

WHA INDUSTRIAL LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 149/2022

30 August 2022

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 30/08/21

Company Rating History:

Date	Rating	Outlook/Alert
09/10/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on WHA Industrial Leasehold Real Estate Investment Trust (WHAIR or trust), formerly Hemaraj Leasehold Real Estate Investment Trust (HREIT), at “BBB+” with a “stable” outlook. The rating reflects the trust’s satisfactory operating performance, future growth opportunities in assets acquisition supported by its sponsor, WHA Industrial Development PLC (WHAID), and its moderate financial leverage. The rating also takes into consideration the trust’s small size, and exposure to tenant concentration and renewal risk.

KEY RATING CONSIDERATIONS

Quality assets with satisfactory occupancy rates

WHAIR’s real estate portfolio consists of ready-built factories and ready-built warehouses, 90% of which are located in the Eastern Economic Corridor (EEC) and 10% in Saraburi province. WHAIR’s assets are sponsored by WHAID, the largest industrial real estate developer in Thailand based on the total amount of industrial land sold in Thailand. According to occupied area as of June 2022, the trust’s tenants are engaged in the automotive industry (30%), consumer products industry (29%), and logistics providers (19%).

Chinese tenants made up the highest proportion of tenants at 34%, followed by European and Japanese tenants at 22% and 19%, respectively as of June 2022. The trade tensions between the United States (US) and China triggered a rise in demand for industrial properties resulting from the relocation of manufacturing bases and supply chains from China to Southeast Asia, including Thailand since 2019.

We expect the trust’s occupancy rate (OR) to sustain above 90% throughout the forecast period due to the strategic location of its properties in the EEC, the quality of its assets in well-known industrial estates, and the exclusive yield enhancement from the sponsor’s undertaking.

For the first three years from the acquisition date, WHAID guarantees the performance of the assets acquired by WHAIR by committing to pay for vacant space to achieve an OR of 100% and by making up any shortfall if the rental rates offered to tenants fall below a guaranteed rate.

Regardless of the sponsor’s undertaking, the assets themselves have high potential. Though some assets initially had OR of around 80%, the OR gradually improved to 90% and above even after the guarantee period. The average OR, including undertaking, has been above 90% since 2016.

Expected higher earnings

We expect WHAIR’s revenue to increase due to new assets acquisition. The trust planned to acquire new assets in 2022 totaling around THB1.4 billion. In addition, we expect the trust to invest other new assets around THB1.5 billion during 2023-2024. The trust’s revenue in 2021 increased by 11% to THB764 million from THB686 million in 2020 mainly due to the earnings from the latest investment in December 2020. WHAIR’s revenues are forecast to reach THB750-THB910 million per year during 2022-2024.

As of June 2022, the average OR of warehouses had increased to almost 100% while the OR of factories fell to below 90%. We view that the country’s opening and the lifting of pandemic induced restrictions will drive foreign

investment demand in the industrial estate sector. Average OR for warehouses will likely continue to increase to close to 100% while OR for factories should gradually rise to around 90% in 2023-2024. Overall, average OR including undertaking should be in the 91%-96% range during the forecast period.

Lower margin from 2022 onward

We expect WHAIR's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to range from 84%-86% during 2022-2024, lower than the 87%-90% range recorded during the past five years. The lower margin is mainly the result of an increase in property management fees from 1.75% to 5.0% of total rental and services revenue based on the property management agreement, property tax on vacant space absorbed by the trust after the undertaking period, refinance-related expenses, and marketing expenses from fund raising activities.

As of June 2022, the EBITDA margin was 86%, down from 89% in 2021 mainly due to the incremental rate of property management fees.

Small business scale relative to peers

WHAIR has relatively small business scale compared to other rated industrial real estate investment trusts (REITs) such as Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT: rated "A/Stable" by TRIS Rating) and WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART: rated "A/Stable" by TRIS Rating). As of June 2022, WHAIR's investment portfolio was worth THB11.38 billion, while those of FTREIT and WHART were THB45.47 billion and THB44.88 billion, respectively. WHAIR's total operating revenue was THB764 million for 12-month period of fiscal year 2021 while revenues of FTREIT and WHART were THB3.41 billion and THB2.57 billion, respectively. WHAIR continues to invest in new assets with the support from WHAIR's sponsor, WHAID. We expect WHAIR to gradually enlarge its asset portfolio over time.

Exposure to portfolio concentration and renewal risk

We view that WHAIR is exposed to significant tenant concentration risk. The top-ten tenants accounted for 38% of total occupied area and contributed 36% of total rental and service income for the first half of 2022. However, this concentration risk is mitigated by the strong credit profiles of tenants and the growing size of asset portfolio.

Contract renewal is another notable risk. Most lease contract tenors are three years. The weighted average tenor of the existing lease contracts as of June 2022 was 1.8 years. Lease contracts due to expire by 2023 accounted for 62% of total existing contracts. However, the OR (without undertaking) has stayed over 90% during past three years.

We expect the renewal rate during the forecast period to be around 80%. The trust's renewal rate improved to the 82% in 2021 and 87% for the first half of 2022 from around 60%-70% during 2018-2020. The property manager normally negotiates lease renewal agreements with tenants about three to six months in advance of expiration. Thus, the trust has time to seek new tenants in the event of contract terminations.

Moderate financial leverage

Under its financial policy, WHAIR aims to keep its loan to fair value of total assets ratio (LTV) below 35% in the medium to long term. Over the past five years, the trust has generally funded its asset acquisitions through a combination of debt and equity with the LTV ratio in the range of 27%-34%. At the end of June 2022, the trust's LTV ratio stood at 32%.

WHAIR intends to enlarge its property portfolio consistently, mainly through its sponsor. The trust is in the process of acquiring new assets by December 2022, with the funding structure to keep LTV below 35%. The LTV ratio is expected to be 33% at the end of 2022. Under its growth strategy, we forecast WHAIR to acquire new assets worth around THB1.5 billion during 2023-2024. We expect the trust to fund its future acquisitions through a combination of debt and equity. As a result, LTV is likely to remain in the 32%-33% range.

At the end of June 2022, WHAIR's secured debt to fair value of total assets ratio was 32%. As the percentage of secured debt was lower than 35% of the fair market value of assets, we do not view WHAIR's unsecured creditors to be significantly disadvantaged with respect to the priority of claims against assets.

Manageable liquidity

We assess WHAIR's liquidity as manageable over the next 12 months, given the trust's ability to access financial markets. As of June 2022, WHAIR's outstanding debt was THB3.75 billion, all of which was made up of long-term loans due to be repaid in December 2023. The debts will be refinanced by bank loans or debentures.

The trust's sources of liquidity included cash on hand of THB336 million. We forecast EBITDA to stay around THB650 million over the next 12 months. WHAIR's debt to EBITDA ratio is projected to stay below 6.5 times and EBITDA interest coverage ratio to be 5-7 times over the next three years.

The financial covenant on WHAIR's loan obligations requires the trust to keep its debt to EBITDA ratio below 6.5 times, its interest-bearing debt to equity ratio below 1 times, and its LTV ratio below 50%. The ratios at the end of June 2022 were 5.9 times, 0.5 times, and 32%, respectively. We assess the trust should have no problem complying with the financial covenant over the next 12 months.

BASE-CASE ASSUMPTIONS

- Investment assets to increase by THB1.4 billion in 2022 and THB1.5 billion during 2023-2024.
- OR (with the sponsor's undertaking) to increase slightly to the 91%-96% range over the next three years.
- Total revenue of THB750-THB910 million per annum during 2022-2024.
- EBITDA margin to range from 84%-86% and EBITDA of THB630-THB770 million per annum during 2022-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that WHAIR's property portfolio will continue to generate stable cash flows during 2022-2024. We also expect the trust's assets to sustain a high average OR above 90% with sound profitability. In addition, we expect the trust will be able to keep the LTV below 35% in accordance with the trust's policy and remain in compliance with the debt covenants.

RATING SENSITIVITIES

The credit rating on WHAIR could come under downward pressure if the OR drops significantly below expectations and/or the trust undertakes a larger-than-expected debt-funded expansion over a prolonged period. On the other hand, the rating could be revised upward if WHAIR is able to enlarge its business scale while maintaining satisfactory performance.

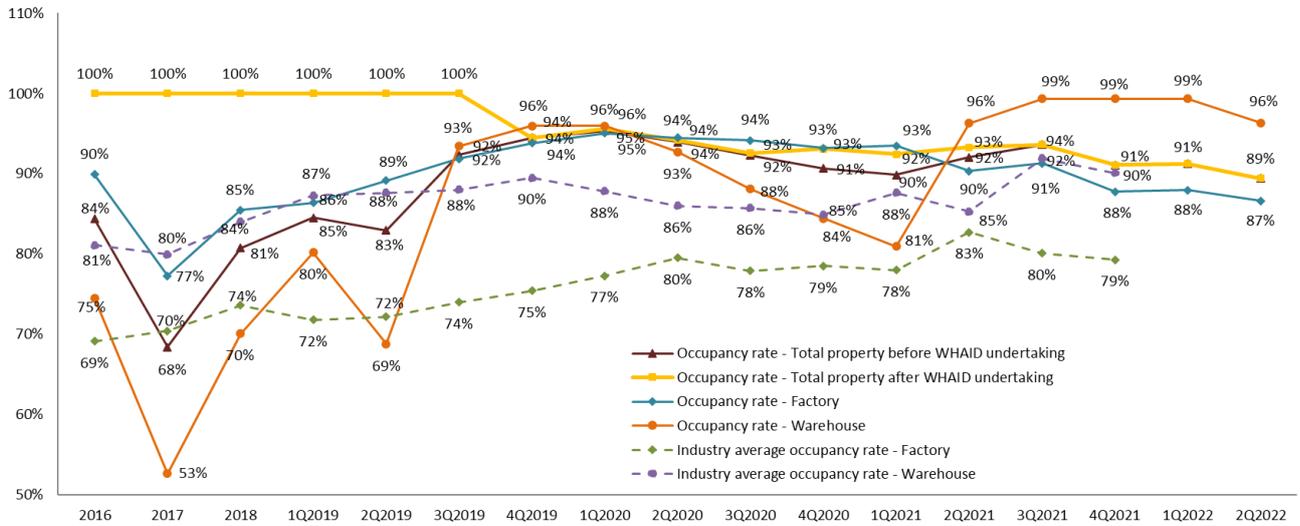
COMPANY OVERVIEW

WHAIR, formerly named HREIT, was established and listed on the Stock Exchange of Thailand (SET) in November 2016, with registered capital of THB5.69 billion. At present, WHAID holds a 15% stake in WHAIR. The REIT manager of the trust is WHA Industrial REIT Management Co., Ltd. (WHAIRM) which is wholly owned by WHAID, the property manager and main sponsor of the trust. WHAIR focuses on the acquisition of leasehold rights for good-quality and well-occupied industrial properties including ready-built factories and ready-built warehouses.

As of June 2022, the investment asset size of WHAIR was valued at THB11.38 billion with total leasable area of 380,632 square meters (sq.m.). WHAIR's property portfolio comprised factories (71%) and warehouses (29%) in three provinces: Chonburi, Rayong, and Saraburi. WHAIR's properties are located in key industrial estates and manufacturing hubs in Thailand. About 90% of the leasable properties are located in the EEC development area.

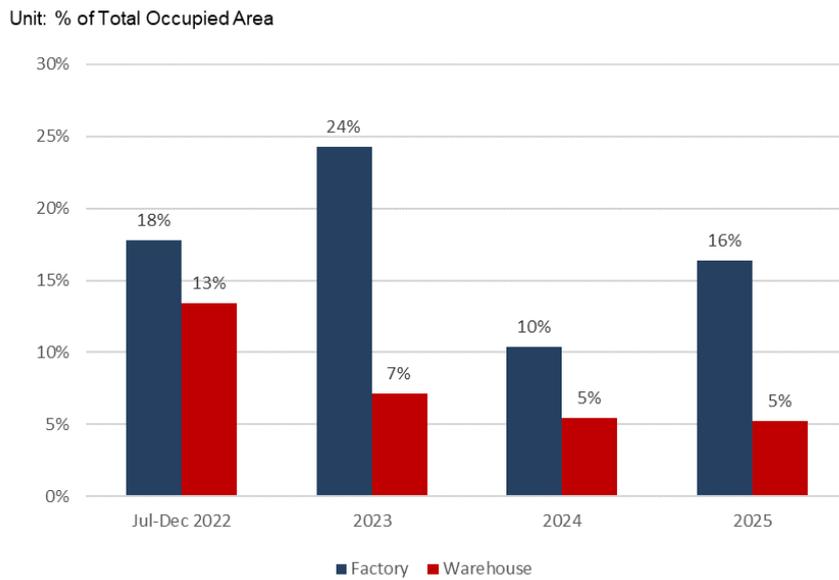
KEY OPERATING PERFORMANCE

Chart 1: Occupancy rate



Note: OR as of end of period
Sources: WHAIR and CB Richard Ellis (CBRE)

Chart 2: Lease Expiry



Source: WHAIR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	372	764	686	767	725
Earnings before interest and taxes (EBIT)	314	670	585	681	645
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	320	682	597	693	655
Funds from operations (FFO)	268	577	479	556	537
Adjusted interest expense	52	105	118	137	118
Capital expenditures	0	0	1,363	0	2,091
Total assets	11,762	11,771	11,489	9,914	9,691
Adjusted debt	3,399	3,391	3,359	3,058	3,076
Adjusted equity	7,776	7,792	7,410	6,384	6,181
Adjusted Ratios					
EBITDA margin (%)	85.97	89.30	87.06	90.38	90.31
Pretax return on permanent capital (%)	5.68 **	5.92	5.62	7.12	7.27
EBITDA interest coverage (times)	6.14	6.52	5.07	5.06	5.55
Debt to EBITDA (times)	5.15 **	4.97	5.63	4.41	4.70
FFO to debt (%)	16.33 **	17.03	14.27	18.19	17.46
Debt to capitalization (%)	30.42	30.32	31.19	32.39	33.23

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021

WHA Industrial Leasehold Real Estate Investment Trust (WHAIR)

Company Rating:	BBB+
Rating Outlook:	Stable

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