

# GOLDEN VENTURES LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 205/2023  
20 October 2023

## CORPORATES

Issuer Rating:	A-
Issue Rating:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 31/10/22

### Issuer Rating History:

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

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## RATIONALE

TRIS Rating affirms the issuer 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” rating outlook. The ratings reflect the trust’s high-quality assets in prime areas of Bangkok, growth prospects driven by assets from the TCC Group, low financial leverage, and adequate liquidity. However, the ratings are constrained by portfolio concentration in terms of assets, tenants, and lease expiry. Also, the ratings take into consideration our concerns over increasing pressure on the trust’s occupancy and rental rates from weakening demand in office space and expected excess office supply in the central business district (CBD) over the next few years.

## KEY RATING CONSIDERATIONS

### Ratings underpinned by high-quality assets in prime locations

We hold the view that GVREIT should continue generating satisfactory operating performance over the medium term. Our view is supported by the trust’s high-quality and well-situated assets. The trust’s assets comprise two office buildings for rent, “Park Ventures Ecoplex” (PKV) and “Sathorn Square” (SSQ), with total net leasable area of 100,023 square meters (sq.m.). PKV is classified as grade-A+ CBD office building and SSQ is classified as grade-A. Both buildings have direct access to BTS Skytrain stations.

Despite the challenging industry situation for rental office space, PKV and SSQ recorded high occupancy rates (OR) of above 95% and above 90%, respectively, for the fiscal year 2022 (FY2022) through the first nine months of FY2023 (9MFY2023). The OR remained higher than the industry average of 60% for grade-A+ and 82% for grade-A CBD office space. The two properties also achieved satisfactory average rental rates (ARR): THB1,100 per sq.m. per month for PKV and THB880 per sq.m. per month for SSQ.

### Future performance challenged by softening demand and supply influx

We view that the OR and ARR of the trust’s properties will be threatened by weakening demand for office space caused by the hybrid working trend. Also, we expect a surge in new supply in 2023-2025 to exert pressure on both OR and ARR.

According to CB Richard Ellis (CBRE), around 1 million sq.m. of new supply is expected to be added in the market in 2023-2025. Around 60% of new supply will be grade-A+ and grade-A CBD office buildings. The net take-up of office space is predicted to be in the negative territory in 2023 and only 50,000 sq.m. per annum in 2024-2025. The wider gap between new office supply and take-up demand, especially in the CBD, could further depress OR and ARR in coming years.

Our base-case scenario projects the OR of each building to soften over the forecast period. We expect that the OR of PKV will drop to 90%-95% and the OR of SSQ will range around 88%-90%. Contract renewal rate might lower, while ARR is likely to grow at a slower pace of 1%-2% per annum. Our view on ARR growth is supported by the planned asset enhancement initiatives (AEI) in FY2024. Consequently, we expect the trust’s revenue to stay around THB1.1-THB1.2 billion per annum in FY2023-FY2025. The trust’s earnings before interest, taxes, depreciation, and amortization (EBITDA) is projected to

decrease but should remain above THB800 million per annum, with an EBITDA margin of 70%-72%.

### **Portfolio concentration risk**

GVREIT's asset portfolio remains exposed to significant concentration risk regarding the number of properties, tenants, and lease expiry. The trust's rental income and earnings depend largely on two assets in two locations, Wireless Road and Sathorn Road. SSQ contributes around two-thirds of the trust's total income and EBITDA with PKV making up the rest. Therefore, unfavorable operating results in any single asset could substantially impact the trust's overall performance.

In terms of tenants, the trust is exposed to a certain extent of major tenant concentration risk. The top-ten tenants accounted for 35% of the trust's total occupied area and total rental and service income in FY2022-9MFY2023. Tenants affiliated with the TCC Group contributed 8%-9%. Also, GVREIT is exposed to contract renewal risk as most of its lease contracts have a three-year term. As of June 2023, 15% of occupied area based on existing contracts will expire in the fourth quarter of FY2023, 40% in FY2024, around 20% per annum in FY2025-FY2026, and the rest in FY2027. Lease contract expirations are highly concentrated in FY2024 since the lease agreements of major tenants, especially in SSQ, will expire in that period. In our view, an increased number of assets plus diversified tenants and more dispersed lease expiry dates should help mitigate the concentration risk.

### **Potential growth over longer term**

GVREIT has growth potential from portfolio expansion supported by the sponsors in the long run. GVREIT is 23.6% held by Golden Land Property Development PLC (GOLD). The trust's REIT manager is also a wholly owned subsidiary of GOLD. GOLD is a core subsidiary of Frasers Property (Thailand) PLC (FPT), whose ultimate shareholders are companies affiliated with the TCC Group. One of the group's businesses is property development, including property for rent and property for sale. As a result, if the trust plans to enlarge its asset portfolio, we expect assets from the group to be looked at as the first priority.

Apart from the assets within the group, GVREIT also considers the possibility of acquiring assets from non-sponsors. These potential assets may extend beyond office buildings for rent to include other property types such as hotels or shopping malls. Currently, the trust has no concrete plan for acquiring these new assets. However, in our view, expanding the number of assets across various locations will contribute to scaling up the trust and reducing its concentration risk.

### **Low financial leverage anticipated**

We view that GVREIT will continue its prudent financial management by maintaining the loan (excluding lease liabilities) to total asset value (LTV) ratio below 20% over the next three years. Our base-case scenario assumes there will be no new asset acquisition in FY2023-FY2025. However, we incorporate a capital expenditure for AEI in FY2024. We project the trust's debt to EBITDA ratio to stay around 2 times and debt to capitalization ratio to range between 14%-16% over the forecast period. As of June 2023, the trust's debt to EBITDA ratio was 2 times and debt to capitalization ratio was 16%. In the event that the trust acquires new assets in the future, we expect the trust to maintain its financial leverage in line with our target.

The financial covenants on GVREIT's debentures require the trust to maintain its LTV ratio below 60%. The ratio was 16.3% as of June 2023. We believe the trust should have no problems complying with the financial covenants over the next three years.

### **Expected to maintain adequate liquidity**

We expect GVREIT to sustain its adequate liquidity over the next 12 months, backed by its relatively low financial leverage and no maturing debt in the near term. At the end of June 2023, the trust had THB2 billion of outstanding debentures due in April 2027. The trust plans to refinance the maturing debentures with new debenture issuance. Given its ability to access the capital market and strong support from its sponsors, the trust should be able to refinance its debentures as planned. The trust's unencumbered assets can also be used as collateral for bank loans, if needed. The market value of its unencumbered assets as of September 2023 was THB10 billion.

As of June 2023, the trust's sources of liquidity included THB256 million of cash on hand, THB160 million of available credit lines from a financial institution, and THB1.1 billion of investments in securities at fair value. The trust's funds from operations (FFO) are expected to stay around THB700 million in the next 12 months.

### **BASE-CASE ASSUMPTIONS**

The key assumptions in TRIS Rating's base-case forecast for GVREIT's operations in FY2023-FY2025 are as follows:

- OR of PKV to range from 90%-95% and SSQ to range between 88%-90%
- Average rental rates to grow by 1%-2% per annum
- EBITDA margin to range between 70%-72%
- No new asset acquisitions

**RATING OUTLOOK**

The “stable” outlook reflects our expectation that GVREIT’s property portfolio will continue generating reliable cash flow in FY2023-FY2025. Despite increasing industry risk from anticipated excess supply and softening demand for office space, we expect the trust to maintain high OR and achieve favourable rental rates as targeted. We also expect the trust to maintain its solid financial profile with the debt to capitalization ratio below 30% and the debt to EBITDA ratio below 3.5 times.

**RATING SENSITIVITIES**

The ratings and/or outlook on GVREIT could be revised downward should its operating performance deteriorate materially from our expectations and/or larger-than-expected debt-funded acquisitions cause the trust’s debt to EBITDA ratio to rise above 4 times for a prolonged period. A credit downside could occur if the industry risk evolves in a way that leads us to believe that the mismatch between supply and demand in office space has the tendency of severely impacting the trust’s credit profile.

Conversely, a rating upward revision would materialize if the trust can enlarge its property portfolio as well as diversify property locations and tenant bases while maintaining a strong financial profile.

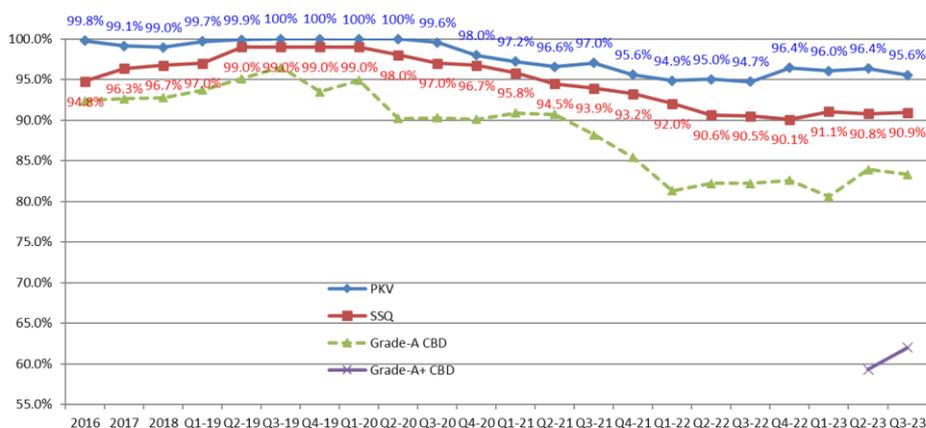
**TRUST OVERVIEW**

GVREIT was founded in March 2016. The REIT is a non-redeemable and indefinite trust. GOLD is the trust’s major unitholder with a 23.6% stake as of September 2023. GVREIT’s REIT manager and property manager are Frasers Property Commercial Asset Management (Thailand) Co., Ltd. (FPCAMT) (formerly Univentures REIT Management Co., Ltd. (UVRM)) and North Sathorn Realty Co., Ltd. (NSR), two wholly owned subsidiaries of GOLD. The ultimate shareholders of 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 net leasable area of 100,023 sq.m. as of June 2023. 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 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 grade-A office space in the Sathorn Road area for SSQ.

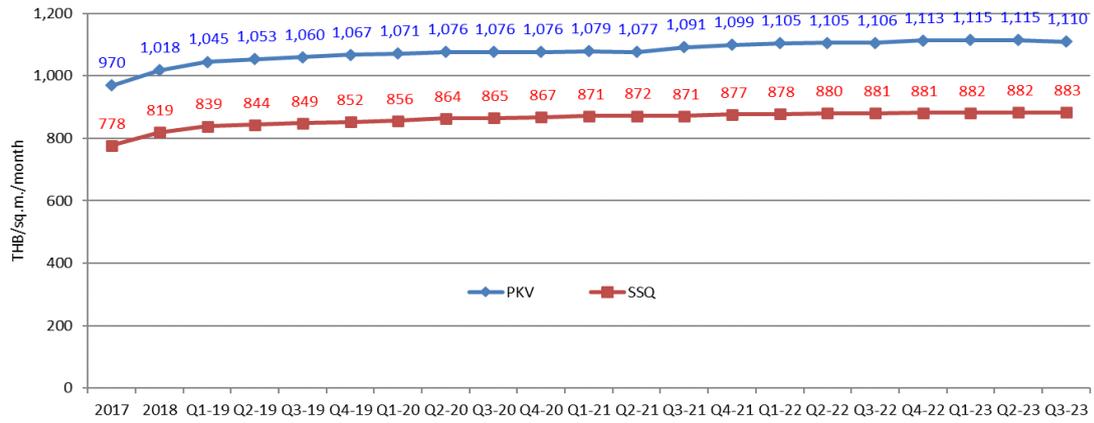
**KEY OPERATING PERFORMANCE**

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



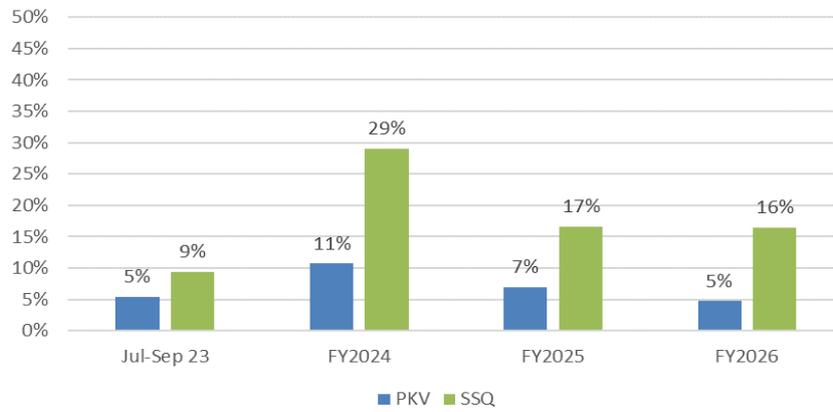
Source: GVREIT and CB Richard Ellis (CBRE)

**Chart 2: Rental Rate for Overall Tenants**



Source: GVREIT

**Chart 3: Lease Expiry by Occupied Area**



Source: GVREIT

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	-----Year Ended 30 September -----				
	Oct 2022- Jun 2023	2022	2021	2020	2019
Total operating revenues	876	1,135	1,122	1,183	1,212
Earnings before interest and taxes (EBIT)	630	842	826	839	875
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	630	842	840	880	916
Funds from operations (FFO)	552	737	732	762	799
Adjusted interest expense	78	105	108	118	117
Investments in leasehold properties at fair value	10,916	10,890	10,989	10,198	10,181
Total assets	12,340	12,213	12,200	11,348	11,259
Adjusted debt	1,704	1,803	1,898	1,820	1,866
Adjusted equity	9,122	9,010	8,990	8,930	8,849
<b>Adjusted Ratios</b>					
EBITDA margin (%)	71.96	74.19	74.90	74.35	75.57
Pretax return on permanent capital (%)	7.00 **	7.14	7.07	7.28	7.69
EBITDA interest coverage (times)	8.03	8.01	7.79	7.45	7.83
Debt to EBITDA (times)	2.04 **	2.14	2.26	2.07	2.04
FFO to debt (%)	42.89 **	40.88	38.59	41.83	42.81
Debt to capitalization (%)	15.74	16.67	17.43	16.93	17.41

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

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

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**Golden Ventures Leasehold Real Estate Investment Trust (GVREIT)**

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<b>Issuer Rating:</b>	A-
<b>Issue Rating:</b>	
GVREIT274A: THB2,000 million senior unsecured debentures due 2027	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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