

ROJANA INDUSTRIAL PARK PLC

No. 131/2017

16 October 2017

Company Rating: BBB+**Outlook:** Stable**Company Rating History:**

Date	Rating	Outlook/Alert
06/08/13	BBB+	Stable
02/05/12	A-	Negative
14/10/11	A-	Alert Negative
27/03/07	A-	Stable
10/01/06	BBB+	Stable

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rungrat@trisrating.com**WWW.TRISRATING.COM****Rating Rationale**

TRIS Rating affirms the company rating of Rojana Industrial Park PLC (ROJNA) at “BBB+”. The rating reflects ROJNA’s long track record in developing and selling the industrial properties in Thailand, the reliable stream of income from the sales of electricity, the support from its major shareholders, as well as some degree of diversification of industrial estate locations. The rating is partially constrained by the volatile nature of the industrial property market, slack demand for land in ROJNA’s industrial estate in Ayudhya province, and a high level of leverage.

ROJNA is one of the leading industrial property developers in Thailand, established in 1988 by the Vinichbutr family and the Sumitomo Group. As of March 2017, the Vinichbutr family held a 29.2% stake in ROJNA, followed by Sumikin Bussan Corporation, which held a 20.7% stake.

ROJNA’s industrial estates are located in the Central and Eastern regions of Thailand. The company owns and operates six industrial parks in Ayudhya, Prachinburi, Rayong, and Chonburi provinces. As of June 2017, ROJNA had 7,039 rai of land available for sale. About 44% of the remaining salable land is located in the estates in Ayudhya, 25% in Chonburi, 16% in Rayong, and the remainder (15%) in Prachinburi.

ROJNA’s business profile is satisfactory, largely underpinned by the sale of electricity, a stable source of income. Over the past three years, sales of industrial property have accounted for approximately 20% of total revenue, while 80% was recurring income, primarily the sale of electricity. ROJNA operates gas-fired power plants capable of producing 500 megawatts (MW) of electricity and owns a 24-MW solar farm through two affiliates, Rojana Power Co., Ltd. and Rojana Energy Co., Ltd. Of the total power-generating capacity of 524 MW, 294 MW has been contracted to Electricity Generating Authority of Thailand (EGAT) or Provincial Electricity Authority of Thailand (PEA) through Power Purchase Agreements (PPA). The uncommitted capacity is used to produce electricity and steam for customers in ROJNA’s industrial estate in Ayudhya. The company’s power plants and solar farm are located in Rojana Industrial Park in Ayudhya province.

ROJNA remains the third-largest industrial property developer in Thailand. Demand for industrial land in Ayudhya has remained stagnant since 2011, a direct result of massive floods, which submerged several industrial estates nearby. However, ROJNA developed three new industrial estates in Eastern Thailand. The new estates alleviated the impact of slack demand in Ayudhya. ROJNA sold the industrial land for about 300 rai in 2013, 700 rai in 2014, and 424 rai in 2016. More than 80% of the industrial land sold was located in the new industrial estates in Eastern Thailand. ROJNA’s market share has averaged 20% over the past 10 years, based on the total amount of industrial land sold in Thailand. The market leader is Hemaraj Land and Development PLC (HEMRAJ; 35% share) followed by Amata Corporation PLC (AMATA; 28%).

The demand for industrial land is volatile, depending on economic conditions and investment climate. The prolonged 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 industry conditions, ROJNA's land sales also slowed. ROJNA sold only 424 rai in 2016 and 132 rai in the first half of 2017, compared with sales of 500-700 rai per year in the past.

ROJNA's financial performance softened in 2016 through the first half of 2017 from the high level in 2015. Revenue was dented by 17.9% year-on-year (y-o-y) to Bt9,760 million in 2016 and declined by 22.2% y-o-y to Bt4,197 million in the first half of 2017. The drop was mainly due to a low sale of industrial land and a lower contribution from the power segment. ROJNA transferred 405 rai of land in 2016 and only five rai in the first half of 2017, compared with 800 rai in 2015. In addition, revenue from the power segment declined by 5.3% y-o-y owing to major overhaul and the relocation of some machineries. With less high margin sales of land, the operating margin slipped from 37.6% in 2015 to 31.7% in 2016 and 25% in the first half of 2017. The earnings before interest, tax, depreciation and amortization (EBITDA) tumbled to more normal levels, slipping from an abnormally high level of Bt4,362 million in 2015 to Bt2,974 million in 2016 and Bt1,069 million in the first half of 2017.

The rating is partially constrained by ROJNA's heavy use of leverage. During 2012-2016, ROJNA invested in new industrial estates, repaired the old power plants, nearly doubled its power generating capacity, and increased its stake in TICON Industrial Connection PLC (TICON) by buying more shares. Total debt increased gradually, reaching Bt25,101 million at the end of June 2017. However, ROJNA has kept the degree of leverage under control by adjusting the dividend payout and increasing paid up capital from time to time. As a result, total debt to capitalization ratio has hovered around 65%-67% during the past few years, excluding the effect from the consolidation of TICON's balance sheets into ROJNA's books. As of June 2017, total debt to capitalization ratio declined gradually, but remained relatively high at 59.1%. The recent drop in total debt to capitalization ratio came from an accounting gain: ROJNA's investment in TICON was reappraised. ROJNA recorded a gain of Bt970 million on the revaluation. TICON has been deconsolidated from ROJNA since January 2017. ROJNA's stake was diluted from 43.6% to 26.1% after TICON sold a large block of newly-issued shares to Fraser Holding (Thailand) Co., Ltd.

Looking forward, ROJNA's financial profile is expected to improve gradually. The long-term prospects for investment in Thailand remain good as a result of the nation's strategic location and good infrastructure. The prospects are also supported by the government's investment promotion schemes, including new Board of Investment of Thailand's (BOI) privileges available to investors and the development of the Eastern Economic Corridor (EEC). Recurring income, especially from the power segment, will increase gradually as a result of a capacity increase from a new power plant and rising demand from customers in the estates. A new power plant, with the generating capacity of 110 MW, started operation in the third quarter of 2017.

Under TRIS Rating's base case scenario, ROJNA's revenue will be approximately Bt9,000-Bt13,000 million per annum over the next three years. Funds from operations (FFO) are projected to range between Bt1,400-Bt2,000 million per year, 80% of which will come from power segment. Capital expenditures will be lower over the next three years. ROJNA and its subsidiaries plan to acquire more land, develop existing land, and build new utility plants. The pace of capital expenditures will depend on the pace of land sales. The debt to capitalization ratio is expected to stay below 60% while the debt to EBITDA ratio will gradually decline from 8.4 times in 2016 (after the deconsolidation of TICON) to hover around 7 times in 2019.

Over the next 12 months, ROJNA has a large scheduled debt repayment. However, TRIS Rating holds the view that ROJNA can manage its liquidity needs to meet its obligations. About Bt2,400 million in long-term debts will come due over the next 12 months and outstanding bills of exchange (B/Es) of Bt2,490 million. The debt repayments should be funded by FFO of about Bt1,500 million per year plus cash on hand and undrawn credit facilities worth Bt3,320 million as of June 2017. ROJNA also has the ability to access the capital market, and it has financial flexibility from a number of unencumbered land plots. ROJNA is in the process of filing for the issuance of debentures and applying for a long-term credit facility from a bank totaling Bt2,000 million in new funding in order to increase the duration of its outstanding debts.

Rating Outlook

The "stable" outlook reflects the expectation that ROJNA will maintain its market position in the industrial property development industry. The cash flows from the power segment are expected to counterbalance the fluctuations in the sales of industrial land. The rating upside will arise if the company makes significant, sustained improvements in cash flow generation and debt serviceability. In contrast, the rating and/or outlook could be revised downward if the company undertakes any sizeable debt-financed investments which will further weaken its balance sheet and cash flow protection.

Rojana Industrial Park PLC (ROJNA)

Company Rating:

BBB+

Rating Outlook:

Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2017	Year Ended 31 December				
		2016	2015	2014	2013	2012
Sales	4,197	9,760	11,884	11,597	9,155	6,171
Gross interest expense	501	1,021	1,136	986	798	808
Net income	856	116	698	2,048	581	1,194
Net income from operations	(107)	116	698	591	(260)	696
Funds from operations (FFO)	650	2,119	3,493	2,001	930	1,449
Inventory investment	(195)	58	(3,881)	3,271	2,492	(1,207)
Total assets	44,305	76,989	76,023	69,739	31,890	33,813
Total debt	25,101	47,288	45,516	40,555	17,683	19,423
Shareholders' equity	17,362	25,157	25,358	24,002	9,812	9,277
Operating income before depreciation and amortization as % of sales	25.02	31.67	37.59	20.92	4.44	15.84
Pretax return on permanent capital (%)	1.88 **	1.99	3.02	3.65	0.68	3.17
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.13	2.87	3.84	2.61	0.97	1.65
FFO/total debt (%)	5.18 **	4.48	7.67	4.93	5.26	7.46
Total debt/capitalization (%)	59.11	64.22	64.22	62.82	64.31	67.68

* Consolidated financial statements

** Annualized

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