

GOLDEN VENTURES LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 182/2020

30 October 2020

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 31/10/19

Company Rating History:

Date	Rating	Outlook/Alert
15/12/17	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Golden Ventures Leasehold Real Estate Investment Trust (GVREIT or “trust”) and the rating on GVREIT’s senior unsecured debentures at “A-” with a “stable” outlook. The ratings reflect the trust’s high-quality assets in prime locations in Bangkok, stable cash flow from contract-based rental income, prudent financial policy, and the growth prospects of the trust supported by assets from its sponsors and ultimate shareholders. However, the ratings are constrained by portfolio concentration risk on the location and tenant aspects. The ratings also take into consideration our concerns over the negative impacts of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the domestic economy and demand for office space in the medium term.

KEY RATING CONSIDERATIONS

High quality assets in prime locations

We expect GVREIT to maintain satisfactory operating performance in the medium term, supported by its high-quality assets in prime business areas. GVREIT’s assets comprise two office buildings, “Park Ventures Ecoplex” (PKV) and “Sathorn Square” (SSQ), with a total leasable area of 100,511 square metres (sq.m.) as of June 2020. Both PKV and SSQ are classified as grade-A office buildings located in the central business district (CBD) of Bangkok with direct access to BTS Skytrain stations.

The trust’s high-quality and well-located properties are reflected in its high occupancy rates (OR) and favorable rental rates. GVREIT has achieved OR of over 94% for both buildings since its inception in fiscal year 2016 (FY2016). At the end of June 2020, the average OR was 99.5% for PKV and 97% for SSQ, while the industry average OR for grade-A CBD office space stood at around 90%. The average rental rates in FY2020 were THB1,071-THB1,077 per sq.m. per month for PKV and THB856-THB865 per sq.m. per month for SSQ, which lie within the range of industry average rental rates for grade A office buildings. The trust has been able to increase the rental rates by at least 5% per every renewed contract. As a result, the trust has recorded a steady growth in the rental rates of PKV and SSQ by 2%-5% per annum from FY2016 through the first nine months of FY2020.

Little impact from COVID-19 in the near term

The COVID-19 outbreak has shocked the overall economy since late January 2020. In late March 2020, the Government started to impose stringent measures to control the outbreak, including dine-in restaurant closures, a state curfew, and restrictions on public gatherings. The measures directly affected the trust’s retail tenants and indirectly affected office tenants. The trust’s retail tenants had to close their stores for a certain period of time.

Overall, the COVID-19 pandemic has only slightly affected the performance of the trust not exceed 5% of its rental income. However, the pandemic has brought about a change in the work behavior of several companies. The employees of many companies can now easily work from home. We believe that this change in work behavior could pose a threat for office space providers in the medium term as more supply is due to enter the market in the next few years while demand may not grow at the same rate. However, GVREIT believes that it should be able to maintain its occupancy rates above 90% since both

buildings are located in prime areas and rental rates are competitive compared with newly constructed buildings in the CBD.

In our base case forecast, we expect the trust to maintain the OR at above 95% for both buildings over the next three years. The rental rate is expected to grow by at least 3% per annum during FY2021-FY2022. The trust's revenue is expected to hover around THB1.15 billion per annum in FY2020-FY2021, and then jump to THB1.67 billion in FY2022 following new asset acquisition. Its earnings before interest, tax, depreciation, and amortization (EBITDA) margin is expected to be at least 70% during FY2020-FY2022. Based on the outstanding lease contracts, 15% of the total occupied area will expire in the last quarter of FY2020, 45% will expire in FY2021, 21% in FY2022, and 19% in FY2023. The lease contract expirations are relatively concentrated in FY2021 as the lease agreement of 10 major tenants of both buildings will expire in the same period. GVREIT's management believes that most lessees will renew their contracts, given the strong demand for office space in prime areas and good asset quality. From GVREIT's track record, the renewal rate has been relatively high at above 90% for PKV and 80% for SSQ over the past four years.

Exposure to asset concentration risks

GVREIT remains exposed to concentration risk, location and tenant wise. At present, the trust's performance depends solely on two assets in two locations, Wireless Road and Sathorn Road. Around two-thirds of the rental and service income comes from SSQ and PKV makes up the rest. However, the trust mitigates this concentration risk through insurance coverage, including public liability insurance, all-risk insurance, and business interruption insurance.

GVREIT is also exposed to tenant concentration risk. The top-ten tenants occupied 41% of the total occupied area and contributed 33% of total rental and service income during the first nine months of FY2020. Tenants affiliated with the TCC Group occupied 8% of the total occupied area and contributed 8% of total rental and service income. However, the tenant concentration risk is partly mitigated by the strong credit profiles of its top largest tenants. Furthermore, the property manager normally negotiates lease renewal agreements with tenants about six to 12 months in advance of expiration. Hence, the trust has time to look for new tenants in case some incumbent lessees decide to terminate their contracts. As the trust's properties are located in the CBD, we believe the trust should have no difficulty finding new tenants to replace those terminating contracts.

Growth prospects

GVREIT's REIT manager and property manager are wholly-owned subsidiaries of Univentures PLC (UV) and Golden Land Property Development PLC (GOLD), respectively. The ultimate shareholders of UV and GOLD are companies affiliated with the TCC Group. One of the Group's businesses is property development, including property for rent and property for sale. We view that GVREIT has the potential to enlarge its scale supported by the trust's sponsors. Currently, there is one asset in the pipeline, "FYI Center" (FYI), an office building owned by GOLD. As of June 2020, the OR of FYI Center stood at 99% with an average rental rate of THB787 per sq.m. per month. However, due to the unfavorable market environment, the acquisition of this building will be postponed to the next fiscal year.

The trust is also exploring investments in qualified assets from non-sponsors. In order to enlarge and diversify its assets, GVREIT seeks to invest in matured properties in the market. In our view, the growing size and diversity of its portfolio will help lower the concentration risk and enhance the stability of the trust's rental and service income in the future.

Low financial leverage

We expect GVREIT to maintain its financial profile at the current level, in line with its prudent financial policy. As the trust aims to maintain its loan to total asset value (LTV) at less than 20% in the medium term, we expect the trust to fund future acquisitions by using a combination of equity and debt. We forecast the trust to keep the debt to capitalization ratio in the 17%-18% range, and the ratio of debt to earnings before interest, tax, depreciation, and amortization (EBITDA) at around 2-3 times over the next three years. As of June 2020, the ratio of debt to capitalization stood at 17% and the debt to EBITDA ratio was 2 times.

The financial covenant on its debentures require GVREIT to maintain the LTV ratio below 60%. The ratio at the end of June 2020 was 18%. We believe that the trust should have no problems complying with the financial covenant over the next three years.

Adequate liquidity

We assess GVREIT to have adequate liquidity thanks to its low leverage and no debt repayments coming due in the near term. GVREIT's cash flow protection remained sound, with the funds from operations (FFO) to debt ratio of 43% and the EBITDA interest coverage ratio of 8 times in FY2019. We expect the trust to maintain its solid cash flow protection over the next three years. The FFO to debt ratio is forecast to be in the range of 34%-40% and the EBITDA interest coverage ratio is

projected to stay in the 7-8 times range.

The trust's sources of liquidity included cash on hand of THB47 million, undrawn committed credit facilities from banks of THB160 million, and investments in securities at fair value of THB1.01 billion. We forecast FFO to stay above THB700 million per annum over the next three years. As of June 2020, GVREIT had THB2 billion of outstanding debentures due in April 2027. The trust plans to refinance the maturing debentures with new debenture issues. We believe the trust will have no problems refinancing its debts, given its ability to access financial markets and strong support from its sponsors.

BASE-CASE ASSUMPTIONS

- New asset acquisitions of around THB5-THB6 billion over the next couple of years.
- PKV's OR to range from 95%-98% and SSQ's OR to range from 95%-97% during FY2020-FY2022. FYI's OR to stay above 90% in FY2022.
- Average rental rates of PKV and SSQ to grow by 3% per annum during FY2021-FY2022.
- EBITDA margin to be in the 71%-75% range over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that GVREIT's property portfolio will continue to generate steady cash flow during FY2020-FY2022. We expect the trust's assets to sustain high OR and achieve favorable rental rates as targeted. In addition, we expect GVREIT to maintain its strong financial profile with the debt to capitalization ratio below 30% and the debt to EBITDA ratio below 3.5 times.

RATING SENSITIVITIES

GVREIT's ratings and/or outlook could be revised downward if the OR drops significantly below expectations and/or larger-than-expected debt-funded property acquisitions causing its debt to EBITDA ratio to stay above 4 times for a prolonged period. In contrast, the ratings and/or outlook could be revised upward if the trust acquires more properties and can diversify the location and tenant base of its portfolio while maintaining a strong financial profile.

COMPANY OVERVIEW

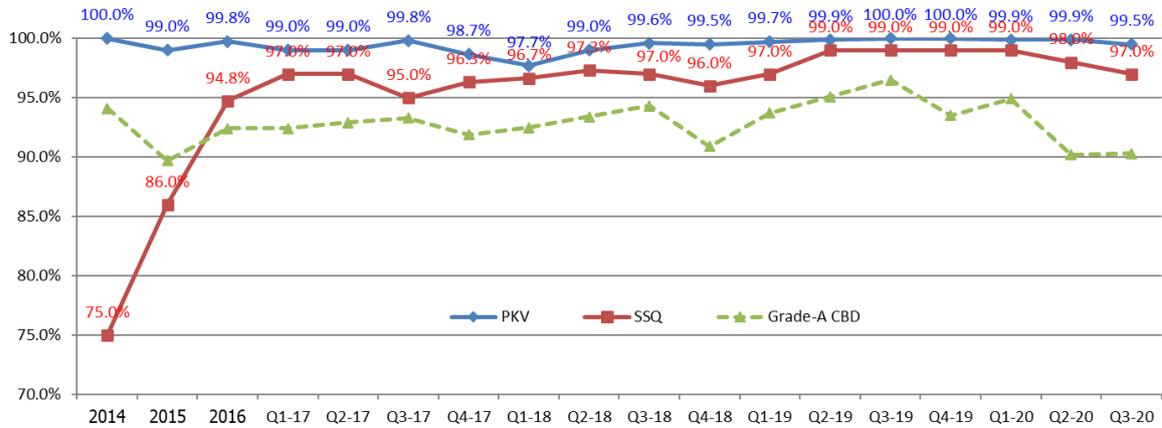
GVREIT was founded in March 2016. The REIT is a non-redeemable and indefinite trust. GOLD is the trust's major unit holder with a 22.64% stake as of June 2020. GVREIT's REIT manager and property manager are Univentures REIT Management Co., Ltd. (UVRM) and North Sathorn Realty Co., Ltd. (NSR), two wholly-owned subsidiaries of UV and GOLD, respectively. The ultimate shareholders of UV and GOLD are companies affiliated with the TCC Group.

GVREIT's property portfolio is small and concentrated. The trust's assets consist of two office buildings, PKV and SSQ, with a total leasable area of 100,511 sq.m. as of June 2020. The trust's total leasable area is split into 95% for office space, 3% for retail space, and the remainder for other uses. The two office buildings are located in the CBD area of Bangkok and each is connected to a BTS Skytrain station. The assets are classified as grade-A office space in the Wireless Road area for PKV and in the Sathorn Road area for SSQ.

GVREIT's rental and service income was THB1.21 billion in FY2019 and THB880 million in the first nine months of FY2020. Around two-thirds of rental and service income was derived from SSQ with one-third from PKV. The 10 largest tenants constituted 41% of the total occupied area and contributed 33% of total rental and service income during the first nine months of FY2020.

KEY OPERATING PERFORMANCE

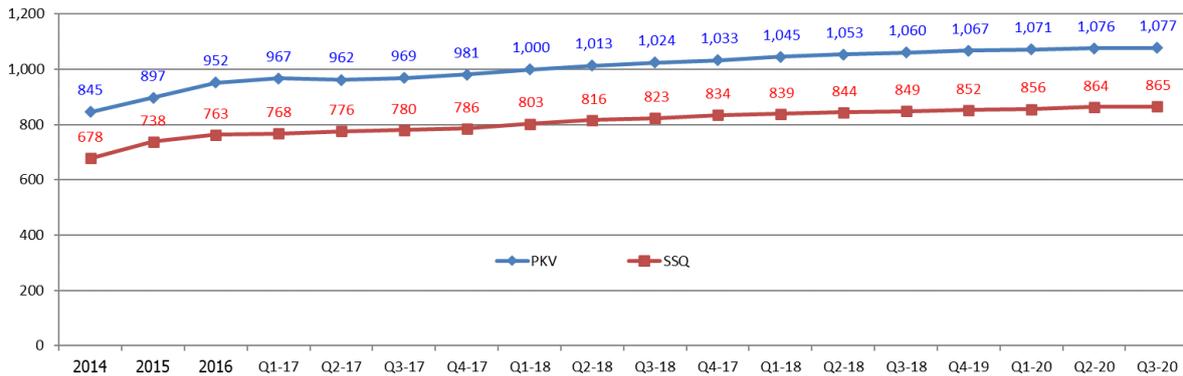
Chart 1: Occupancy Rate and Industry Average of Grade-A CBD Offices



Notes: 1) OR (%) during 2014 through the first quarter of 2016 came from operating performance before GVREIT was established.
2) Comparing with industry average during the same period

Sources: GVREIT and CB Richard Ellis (CBRE)

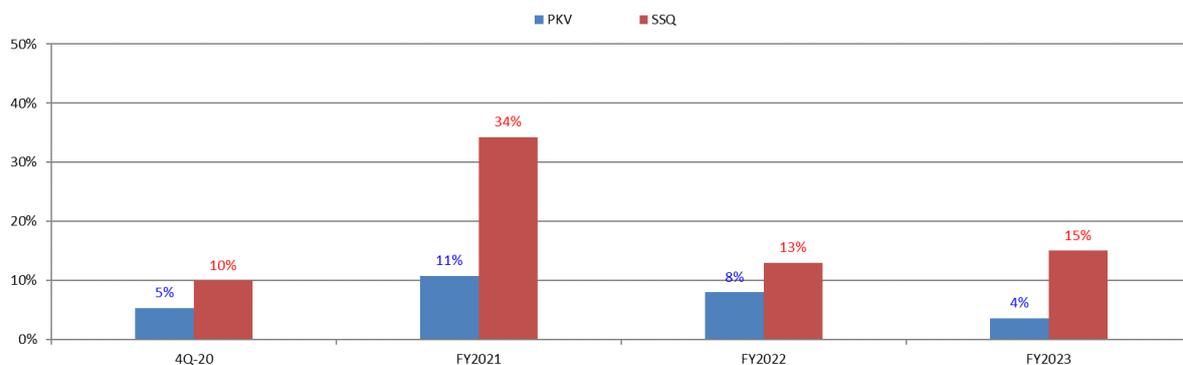
Chart 2: Rental Rate for Overall Tenants



Note: Rental rate for overall tenants during 2014 through the first quarter of 2016 came from operating performance before GVREIT was established.

Source: GVREIT

Chart 3: Lease Expiry by Occupied Area



Source: GVREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct 2019- Jun 2020	-----Year Ended 30 September -----			
	2019	2018	2017	2016	
Total operating revenues	884	1,212	1,143	1,091	536
Earnings before interest and taxes (EBIT)	625	875	844	818	397
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	656	916	884	858	413
Funds from operations (FFO)	568	799	780	738	352
Adjusted interest expense	88	117	104	119	61
Capital expenditures	0	0	0	0	9,906
Total assets	11,290	11,259	11,041	10,562	10,538
Adjusted debt	1,817	1,866	1,964	2,120	2,354
Adjusted equity	8,870	8,849	8,648	8,216	8,224
Adjusted Ratios					
EBITDA margin (%)	74.16	75.57	77.34	78.57	77.19
Pretax return on permanent capital (%)	7.41 **	7.69	7.62	7.53	3.65
EBITDA interest coverage (times)	7.49	7.83	8.50	7.20	6.74
Debt to EBITDA (times)	2.05 **	2.04	2.22	2.47	5.69
FFO to debt (%)	42.37 **	42.81	39.71	34.83	14.96
Debt to capitalization (%)	17.00	17.41	18.51	20.51	22.25

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Real Estate Investment Trust, 12 October 2016

Golden Ventures Leasehold Real Estate Investment Trust (GVREIT)

Company Rating:	A-
Issue Rating:	
GVREIT274A: Bt2,000 million senior unsecured debentures due 2027	A-
Rating Outlook:	Stable

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