

# TICON FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 78/2018

4 December 2018

## CORPORATES

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A
<b>Outlook:</b>	Stable

<b>Last Review Date :</b>		
<b>Date</b>	<b>Rating</b>	<b>Outlook/Alert</b>
31/05/18	A	Stable

<b>Company Rating History:</b>		
<b>Date</b>	<b>Rating</b>	<b>Outlook/Alert</b>
23/04/18	A	Stable

### Contacts:

Hattayanee Pitakpatapee  
hattayanee@trisrating.com

Jutatip Chitphromphan  
jutatip@trisrating.com

Sasiporn Vajarodaya  
sasiporn@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on TICON Freehold and Leasehold Real Estate Investment Trust (TREIT) at “A” and the ratings on its existing senior unsecured debentures at “A”. At the same time, TRIS Rating assigns the rating of “A” to TREIT’s proposed issue of up to Bt1,900 million in senior unsecured debentures due within 10 years. The trust plans to use the proceeds from these debentures to fund new investment.

The ratings reflect TREIT’s predictable income stream from rental contracts, largest portfolio of industrial property for rent, geographical diversification, plus diverse tenant base. The strengths are partially offset by occupancy rate (OR) of industrial properties, which is sensitive to economic conditions. The ratings also incorporate rising leverage given its financial policy and investment plans.

In order to enlarge and diversify its portfolio, TREIT continuously invests in industrial properties. In August 2018, TREIT spent a total Bt1,693 million on new asset acquisitions from its sponsor as well as converting assets from leasehold to freehold. The trust also acquired new assets from non-sponsor at the purchase price of Bt90 million. Overall, TREIT’s investment portfolio grew to Bt33,987 million at the end of September 2018 (FYE2018)<sup>1/</sup>, from Bt30,451 million at the end of December 2017.

In FYE2018, TREIT managed 1,568,716 square meters (sq.m.) of industrial estate space, comprising 750,485 sq.m. of factory space and 818,231 sq.m. of warehouse space. The trust has been able to maintain a satisfactory average OR of 79%. The top 10 largest tenants contribute only 20% of total rental and service income.

The growing size of the quality industrial properties results in the boost in its revenue and operating cash flow. FYE2018 rental and service income grew to Bt1,937 million, rising from Bt397 million in the same period last year. However, the profitability of TREIT dropped, yet remained acceptable. The operating margin (operating income before depreciation and amortization as a percentage of revenue) in FYE2018 was 71%, decreasing from 81% during the first nine months of FYE2017. The main reason for the drop was due to the change in property tax collection policy. Previously, tenants were responsible their own property tax payment. However, from 2018 onwards, TREIT will be the representative to manage this transaction. As such, its revenue base will enlarge and affect on lower operating margin. If excluding this item, the operating margin in FYE2018 was around 77%.

After the new asset acquisition and conversion from leasehold to freehold with 82% debt financing, the ratio of interest-bearing debt to total assets (loan-to-value ratio: LTV) rose to 20% in September 2018, from 17% in December 2017. Similarly, the total debt to capitalization ratio was 19%, climbing from 15%.

Following its expansion plan, TREIT will spend Bt1,900 million on new asset acquisitions from its sponsor with 100% debt financing by the end of December 2018. Consequently, the LTV is projected to climb to around 26%.

Out of the Bt6,933 million in debt, TREIT has scheduled bullet debt repayments of Bt1,393 million by August 2019 and Bt800 million in 2020, respectively. The

*CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.*

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scheduled debt repayment of Bt1,393 million is a bridge loan to fund its latest investment. In our view, its liquidity is manageable given its market access capability and abundant unencumbered assets.

#### **RATING OUTLOOK**

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The “stable” outlook reflects the expectation that TREIT’s property portfolio will generate reliable cash flows, and can maintain the level of OR above 80% together with keeping its leverage as per TREIT’s financial policy.

Under TRIS Rating’s base case scenario, we assume that TREIT’s assets will increase by Bt3,690 million as planned and will increase by an average of Bt3,000 million per year in 2019-2020. Rental and service income is projected to grow from Bt2,500 million in 2018 to Bt3,000 million in 2020. The OR will be maintained at approximately 80%. Operating margin will stay around 70%. The ratio of interest-bearing debt to total assets is forecast to stay below 30%.

#### **RATING SENSITIVITIES**

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The ratings of TREIT could be under a downward pressure if the OR declines significantly below expectation or larger than expected debt-funded expansion for a prolonged period. In contrast, the ratings could be revised upward if TREIT increases its cash flow generation or strengthens its balance sheet noticeably, which will lead to higher cash flow protection over an extended period.

#### **RELATED CRITERIA**

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- Key Financial Ratios and Adjustments, 5 September 2018
- Real Estate Investment Trust, 12 October 2016

<sup>1/</sup>Note that TREIT has changed its financial year end from 31 December to 30 September. Consequently, the financial statements for the accounting period from 1 January 2018 to 30 September 2018 comprise only 9 months, whereas the comparative information for the year ended 31 December 2017 is information of 12 months.

**TICON Freehold and Leasehold Real Estate Investment Trust (TREIT)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
TREIT204A: Bt800 million senior unsecured debentures due 2020	A
TREIT216A: Bt1,800 million senior unsecured debentures due 2021	A
TREIT226A: Bt300 million senior unsecured debentures due 2022	A
TREIT244A: Bt1,000 million senior unsecured debentures due 2024	A
TREIT256A: Bt380 million senior unsecured debentures due 2025	A
TREIT286A: Bt1,260 million senior unsecured debentures due 2028	A
Up to Bt1,900 million senior unsecured debentures due within 10 years	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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