

TICON INDUSTRIAL CONNECTION PLC

No. 15/2018

16 February 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
25/05/17	A	Stable
27/04/16	A-	Stable
07/05/15	A	Negative
02/05/12	A	Stable
14/10/11	A	Alert Negative
04/08/10	A	Stable
21/04/06	A	Stable
21/11/05	A	Stable

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RATIONALE

TRIS Rating affirms the company rating of TICON Industrial Connection PLC (TICON) and the ratings of TICON's outstanding senior unsecured debentures at "A". At the same time, TRIS Rating assigns a rating of "A" to TICON's proposed issue of up to Bt6,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay existing debentures and used for working capital needs.

The ratings reflect TICON's strengthened balance sheet following a sizeable capital increase through a private placement. The ratings continue to reflect TICON's proven record in developing ready-built factories (RBFs) and warehouses for rent, plus the recurring cash flows it receives from rental contracts and its geographically diverse assets. The ratings also take into consideration the slow recovery in investment, which may reduce demand for industrial properties.

In September 2017, TICON announced to converse the company's property funds into TICON Freehold and Leasehold Real Estate Investment Trust (TREIT). TICON's property funds comprised TICON Property Fund (TFUND), TPARK Logistics Property Funds (TLOGIS), and TICON Industrial Growth Leasehold Property Fund (TGROWTH). After the conversion of the property funds, TREIT will become more strengthened in terms of asset size and asset diversification. TREIT's total market value was Bt29,407 million as of 14 February 2018.

During the first nine months of 2017, TICON added 69,985 square meters (sq.m.) of leased area (before subtracting the space sold to TREIT), 74% of the total was from the warehouse segment. The leased area in TICON's warehouse segment rose by 51,560 sq.m., compared with an average yearly increase of 164,000 sq.m. during 2015-2016. The drop was mainly due to a change in making-up of TICON's customers. More customers now rent built-to-suit warehouses as opposed to ready-built warehouses. Construction of built-to-suit warehouses takes more time to complete and it takes more time to get contracts signed by customers. As a result, only when construction is complete will TICON include the leased area in built-to-suit warehouses. However, a built-to-suit warehouse produces a longer, more stable stream of rental incomes because a lease term is typically ten years or more. In addition, customers in built-to-suit warehouse usually lease more space. For example, the average amount of spaced leased by customers in built-to-suit warehouses exceeds 8,000 sq.m. The area under lease for customers in ready-built warehouses varies widely. The leased area could range from 1,000-10,000 sq.m. depending on the customer. TICON's RBF leased area increased by 18,425 sq.m. in the first nine months of 2017, compared with the increase of around 21,000 sq.m. in 2015-2016. The automotive and electronics industries had been two of the major drivers of demand for the RBFs. At the end of September 2017, TICON's occupancy rate (OR), excluding pre-leased areas, remained quite flat at 57%, compared with 56%-61% in 2015-2016.

TICON's rental income increased 24% year-on-year (y-o-y) to Bt1,043 million during the first nine months of 2017 from Bt838 million over the prior year of 2016 following the increase in net leased area. TICON's funds from operations (FFO) increased to Bt676 million during the first nine months of 2017, from approximately Bt150 million over the same period of the prior year.

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.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

TICON's capital structure strengthened significantly after a capital injection from Fraser Property Holding Thailand Co., Ltd. (FPHT) of Bt13,230 million. The total debt to capitalization ratio improved from 65.5% in 2015 and 66.3% in 2016 to 35.2% at the end of September 2017 because 45% of the proceeds from capital increase were used to repay debt. As of September 2017, TICON had available cash on hand and marketable securities totaling Bt3,015 million to partially support the company's planned capital expenditures in 2017. TICON sets a limited capital expenditures only for the construction of rental properties totaling Bt1,400 million per year in 2017-2019. Under TRIS Rating's base case scenario, TICON's FFO will gradually rise around Bt700-Bt1,200 million per annum during 2017-2019, compared with the FFO without properties sales of approximately Bt600 million per annum in 2014-2015 and Bt321 million in 2016. The total debt to capitalization ratio is projected to be below 40%. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio will increase to 2-3 times and the FFO to total debt ratio will gradually improve to 10%-15% in 2017-2019.

RATING OUTLOOK

The "stable" outlook reflects the expectation that TICON will be able to maintain its leading position in the rental factory and warehouse markets. The company is expected to gradually increase its OR as planned. Under TRIS Rating's base-case scenario, TICON's FFO is projected to be around Bt1,000-Bt1,500 million per year in 2018-2020. The debt to capitalization ratio is forecast to stay below 40%, and the FFO to total debt ratio is projected to stay around 6%-15% during the next three years, partially supported by the revenue from selling assets to TREIT.

RATING SENSITIVITIES

The rating upside is unlikely in the short term. The rating upside would emerge in the long term if the company could increase OR and enlarge rental income base considerably on a sustainable basis while maintaining healthy capital structure. A downside risk could occur if its operating performance was weaker than expectation for an extended period. Any aggressive investments, which will drive the total debt to capitalization ratio significantly higher than expectation and weaken cash flow protection, are also the negative factors for the ratings.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Rental Income	1,043	1,172	1,049	966	1,110
Factory sales to tenants	149	-	309	101	-
Properties sales to funds	-	-	3,037	4,460	4,663
Gross interest expenses	458	833	823	752	600
Net income from operation	245	(124)	563	932	1,525
Funds from operations (FFO)	676	321	1,493	1,866	2,911
Capital expenditures	1,040	1,879	7,012	7,935	9,398
Total debt	13,400	22,351	22,135	17,414	16,254
Shareholders' equity	24,704	11,418	11,689	11,466	8,688
Operating income before depreciation and amortization as % of sales	55.9	102.3	44.7	32.5	39.3
Pretax return on permanent capital (%)	2.9 **	2.8	4.7	6.5	10.9
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.4	1.4	2.1	2.7	4.5
FFO/total debt (%)	6.4 **	3.3	7.6	10.0	18.2
Total debt/capitalization (%)	35.2	66.3	65.5	59.7	66.7

* Consolidated financial statements

** Annualized from trailing 12 months

Note: All ratios have been adjusted by operating leases

TICON Industrial Connection PLC (TICON)

Company Rating:	A
Issue Ratings:	
TICON185A: Bt1,200 million senior unsecured debentures due 2018	A
TICON187A: Bt350 million senior unsecured debentures due 2018	A
TICON188A: Bt700 million senior unsecured debentures due 2018	A
TICON189A: Bt300 million senior unsecured debentures due 2018	A
TICON191A: Bt600 million senior unsecured debentures due 2019	A
TICON195A: Bt1,000 million senior unsecured debentures due 2019	A
TICON190A: Bt620 million senior unsecured debentures due 2019	A
TICON205A: Bt500 million senior unsecured debentures due 2020	A
TICON205B: Bt100 million senior unsecured debentures due 2020	A
TICON208A: Bt600 million senior unsecured debentures due 2020	A
TICON217A: Bt800 million senior unsecured debentures due 2021	A
TICON225A: Bt1,000 million senior unsecured debentures due 2022	A
TICON229A: Bt1,000 million senior unsecured debentures due 2022	A
TICON235A: Bt2,300 million senior unsecured debentures due 2023	A
TICON238A: Bt700 million senior unsecured debentures due 2023	A
Up to Bt6,000 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

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