

THAILAND PRIME PROPERTY FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 66/2021
30 April 2021

CORPORATES

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

Last Review Date: 10/04/20

Company Rating History:

Date	Rating	Outlook/Alert
26/09/19	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thailand Prime Property Freehold and Leasehold Real Estate Investment Trust (TPRIME or “trust”) and the ratings on its senior unsecured debentures at “A-” with a “stable” outlook. The ratings reflect the trust’s good-quality assets in prime locations of Bangkok, favorable cash flow protection, and relatively low financial leverage. However, the ratings are constrained by portfolio concentration risk in terms of assets, tenants, and lease expiry date. The ratings also take into consideration the increasing pressure on the occupancy and rental rates of the trust amid concerns over the Coronavirus Disease 2019 (COVID-19) pandemic and a sizable new supply of office space in the central business district (CBD).

KEY RATING CONSIDERATIONS

Good assets located in prime areas

We view that TPRIME’s properties remain attractive in the market, supported by its good-quality assets in prime business areas. TPRIME’s assets comprise two office buildings, “Exchange Tower” (EXCHANGE) and “Mercury Tower” (MERCURY). EXCHANGE and MERCURY are classified as grade-A office buildings and located in the heart of Bangkok with direct access to BTS Skytrain stations. As of December 2020, the total leasable area of both buildings was 67,372 square meters (sq.m.). TPRIME has a freehold right in EXCHANGE through a 99% stake of Exchange Tower Ltd., the company that owns EXCHANGE. Also, TPRIME is entitled to a 19-year lease contract (2016-2035) in MERCURY.

EXCHANGE and MERCURY have been well-occupied with an average occupancy rate (OR) of over 90% over the past three years. At the end of 2020, the average OR was 92.5% for EXCHANGE and 91% for MERCURY, while the industry average OR for grade-A CBD office space stood at around 90%. The average rental rate for both buildings was around THB1,050-THB1,080 per sq.m. per month in 2020, in line with the industry-wide rental rate for grade A office buildings. Amid the COVID-19 pandemic, the trust has been able to increase the average rental rates of EXCHANGE and MERCURY by 2% and 1% per annum, respectively. However, these rates were lower than the 3.7% and 5.8% annual increases in 2019.

Increasing pressure on occupancy and rental rates

We expect the trust’s occupancy and rental rates to continue to come under pressure owing to the uncertainty in medium- to long-term demand trends for office space resulting from the ongoing COVID-19 pandemic and an expected sizable influx of new office space over the next 2-3 years. According to the CBRE, around 300,000-500,000 sq.m. of new supply will be added to the market during 2021-2023. The expected slowdown in demand coupled with the rising supply, especially in the CBD, could depress OR and rental rates over the next few years.

In our base-case forecast, we expect flat growth in TPRIME’s rental rates over the next three years. The average occupancy rate is expected to range between 85%-90%, down from 90%-95% in the past. The trust’s revenue is expected to range between THB870-THB900 million per annum in 2021-2023.

Robust cash flow protection

In our view, TPRIME's cash flow protection is still robust. Despite a decline in TPRIME's revenue of 6% year-on-year (y-o-y) in 2020, its earnings before interest, tax, depreciation, and amortization (EBITDA) was maintained at around THB663 million. The decline in revenue was largely offset by lower costs after the implementation of new property tax law in 2020. The change in the property tax rate from 12.5% of rental and service income to 0.6%-0.7% of asset value (depending on the asset value) and the reduction in tax collection by 90% during the COVID-19 year, significantly lowered the trust's tax expenses. As a result, its EBITDA margin rose to 72% in 2020, compared with 68% in 2019.

TPRIME's EBITDA interest coverage ratio also improved to 11 times from around 7 times in 2019, after the trust refinanced its bank loans with lower interest bonds. Going forward, despite the expected drop in earnings, TPRIME's EBITDA margin is expected to hold in the 65%-66% range during 2021-2023. Thus, its EBITDA should be maintained at around THB580-THB590 million. Its EBITDA interest coverage ratio should stay at around 9-10 times while its debt to EBITDA ratio is expected to stay at around 2.5-2.7 times.

High portfolio concentration risk

We view that TPRIME's asset portfolio is highly concentrated in terms of numbers of properties, tenants, and lease expiry dates. The trust's performance depends solely on two assets in two locations, Sukhumvit Road and Langsuan Road. EXCHANGE contributes around two-thirds of total rental and service income and MERCURY makes up the rest. In addition, the top-ten tenants occupied around 50% of total leased area for EXCHANGE and around 55% of total leased area for MERCURY. The top-ten tenants of each building contributed 44% of rental and services income for EXCHANGE and 47% for MERCURY. The largest tenant occupied around 5% of the trust's total leased area and contributed around 4.5% of its rental and services income.

TPRIME is also exposed to contract renewal risk. Most of TPRIME's lease contracts have a three-year lease term while some retail tenants have a one-year term. At the end of 2020, around 43% of the existing contracts based on leased area will expire in 2021, 38% in 2022, 16% in 2023, and the rest will expire in 2024. Lease contract expirations are relatively concentrated in 2021 and 2022, since the lease agreements of 10 major lessees of both buildings will expire within the same period. Due to the COVID-19 pandemic and slowdown in the domestic economy, the renewal rate in 2020 dropped significantly to 72% from around 84%-94.5% in 2017-2019. However, the trust was able to find new tenants and maintain the occupancy rates of both buildings at more than 90% at the end of 2020.

Low financial leverage

In our base-case forecast, without the acquisition of new assets, we forecast TPRIME's debt to capitalization ratio to stay in the 17%-19% range, and the debt to EBITDA ratio in the 2.5-2.7 times range during 2021-2023. As of December 2020, TPRIME's debt to capitalization ratio stood at 19% and the debt to EBITDA ratio was 2.5 times. However, despite the acquisition of new assets, we expect TPRIME to maintain its debt to capitalization ratio below 30% and the debt to EBITDA ratio below 3.5 times in order to remain its credit ratings at this level.

The financial covenant on its debentures requires TPRIME to maintain the loan to fair value of the total asset ratio (LTV) below 60%. The ratio at the end of December 2020 was 23%. Based on its existing portfolio, we believe that the trust should be able to comply with its financial covenant over the next three years.

Adequate liquidity

We assess TPRIME's liquidity to remain adequate over the next 12 months. The trust's sources of liquidity include cash on hand of THB703 million and available credit lines from financial institutions of THB110 million. We forecast funds from operations (FFO) to stay around THB450 million over the next 12 months. As of December 2020, TPRIME had THB2.05 billion in outstanding debentures, including THB1 billion due in 2023 and THB1.05 billion due in 2027. The trust has no debt due in 2021 and 2022.

In our view, the trust has some financial flexibility to withstand adverse market circumstances as its cash on hand is sufficient to cover more than a year of operating costs. We also expect that the trust should be able to refinance its debentures in 2023, given its ability to access the capital market. In addition, the trust's high-quality unencumbered assets can also be used as collateral for bank loans, if needed. The market value of its unencumbered assets at the end of 2020 was THB8.67 billion.

BASE-CASE ASSUMPTIONS

- OR to remain at 85%-90% over the next three years.
- Average rental rates to stay flat due to pressure from the resurgence of COVID-19 and an increased supply of new office space in the next 2-3 years.
- EBITDA margin to be in the 65%-66% range during 2021-2023.

RATING OUTLOOK

The “stable” outlook reflects our expectation that TPRIME’s assets will continue to generate steady cash flow and sustain high OR with favorable rental rates as targeted over the next three years. Despite the acquisition of new assets, the trust is expected to keep its debt to capitalization ratio below 30% and the debt to EBITDA ratio below 3.5 times on a sustained basis.

RATING SENSITIVITIES

We could lower the ratings if TPRIME’s debt to capitalization ratio exceeds 30% and/or the debt to EBITDA ratio rises above 4 times. This could occur due to a sharp deterioration in operating performance and/or larger-than-anticipated debt-funded acquisitions. On the other hand, we would consider an upgrade for the ratings if the trust materially increases its scale and asset diversity while maintaining its financial profile at the current level.

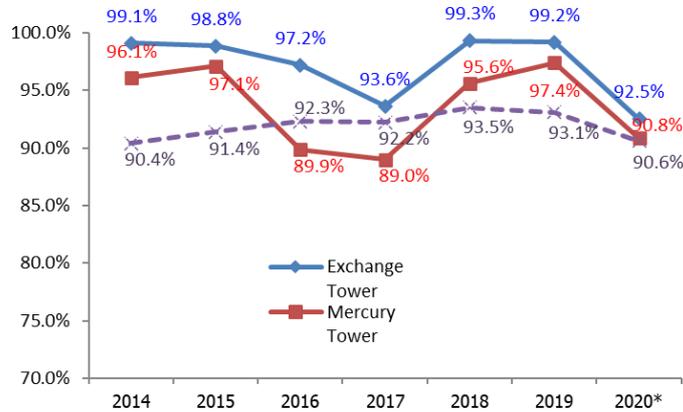
COMPANY OVERVIEW

TPRIME is a non-redeemable and indefinite real estate investment trust (REIT). The trust was established in October 2016 with an initial objective to invest in the leasehold right of MERCURY and in a 99% share of Exchange Tower Ltd., which owns EXCHANGE. The trust is a non-sponsored REIT with diverse major unitholders including insurance companies, funds, and other financial institutions. The REIT manager is SCCP REIT Co., Ltd. (SCCP). SCCP is equipped with highly experienced board and management members. Property managers are CBM Facilities Management (Thailand) for EXCHANGE and Jones Lang LaSalle Management for MERCURY.

The trust’s assets comprise two office buildings, EXCHANGE and MERCURY, with a total net leasable area of around 67,372 sq.m.. Office space accounts for 79% of the total leasable area while retail space makes up the remainder. Both buildings are located in prime areas. EXCHANGE is located on the corner of Asoke junction and is connected to Asoke BTS station via a sky bridge. MERCURY sits on the corner of Ploenchit Road and Langsuan Road with a direct walkway link to Chidlom BTS station. As of December 2020, the fair value of TPRIME’s assets was THB8.67 billion. The trust’s rental and service income was THB912 million in 2020. EXCHANGE generated about 66% of rental and service income and the rest came from MERCURY.

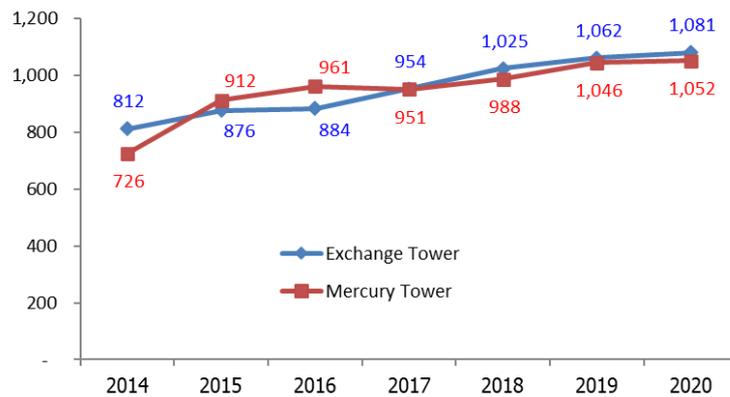
KEY OPERATING PERFORMANCE

Chart 1: Occupancy Rate



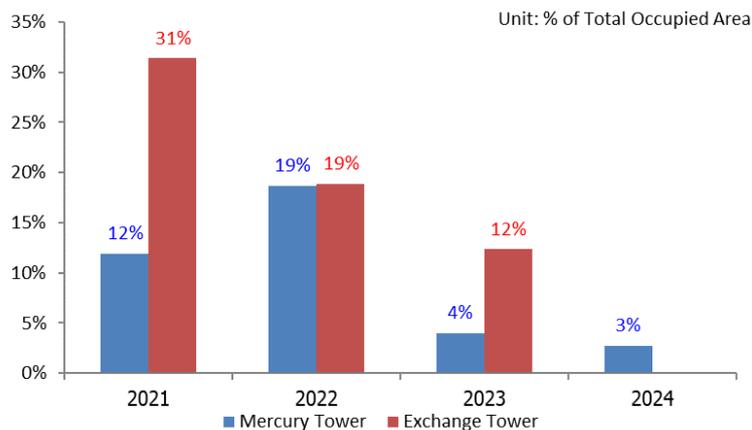
* Occupancy rate as of end of period
Sources: TPRIME and CB Richard Ellis (CBRE)

Chart 2: Rental Rate



Source: TPRIME

Chart 3: Lease Expiry



Source: TPRIME

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016 *
Total operating revenues	923	979	930	829	162
Earnings before interest and taxes (EBIT)	621	621	533	432	92
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	663	668	580	478	103
Funds from operations (FFO)	519	496	428	347	76
Adjusted interest expense	60	97	88	89	18
Capital expenditures	0	0	0	0	0
Total assets	9,478	8,972	8,721	8,357	8,106
Adjusted debt	1,641	1,839	1,604	1,685	1,623
Adjusted equity	6,839	6,420	6,160	5,856	5,540
Adjusted Ratios					
EBITDA margin (%)	71.90	68.24	62.31	57.64	63.64
Pretax return on permanent capital (%)	6.88	7.22	6.52	5.49	1.19 **
EBITDA interest coverage (times)	10.98	6.87	6.59	5.40	5.78
Debt to EBITDA (times)	2.47	2.75	2.77	3.53	15.75 **
FFO to debt (%)	31.62	26.94	26.66	20.58	4.67 **
Debt to capitalization (%)	19.36	22.27	20.66	22.34	22.66

* For the period from 11 Oct-31 Dec 2016

** Non-annualized ratios

RELATED CRITERIA

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

Thailand Prime Property Freehold and Leasehold Real Estate Investment Trust (TPRIME)

Company Rating:	A-
Issue Ratings:	
TPRIME231A: THB1,000 million senior unsecured debentures due 2023	A-
TPRIME271A: THB1,050 million senior unsecured debentures due 2027	A-
Rating Outlook:	Stable

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