

# AMATA CORPORATION PLC

No. 99/2020  
1 July 2020

## CORPORATES

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

Last Review Date: 04/07/19

### Company Rating History:

Date	Rating	Outlook/Alert
27/06/17	A	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on Amata Corporation PLC (AMATA) and the issue ratings on its senior unsecured debentures to “A-” from “A”, with a “stable” outlook. The downgrades reflect the expectation that AMATA’s financial leverage will increase significantly, resulting from sizable capital expenditures in the pipeline, coupled with stagnating demand for industrial estate industry. Demand has fallen due to the global recession caused by the coronavirus (COVID-19) pandemic. The ratings are also constrained by several uncertainties, including the country and regulatory risks associated with AMATA’s operations abroad.

Nevertheless, the ratings continue to reflect the company’s proven record as one of the leading industrial estate developers in Thailand. The company’s strengths are also underpinned by its sizable base of recurring revenues from the sale of utility services and dividend income from its investments in several power plants.

## KEY RATING CONSIDERATIONS

### Leverage likely to increase considerably

Ongoing expansion has pushed AMATA’s leverage up over the past few years. Adjusted net debt surged to Bt13.7 billion at the end of March 2020, from Bt7.0 billion in 2017. The debt to capitalization ratio rose to around 44.1% at the end of March 2020, from 31.7% in 2017.

TRIS Rating holds the view that AMATA’s leverage will increase significantly over the next few years. The company has a number of sizable investments planned. AMATA needs to acquire and develop new sites in Thailand. At the same time, the company plans to develop several industrial estates abroad, in Vietnam, Myanmar, and the Lao People’s Democratic Republic (Lao PDR). We forecast AMATA’s capital expenditure to be around Bt6-Bt7 billion per annum during the next three years.

These investments, combined with the weakening demand for industrial property and the delayed progress of several projects abroad, are likely to push up the company’s leverage. TRIS Rating estimates the company’s adjusted debt to EBITDA ratio could surge to 8-9 times in 2020-22, from 4.2 times in 2019, while total debt to capitalization could jump to 47%-55% in 2020-22, from 40.5% in 2019.

### Land sales plummet amid concerns over COVID-19

The industrial property market has been moderately impacted by COVID-19. The volume of industrial land sales has declined, following travel restrictions and the economic fallout from the pandemic.

We revise down AMATA’s growth prospects from our previous projections to reflect the economic uncertainty caused by the pandemic. Industrial land sales are projected to shrink in 2020, and gradually ramp up from 2021 onwards in tandem with expected improvements in economic conditions, implementation of the government’s stimulus package as well as the introduction of several privileges under the Eastern Economic Corridor (EEC) program. We project AMATA’s land sales to drop from Bt3.2 billion in 2019 to Bt1.8 billion in 2020 before bouncing back to the level of Bt2.4-Bt3.7 billion in 2021-2022.

Going forward, TRIS Rating holds the view that AMATA will continue to benefit from the EEC on the back of its plentiful land banks of about 13,000 rai in Rayong and Chonburi provinces, as well as the relocation of production bases resulting from supply chain disruptions during the COVID-19 pandemic and the United States-China trade tensions.

#### **Absence of contributions from Vietnam**

During 2016-2018, land sales in Vietnam have ranged from 40 to 220 rai per year. Revenue from Vietnam ranged from Bt356 million to Bt642 million, accounting for 16%-33% of AMATA's revenue from land sales. However, revenue from land sales in Vietnam shrank to Bt62 million in 2019, equivalent to just 13 rai of land. The steep decline was due to an absence of land available for sale.

Land sales in Vietnam will continue to drop in 2020-2021. The company faces several uncertainties, caused by delays in the license approval process. The new industrial estates, AMATA City Long Thanh (ACLT) and AMATA City Halong (ACHL), are in the process of applying for construction licenses. We view that the development of new projects will be delayed further and revenue should commence in late-2021.

#### **Leading industrial estate developer in Thailand with extensive experience in Vietnam**

AMATA has been one of the top industrial estate developers in Thailand over the past 30 years. The company ranks second in the industry in terms of the quantity of industrial land sold. AMATA's market share has averaged 29% over the past 10 years, based on the total amount of industrial land sold. The market leader is WHA Corporation PLC (WHA; 41%), while the third-largest developer is Rojana Industrial Park PLC (ROJNA; 18%).

AMATA established its presence in Vietnam in 1994. AMATA's first industrial estate in Vietnam, AMATA City Bien Hoa Industrial Estate (ACBH), is located in the southern part of the country. AMATA is planning to develop two new aforementioned industrial estates in Long Thanh and Halong cities.

#### **Recurring revenue provides some cushioning against slowdown**

AMATA's strong business profile is underpinned by steady growth from the revenue it earns from utility services. Utility services are a stable revenue source that can partially offset fluctuations in land sales. Utility services include supplying raw water, processed water, and wastewater treatment. Revenue from utility services escalated to Bt1.9 billion in 2019 (33% of total revenue) from Bt1.3 billion in 2013 (17% of total revenue). The driving forces behind the rise were increases in the number of customers and demand from new power plants located in AMATA's industrial estates.

Owing to COVID-19 and the economic recession, some manufacturers have decided to halt or scale down their operations, resulting in a drop in utility services revenue in the first quarter of 2020. Nevertheless, we maintain the view that the prospects for utility services remain strong. Recurring revenue is expected to decline slightly in 2020 and bounce back in 2021.

#### **Dividends from power business ensure predictable cash flow**

AMATA receives predictable dividend payments from a number of power project investments with B. Grimm Power Ltd. The company has a total installed power generation capacity of 260 megawatts (MW), proportionate to its ownership percentages in the power projects. AMATA, through a joint venture (JV), also holds a 4.0% equity stake in AMATA B. Grimm Power Plant Infrastructure Fund (ABPIF), which owns two power plants in Chonburi province. Over the next three years, investments in the power business are expected to yield dividends totaling Bt0.4-Bt0.6 billion per year.

#### **Manageable liquidity**

We assess AMATA's liquidity to be manageable over the next 12 months. As of March 2020, AMATA's sources of funds consisted of Bt2.3 billion in cash on hand plus short-term investments. We project funds from operations (FFO) will be around Bt1.4 billion in the next 12 months. The company has undrawn credit facilities of around Bt2.0 billion. Debts due over the next 12 months will amount to Bt2.3 billion, comprising Bt1.0 billion in maturing debentures and Bt1.3 billion in maturing long-term loans. TRIS Rating believes the company's ability to access external funding sources, including bank financing and the domestic debt capital market, remains unchanged.

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## BASE CASE ASSUMPTIONS

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- AMATA's total operating revenue to decline by 25% to Bt4.6 billion in 2020 and ramp up to Bt5.3-Bt6.7 billion in 2021-2022.
- Gross profit margin is forecast at 46%-49%, while the EBITDA margin to stay around 43%-45%.
- Total capital spending to range Bt6-Bt7 billion per annum during 2020-2022.

## RATING OUTLOOK

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The "stable" outlook reflects TRIS Rating's expectation that AMATA will be able to maintain its leading position in the industrial property industry. Recurring income from the utility service business, dividend from the power plants, and income from rental properties will partly provide a cushion for the company to weather the economic slowdown.

## RATING SENSITIVITIES

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AMATA's could be upgraded if the company is able to lower its leverage, with the net debt to EBITDA ratio staying below 4 times on a sustained basis, and increase the revenue contribution from Vietnam and/or overseas projects. On the contrary, AMATA's ratings could be downgraded if the company undertakes debt-funded investments, which cause the adjusted net debt to EBITDA ratio to remain above 9 times.

## COMPANY OVERVIEW

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AMATA was founded in 1989 by Mr. Vikrom Kromadit (Chief Executive Officer) and listed on the Stock Exchange of Thailand in 1997. Since the company's inception, the Kromadit family has been the main shareholder and is actively involved in the management of AMATA. The Kromadit family held approximately 24.8% of the outstanding shares of the company as of April 2020.

AMATA owns industrial estates in Chonburi and Rayong provinces. AMATA has also entered into a joint venture (JV) with a Chinese partner to develop a Thai-Chinese industrial estate in Rayong province, to serve demand from Chinese investors. AMATA has approximately 1,000 customers in its three industrial estates. Across all the estates, about one third of customers are in the automotive industry. As of March 2020, AMATA had 2,243 rai of land available for sale in Thailand. The company also had 9,328 rai of raw land, mostly in Chonburi, awaiting development.

AMATA expanded to Vietnam in 1994 by joining hands with Sonadezi Corporation, a state-owned enterprise and developer of industrial estates and residential properties in Vietnam. Its first industrial estate, ACBH, is located in Bien Hoa City, Dong Nai province. ACBH is 30 kilometers (km.) away from Ho Chi Minh City, and less than 50 km. from an airport and a seaport. AMATA has been granted a 50-year lease on 700 hectares (or 4,375 rais) by the Dong Nai Industrial Zone Authority.

All of the developed land in ACBH has been sold. The company is waiting for an investment certificate before it can develop a new phase with 19 hectares (119 rai) of saleable area. AMATA also plans to develop two new industrial estates in Vietnam: ACLT in the southern part of the country, and ACHL in the north. The company is in the process of applying for construction licenses for the two estates. AMATA also plans industrial estate developments in Myanmar and the Lao PDR. The company is in the process of applying for licenses for these two projects.

In addition to selling land, AMATA provides infrastructure, facilities, and maintenance services to customers in the industrial estates. These services include supplying raw water, potable and clarified water, wastewater treatment, and maintenance. AMATA, through a JV, also sells or leases ready-built factories to small- and medium-sized enterprise (SME) factories.

AMATA owns equity stakes in several power plants, with the stakes ranging from 15.0% to 27.0%. AMATA also holds a 7.0% equity stake in a power company in Vietnam.

**KEY OPERATING PERFORMANCE**
**Table 1: AMATA's Revenue Breakdown**
*Unit: %*

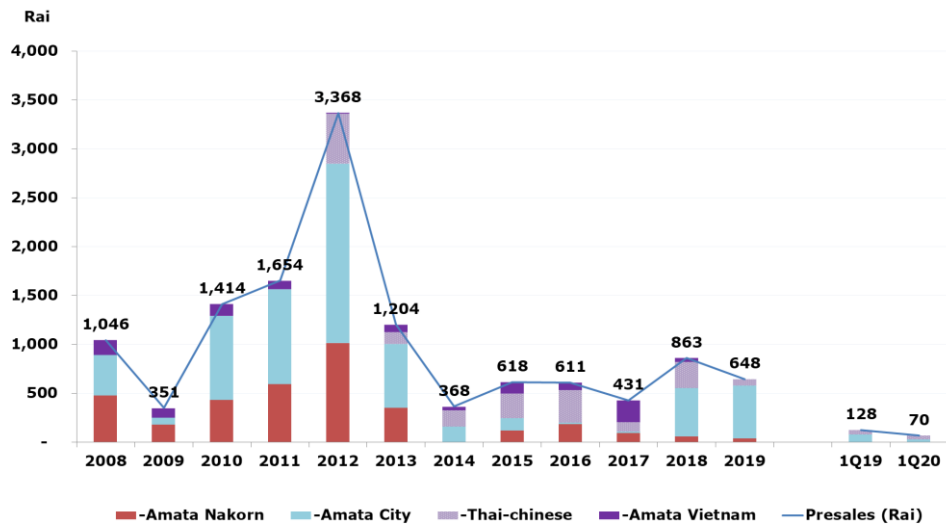
Revenue	2015	2016	2017	2018	2019	Jan-Mar 2020
<b>Sales</b>						
- Industrial land	59	49	46	42	54	37
<b>Total sales</b>	<b>59</b>	<b>49</b>	<b>46</b>	<b>42</b>	<b>54</b>	<b>37</b>
<b>Recurring income</b>						
- Utilities & services	28	38	40	42	33	45
- Rental	13	13	14	16	13	18
<b>Total recurring income</b>	<b>41</b>	<b>51</b>	<b>54</b>	<b>58</b>	<b>46</b>	<b>63</b>
<b>Total revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Total revenue (Bt million)	5,170	4,484	4,491	4,354	5,914	1,099

*Source: AMATA*
**Table 2: AMATA's EBITDA Breakdown**
*Unit: %*

EBITDA	2015	2016	2017	2018	2019	Jan-Mar 2020
<b>Sales</b>						
- Industrial land	60	55	53	38	53	29
<b>Total sales</b>	<b>60</b>	<b>55</b>	<b>54</b>	<b>38</b>	<b>53</b>	<b>29</b>
<b>Recurring income</b>						
- Utilities & services	11	19	19	22	18	19
- Rental	19	15	13	17	16	18
- Dividend from power business	10	10	14	23	13	34
<b>Total recurring income</b>	<b>40</b>	<b>45</b>	<b>46</b>	<b>62</b>	<b>47</b>	<b>71</b>
<b>Total EBITDA</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

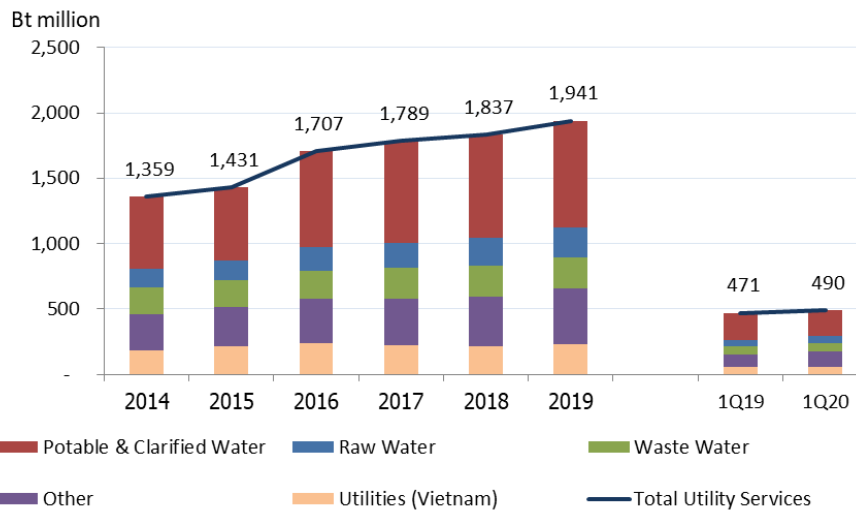
*Source: AMATA*

**Chart 1: AMATA's Industrial Land Sales**



Source: AMATA

**Chart 2: AMATA's Utility Service Income**



Source: AMATA

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Bt million

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	1,121	6,056	4,453	4,585	4,604
Earnings before interest and taxes (EBIT)	454	2,832	2,065	2,247	1,928
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	709	2,774	2,112	2,180	2,161
Funds from operations (FFO)	580	2,129	1,595	1,669	1,591
Adjusted interest expense	109	330	246	228	266
Capital expenditures	163	1,131	1,402	770	639
Total assets	39,165	36,397	33,021	29,280	26,595
Adjusted debt	13,691	11,540	9,826	6,955	4,780
Adjusted equity	17,332	16,976	15,569	14,971	14,240
<b>Adjusted Ratios</b>					
EBITDA margin (%)	63.21	45.80	47.42	47.54	46.94
Pretax return on permanent capital (%)	9.45	9.81	8.04	9.95	9.34
EBITDA interest coverage (times)	6.50	8.41	8.59	9.56	8.11
Debt to EBITDA (times)	4.59	4.16	4.65	3.19	2.21
FFO to debt (%)	17.03	18.45	16.23	23.99	33.27
Debt to capitalization (%)	44.13	40.47	38.69	31.72	25.13

**RELATED CRITERIA**

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**AMATA Corporation PLC (AMATA)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
AMATA200A: Bt1,000 million senior unsecured debentures due 2020	A-
AMATA220A: Bt2,000 million senior unsecured debentures due 2022	A-
AMATA240A: Bt2,000 million senior unsecured debentures due 2024	A-
AMATA258A: Bt250 million senior unsecured debentures due 2025	A-
AMATA288A: Bt750 million senior unsecured debentures due 2028	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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