

WHA INDUSTRIAL DEVELOPMENT PLC

No. 156/2020
5 October 2020

CORPORATES

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

Last Review Date: 27/09/19

Company Rating History:

Date	Rating	Outlook/Alert
27/09/19	A-	Negative
14/11/17	A-	Stable
18/09/15	BBB+	Stable
19/11/14	A	Developing
15/11/13	A-	Positive
06/08/10	A-	Stable
11/06/09	A-	Negative
25/01/08	A-	Stable
14/09/05	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on WHA Industrial Development PLC (WHAID; formerly Hemaraj Land and Development PLC (HEMRAJ)), and the ratings on WHAID's senior unsecured debentures at "A-", with a "negative" outlook.

The rating outlook on WHAID follows the rating outlook on its parent company, WHA Corporation PLC (WHA) (rated "A-" with a "negative" outlook). WHAID is wholly owned by WHA. Based on TRIS Rating's "Group Rating Methodology", WHAID is a core subsidiary of WHA. Consequentially, the ratings on WHAID are equal to and move in tandem with the ratings on WHA.

WHAID's stand-alone rating continues to reflect the company's proven record of developing industrial estates and strong base of recurring income. WHAID earns substantial recurring income from the sale of utility services, rental income, and the dividends from investments in power projects. However, the rating is constrained by an expected rise in leverage and the volatile nature of the industrial property market.

KEY RATING CONSIDERATIONS

Core subsidiary of WHA Group

We assess WHAID as a core subsidiary of WHA, based on its strategic importance and predominant revenue contribution to the WHA Group. WHAID and its subsidiaries cover two key businesses, industrial estates and utility services. WHA controls WHAID's business direction and financial policies. We view that WHAID's credit profile is directly linked to WHA's credit profile.

In 2019, WHAID contributed 63% of WHA's total operating revenues and 86% of WHA's earnings before interest and tax, depreciation, and amortization (EBITDA).

Leader in the industrial estate industry

WHAID—is the largest industrial estate developer in Thailand, based on the total amount of industrial land sold in Thailand. WHAID's market share hovered around 42%-58% during 2013-2019. WHAID's market share has averaged 41% over the past 10 years. Competitors such as Amata Corporation PLC (AMATA; 29% share) and Rojana Industrial Park PLC (ROJNA; 18% share) are the second- and the third-largest developers in the industry.

WHAID has expanded into Vietnam in recent years. Its first overseas project is located in Nghe An province in Vietnam. WHA has been granted an investment registration certificate on 498 hectares (or 3,100 rai) of land. The initial development will cover approximately 1,000 rai. At the end of June 2020, the amount of land sold in Vietnam was 28 rai, plus 260 rai under letter of intent.

Concerns over softening demand and impacts of COVID-19

The industrial property market has been severely hurt by the Coronavirus Disease 2019 (COVID-19). The volume of industrial land sales declined substantially amid travel restrictions and the economic fallout. WHAID's land sale in Thailand declined to 81 rai during the first half of 2020, compared with 259 rai during the same period of 2019.

We have revised down WHAID's projected land sales from our previous projections to reflect several uncertainties. A prolonged outbreak of COVID-19 together with potential political instabilities could threaten the recovery of demand for industrial properties. We expect a slowdown in industrial land sales nationwide in 2020, before bouncing back in 2021 and 2022. The rebound will depend largely on the pace of economic recovery supported by the government's stimulus package, and the promotional privileges under the Eastern Economic Corridor (EEC) initiative. We project WHAID's revenue from land sales to slip to THB1.5 billion in 2020 from THB3.5 billion in 2019 before improving to the level of THB3-THB3.6 billion in 2021-2022.

TRIS Rating holds the view that the prospects of the industrial property sector in the medium to long term will remain reasonably positive. The supply chain disruptions during the height of the pandemic, coupled with the ongoing US-China trade tensions will likely accelerate the relocation of production bases out of China. Countries in South East Asia have been the most preferred destination of relocation. Additionally, WHAID is in a good position to take advantage of the next wave of foreign direct investment from its plentiful land banks of about 8,800 rai, (including land to be developed), 83% of which are in Rayong and Chonburi provinces, the EEC area.

Rising demand on WHAID's rental properties

Demand on WHAID's rental properties has posted significant growth over the past recent years, despite a sluggish economy during the period. The improvement of rental income was mainly attributed to higher occupancy rates, driven by the wave of relocation of production bases following the US-China trade tensions. WHAID's rental income increased to THB210 million in 2019 and THB146 million in the first half of 2020, up from THB178 million in 2018.

TRIS Rating views the demand of ready-built factories and warehouses, most of which are in the EEC area, should hold up well in the medium term. We also expect the EEC development will attract more foreign direct investment.

Reliable cash flows from utility services and power segment

Utility services and the power business have helped stabilize WHAID's cash flows and partly alleviate the effect of the fluctuations in industrial land sales.

Income from utility services has grown steadily, as there are more customers and new power plants in WHAID's industrial estates. Moreover, WHAID has been working to offer more value-added water in order to yield higher prices and margins. As a result, utility services income increased to THB2.3 billion in 2019, from THB1.6 billion in 2013, a compound annual growth rate (CAGR) of 6.3%.

However, utility service income declined by 12.1% year-on-year (y-o-y) to THB1 billion in the first half of 2020. The drop was attributed mainly to the lower water sales volume induced by the drought during the first half of 2020. Several power plants and petrochemical plants shifted their maintenance schedules to reduce water usage during the drought. In addition, some operators, particularly in the automotive sector, temporarily shut down their operations because of the sharp decline in demand during the height of the COVID-19 fallout. Nonetheless, TRIS Rating views the impact will be temporary, and the demand for utility services will increase steadily as the economy recovers and buyers of industrial land gradually start operating.

WHAID also receives a reliable stream of dividends from its investment in power plants. Proportionate to its equity stakes in the power plants, WHAID has a combined power generating capacity of 570 megawatts (MW). We project the company's dividend income from the power business to be THB1-THB1.2 billion in 2020-2022, accounting for 20%-25% of WHAID's EBITDA in 2020-2022.

Rising leverage

WHAID's leverage has improved during the past few years. The company gradually repaid its debt by using the proceeds from an initial public offering of WHA Utility and Power PLC (WHAUP), funds received from selling assets to Hemraj Leasehold Real Estate Investment Trust (HREIT), and loan repayment from its parent company. Adjusted debt declined to THB15.6 billion at the end of June 2020, from a peak of THB23.7 billion in 2016. The debt to capitalization ratio improved, declining to 40.3% as of June 2020, from 56.4% in 2016.

Nevertheless, we expect a significant rise in the company's leverage pushed up by new debt financing to fund several large investments. We project WHAID's capital expenditures to be about THB10 billion in total during 2020-2022. The planned investments include site development in Thailand and Vietnam, as well as investments in utility plants and power plants. We forecast the debt to capitalization ratio to rise but stay below 55% over the next three years.

We project WHAID's EBITDA to be THB4.2-THB5.3 billion per year and funds from operations (FFO) of THB3.6-THB4.7 billion during 2020-2022. Based on the projected cash flow, debt repayments, and capital expenditures, the FFO to total debt ratio is projected to be 25%-35% during the next three years. Adjusted net debt to EBITDA is expected to hover at 2.6-

3.5 times during the same period.

BASE CASE ASSUMPTIONS

- Operating revenue to decline by 13% to THB6.3 billion in 2020 and ramp up to THB6.9-THB8.6 billion in 2021-2022.
- The adjusted EBITDA margin to be 61%-68% in 2020-2022.
- Capital spending will be about THB10 billion in total in the next three years.

RATING OUTLOOK

The “negative” outlook reflects the outlook revision on WHA, according to TRIS Rating’s “Group Rating Methodology”.

RATING SENSITIVITIES

As a core subsidiary of WHA, the ratings on WHAID are linked with WHA’s credit profile. Any change in WHA’s ratings will affect WHAID’s ratings accordingly.

COMPANY OVERVIEW

Established in 1988 and listed on the Stock Exchange of Thailand (SET) in 1992, WHAID originally developed and operated an industrial estate in Chonburi province. After being acquired by WHA, WHAID was delisted from the SET in March 2016. At the end of June 2020, WHA was the major shareholder, holding 98.5% of WHAID’s shares.

In Thailand, WHAID owns 10 industrial estates, plus three industrial estates yet to be developed. WHAID’s industrial estates, except for WHA Saraburi Industrial Land (WHA SIL), are located in the eastern part of Thailand in Rayong and Chonburi provinces. WHAID had nearly 800 customers in its industrial estates. Across all the estates, 33% of the customers are in the automotive industry. Apart from Thailand, WHAID has its first overseas project in Nghe An province, the northern part of Vietnam. WHA has been granted an Investment Registration Certificate on 498 hectares (or 3,100 rai) of land. The initial development will cover approximately 1,000 rai.

In addition to industrial estate development, WHAID provides ready-built factories and warehouses for rent and for sale. As of June 2020, the leased areas managed by WHAID totaled 568,046 square meters (sq.m.), comprising 422,267 sq.m. owned by a property fund and a real estate investment trust (REIT), and 145,779 sq.m. owned by WHAID.

Through its subsidiary, WHAID provides utility services to clients in the industrial estates. The services include raw water, potable water, clarified water, and wastewater treatment. Additionally, the company also explores and expands its investment to tap the growing demand in neighboring countries. In 2019, the company’s subsidiary entered into a share purchase agreement to buy 34% of equity stake in a water supplier in Hanoi, Duong River Surface Water Plant JSC (SDWTP), at a cost of VND2.07 trillion (or THB2.76 billion). SDWTP was established in 2016 and became one of the main water suppliers in Hanoi, Vietnam. SDWTP has commenced operation with capacity of 54.75 million cubic meters (cbm) per year since the first quarter of 2019 and doubled its capacity by the end of 2019.

WHAID receives an ample flow of dividends from the power projects, property funds, and an investment in HREIT. WHAID owns stakes in several power producers under the independent power producer (IPP), small power producer (SPP), and very small power producer (VSPP) schemes.

KEY OPERATING PERFORMANCE

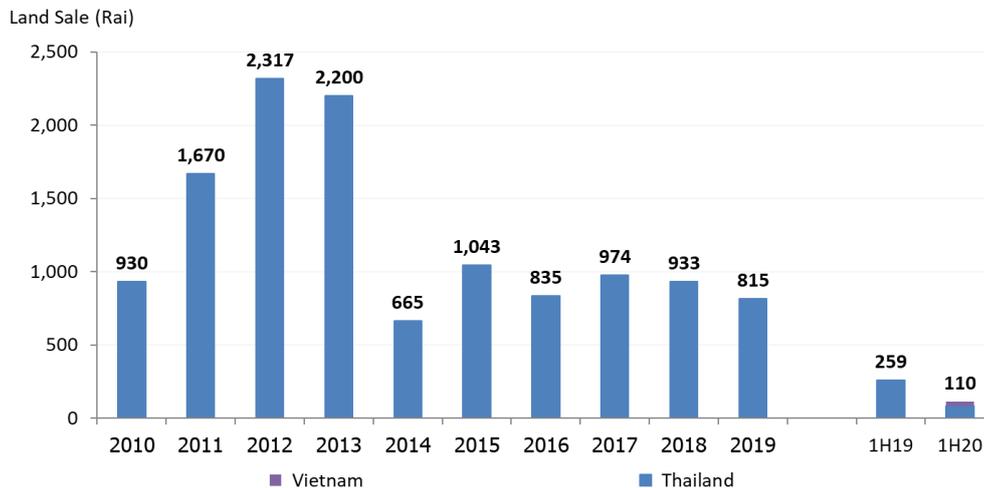
Table 1: WHAID's Revenue Breakdown

Unit: %

Revenue Breakdown	2015	2016	2017	2018	2019	Jan-Jun 2020
Property sales						
- Industrial land	62	21	55	33	55	34
- Sales of investment properties	-	54	1	26	-	-
- Sale of residential properties	-	-	-	-	-	-
Total sales	62	75	56	59	55	34
Recurring income						
- Rental and services	11	7	7	7	7	14
- Utility services	24	15	35	32	35	48
- Others	3	2	1	2	3	4
Total recurring income	38	25	44	41	45	66
Total revenues (%)	100	100	100	100	100	100
Total revenues (mil. THB)	7,471	11,548	5,930	6,593	6,406	2,068

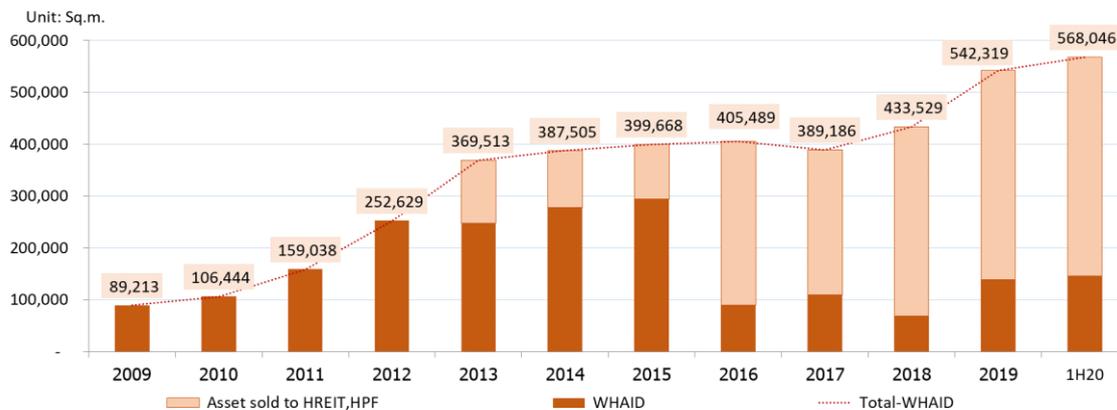
Source: WHAID

Chart 1: WHAID's Industrial Land Sales



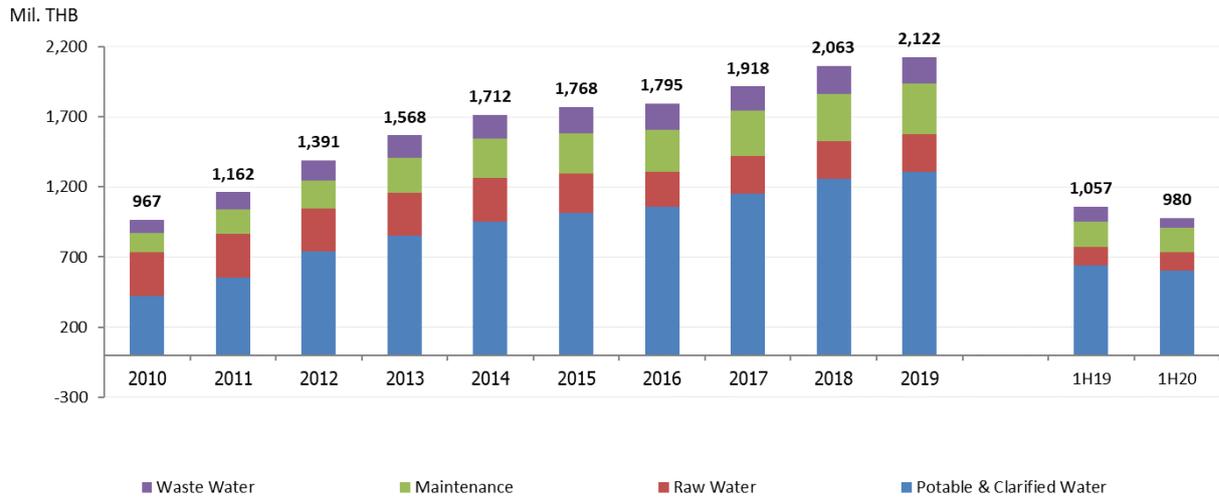
Source: WHAID

Chart 2: Leased Area Owned and Managed by WHAID



Source: WHAID

Chart 3: WHAID's Utility Service Income



Source: WHAID

Table 2: Summary of WHAID'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	Q3'12
Glow IPP	IPP	Gas Combined Cycle	Glow	WHA CIE 1	713	5.00%	36	Jan-03
Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152	12.75%	19	Sep-99
GJP NLL	SPP	Gas Co-gen	Gulf JP	WHA RIL	123	25.01%	31	May-13
Gulf Solar	VSPP	Solar	Gulf	WHA LP 1, WHA CIE 1, WHA ESIE 1, ESIE	0.6	25.01%	0.2	Jun-14 – Jan-15
WHA Gunkul	VSPP	Solar	Gunkul	Bangna and Ayudthaya	3.3	74.99%	2.5	Apr – Jul-14
BGWHA-1	SPP	Gas Co-gen	B Grimm	WHA CIE 1	130	25.01%	33	Nov-16
GVTP	SPP	Gas Co-gen	Gulf MP	ESIE	137	25.01%	34	May-17
GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34	Jul-17
GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34	Sep-17
GTS3	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32	Nov-17
GTS4	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32	Jan-18
GNLL2	SPP	Gas Co-gen	Gulf MP	WHA RIL	127	25.01%	32	Jan-19
CCE	VSPP	Waste-to-energy	Glow& Suez	WHA CIE 1	8.6	33.33%	2.9	Q4'19
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center	17.5	100.0%	17.5	May'18-Jun'20
Total					2,600		570.0	
Development Phase								
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center	21.8	100.0%	21.8	Q3'20-Q4'20
Total					21.8		21.8	

Source: WHAID

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	2,473	7,221	7,502	7,298	11,630
Earnings before interest and taxes (EBIT)	1,248	4,472	5,393	5,390	7,453
Earnings before interest, tax, depreciation, and amortization (EBITDA)	2,304	3,998	4,296	4,342	7,449
Funds from operations (FFO)	2,056	3,323	3,212	3,063	5,370
Adjusted interest expense	218	444	666	1,065	1,130
Capital expenditures	723	991	474	402	267
Total assets	46,533	47,888	49,371	48,428	49,619
Adjusted debt	15,554	15,280	14,341	17,176	23,663
Adjusted equity	23,033	25,827	27,325	24,752	18,313
Adjusted Ratios					
EBITDA margin (%)	93.17	55.36	57.27	59.49	64.05
Pretax return on permanent capital (%)	7.77	10.24	12.25	12.26	20.18
EBITDA interest coverage (times)	10.59	9.01	6.45	4.08	6.59
Debt to EBITDA (times)	3.61	3.82	3.34	3.96	3.18
FFO to debt (%)	23.76	21.75	22.40	17.83	22.69
Debt to capitalization (%)	40.31	37.17	34.42	40.97	56.37

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

WHA Industrial Development PLC (WHAID)

Company Rating:	A-
Issue Rating:	
HEMRAJ217A: THB2,000 million senior unsecured debentures due 2021	A-
Rating Outlook:	Negative

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