

THAILAND PRIME PROPERTY FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 67/2024
26 April 2024

CORPORATES

Issuer Rating: BBB+
Issue Rating:
Senior unsecured BBB+
Outlook: Stable

Last Review Date: 28/04/23

Company Rating History:

Date	Rating	Outlook/Alert
28/04/23	BBB+	Stable
29/04/22	A-	Negative
26/09/19	A-	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Thailand Prime Property Freehold and Leasehold Real Estate Investment Trust (TPRIME or “trust”) and the rating on its senior unsecured debentures at “BBB+” with a “stable” rating outlook. The ratings reflect the trust’s acceptable cash flow protection, low financial leverage, and adequate liquidity. However, the ratings are weighed by rising pressure on the trust’s occupancy and rental rates from softening demand for office space and anticipated excess office supply in the central business district (CBD) over the next few years. The ratings continue to be constrained by TPRIME’s portfolio concentration in terms of assets, tenants, and lease expiry.

KEY RATING CONSIDERATIONS

Future performance challenged by supply influx and weakening demand

We view that the trust’s occupancy and rental rate will remain under pressure in the medium term due to a substantial influx of new office space in 2024-2025 while the demand still has not fully recovered from the pandemic impact. Occupancy rates of TPRIME’s two office buildings, “Exchange Tower” (EXCHANGE) and “Mercury Tower” (MERCURY), have yet to return to the pre-COVID-19 level. The average occupancy rate (OR) of EXCHANGE contracted to 81% in 2023, shrinking from above 90% in 2017-2020. The OR of MERCURY decreased to 78% in 2023, from above 90% in 2018-2020. The average rental rate (ARR) also dropped in the past two years as competition intensified.

According to CB Richard Ellis (CBRE), around 870,000 square meters (sq.m.) of new office spaces is expected to be added to the market in 2024-2025. Around half of the new supply will be grade-A+ or grade-A CBD office buildings. The net take-up of office space is predicted to be only 50,000 sq.m. per annum in 2024-2026. The widening 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 for TPRIME projects a 1%-2% year-on-year (y-o-y) decrease in rental rates for both buildings with OR in the 75%-77% range over the forecast period. The trust’s operating revenue is likely to decline to the THB700-THB750 million per annum range in 2024-2026 from THB770-THB800 million in 2021-2023. The trust’s earnings before interest, taxes, depreciation, and amortization (EBITDA) is projected to decrease but should remain above THB420 million per annum, with an EBITDA margin of around 60%.

Ratings constrained by portfolio concentration risk

In our view, TPRIME’s portfolio remains exposed to significant concentration risk in terms of the number of properties, tenants, and lease tenures. The trust’s rental income and EBITDA depends largely on two assets in two locations, Sukhumvit Road and Ploenchit Road. EXCHANGE contributes around two-thirds of total revenue and around three-fourths of total EBITDA, while MERCURY makes up the rest. Unfavorable operating results of any single asset could materially impact the overall performance of the trust.

Tenant wise, the top-ten tenants accounted for 52% of total occupied area for EXCHANGE and 54% of total leased area for MERCURY. The top-ten tenants of each building contributed 49% of rental and services income for EXCHANGE and 47% for MERCURY. Contract terminations or downsizing of the leased area by any of the major tenants could potentially have a significant negative impact on the trust’s operating results.

In addition, most of TPRIME's lease contracts have a three-year lease term. This exposes the trust to some degree of lease renewal risk. As of December 2023, 36% of the existing contracts based on occupied area will expire in 2024, 43% in 2025, and 21% in 2026. Lease contract expirations are highly concentrated in 2024 and 2025 since the lease agreements of 10 major tenants of both buildings will expire within the same period. The renewal rates for EXCHANGE and MERCURY have been in the 75%-90% range over the past three years. However, a surge in new office supply in 2024-2025 will considerably raise the vacancy rate, particularly in the CBD. TPRIME is in the process of renovating and expanding the facilities and appearance of each building as well as applying for international green and technology certifications, with the aim of becoming fully certified by the end of this year. These upgrades should help attract new tenants and retain existing tenants.

Softening but acceptable cash flow protection

Despite a smaller revenue and earnings base, we expect TPRIME's cash flow protection to remain acceptable, thanks to its low financial leverage. The trust's lower revenues and profitability caused its adjusted net debt to EBITDA ratio to increase to 3.1-3.5 times in 2021-2023, from below 3 times in 2018-2020. The EBITDA interest coverage ratio declined to 6.3 times in 2023 from 8.0-8.5 times in 2021-2022 and 11 times in 2020. However, the trust's low financial leverage with the loan-to-fair-value of total assets (LTV) ratio of 21% helps mitigate the deterioration in its financial risk profile.

Looking forward, we anticipate TPRIME's revenue and earnings to continue to be pressured by weakening demand and an influx of supply. In addition, lingering high interest rates will result in higher funding costs. We expect the trust's adjusted net debt to EBITDA ratio to head up to 3.7-3.8 times and its EBITDA interest coverage ratio could deteriorate to 5.4-5.6 times in 2024-2026. Currently, the trust has no concrete plans for new asset acquisitions. Thus, we expect the LTV ratio to remain at the current level throughout the forecast period.

Adequate liquidity

We assess TPRIME's liquidity as adequate for the next 12 months, backed by its low financial leverage with no maturing debt in 2024-2025. As of December 2023, the trust's sources of liquidity included cash on hand of THB697 million and available credit lines from financial institutions of THB110 million. We forecast funds from operations (FFO) to stay around THB300 million in 2024. The trust's unencumbered assets can also be used as collateral for bank loans, if needed. The market value of its unencumbered assets at the end of 2023 was THB8.8 billion.

The financial covenants on TPRIME's bank loans require the trust to maintain its LTV ratio, excluding lease liability, below 35% and the reported interest-bearing debt to reported EBITDA ratio below 6 times. At the end of 2023, the ratios were 21.3% and 4 times, respectively. We believe the trust should have no problems complying with the financial covenants over the next 12 months.

Debt Structure

As of December 2023, TPRIME's consolidated debt, excluding lease liability, was THB2.05 billion, comprising THB1 billion long-term loans from banks due in 2026 and THB1.05 billion debentures due in 2027. All debts were unsecured debts at the parent company. The trust has no priority debt.

BASE-CASE ASSUMPTIONS

Here are our key base-case assumptions for TPRIME's operations in 2024-2026:

- OR for both office buildings in the 75%-77% range
- Rental rates to decline by 1%-2% y-o-y
- EBITDA margin to hover around 60%
- No new asset acquisitions

RATING OUTLOOK

The "stable" outlook reflects our expectation that TPRIME will be able to deliver operating performance as targeted while its financial profile to largely align with our base-case forecast. We expect the trust to maintain its adjusted net debt to EBITDA ratio below 5.5 times over the forecast period.

RATING SENSITIVITIES

The ratings and/or outlook on TPRIME could be revised downward should there be a deeper-than-expected deterioration in the trust's operating results and/or financial profile. An increase in the adjusted net debt to EBITDA ratio to a level above 5.5 times could trigger a downward revision of the ratings and/or outlook.

On the contrary, a credit upside scenario could emerge if the trust can enlarge its revenue and earnings base, while maintaining its financial profile at the current level.

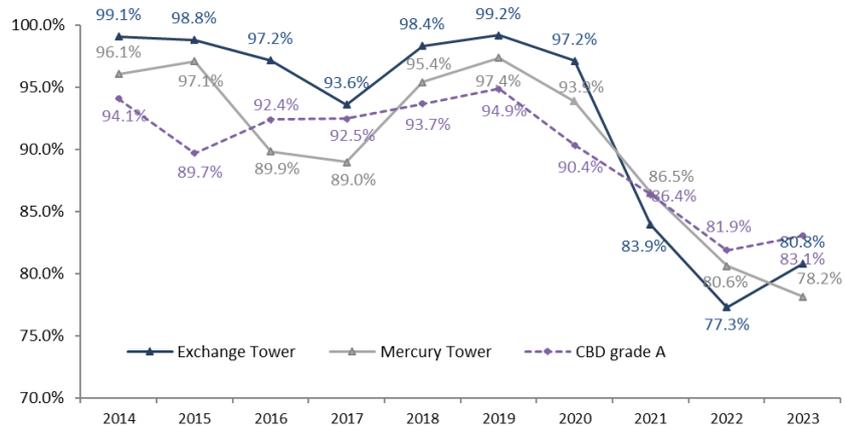
COMPANY OVERVIEW

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 an investment holding company, insurance companies, funds, and other financial institutions. The REIT manager is SCCP REIT Co., Ltd. (SCCP). SCCP is operated by highly experienced board and management members. Property managers are Nuntawan Management Co.,Ltd. (NMC) for EXCHANGE and Jones Lang LaSalle Management Co., Ltd. for MERCURY.

The trust's assets comprise two office buildings, EXCHANGE and MERCURY, with a total net leasable area of 68,016 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 2023, the fair value of TPRIME's assets was THB8.8 billion. The trust's rental and service income was THB797 million in 2023. EXCHANGE generated about 65% of the rental and service income and the rest came from MERCURY.

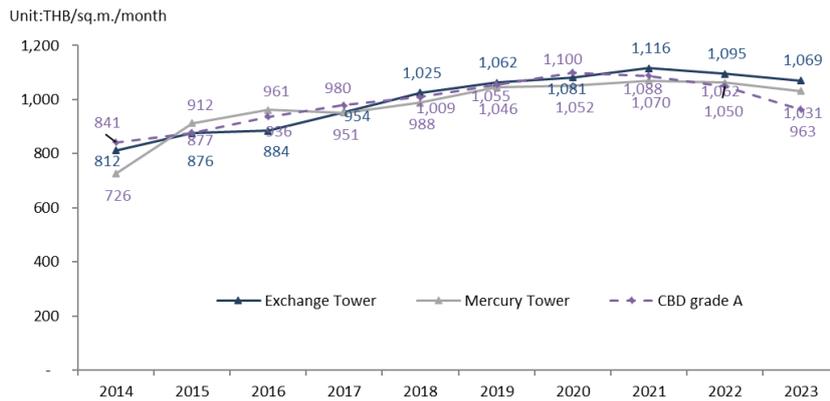
KEY OPERATING PERFORMANCE

Chart 1: Occupancy Rate



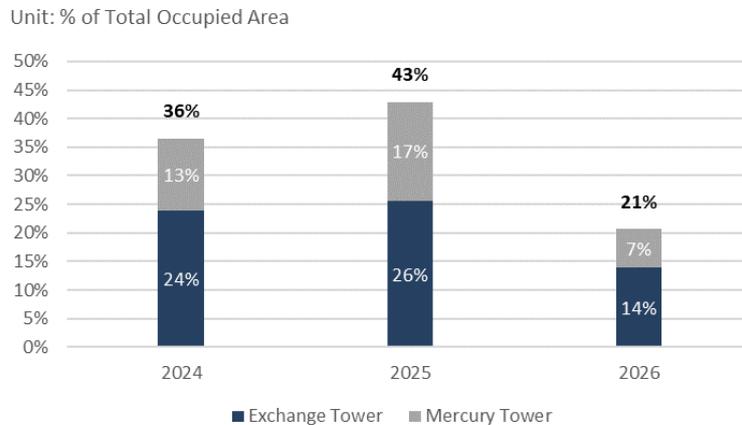
Note: From 2020, OR as average occupancy rate
Sources: TPRIME and CB Richard Ellis (CBRE)

Chart 2: Rental Rate



Source: TPRIME and CB Richard Ellis (CBRE)

Chart 3: Lease Expiry



Source: TPRIME

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	797	769	811	923	979
Earnings before interest and taxes (EBIT)	503	466	499	621	611
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	506	470	532	663	658
Funds from operations (FFO)	367	358	404	519	496
Adjusted interest expense	81	58	62	60	87
Investments in properties and leasehold rights over Properties at fair value	8,790	8,712	8,760	8,666	8,125
Total assets	9,550	9,488	9,528	9,478	8,972
Adjusted debt	1,634	1,649	1,673	1,517	1,559
Adjusted equity	6,829	6,751	6,788	6,839	6,420
Adjusted Ratios					
EBITDA margin (%)	63.5	61.1	65.6	71.9	67.2
Pretax return on permanent capital (%)	5.5	5.1	5.5	7.0	7.2
EBITDA interest coverage (times)	6.3	8.0	8.5	11.0	7.5
Debt to EBITDA (times)	3.2	3.5	3.1	2.3	2.4
FFO to debt (%)	22.5	21.7	24.2	34.2	31.8
Debt to capitalization (%)	19.3	19.6	19.8	18.2	19.5

* Consolidated financial statements

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

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

Issuer Rating:	BBB+
Issue Rating:	
TPRIME271A: THB1,050 million senior unsecured debentures due 2027	BBB+
Rating Outlook:	Stable

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