

WHA CORPORATION PLC

No. 40/2019
13 June 2019

CORPORATES

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

Last Review Date: 26/09/18

Company Rating History:

Date	Rating	Outlook/Alert
14/11/17	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on WHA Corporation PLC (WHA) and the ratings on its outstanding senior unsecured debentures at "A-". At the same time, TRIS Rating assigns the rating to WHA's proposed issue of up to Bt2,000 million in senior unsecured debentures at "A-". The proceeds from the new debentures will be used to refinance outstanding debt, for planned capital expenditures, or for working capital.

The ratings reflect WHA's strong competitive position in the built-to-suit warehouse and the industrial estate segments of the property development industry in Thailand. WHA has a sizable base of recurring income from a number of sources, i.e. rental properties, utilities services, and its investments in power projects. The ratings also incorporate the financial flexibility WHA has because it can sell assets to real estate investment trusts (REITs). However, the company's business profile is weighed down by the volatile nature of the industrial property development segment.

WHA's profit margin and cash flow weakened in the first quarter of 2019. The operating profit margin dropped to 19.1%, compared with yearly values of 30%-40% in 2015-2018. Funds from operations (FFO) slipped by 40.2% year-on-year (y-o-y) to Bt400 million. The drops were mainly due to a low margin from asset sales to WHA Business Complex Freehold and Leasehold Real Estate Investment Trust (WHABT). WHA sold office space to WHABT in 2015. The revenue from the transaction was recorded as deferred revenue with low profit margin, and the revenue was recognized gradually over the past four years. However, a sizable portion of the deferred revenue was recognized in the first quarter of 2019. Excluding this transaction, operating profit margin would stay around 36%. In addition, WHA did not sell any assets to Hemaraj Leasehold Real Estate Investment Trust (HREIT) in the first quarter of 2019. In contrast, WHA sold assets worth Bt1,259 million to HREIT during the first quarter of 2018. The asset sale in the first quarter of 2018 carried a gross profit margin higher than 40%.

Nonetheless, TRIS Rating holds the view that operating performance will improve gradually as a result of the high backlog of land sales. Additionally, the long-term prospects for industrial estates in Thailand remain intact, the result of the nation's strategic location and good infrastructure. The development of the Eastern Economic Corridor (EEC) is also a positive factor to propel sales of land.

We believe leverage will continue to rise. At the end of March 2019, the total debt to capitalization ratio was 52.3%, up slightly from 51.5% at the end of 2018. We also believe WHA has enough flexibility to keep leverage under control. The company has option of selling assets to REITs in order to raise funds. Additionally, WHA have enough financial flexibility and ability to access external sources of funds, including bank loans and the capital markets.

RATING OUTLOOK

The “stable” outlook reflects the expectation that WHA can maintain its leading position in the warehouse segment and in the industrial property industry, and that leverage will be kept under control as the company continues its expansion.

In our base case scenario, earnings before interest, taxes, depreciation, and amortization (EBITDA) is forecast to vary from Bt4.5-Bt5.5 billion per year during 2019-2021. FFO will hover around Bt3 billion during the same period. Based on the assumptions, the FFO to total debt ratio is projected at 7%-9% during the next three years. The EBITDA interest coverage ratio should stay at about 3 times during the same period.

RATING SENSITIVITIES

The ratings of WHA could be under downward pressure if investment made by the private sector remains low, pushing revenues and cash flow from operations to fall significantly below expectations. Any sizeable, debt-funded investments, which deteriorate the balance sheet and reduce the ability to meet the existing debt obligations, would also be a negative factor for the ratings.

In contrast, the ratings could be revised upward should the company make significant, sustainable increases in cash flow, and strengthen the balance sheet.

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

WHA Corporation PLC (WHA)

Company Rating:	A-
Issue Ratings:	
WHA197A: Bt385 million senior unsecured debentures due 2019	A-
WHA197B: Bt280 million senior unsecured debentures due 2019	A-
WHA197C: Bt300 million senior unsecured debentures due 2019	A-
WHA204A: Bt1,500 million senior unsecured debentures due 2020	A-
WHA204B: Bt1,000 million senior unsecured debentures due 2020	A-
WHA204C: Bt2,600 million senior unsecured debentures due 2020	A-
WHA208A: Bt100 million senior unsecured debentures due 2020	A-
WHA200A: Bt337.8 million senior unsecured debentures due 2020	A-
WHA214A: Bt1,900 million senior unsecured debentures due 2021	A-
WHA217A: Bt600 million senior unsecured debentures due 2021	A-
WHA219A: Bt1,500 million senior unsecured debentures due 2021	A-
WHA224A: Bt454.2 million senior unsecured debentures due 2022	A-
WHA224B: Bt2,100 million senior unsecured debentures due 2022	A-
WHA234A: Bt1,100 million senior unsecured debentures due 2023	A-
WHA230A: Bt328 million senior unsecured debentures due 2023	A-
WHA244A: Bt1,000 million senior unsecured debentures due 2024	A-
WHA247A: Bt280 million senior unsecured debentures due 2024	A-
WHA250A: Bt2,380 million senior unsecured debentures due 2025	A-
WHA264A: Bt400 million senior unsecured debentures due 2026	A-
Up to Bt2,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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