months of 2017, as HEMRAJ's performance soared. HEMRAJ and its subsidiaries generated nearly 90% of WHA's revenue. Revenue increased by 23.8% year-on-year (y-o-y) to Bt4,784 million in the first nine months of 2017. The improvement was attributed to a significant increase in land transfers as well as the continued growth in recurring income. Revenue from land transfers was Bt2,215 million in the first nine months of 2017, shooting from Bt785 million during the same period of a year earlier. Recurring income from the sale of utility services and rental income, normally comprise 20%-30% of total WHA's revenue annually. Utility services rose by 6.5% over the same period of the prior year to Bt1,549 million in the first nine months of 2017. However, rental income fell to Bt868 million in the first nine months of 2017 from Bt1,271 million in the same period of the prior year. The drop was due to the sizeable asset sales in late 2016 and the current economic slowdown, causing a drop in take-up rate. As a result, EBITDA shot up by 30% over the same period of the prior year to Bt3,751 million during the first nine month of 2017.

On top of stable income from the sale of utility services and rental income, WHA received dividend from investments in the power projects, as well as property funds and REITs. WHA owns equity stakes in several power producers under Independent Power Producer (IPP), Small Power Producers (SPP), and Very Small Power Producers (VSPP) schemes. Dividend received from the power projects, property funds and REITs totaled Bt850 million in 2016, the equivalent of 12% of EBITDA. The dividends will continue to grow as more power projects come on line in 2017-2019. Based on the equity holding in each project, WHA has 447 MW of power generating capacity. The value will rise to 542 MW in 2019. Dividends are forecast to grow to approximately Bt1,500 million per year once all the power projects are fully operational.

Investment spending has been sluggish in the short term. However, the long-term prospects for investment in Thailand remain intact as a result of the nation's strategic location and good infrastructure. The prospects are supported by the development of the Eastern Economic Corridor (EEC), reinforced by greater government's spending for infrastructure, and the investment promotion privileges available to investors under the new Board of Investment of Thailand (BOI) programs.

Under TRIS Rating's base-case scenario, WHA's FFO is projected to hover around Bt3,500-Bt4,200 million per year in 2017-2019. WHA and its subsidiaries have several investment projects in the pipeline, backed by an investment budget of Bt7,000-Bt8,000 million per year. These investments comprise the costs for land acquisition and land development in Thailand and a new industrial estate in Vietnam. Some funds are earmarked for the utility services segment and investments in the power projects. The debt to capitalization ratio of WHA is expected to be held at moderate level, and the FFO to total debt ratio is projected to stay around 10% during the next three years.

Liquidity and refinancing risk are manageable. WHA has scheduled repayments of long-term debts and debentures worth about Bt800 million, due in the fourth quarter of 2017 and repayment of Bt5,000-Bt6,000 million per year in 2018-2020. WHA also has outstanding bills of exchange (B/E) totaling Bt2,500 million. WHA plans to sell rental properties to REITs every year. In the fourth quarter of 2017, WHA and its subsidiary will sell rental properties and book as revenue totaling Bt4,400 million. It also has market access and undrawn credit facilities of about Bt3,800 million plus cash on hand of Bt1,758 million as of September 2017.

Rating Outlook

The "stable" outlook reflects the expectation that WHA can maintain its leading position in the warehouse and industrial property industries. Leverage will be kept under control even as the company pursues its growth strategy. The recurring income WHA earns from the sale of utilities, power projects, and rental properties, together with the sale of assets to REITs will provide a cushion for the company to weather the volatility inherent in the sale of industrial land.

The credit rating of WHA could be under downward pressure if the nation's investment spending stays low, pushing revenues and cash flow from operations down below expectations. Any sizeable, debt-funded investments, which deteriorate balance sheet and limit debt serviceability, would also be a negative factor for the rating. The rating could be revised upward should the company make significant, sustainable increases in cash flow while improving the balance sheet.

WHA Corporation PLC (WHA)

Company Rating:	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		----------------------- Year Ended 31 December ------------------				
	Jan-Sep 2017	2016	2015	2014	2013	2012
Sales	4,784	17,821	11,437	4,888	7,085	2,169
Gross interest expense	1,282	2,452	2,303	361	239	187
Net income from operations	1,559	2,898	1,853	979	1,463	213
Funds from operations (FFO)	564	3,406	2,865	1,152	1,593	338
Total assets	74,147	74,784	79,066	15,952	11,049	8,298
Total debt	36,163	41,995	47,627	10,503	5,201	4,214
Shareholders' equity	27,423	21,962	21,659	4,480	4,153	2,887
Operating income before depreciation and amortization as % of sales	33.70	30.99	31.80	30.98	27.53	21.31
Pretax return on permanent capital (%)	10.79**	9.63	10.53	12.31	23.03	7.17
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.93	2.87	2.26	4.64	8.49	2.71
FFO/total debt (%)	9.29**	8.11	6.02	10.97	30.62	8.02
Total debt/capitalization (%)	56.87	65.66	68.78	70.10	55.60	59.34

* *Consolidated financial statements*
** *Annualized from trailing 12 months*

Note: All ratios include revenues and expenses from selling assets to property fund/REIT
Total debt means interest-bearing debt

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