

WHA CORPORATION PLC

No. 182/2022
17 October 2022

CORPORATES

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

Last Review Date: 14/03/22

Company Rating History:

Date	Rating	Outlook/Alert
27/10/21	A-	Stable
27/09/19	A-	Negative
14/11/17	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on WHA Corporation PLC (WHA) and the ratings on WHA's senior unsecured debentures at "A-" with a "stable" rating outlook.

The ratings continue to reflect WHA's strong competitive position and proven track record in built-to-suit warehouses and industrial estate development. The ratings also incorporate the sizable base of WHA's recurring income from rental properties, utility services, and dividends from power plants. This is in addition to the financial flexibility that the company gains from the sale of assets to real estate investment trusts (REIT). Nonetheless, the ratings are weighed down by the country risks associated with WHA's operations and investments abroad, and the volatile nature of the industrial property for sale market.

KEY RATING CONSIDERATIONS

Solid prospects of a recovery in land sales

TRIS Rating expects WHA's land sale to recover strongly driven by the easing of travel restrictions worldwide, together with rising demand from relocation of production bases driven by heightened geopolitical tensions.

After the COVID-19 pandemic, WHA's land sales have improved strongly. The volume of WHA's land sales in Thailand stood at 850 rai in 2021 and 482 rai in the first half of 2022, a substantial increase from 218 rai in 2020 and close to the range of 800-1,000 rai per year achieved prior to the COVID-19 pandemic. Revenue from land sales improved continuously to THB1.7 billion in 2021 and THB1.4 billion in the first half of 2022, up from THB1.5 billion in 2020.

We expect WHA's industrial land sales to gain growth momentum over the next few years, underpinned by pent-up demand and a post-COVID economic recovery. We expect Thailand to benefit from the relocation of production bases driven by ongoing geopolitical tensions, as well as from global supply chain disruptions. Additionally, WHA is well positioned to capitalize on new business opportunities from its plentiful land banks totaling 8,145 rai in Thailand (including land to be developed), 78% of which are in the Eastern Economic Corridor (EEC) area of Rayong and Chonburi provinces. With the company's competitive edges and existing anchor customers, particularly in the automotive sector, we expect WHA to continue attracting new customers and deliver satisfactory land sales over the next few years.

Our base-case forecast projects WHA's land presales in Thailand of around 1,400 rai in 2022, 40% of which derived from a sizable land plot sold to a leading Chinese Electric Vehicle (EV) manufacturer. Land sales are projected to hover around 850-900 rai annually in 2022-2023. Revenue from land transfers in Thailand is projected to reach THB4.8 billion in 2022, and THB3.4-THB3.8 billion per year in 2023-2024.

Expanding footprint in Vietnam

WHA has been granted an investment certificate to develop its first industrial estate in Nghe-An province in northern Vietnam, with a total gross area of 2,100 hectares (or 13,125 rai). The first phase includes 631 rai of land available for sale, of which 238 rai remained unsold at the end of June 2022. The next phase is awaiting site clearance and construction approval.

Additionally, WHA has expanded its industrial land portfolio to Thanh Hoa province in northern Vietnam, close to Nghe-An province. This industrial estate will cover a total area of 545 hectares and 355 hectares for future expansion (or 5,625 rai in total). The company expects the construction to commence in 2024.

We view the demand for industrial estates in Vietnam as promising, supported by increasing Foreign Direct Investment (FDI), abundant and low-cost labor, and a location in proximity to China. The country is also party to several free-trade agreements with major economies. However, uncertainties arising from regulatory changes and delays in the license approval process remain the key issues. Taking into consideration these uncertainties, we project revenues from land sales in Vietnam of around THB300-THB700 million per annum in 2022-2024.

Growing demand for rental properties

TRIS Rating see continued growth in demand for warehouses and factories in the coming years, following the transformation of consumer behavior towards online channels and from supply chain disruptions. We also expect the EEC development to bolster sentiments and attract more FDI.

Demand for rental properties has increased substantially, despite economic stagnation during the COVID-19 pandemic. The rapid growth of e-commerce has been accelerated by the pandemic. This, combined with supply chain disruption and container shortage problems, has resulted in growing demand for WHA's rental properties. WHA's rental and service revenue increased at a compound annual growth rate (CAGR) of 16.2% to THB1.5 billion in 2021 from THB1 billion in 2019. However, rental and service income dipped by 16.1% year-on-year (y-o-y) to THB0.7 billion in the first half of 2022 owing to a sizable asset sale to a REIT in late 2021.

Recurring income from utility services

WHA's strong business profile is underpinned by steady growth in revenue from utility services. These services provide a stable revenue source that can partially offset the effect of fluctuations in land sales. WHA's revenue from utility services grew steadily to THB2.4 billion in 2021 from THB2 billion in 2016 or CAGR of 3.3%. During the first half of 2022, WHA's revenue from utility services surged by 8.7% y-o-y to THB1.3 billion. The strong growth was attributed to volume increases in Thailand and Vietnam as well as a greater contribution from value-added water supplies.

Looking forward, WHA's revenue from utility services is expected to grow steadily, supported by continued growth in the number of customers in WHA's industrial estates in Thailand and Vietnam, as well as from rising demand for water supplies among newly operational power plants.

Reliable cash flow from power business

Through its subsidiaries, WHA owns equity stakes in several power plants. At the end of June 2022, proportionate to its equity stakes in the power plants, WHA had a combined power generating capacity of 612 megawatts (MW). Despite the drastic drop in share of profits and dividend income from the power business owing to a steep rise in fuel costs, we expect the contribution from the power business to grow steadily over the next few years. Growth should occur in tandem with the normalization of fuel costs and electricity price adjustments, as well as from capacity top-ups among new power plants.

Going forward, we project the company's dividend income from the power business to reach THB0.5-THB1 billion per year in 2022-2024, accounting for 8%-14% of WHA's earnings before interest, tax, depreciation, and amortization (EBITDA).

Leverage improved following asset monetization

WHA's leverage ratio decreased significantly on the back of sizable proceeds from the sale of assets to REIT in 2021. WHA sold leasable areas of about 184,000 square meters (sq.m.), totaling THB5.6 billion. As a result, WHA's net debt to EBITDA was 5.5 times in 2021 and 6 times in the first half of 2022, compared with 7-8 times in 2017-2020.

However, we project WHA's leverage to elevate over the next few years as the company continues its growth strategy. WHA's capital expenditures are projected to be THB6.6-THB8.7 billion per year during 2022-2024, based on the committed capital expenditure plan. The expenditures mainly involve the development of new industrial estates in Thailand and Vietnam, as well as investments in utility projects and properties for rent. The adjusted net debt to EBITDA ratio is forecast to hover around 6-7 times during 2022-2024, while the EBITDA interest coverage ratio should stay at about 3.5-4.0 times during the same period.

Manageable liquidity

Over the next 12 months, we assess WHA's liquidity to be adequate. Sources of funds comprise funds from operations (FFO) estimated at about THB4.0 billion, as well as cash and cash equivalents of THB5.9 billion at the end of June 2022. The company has undrawn credit facilities of around THB9 billion. The uses of funds are scheduled debt repayments of

approximately THB13 billion, and capital expenditures of about THB8.7 billion. Additionally, WHA and its subsidiaries are able to access the capital market. It could also sell rental properties to REIT as a funding alternative. These options give WHA significant financial flexibility. WHA has a plan to sell rental properties to WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART) and WHA Industrial Leasehold Real Estate Investment Trust (WHAIR) amounting to THB4.0 billion and THB1.3 billion, respectively, in the last quarter of 2022.

BASE CASE ASSUMPTIONS

- Total operating revenue to surge by 11% to THB13 billion in 2022 and then hover around THB12.5-THB13.4 billion in 2023-2024.
- The adjusted EBITDA margin to be 45%-50% during 2022-2024.
- Total capital spending of THB6.6-THB8.7 billion per year during 2022-2024.

RATING OUTLOOK

The “stable” outlook reflects our expectation that WHA will be able to maintain its leading position in the industrial estate development and warehouses for rent, as well as keep its leverage under control. WHA earns a significant amount of recurring income from the sale of utilities and rental fees, as well as dividends from power generation assets. These cash streams, plus the sale of assets to REITs, should provide adequate cushion against the volatility inherent in the sale of industrial land.

RATING SENSITIVITIES

The ratings on WHA could come under downward pressure if private investment stays persistently low nationwide, causing revenues and cash flow from operations to fall significantly below expectations. Any sizeable, debt-funded investments, which materially deteriorate its balance sheet and debt serviceability, with adjusted debt to EBITDA rising above 7 times for a sustained period, could also lead to a negative rating revision.

On the contrary, the ratings could be revised upward should the company demonstrate significant, sustainable increases in cash generation while improving its balance sheet, with adjusted debt to EBITDA sustained below 5 times.

COMPANY OVERVIEW

Established in 2007 and listed on the Stock Exchange of Thailand (SET) in 2012, WHA is the leading provider of built-to-suit warehouses in Thailand. Currently, Ms. Jareeporn Jarukornsakul, one of the co-founders, is the Chairman and Group Chief Executive Officer. WHA provides four core business services: logistics, industrial development, utilities & power, and digital platform.

For the logistics business, WHA’s warehouses are located in major logistical zones, such as Bang Na-Trad Road, and Ayudhya province. WHA has expanded through partnerships with Central Group, KPN Group Corporation Co., Ltd. (KPN), Daiwa House, and JD.com among others. With the support of these partners, the company is able to leverage expertise, secure land plots, and acquire more customers.

During 2014-2015, WHA expanded into the industrial development business by acquiring a 98.5% equity stake in WHAID (formerly named HEMRAJ), a leading industrial estate developer in Thailand. The total consideration of this transaction was THB43.3 billion. At the end of June 2022, the company operated 11 industrial estates in Thailand with 4,370 rai of land available for sale and 3,775 rai to be developed. Apart from Thailand, the company has expanded its footprint in Vietnam, with its first overseas project located in Nghe An province. WHA has been granted an investment registration certificate for 2,100 hectares (or 13,125 rai) of land. The first phase covers 631 rai of land available for sale. At the end of June 2022, the amount of land available for sale was 238 rai.

Apart from Nghe An province, WHA is expanding in Thanh Hoa province in northern Vietnam. WHA has signed a memorandum of understanding (MOU) with the Thanh Hoa Provincial People’s Committee for the development of another industrial zones representing a total gross area of 545 hectares and 355 hectares for future expansion (or 5,625 rai in total). The construction is scheduled for 2024.

Additionally, WHA owns equity stakes in several power plants, including Independent Power Producers (IPP), Small Power Producers (SPP), and Very Small Power Producers (VSPP). Based on the equity holding in each project, WHA had 612 MW of power generating capacity as of June 2022.

WHA has some financial flexibility from selling assets to REITs. WHA has a plan to sell rental properties to WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART) and WHA Industrial Leasehold Real Estate Investment Trust (WHAIR) amounting to THB4.0 billion and THB1.3 billion, respectively, in the last quarter of 2022.

KEY OPERATING PERFORMANCE

Table 1: WHA's Revenue Breakdown

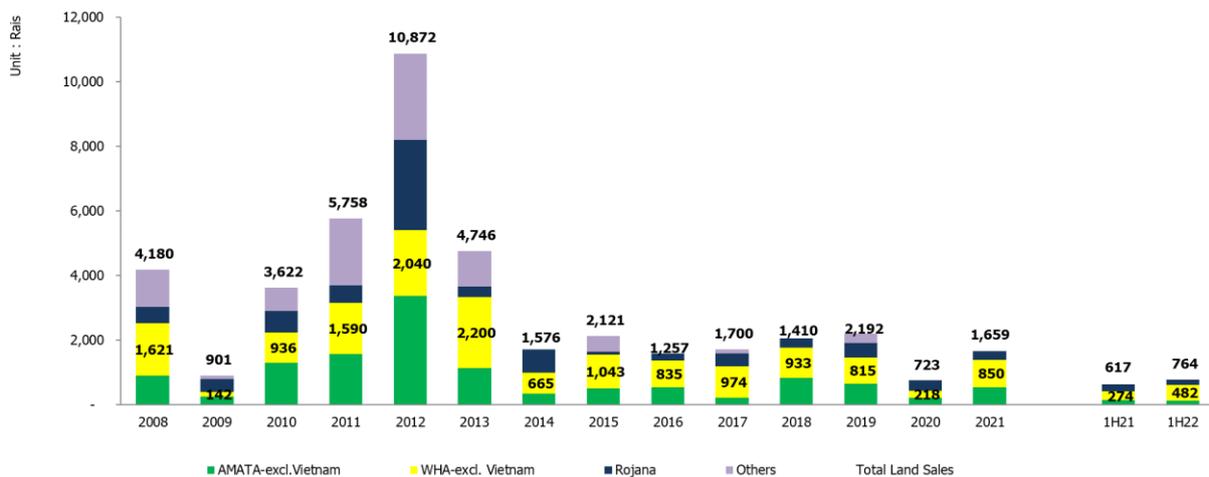
Unit: %

Revenue	2017	2018	2019	2020	2021	Jan-Jun 2022
Sales						
- Industrial land	34	25	33	22	15	40
- Sales of investment properties	32	36	35	30	47	2
Total sales	66	61	68	51	63	43
Recurring income						
- Rental and services	12	14	10	19	15	19
- Utility services	22	25	22	30	23	38
Total recurring income	34	39	32	49	37	57
Total revenues	100	100	100	100	100	100
Total revenues (mil. THB)	9,514	8,410	10,463	6,914	10,417	3,378

Source: WHA

Note: Figures in this table do not include the share of profit from investments in power companies.

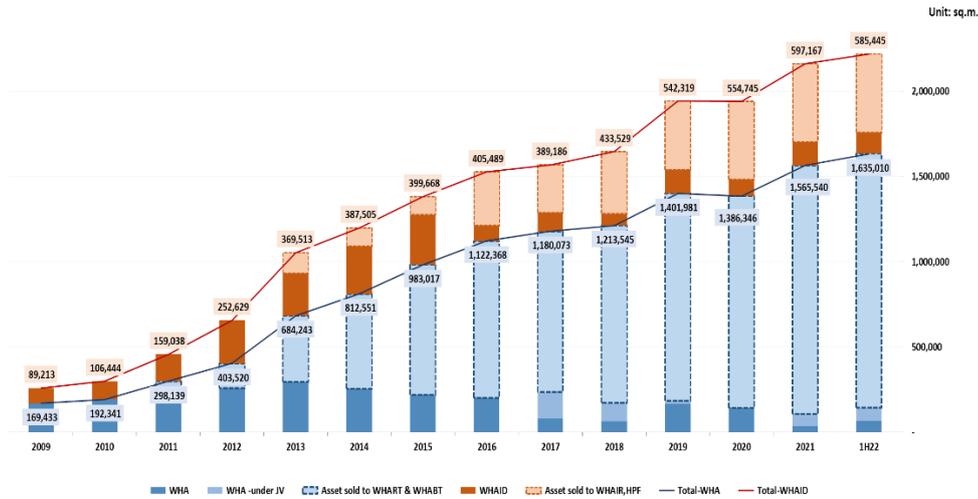
Chart 1: Industrial Land Sales in Thailand



* Total Land Sales in 2021, 1H21 and 1H22 was the sum of land sales from 3 major operators (WHA, AMATA, ROJNA)

Sources: WHA, AMATA, ROJNA, CB Richard Ellis (CBRE)

Chart 2: Leased Areas Owned and Managed by WHA



Source: WHA

Table 2: Summary of WHA's Investment in Power Companies

Project Name	Type	JV Partner	Location	Installed Capacities (MW)	WHAUP Portion	Equity MW	COD
Operating Phase							
Gheco-I	IPP	Coal	Glow	Map Ta Phut IE	660	35.00%	231
Glow IPP	IPP	Gas Combined Cycle	Glow	WHA CIE 1	713	5.00%	36
Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152	12.75%	19
GJP NLL	SPP	Gas Co-gen	Gulf JP	WHA RIL	123	25.01%	31
Gulf Solar	VSPP	Solar	Gulf	WHA LP 1, WHA CIE 1, WHA ESIE 1, ESIE	0.6	25.01%	0.2
WHA Gunkul	VSPP	Solar	Gunkul	Bangna and Ayudthaya	3.3	74.99%	2.5
BGWHA-1	SPP	Gas Co-gen	B Grimm	WHA CIE 1	130	25.01%	33
GVTP	SPP	Gas Co-gen	Gulf MP	ESIE	137	25.01%	34
GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34
GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34
GTS3	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32
GTS4	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32
GNLL2	SPP	Gas Co-gen	Gulf MP	WHA RIL	127	25.01%	32
CCE	VSPP	Waste-to-energy	Glow & Suez	WHA CIE 1	8.6	33.33%	2.9
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center/Outside IEs	59.0	100.0%	59.0
Total					2,642		612
Development Phase							
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center/Outside IEs	64	100.0%	64
Total					64		64

Source: WHA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	4,349	11,639	8,198	11,440	9,080
Earnings before interest and taxes (EBIT)	1,806	4,701	4,273	5,271	5,398
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,319	6,404	5,657	4,635	4,222
Funds from operations (FFO)	1,590	4,908	4,218	3,294	2,746
Adjusted interest expense	564	1,158	1,142	1,040	1,197
Capital expenditures	1,435	2,695	3,577	3,910	1,974
Total assets	86,371	82,769	82,621	82,264	78,345
Adjusted debt	37,409	35,396	37,989	36,700	32,960
Adjusted equity	33,304	34,030	32,167	33,101	31,014
Adjusted Ratios					
EBITDA margin (%)	53.32	55.02	69.00	40.52	46.50
Pretax return on permanent capital (%)	6.94	6.40	5.83	7.51	8.25
EBITDA interest coverage (times)	4.11	5.53	4.95	4.46	3.53
Debt to EBITDA (times)	5.96	5.53	6.72	7.92	7.81
FFO to debt (%)	12.65	13.87	11.10	8.98	8.33
Debt to capitalization (%)	52.90	50.98	54.15	52.58	51.52

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

WHA Corporation PLC (WHA)

Company Rating:	A-
Issue Ratings:	
WHA231A: THB1,000 million senior unsecured debentures due 2023	A-
WHA234A: THB1,100 million senior unsecured debentures due 2023	A-
WHA234B: THB1,000 million senior unsecured debentures due 2023	A-
WHA237A: THB2,050 million senior unsecured debentures due 2023	A-
WHA230A: THB328 million senior unsecured debentures due 2023	A-
WHA244A: THB1,000 million senior unsecured debentures due 2024	A-
WHA244B: THB2,000 million senior unsecured debentures due 2024	A-
WHA247B: THB1,450 million senior unsecured debentures due 2024	A-
WHA253A: THB2,500 million senior unsecured debentures due 2025	A-
WHA257A: THB500 million senior unsecured debentures due 2025	A-
WHA250A: THB2,380 million senior unsecured debentures due 2025	A-
WHA264A: THB400 million senior unsecured debentures due 2026	A-
WHA264B: THB1,000 million senior unsecured debentures due 2026	A-
WHA273A: THB4,000 million senior unsecured debentures due 2027	A-
Rating Outlook:	Stable

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