

ROJANA INDUSTRIAL PARK PLC

No. 187/2021
28 October 2021

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 06/10/20

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” rating outlook. The rating reflects ROJNA’s stable cash flow 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 and the volatile nature of the industrial property for sale sector.

KEY RATING CONSIDERATIONS

Sustainable cash flow from electricity sales

ROJNA’s electricity sales have hovered around THB10 billion per year, representing more than 80% of the company’s total revenue, for the past three years. Recurring income from electricity sales is derived from the company’s long-term contracts with the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA), as well as demand from industrial users in ROJNA’s industrial estates in Ayutthaya province.

Rojana Power Co., Ltd., ROJNA’s subsidiary, 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 2021, the remaining contract periods are four years, 17 years, and 21 years, respectively. According to the company’s management, ROJNA will not extend the soon-to-expire contract with EGAT. The management expects demand from both existing and new industrial users to cover the expired capacity.

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 contracts are automatically renewed every five years.

Electricity demand was affected slightly by the Coronavirus Disease 2019 (COVID-19) pandemic in 2020. ROJNA’s power revenues decreased by 6% to THB10 billion, from THB10.6 billion in 2019, due to a temporary reduction in operating hours of some plants in ROJNA’s industrial estates. However, power consumption in the first half of 2021 increased by 2% from the same period in 2020, showing signs of a revival of demand.

We expect the impact of the COVID-19 pandemic on ROJNA’s electricity sales to be marginal. We project ROJNA’s total revenue to reach THB11.3-THB12.2 billion per annum with earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB3.6-THB3.8 billion per annum during 2021-2023.

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, ROJNA has ranked the top three developers with an average market share of 25%, following WHA Corporation PLC (WHA; 43%) and Amata Corporation PLC (AMATA; 28%).

Though some industrial property developers faced adverse impacts from the COVID-19 pandemic in 2020, ROJNA, recorded revenues from land transfers

of THB1.4 billion, a significant rise of 66% from 2019. Revenues from land sales in industrial estates in Ayutthaya and Rayong provinces have contributed most significantly in recent years.

ROJNA is continuing its land sales momentum in line with the improving trend of the overall industrial property business. For the first half of 2021, ROJNA's land sales increased by 26% from the same period in 2020.

Volatile nature of industrial properties for sale

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

We maintain our view on the long-term prospect of the industrial property sector in Thailand as positive. 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 continue to act as 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 3,600 rai of saleable areas and 6,070 rai of land held for development. About 60% of this land is located in the two eastern seaboard provinces of Chonburi and Rayong.

High leverage, but adequate liquidity

We view ROJNA's financial leverage to be comparatively high relative to its cash generation. As of June 2021, ROJNA's debt to EBITDA ratio was 5.2 times and its total debt to capitalization ratio was 50%. We expect ROJNA's debt to EBITDA ratio will remain at a level of 5-6 times and its debt to capitalization ratio at 50% during the forecast period.

We expect ROJNA to have manageable liquidity over the next 12 months. According to information as of June 2021, ROJNA's debts maturing within the next 12 months and investment spending are estimated at THB5 billion and THB3.9 billion, respectively. The sources of funds include estimated funds from operations (FFO) of THB2.3 billion, cash and short-term investments of THB7.8 billion, and remaining undrawn credit facilities of THB3 billion. We project the company's FFO to adjusted net debt ratio to be in the range of 11%-13% during the forecast period.

At the end of June 2021, ROJNA had debt of THB26.8 billion, excluding financial lease. All of debt at the subsidiary level is considered as priority debt. This means the ratio of priority debt to total debt was 52%. As its priority debt ratio is more than the threshold of 50%, we view that ROJNA's unsecured creditors are significantly disadvantaged with respect to the priority of claim against ROJNA's assets

BASE-CASE ASSUMPTIONS

- Revenue from industrial lands sales to be in the range of THB1-THB1.4 billion per annum during 2021-2023.
- Revenue from the power segment is projected to be THB9.5-THB10 billion per annum.
- EBITDA margin to be 31%.
- Capital expenditures and investments to be THB3.9 billion in 2021, THB1 billion in 2022 and THB600 million in 2023.

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 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. In contrast, 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 part of its efforts to boost recurring income, ROJNA increased its equity stake in TICON Industrial Connection PLC (TICON), a leader in the 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 stake in TICON to Fraser Assets Co., Ltd.

ROJNA has focused more on the power business. For solar power, the company acquired shares in two solar rooftop companies, RLN Energy Co., Ltd. and RJ Energy Co., Ltd., totaling THB100 million. The company also acquired additional shares in Rojana Power to hold a 75% stake (up from 41%) with a total investment of THB3.1 billion.

In addition to its main businesses in industrial land, 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 real estate investment trust (REIT). As of June 2021, ROJNA's short-term and REIT investment were worth THB3.7 billion and THB3.1 billion, respectively.

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

Table 1: ROJNA's Business Operations

Company	ROJNA's Holding (%)	Partners
Utility Business		
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%)
4) RLN Energy Co., Ltd.	60*	Loop Co., Ltd. & Nippon Steel Trading Corporation
5) RJ Energy Co., Ltd.	100*	
Industrial Property Business		
6) Rojana Property Co., Ltd.	100	
7) Rojana Industrial Park Prachinburi Co., Ltd.	100	
8) Rojana Industrial Park Rayong 2 Co., Ltd.	100	
9) TRA Land Development Co., Ltd.	25	Fraser Property (Thailand) PLC (50%) Asia Industrial Estate Co., Ltd. (25%)
10) SC Plus Property Co., Ltd.	42*	SC Real Estate Development Co., Ltd. (42%) Others (16%)
11) Spectral Property Development Co., Ltd.	51*	Risland (Thailand) Co., Ltd. (49%)
Medical Business		
12) Sakurajuji Rojana Medical Co., Ltd.	51	Sakurajuji Corporation (49%)
Operation and Maintenance		
13) Operational Energy Group Ltd.	25	S&J International Enterprise PLC (30%) Engineering Technical Supply Co., Ltd. (26%) Others (19%)
Asset Management (NPLs)		
14) Rachakarn Assets Management Co., Ltd.	50*	Gulf Holding (Thailand) Co., Ltd. (50%)
Nitrogen Gas Provider		
15) 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

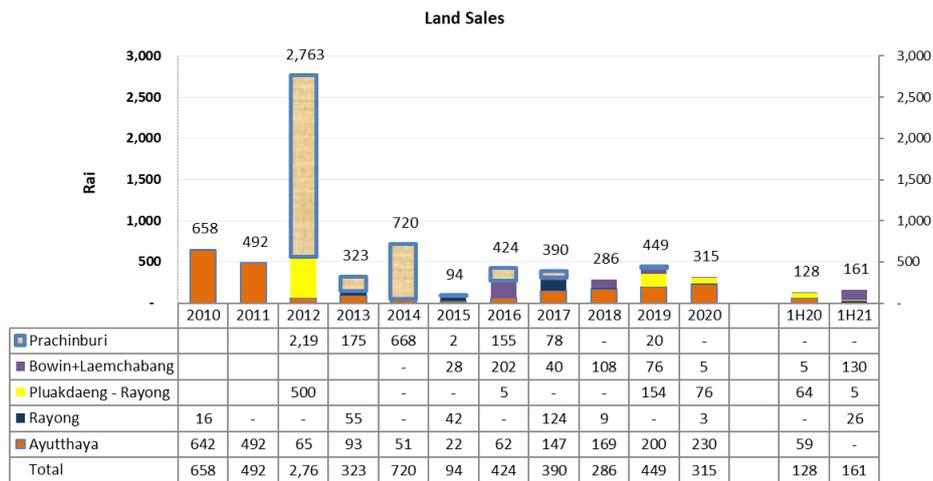
Table 2: Revenue Breakdown

Unit: %

Revenue	2016	2017	2018	2019	2020	Jan-Jun 2021
Sales						
• Industrial lands	13	14	7	7	12	8
Total sales	13	14	7	7	12	8
Recurring Income						
• Electricity	76	76	83	82	78	81
• Solar	5	4	4	4	4	4
• Utilities & rental	6	6	6	7	6	7
Total recurring income	87	86	93	93	88	92
Total revenue	100	100	100	100	100	100
Total revenue (mil. THB)	9,757	10,866	11,706	12,304	12,154	5,834

Source: ROJNA

Chart 1: Industrial Land Sales



Source: ROJNA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	5,837	12,160	12,335	11,721	10,877
Earnings before interest and taxes (EBIT)	1,143	2,403	2,075	1,938	2,889
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,965	3,919	3,496	3,306	3,248
Funds from operations (FFO)	1,374	2,634	1,977	2,117	1,938
Adjusted interest expense	521	1,069	1,157	1,110	1,119
Capital expenditures	192	397	581	571	1,286
Total assets	51,347	49,717	49,495	44,760	45,829
Adjusted debt	20,852	23,263	24,256	21,588	23,118
Adjusted equity	20,812	20,361	19,060	17,589	17,839
Adjusted Ratios					
EBITDA margin (%)	33.66	32.23	28.34	28.21	29.86
Pretax return on permanent capital (%)	5.16 **	5.18	4.70	4.57	6.19
EBITDA interest coverage (times)	3.77	3.67	3.02	2.98	2.90
Debt to EBITDA (times)	5.22 **	5.94	6.94	6.53	7.12
FFO to debt (%)	13.30 **	11.32	8.15	9.81	8.38
Debt to capitalization (%)	50.05	53.33	56.00	55.10	56.44

* 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

Rojana Industrial Park PLC (ROJNA)

Company Rating:	BBB+
Rating Outlook:	Stable

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