

ROJANA INDUSTRIAL PARK PLC

No. 201/2023
18 October 2023

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 09/11/22

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 highly predictable cash flow from electricity and utility sales and its leading position in industrial property in Thailand, as well as its improving financial profile. However, the rating is constrained by the looming expiration of a power purchase agreement with the Electricity Generating Authority of Thailand (EGAT), and the uncertainty of gas prices and policies governing electricity tariffs that may pressure the company’s earnings.

KEY RATING CONSIDERATIONS

Significant rise in land sales

ROJNA’s industrial land sales are expected to reach a peak in 2023 and remain above average throughout 2024, before gradually normalizing in 2025, thanks to the wave of manufacturing relocation to Southeast Asia driven by the ongoing trade tensions between the United States (US) and China, the post-COVID-19 economic recovery and Thailand’s planned stimulus measures for foreign investment.

The company’s reputation and long track record also help accelerate the recovery in land sales. ROJNA’s services and quality assets in primely located industrial estates in Ayutthaya province and the Eastern Economic Corridor (EEC) are sought after by international manufacturers seeking to establish manufacturing bases in Thailand.

Demand for industrial land has been high since 2022. ROJNA’s industrial land sales reached almost 1,000 rai in 2022, double the level of 300-500 rai per year during 2017-2021. The momentum continued in the first half of 2023 with land sales of 1,000 rai, equivalent to the full-year sales for 2022. We expect industrial land sales to reach 1,700 rai in 2023, 700 rai in 2024 and around 500 rai in 2025.

Based on the expected land title transfers up to 2025, revenue from industrial land sales is forecast to range around THB2.7-THB3.4 billion during 2023-2025.

Revival of profitability

ROJNA’s profitability is expected to recover in 2023-2025 from 2022, despite continuing earnings pressure from the power business in 2023. Gas prices are expected to gradually decline and earnings from electricity sales are forecast to return to normal levels in 2024-2025.

In 2022, profitability in the power business came under significant cost pressure. The lagging of surging gas prices to reflect in electricity tariffs, resulted in losses on electricity sales to industrial users, which normally account for 35%-40% of total electricity sold. Earnings before interest, taxes, depreciation, and amortization (EBITDA) fell to THB2.3 billion in 2022, down by almost half from the THB3.5-THB4.0 billion range during 2017-2021, while EBITDA margin shrank to 14% for the same period, from 30%.

Profitability improved in the first half of 2023 due to adjustments in electricity tariffs together with a significant volume of land transfers. EBITDA and EBITDA margin improved to THB2.2 billion and 22%, respectively, roughly doubling from the same period in 2022. With falling gas prices and the

augmented income from land sales, we expect EBITDA to return to the normal range of around THB3.7-THB4.0 billion per year while EBITDA margin should improve to 23% in 2023 and 26% in 2024-2025.

Predictable cash flow from the power business

ROJNA generates recurring income from its power plants and solar farm operations. Revenue from electricity sales came to approximately THB10 billion per year during 2017-2021, before reaching THB13 billion in 2022 due to unusually high gas prices and electricity tariffs. In 2022, revenues and EBITDA from power sales contributed around 82% and 43% of total consolidated revenue and EBITDA, respectively. However, regardless the unusual circumstances that affected ROJNA's profitability in 2022, revenue and EBITDA from power sales have accounted 80%-90% and 70% of the total during the past five years.

Rojana Power Co., Ltd., ROJNA's subsidiary, operates three power plants with total capacity of 489 megawatts (MW). The company supplies 55% of its capacity to EGAT through three 25-year Power Purchase Agreements (PPA) under the Small Power Producer (SPP) scheme. As of June 2023, the remaining contract periods were 2.3 years, 15 years, and 19 years. 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 absorb the capacity once the EGAT contract expires.

Rojana Energy Co., Ltd., another subsidiary of ROJNA, generates income from solar power generation through three contracts with the Provincial Electricity Authority (PEA) under the Very Small Power Producer (VSPP) scheme. The contracts are automatically renewed every five years. The company is entitled to receive an adder at the rate of THB8 per kilowatt-hour (kwh) of electricity for 10 years from the commencement of commercial operation in April, July, and August 2014. The adder expiries in 2024 are expected to reduce cash flow from solar power generation by about two-thirds of the current level. EBITDA from solar power contributed 10%-15% of total EBITDA in 2017-2022.

Lower leverage

We expect ROJNA's leverage to decline during the forecast years after hitting a five-year peak in 2022 with an adjusted net debt to EBITDA ratio of 8 times. The ratio receded to 5 times in the first half of 2023 (annualized to 12 months). The company's adjusted net debt decreased to THB17.8 billion as of June 2023, from THB20.4 billion at the end of 2022.

In our base-case scenario, planned capital expenditures for land development and utility facilities, along with the expansion of solar rooftop operations, are expected to total around THB1-THB2 billion per annum during 2023-2025. Adjusted net debt is expected to gradually decline to around THB13 billion in 2025. With projected EBITDA of THB3.7-THB4.0 billion, the adjusted net debt to EBITDA ratio is forecast to be 4-5 times. The ratio of funds from operations (FFO) to adjusted net debt should be around 15%-20%.

Acceptable liquidity

ROJNA has an adequate liquidity profile. Its sources of funds comprised cash and restricted cash of THB4.1 billion, short-term investments of THB5.5 billion and undrawn uncommitted credit facilities of THB3.6 billion as of June 2023. FFO are expected to be around THB2.6 billion. These sources of funds should be sufficient to cover debt services and investment needs over the next 12 months, which include long-term debt repayment obligations of around THB7.6 billion, and an investment budget of around THB1 billion.

At the end of June 2023, ROJNA recorded THB10 billion of priority debt out of total interest-bearing debt (excluding lease liabilities) of THB22 billion. The priority debt comprised all secured debts and debts at the subsidiary level. ROJNA's priority debt to total debt ratio was 46%.

BASE-CASE ASSUMPTIONS

- Revenue from industrial land sales in the range of THB2.7-THB3.4 billion per annum during 2023-2025.
- Revenue from the power segment to gradually decline from THB12 billion in 2023 to THB10 billion in 2025.
- EBITDA margin of 23% in 2023 and 26% during 2024-2025.
- Capital expenditures and investments of THB1-THB2 billion per annum during the forecast period.

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 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 to over 9 times for an extended 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.

In recent years, ROJNA has focused more on the power business. The company acquired shares in two solar rooftop companies, RLN Energy Co., Ltd. and RJ Energy Co., Ltd., for a total investment cost of THB100 million. The company also acquired additional shares in Rojana Power increasing its stake to 75% (from 41%) with an investment of THB3.1 billion in 2021.

In addition to its main businesses of industrial land, power, and utility sales, ROJNA has entered into partnerships in a number of businesses including gas sales and the distribution of consumer products. The company manages excess liquidity by investing in marketable securities and a real estate investment trust (REIT). As of June 2023, ROJNA's short-term investments, including the REIT investment, were worth THB5.5 billion.

ROJNA operates in nine business segments as of June 2023 as shown in Table 1.

Table 1: ROJNA's Business Operations

Companies	ROJNA's Holding (%)	Partners
Utility Business		
1) Rojana Power Co., Ltd.	75	Nippon Steel & Sumikin Bussan Corporation (25%)
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.(35%), Nippon Steel Trading Corporation(5%)
5) RJ Energy Co., Ltd.	100*	
Industrial Property Business		
1) Rojana Property Co., Ltd.	100	
2) Rojana Industrial Park Prachinburi Co., Ltd.	100	
3) Rojana Industrial Park Rayong 2 Co., Ltd.	100	
4) TRA Land Development Co., Ltd.	25	Fraser Property (Thailand) PLC (50%) Asia Industrial Estate Co., Ltd. (25%)
5) SC Plus Property Co., Ltd.	42*	SC Real Estate Development Co., Ltd. (42%), others (16%)
6) Spectral Property Development Co., Ltd.	51*	Risland (Thailand) Co., Ltd. (49%)
Medical Business		
1) ThaiUnivest Holding Group Co., Ltd.	30	Others (70%)
Operation and Maintenance		
1) Operational Energy Group Ltd.	25	S&J International Enterprise PLC (30%) Engineering Technical Supply Co., Ltd.(26%), others (19%)
Nitrogen Gas Provider		
1) BIG Rojana Thai-Japan Gas Co., Ltd.	25	Bangkok Industrial Gas Co., Ltd. (55%) Thai-Japan Gas Co., Ltd. (20%)
Consumer Products		
1) Herb Treasure Co., Ltd.	51	Global B2C Co., Ltd.(21%), others(28%)
Waste Management		
1) Rojana Waste Management Holding Co., Ltd.	100	
2) Rayong Recycle Waste Co., Ltd.	30*	Sun Tech Group Co., Ltd.(30%), Ban Khai Concrete Products Co., Ltd. (30%), SUEN CORP Co., Ltd.(10%)
Construction		
1) SUEN Construction & Engineering Co., Ltd.	25.5	Others (74.5%)

* % of holding by ROJNA's subsidiaries

KEY OPERATING PERFORMANCE
Table 2: Revenue Breakdown

Unit: %

Revenue	2018	2019	2020	2021	2022	Jan-Jun 2023
Sales						
• Industrial lands	7	7	12	10	14	24
• Consumer product						
Total sales	7	7	12	10	14	24
Recurring income						
• Electricity	83	82	78	80	79	70
• Solar	4	4	4	4	4	3
• Utilities & rental	6	7	6	6	3	3
Total recurring income	93	93	88	90	86	76
Total revenue	100	100	100	100	100	100
Total revenue (mil. THB)	11,706	12,304	12,154	12,559	17,169	9,857

Source: ROJNA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December-----			
		2022	2021	2020	2019
Total operating revenues	9,863	17,186	12,566	12,160	12,335
Earnings before interest and taxes (EBIT)	1,337	1,221	1,904	2,403	2,075
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,195	2,481	3,570	3,919	3,496
Funds from operations (FFO)	1,594	1,270	2,200	2,770	2,305
Adjusted interest expense	514	1,010	1,051	1,069	1,157
Capital expenditures	265	839	595	397	581
Total assets	46,224	48,541	47,887	49,717	49,495
Adjusted debt	17,758	20,407	20,418	23,263	24,256
Adjusted equity	19,051	19,556	19,030	20,361	19,060
Adjusted Ratios					
EBITDA margin (%)	22.25	14.44	28.41	32.23	28.34
Pretax return on permanent capital (%)	4.67 **	2.77	4.22	5.18	4.70
EBITDA interest coverage (times)	4.27	2.46	3.40	3.67	3.02
Debt to EBITDA (times)	4.88 **	8.22	5.72	5.94	6.94
FFO to debt (%)	13.31 **	6.23	10.77	11.91	9.50
Debt to capitalization (%)	48.24	51.07	51.76	53.33	56.00

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Rojana Industrial Park PLC (ROJNA)

Company Rating:	BBB+
Rating Outlook:	Stable

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