

HEMRAJ LAND AND DEVELOPMENT PLC

No. 152/2017

14 November 2017

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

Company Rating History:

Date	Rating	Outlook/Alert
18/09/15	BBB+	Stable
19/11/14	A	Developing
15/11/13	A-	Positive
06/08/10	A-	Stable
11/06/09	A-	Negative
25/01/08	A-	Stable
14/09/05	BBB+	Stable

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Rating Rationale

TRIS Rating upgrades the company rating of Hemaraj Land and Development PLC (HEMRAJ) and the ratings of HEMRAJ's senior unsecured debentures to "A-" from "BBB+". The upgrade reflects the improved credit profile of WHA Corporation PLC (WHA), which subsequently leads to a higher credit rating on HEMRAJ, a core subsidiary of WHA. The upgraded ratings continue to reflect HEMRAJ's proven record of developing industrial estates and substantial base of recurring income. HEMRAJ earns substantial recurring income from the sale of utility services and the dividends from investments made in power projects. The ratings incorporate the volatile nature of the industrial property market and the slow recovery of demand for industrial land under the timid investment climate in the short term.

HEMRAJ is one of the leading industrial estate developers in Thailand. It was established in 1988 and listed on the Stock Exchange of Thailand (SET) in 1992. WHA acquired HEMRAJ by making voluntary tender offer in March 2015. HEMRAJ was delisted from the SET in March 2016. WHA engaged in providing built-to-suit warehouses, ready-built warehouses, and offices for rent. WHA also invested in several solar rooftop projects. As of September 2017, the leased area managed by WHA and HEMRAJ totaled 1,536,682 square meters (sq.m.). The majority of 1,160,167 sq.m. is owned by property funds and real estate investment trusts (REIT), while 275,989 sq.m. are owned by WHA and its joint venture partners, and 100,526 sq.m. are owned by HEMRAJ.

HEMRAJ is WHA's core subsidiary as it is responsible for two key businesses: industrial estates and utility services. WHA Utility and Power PLC. (WHAUP), a HEMRAJ's subsidiary, provides utility services to clients in the industrial estates. During 2015-2016, HEMRAJ contributed around 65% of WHA's total revenues and about 70%-75% of earnings before interest and taxes (EBIT). HEMRAJ's business direction and financial policies are completely under the control of WHA's management.

The ratings are supported by HEMRAJ's position as one of the leading industrial estate developers in Thailand. HEMRAJ owns and operates nine industrial estates in Thailand. The estates are located in Rayong, Chonburi, and Saraburi provinces with a total salable area of 30,877 rai. Based on the total amount of industrial land sold in Thailand, HEMRAJ is the market leader. Its market share has averaged 35% over the past 10 years, followed by Amata Corporation PLC (AMATA; 28% share) and Rojna Industrial Park PLC (ROJNA; 20%). HEMRAJ has been the top seller of industrial land sale since 2013.

HEMRAJ had 9,229 rai of land available for sale, as of September 2017. Of the total available area, approximately 84% were located in the eastern part of Thailand, in Rayong and Chonburi provinces. Of the 711 customers in HEMRAJ's estates as of September 2017, 33% were in the automotive industry, 13% were in the consumer products industry, and 9% were in the petrochemical industry.

HEMRAJ has recently expanded into Vietnam. Its first industrial estate in Vietnam, WHA Hemaraj Industrial Zone, is located in the northern part of Vietnam in Nam Cam City, Nghe An province. HEMRAJ, through its subsidiary, has been granted an Investment Registration Certificate from the Vietnamese government on 498 hectares (or 3,100 rai) of land for 50 years. The initial development will cover approximately 1,000 rai. Presently, the company is awaiting the handover of

land from the Vietnamese government. The company targets the land development process will start in late 2017. The total investment cost for 3,100 rai is budgeted at about Bt2,500-Bt3,000 million.

HEMRAJ earns a steady stream of income from selling utility services and from rental income. These two sources comprise 30%-40% of the company's total revenue annually. Despite sluggish investment spending by private sector clients, the sales of utilities and services are resilient. HEMRAJ's sales grew in the first nine months of 2017. Sales of utility services rose to Bt1,549 million in the first nine months of 2017, an 6.5% rise over the same period of the prior year. However, rental income declined noticeably in the first nine months of 2017. Rental income fell because HEMRAJ sold a significant amount of assets to Hemaraj Leasehold Real Estate Investment Trust (HREIT) in late 2016. Private investment budgets remain small so there was virtually no growth in the area under lease. As a result, rental income fell to Bt316 million in the first nine months of 2017 from Bt619 million in the same period of the prior year.

On top of the stable income stream from the sale of utilities, HEMRAJ receives ample dividends from power projects and property funds plus HREIT. HEMRAJ owns stakes in several power producers under Independent Power Producer (IPP), Small Power Producers (SPP), and Small Power Producers (VSPP) schemes. During the past three years, the dividends received from the power projects and from the property funds totaled Bt850-Bt1,200 million per year, equivalent to 10%-26% of EBITDA during 2014-2016. The dividends will continue to grow as more power projects gradually starts commercial operations in 2017-2019. At present, based on its ownership stakes, HEMRAJ has the equivalent of 447 megawatt (MW) of power generating capacity. Capacity will rise to 542 MW in 2019. Dividends will grow to approximately Bt1,500 million per year once all the power projects are up and running as planned.

The demand for industrial land is volatile as it depends on economic conditions and the investment climate. The lingering economic slowdown during the past few years has curbed investment spending and cut into the sales of industrial land nationwide. According to a report from CB Richard Ellis (CBRE), industrial land sales in Thailand have remained stagnant. Sales slipped to just 1,442 rai in 2016 and 759 rai in the first half of 2017, compared with around 4,000 rai per year in the past. Mirroring the industry trend, HEMRAJ's land sales slipped to 835 rai in 2016 and 722 rai in the first nine months of 2017, compared with 1,500-2,300 rai per year in 2011-2013.

HEMRAJ's financial performance has improved. The increase was mainly attributed to a significant increase in land transfers, thanks to the sizable backlog brought forward from 2016. Revenue from land transfers shot from Bt785 million to Bt2,215 million in the first nine months of 2017. EBITDA sprang up by 62.3% over the same period of the prior year to Bt4,231 million in the first nine months of 2017. Funds from operations (FFO) improved by 42.9% over the same period of the prior year to Bt1,929 million in the first nine months of 2017.

After becoming fully integrated with WHA, HEMRAJ's leverage has increased significantly. Total debt climbed from Bt14,947 million in 2015 to a peak of Bt25,668 million at the end of 2016 despite substantial sales of assets to REITs in late 2016. In 2016, HEMRAJ, through its subsidiary, took out a new bank loan and then lent the funds to WHA as an inter-company loan of approximately Bt17,000 million. As a result, the total debt to capitalization ratio rose to 58.4% at the end of 2016, up from about 50% from 2011 through 2015. HEMRAJ's balance sheet and cash flow protection improved gradually in the first nine months of 2017, thanks to the proceeds from a successful initial public offering (IPO) of WHAUP, its subsidiary, in the beginning of 2017. At the end of September 2017, HEMRAJ's total debt was Bt18,636 million, down from Bt25,668 million in 2016. The EBITDA interest coverage ratio was 4.9 times in the first nine months of 2017, rising from 3.4 times during the same period of a year earlier. A rise in FFO and a drop in total debt pushed the FFO to total debt ratio to 33.9% (annualized, from the trailing 12 months) in the first nine months of 2017, up from about 21%-22% in 2014-2016.

Under TRIS Rating's base case scenario, HEMRAJ's revenue is forecast at Bt7,000-Bt8,000 million per annum during 2017-2019. FFO is projected to hover around Bt3,000-Bt4,000 million per year. To pursue its growth strategy, HEMRAJ and its subsidiaries have several projects in the pipeline. These investments comprise land and development costs in Thailand and Vietnam, plus projects related to utility services and power plants. Based on the planned investments and the payout as dividends of 100% of net income, the debt to capitalization ratio is expected to stay below 45%. The FFO to total debt ratio will range from 15%-20% during the next three years.

Rating Outlook

The "stable" outlook reflects the expectation that HEMRAJ can maintain its leading position in the industrial property industry. The ample and predictable income from the sale of utility services, plus the income from power projects, will protect the company from the volatile demand for industrial land. As a core subsidiary of WHA, the ratings of HEMRAJ are aligned with WHA's credit profile. Any change in WHA's credit rating will affect HEMRAJ's ratings accordingly.

Hemaraj Land and Development PLC (HEMRAJ)
Company Rating: A-

Issue Ratings:

HEMRAJ217A: Bt2,000 million senior unsecured debentures due 2021	A-
HEMRAJ222A: Bt1,000 million senior unsecured debentures due 2022	A-
HEMRAJ231A: Bt2,500 million senior unsecured debentures due 2023	A-
HEMRAJ244A: Bt2,500 million senior unsecured debentures due 2024	A-
HEMRAJ252A: Bt1,500 million senior unsecured debentures due 2025	A-

Rating Outlook: Stable

Financial Statistics and Key Financial Ratios*
Unit: Bt million

	Jan-Sep 2017	----- Year Ended 31 December -----				
		2016	2015	2014	2013	2012
Sales	4,219	11,548	7,471	6,333	8,770	6,399
Gross interest expense	870	1,126	811	805	680	491
Net income from operations	2,574	5,159	3,145	3,004	4,648	2,060
Funds from operations (FFO)	1,929	5,355	3,326	3,190	5,911	1,869
Inventory investment	493	411	604	(2,347)	(1,724)	(1,535)
Total assets	49,349	49,619	32,491	33,902	33,434	26,307
Total debt	18,636	25,668	14,947	15,531	13,928	10,741
Shareholders' equity	25,240	18,313	14,294	15,297	14,657	11,039
Operating income before depreciation and amortization as % of sales	42.49	52.65	37.43	40.45	42.93	37.42
Pretax return on permanent capital (%)	20.69**	20.36	13.68	13.85	26.02	14.28
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.86	6.84	5.41	5.54	10.14	6.25
FFO/total debt (%)	33.88**	20.86	22.25	20.54	37.99	17.40
Total debt/capitalization (%)	42.47	58.36	51.12	50.38	48.73	49.32

* 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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