

# ROJANA INDUSTRIAL PARK PLC

No. 158/2020  
6 October 2020

## CORPORATES

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

**Last Review Date:** 29/10/19

### 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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## RATIONALE

TRIS Rating affirms the company rating on Rojana Industrial Park PLC (ROJNA) at “BBB+” with a “stable” outlook. The rating reflects ROJNA’s cash flow stability from electricity and utility sales and its business position as a leading industrial property developer in Thailand. However, the rating is constrained by the company’s relatively high leverage, the volatile nature of the industrial properties for sales, and the impact of the Coronavirus Disease 2019 (COVID-19) on the real estate sector.

## KEY RATING CONSIDERATIONS

### Sustainable cash flow stream from electricity sales

ROJNA’s electricity sales have contributed more than 80% of its total revenue for the last five years. Cash flows from its long-term contracts with the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA) have been stable. ROJNA’s subsidiary, Rojana Power Co., Ltd., sells 55% of its capacity to EGAT through three long-term Power Purchase Agreements (PPA) under the Small Power Producer (SPP) scheme. The contract periods with EGAT are 25 years. As of June 2020, the remaining contract periods are in excess of five years.

Rojana Energy Co., Ltd., another subsidiary of ROJNA, generates income from solar power through three contracts with PEA under the Very Small Power Producer (VSPP) scheme. The contract is automatically renewed every five years.

In addition to power revenue from electricity sales to EGAT and PEA, electricity demand from industrial users in ROJNA’s industrial estates in Ayutthaya province is also on the rise, with a compound annual growth rate (CAGR) of 8% for the past five years. However, power demand from industrial users declined by 6% in the first half of 2020 due to the impact of the COVID-19 pandemic. Some plants in the industrial estates were shut down for half a month or temporarily reduced working hours during March-June 2020.

We expect the impact of the COVID-19 on ROJNA’s electricity sales to be marginal. We project ROJNA’s total revenue to be THB12.5-THB12.9 billion per annum and earnings before interest, tax, depreciation and amortization (EBITDA) to be THB3.7 billion per annum during 2020-2022.

### A leading industrial property developer in Thailand

ROJNA has been one of the leading industrial property developers in Thailand for 30 years. Based on industrial land sales over the past five years among the three major developers, ROJNA has on average a 16% market share following WHA Corporation PLC (WHA; 50%) and Amata Corporation PLC (AMATA; 29%).

### Volatile nature of industrial properties for sales

The industrial estate market is volatile, influenced by changes in economic conditions, the political situation, private investment sentiment, and shifts in supply-chain strategies of multi-national corporations.

For the first half of 2020, the industrial property market has been severely impacted by the COVID-19 pandemic. Industrial land sales declined substantially during the period. ROJNA’s land sales dropped by 30% from the same period in 2019. However, the company’s land sales were better than

some other operators that saw a decline by more than 50%.

We maintain our view on the long-term prospect of the industrial property sector in Thailand. Despite the near-term pressure from the economic fallout and travel restrictions induced by the pandemic, the ongoing US-China trade tensions and supply-chain disruptions during the height of the pandemic are likely to be the catalysts for the relocation of production bases out of China. Countries in Southeast Asia have been the preferred destinations for relocation. Currently ROJNA has about 3,300 rai of saleable area and 6,900 rai of land held for development. About 60% of these lands are located in two eastern seaboard provinces of Chonburi and Rayong.

#### **Relatively high leverage but adequate liquidity**

We view ROJNA's financial leverage is comparatively high relative to its cash generation, as measured by the debt to EBITDA ratio. As of June 2020, ROJNA's debt to EBITDA ratio was at 5.8 times while its total debt to capitalization ratio remained above 50%. The high leverage is mainly attributed to its investments in available-for-sale securities and real estate investment trusts (REIT). As of June 2020, ROJNA's total investments in REITs were THB3.7 billion. The company's secured debt accounted for 64% of total debt.

We expect ROJNA to have manageable liquidity over the next 12 months. Debts maturing within the next 12 months and investment spending are estimated to amount to THB6.2 billion and THB700 million, respectively. The sources of fund include estimated funds from operations (FFO) of THB2 billion, cash and short-term investments of THB5 billion, and remaining undrawn credit facilities of THB1.7 billion. We project the company's FFO to adjusted net debt ratio to be in the range of 10%-11% during the forecast period.

#### **BASE-CASE ASSUMPTIONS**

- Revenue from industrial lands to be in the range of THB1-THB1.3 billion per annum during 2020-2022.
- Revenue from the power segment is projected to be THB10.5-THB10.9 billion per annum.
- Overall gross margin and operating margin are projected to be 20% and 15%, respectively.
- Capital expenditures and investments to be THB700 million per annum.

#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that ROJNA will maintain its competitive position in the industrial property industry. Cash flow from the power business is expected to counterbalance fluctuations in the industrial land sales.

#### **RATING SENSITIVITIES**

A rating upgrade could occur if ROJNA is able to significantly improve its cash flow generation and debt servicing ability, with its net debt to EBITDA ratio dropping below 4 times for a sustained period. Contrarily, ROJNA's rating could be downgraded if the company undertakes any sizeable debt-financed investments that result in a material weakening of its balance sheet or a rise in the net debt to EBITDA ratio over 9 times for a sustained period.

#### **COMPANY OVERVIEW**

ROJNA was established in 1988 by the Vinichbutr family and the Sumitomo Group. In addition to selling industrial properties and providing utility services, ROJNA owns and operates cogeneration power plants, producing 489 megawatts (MW) of electricity, and owns a 24-MW solar farm located in Rojana Industrial Park in Ayutthaya province.

As a part of efforts to increase recurring income, ROJNA increased its equity stake in TICON, a leader in industrial property for rent business in Thailand, to 43.6% from 20.6% with an additional investment of about THB5.3 billion in late 2014. ROJNA began to consolidate TICON's financial statements into its own financial statements in January 2015. However, in October 2016, TICON sold its additional shares to Frasers Property Holdings Thailand Co., Ltd. leading to a decrease in the stakes held by ROJNA to 26%. ROJNA deconsolidated TICON's financial statements and has only recognized a share of the profit from TICON since January 2017. In April 2018, ROJNA sold its entire stakes in TICON to Fraser Assets Co., Ltd.

Apart from its main businesses in industrial land sales as well as power and utility sales, ROJNA has entered into a number of partnerships in various businesses including management of non-performing loans (NPL), a medical center, and a gas provider. The company manages excess liquidity by investing in marketable securities and a REIT. As of June 2020, ROJNA's REIT investment and short-term investment were THB 3.7 billion and THB 3.7 billion, respectively.

ROJNA operates in six business segments as shown in Table 1.

**Table 1: ROJNA's Business Operations**

Company	ROJNA's Holding (%)	Partners
<b>Utility Business</b>		
1) Rojana Power Co., Ltd.	41	Nippon Steel & Sumikin Bussan Corporation (20%), KPIC Netherlands B.V. (39%)
2) Rojana Industrial Management Co., Ltd.	90	Nippon Steel & Sumikin Bussan Corporation (10%)
3) Rojana Energy Co., Ltd.	70	Nippon Steel & Sumikin Bussan Corporation (30%)
<b>Industrial Property Business</b>		
4) Rojana Property Co., Ltd.	100	
5) Rojana Industrial Park Prachinburi Co., Ltd.	100	
6) Rojana Industrial Park Rayong 2 Co., Ltd.	100	
7) TRA Land Development Co., Ltd.	25	Fraser Property (Thailand) PLC (50%) Asia Industrial Estate Co., Ltd. (25%)
8) SC Plus Property Co., Ltd.	42*	SC Real Estate Development Co., Ltd. (42%) Others (16%)
9) Spectral Property Development Co., Ltd.	51*	Risland (Thailand) Co., Ltd. (49%)
<b>Medical Business</b>		
10) Sakurajuji Rojana Medical Co., Ltd.	51	Sakurajuji Corporation (49%)
<b>Operation and Maintenance</b>		
11) Operational Energy Group Ltd.	25	S&J International Enterprise PLC (30%) Engineering Technical Supply Co., Ltd. (26%) Others (19%)
<b>Asset Management (NPLs)</b>		
12) Rachakarn Assets Management Co., Ltd.	50*	Gulf Holding (Thailand) Co., Ltd. (50%)
<b>Nitrogen Gas Provider</b>		
13) BIG Rojana Thai-Japan Gas Co., Ltd.	25	Bangkok Industrial Gas Co., Ltd. (55%) Thai-Japan Gas Co., Ltd. (20%)

\* % of holding by ROJNA's subsidiaries

## KEY OPERATING PERFORMANCE

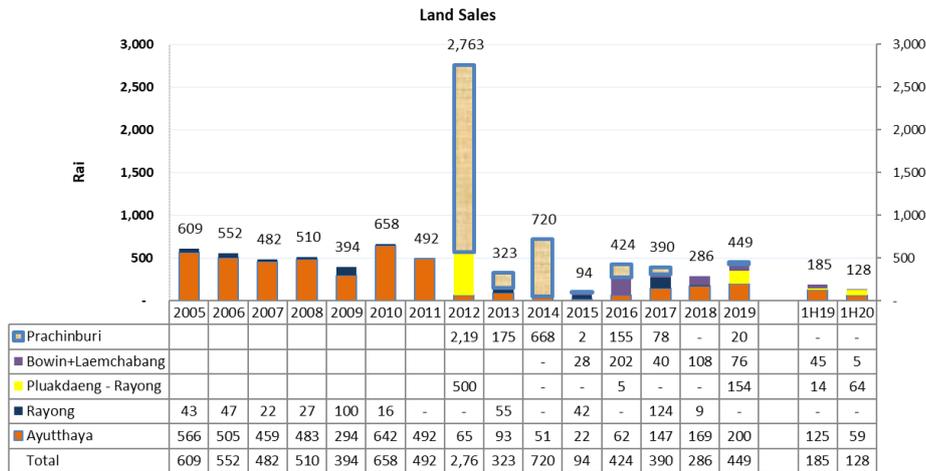
**Table 2: Revenue Breakdown**

Unit: %

Revenue	2015	2016	2017	2018	2019	Jan-Jun 2020
<b>Sales</b>						
• Industrial lands	12	13	14	7	7	9
• Commercial buildings/condos	7	-	-	-	-	-
<b>Total sales</b>	<b>19</b>	<b>13</b>	<b>14</b>	<b>7</b>	<b>7</b>	<b>9</b>
<b>Recurring Income</b>						
• Electricity	73	76	76	83	82	81
• Solar	4	5	4	4	4	4
• Utilities & rental	4	6	6	6	7	6
<b>Total recurring income</b>	<b>81</b>	<b>87</b>	<b>86</b>	<b>93</b>	<b>93</b>	<b>91</b>
<b>Total revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total revenue (mil. THB)</b>	<b>11,884</b>	<b>9,757</b>	<b>10,866</b>	<b>11,706</b>	<b>12,304</b>	<b>6,023</b>

Source: ROJNA

Chart 1: Industrial Land Sales



Source: ROJNA

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	6,025	12,335	11,721	10,877	9,829
Earnings before interest and taxes (EBIT)	1,122	2,075	1,938	2,889	1,638
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,888	3,496	3,306	3,248	3,554
Funds from operations (FFO)	1,235	1,977	2,117	1,938	2,517
Adjusted interest expense	561	1,157	1,110	1,119	1,031
Capital expenditures	212	581	571	1,286	5,238
Total assets	49,856	49,495	44,760	45,829	76,976
Adjusted debt	21,145	24,256	21,588	23,118	24,143
Adjusted equity	19,256	19,060	17,589	17,839	25,147
<b>Adjusted Ratios</b>					
EBITDA margin (%)	31.34	28.34	28.21	29.86	36.16
Pretax return on permanent capital (%)	4.66 **	4.70	4.57	6.19	2.70
EBITDA interest coverage (times)	3.37	3.02	2.98	2.90	3.45
Debt to EBITDA (times)	5.84 **	6.94	6.53	7.12	6.79
FFO to debt (%)	10.36 **	8.15	9.81	8.38	10.43
Debt to capitalization (%)	52.34	56.00	55.10	56.44	48.98

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

**RELATED CRITERIA**

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

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**Rojana Industrial Park PLC (ROJNA)**

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<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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