

WHA PREMIUM GROWTH FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 1/2025
7 January 2025

CORPORATES

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

Last Review Date: 18/07/24

Company Rating History:

Date	Rating	Outlook/Alert
26/01/18	A	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART or trust) and the ratings on its existing senior unsecured debentures at “A”, with a “stable” rating outlook. At the same time, TRIS Rating assigns a rating of “A” to WHART’s proposed issue of up to THB1.7 billion senior unsecured debentures due within seven years. The proceeds from the new debentures will be used to refinance debentures maturing in February 2025.

The ratings reflect the good quality and locations of the trust’s assets, its continuing earnings growth supported by the acquisition of new assets from its sponsor, predictable cash flow from contract-based rental income, and moderate financial leverage. The ratings are partially constrained by tenant concentration and lease renewal risks. In addition, the rising supply of rental space or an economic slowdown could pressure the occupancy and rental rates of industrial properties.

KEY RATING CONSIDERATIONS

OR to maintain at around 90%

WHART's average occupancy rate (OR) has declined slightly from around 90% during 2018-2023 to 87% for the first nine months of 2024 (9M24). This decrease was primarily due to the expiration of long-term tenant contracts, as some tenants opted to establish their own facilities, ceased operations in Thailand or reduced their rental space. These assets were built-to-suit properties which require around three to six months for modification before new tenants can occupy the space. The full year OR is expected to remain at a similar level to 9M24. However, with the high quality and prime locations of its assets, coupled with 100% OR guarantees for newly acquired assets from its sponsor, WHART's OR is projected to recover to 90% by 2026.

Revenue growth supported by new acquisitions

WHART is expected to see revenue growth following the acquisition of new assets from its sponsor, WHA Corporation PLC (WHA) during 2025-2026. WHA is one of the top two leading developers of warehouses and factories for rent in Thailand. WHART has consistently acquired assets annually except in 2024, when the unitholders voted against acquiring new assets for the year.

We assume WHART will acquire new assets worth approximately THB4.5 billion annually from WHA Group during 2025-2026. The average rental rate is expected to remain flat while the trust focuses on increasing the OR in 2025, then increase by around 1% in 2026. We estimate revenue of around THB3.5-THB4.0 billion annually in 2024-2026.

Profit and interest coverage remain at satisfactory levels

In 9M24, EBITDA was THB 2.4 billion, unchanged from the same period in 2023, despite new assets being added in late 2023. This stagnation was mainly due to the drop in OR, leading to lower-than-expected revenue and impacting EBITDA. Nevertheless, the trust maintained an EBITDA margin of 92%, consistent with the average over the past five years. We expect WHART’s EBITDA to be around THB3.1-THB3.6 billion per annum with an EBITDA margin of 90% over the next three years.

WHART's EBITDA interest coverage ratio in 9M24 declined to 6.1 times, from 7.4 times in 2023. The decline was due to a higher proportion of debt funding and a rise in interest rates. With interest rates still likely to trend upward, we forecast the ratio to remain at 6.0 times during the forecast years.

Tenant concentration and lease renewal risks

WHART faces a degree of tenant concentration risk, with its top ten tenants contributing 56% of the total occupied area and rental and service income during the 9M24. However, this risk is mitigated by the consistent annual expansion of the trust's assets, which gradually reduces its concentration exposure. Additionally, the trust benefits from tenants with strong financial standing, comprising reputable domestic and multinational companies, which significantly lower the likelihood of delinquent rental payments.

The renewal rate was about 65% during 9M24 and is expected to reach 70% for the full year. The REIT manager and property manager typically engage in lease renewal negotiations with existing tenants three to six months before lease expirations, providing sufficient time to secure new tenants and partially mitigating renewal risk. Given the high quality and strategic locations of the trust's assets, along with proactive management, WHART's contract renewal rate is projected to remain steady at around 70% during 2025-2026.

LTV to remain around 30%

We anticipate WHART will keep its loan to fair value of total assets ratio (LTV), including lease liabilities, below 35%. For the past five years and at the end of September 2024, the LTV was below 30%. With no new asset acquisitions in 2024, we expect the trust's LTV to stay at around 29% at the end of 2024. In our base case, we assume WHART will acquire new assets worth around THB4.5 billion annually in 2025-2026. We expect the trust to manage the funding mix for its future acquisitions to keep the LTV below 30%.

We consider the trust's financial profile to be moderate. Its net debt/EBITDA was in the range of 4.0-5.0 times during 2018-2023 and 9M24. We expect the ratio to remain at around 4.5-5.0 times during the forecast years.

Adequate liquidity profile over the next 12 months

We evaluate WHART's liquidity as manageable, supported by the trust's access to the capital market and its good relationships with financial institutions. The trust's sources of liquidity included cash on hand of THB2 billion, as of September 2024. We forecast EBITDA of around THB3 billion over the next 12 months.

As of September 2024, WHART's outstanding debt was THB16.1 billion, comprising THB10.8 billion in debentures, THB4.6 billion in bank loans, and THB780 million in lease liabilities. WHART has a series of debt repayments due in the years ahead, including THB4.6 billion in 2025, and THB3.4 billion in 2026. WHART plans to refinance its coming maturing debentures of THB1.7 billion with new debenture issuances, while the rest of its maturing debentures and bank loans are expected to be refinanced with debenture issuances and/or bank borrowings where appropriate.

The financial covenant on WHART's bank loan obligations requires the trust to maintain its LTV ratio below 50% and interest-bearing debt to EBITDA ratio below 6.5 times. The ratios at the end of September 2024 were 30% and 5.4 times, respectively. The financial covenant on WHART's debentures requires the trust to maintain the LTV ratio (excluding lease liabilities) below 50% and the secured debt to fair value of total assets ratio below 20%. The ratios at the end of September 2024 were 28% and 5.8%, respectively.

Debt structure

As of September 2024, WHART's consolidated debt, excluding lease liabilities, was THB15.4 billion. The secured debts comprised bank loans, pledged by some assets of the trust. The ratio of secured debt to fair value of total assets was 5.8%, well below the threshold of 35% according to TRIS Rating's "Rating Methodology for Real Estate for Rent Companies".

BASE-CASE ASSUMPTIONS

Here are our key base-case assumptions for WHART's operations during 2024-2026:

- OR (with undertaking) to remain around 90%.
- EBITDA margin to hover around 90%.
- No new asset acquisitions in 2024, followed by new asset acquisitions amounting to THB4.5 billion per annum during 2025-2026.
- A combination of debt and equity financing for the new acquisitions in 2025-2026 with a targeted LTV of around 30%.

RATING OUTLOOK

The “stable” outlook reflects our expectation that WHART’s property portfolio will continue to generate steady cash flow and an EBITDA margin of around 90% over the next three years. We also expect the trust to keep its LTV ratio below 35%.

RATING SENSITIVITIES

We could lower the ratings if the trust’s OR drops significantly below our expectations and/or larger-than-anticipated debt-funded acquisitions cause the LTV ratio to rise above 35% and/or the debt to EBITDA ratio exceeds 5.5 times for a prolonged period. In contrast, a rating upward revision could occur if the trust can enlarge its cash generation and improve its capital structure meaningfully, leading to a debt to EBITDA ratio below 2.5 times on a sustained basis.

TRUST OVERVIEW

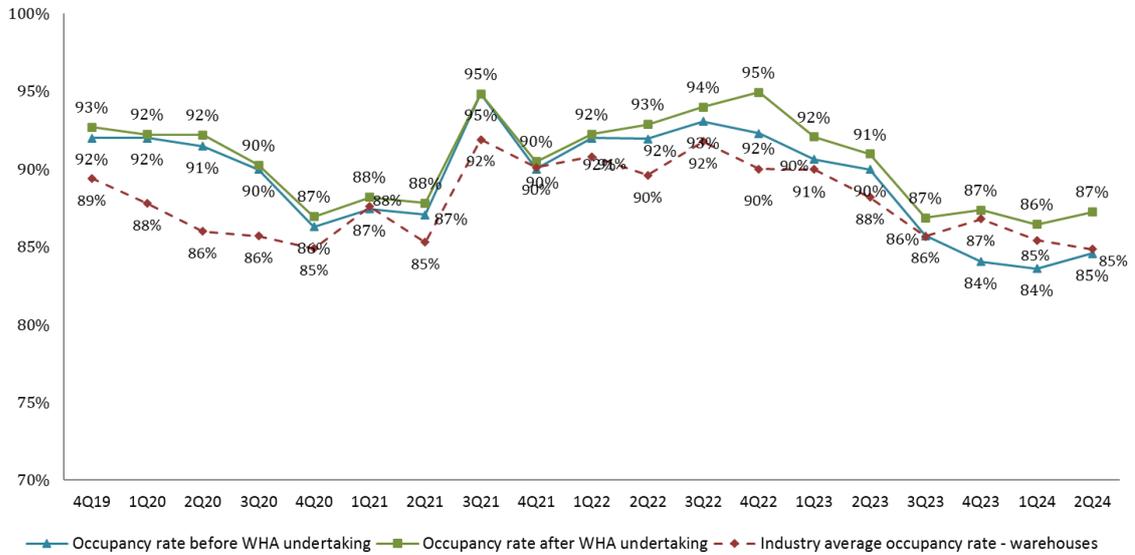
WHART was established and listed on the Stock Exchange of Thailand (SET) in December 2014 as Thailand’s first industrial trust. At present, WHA holds a 15% stake in WHART. WHART’s REIT manager is WHA Real Estate Management Co., Ltd. (WHAREM), which is 99.9% owned by WHA, the property manager and main sponsor of the trust. WHART has focused on the acquisition of freehold and leasehold rights in good-quality and well-occupied industrial properties, both built-to-suit and ready-built warehouses and factories.

WHART’s property portfolio expanded continually to reach THB13.08 billion in value as of September 2017, from THB4.41 billion at its inception. Its leasable area increased to 499,236 square meters (sq.m.) over the same period from 167,107 sq.m. initially. In November 2017, WHAPF was merged into WHART. After the conversion, WHART’s asset size jumped to THB25.95 billion, comprising 20 warehouse and factory properties with a total leasable area of 971,559 sq.m.

As of September 2024, WHART was one of the leading warehouse and factory rental businesses in Thailand. The trust’s investment properties were worth around THB53 billion with total leasable area of 1,886,747 sq.m. The properties are located in key industrial estates and strategic logistics areas including Bangna-Trad Road (60%), Ayutthaya and Saraburi (20%), EEC (19%), and Samut Sakorn (1%). Around 50% of the investment properties are freehold while the remainder are leasehold. The trust’s tenants are diverse in terms of nationality and industrial sector. Tenants from Thailand accounted for the largest share of lease area at 32%, followed by Asia (excluding Japan) at 27%, Europe at 17%, and Japan at 15%. Global geopolitical tensions have prompted many international manufacturers to move their production facilities to Southeast Asia, including Thailand, which benefits the trust. The trust’s tenants span various industries, including fast-moving consumer goods (FMCG) (38%), logistics providers (30%), and E-commerce (14%).

KEY OPERATING PERFORMANCE

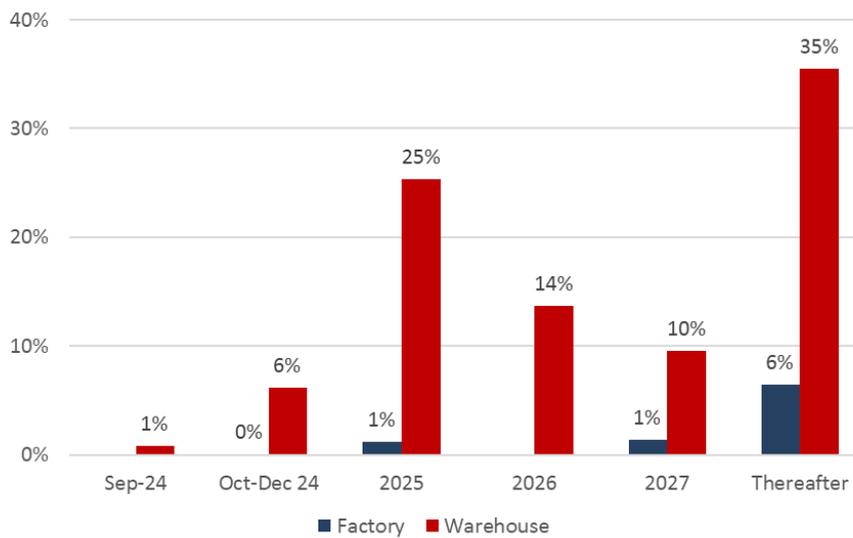
Chart 1: Occupancy Rate



Note: Occupancy rate as of end of period
Sources: WHART and CB Richard Ellis (CBRE)

Chart 2: Lease Expiry

Unit: % of Total Occupied Area



Source: WHART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	2,592	3,372	3,168	2,568	2,552
Earnings before interest and taxes (EBIT)	2,357	3,029	2,816	2,116	2,125
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,377	3,073	2,893	2,216	2,247
Funds from operations (FFO)	1,990	2,658	2,568	1,911	1,954
Adjusted interest expense	387	414	325	305	294
Capital expenditures	10	3,601	4,245	5,625	3,284
Total assets	55,062	55,300	51,815	48,455	42,595
Adjusted debt	14,156	14,225	12,498	10,415	9,206
Adjusted equity	37,391	37,459	35,919	33,937	30,413
Adjusted Ratios					
EBITDA margin (%)	91.7	91.1	91.3	86.3	88.1
Pretax return on permanent capital (%)**	5.9	5.8	5.8	4.8	5.4
EBITDA interest coverage (times)	6.1	7.4	8.9	7.3	7.6
Debt to EBITDA (times)**	4.6	4.6	4.3	4.7	4.1
FFO to debt (%)**	18.4	18.7	20.5	18.4	21.2
Debt to capitalization (%)	27.5	27.5	25.8	23.5	23.2

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 26 December 2024
- Rating Methodology for Real Estate for Rent Companies, 16 December 2024
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART)

Company Rating:	A
Issue Ratings:	
WHART252A: THB1,700 million senior unsecured debentures due 2025	A
WHART253A: THB1,200 million senior unsecured debentures due 2025	A
WHART262A: THB300 million senior unsecured debentures due 2026	A
WHART265A: THB1,500 million senior unsecured debentures due 2026	A
WHART265B: THB800 million senior unsecured debentures due 2026	A
WHART268A: THB280 million senior unsecured debentures due 2026	A
WHART26DA: THB500 million senior unsecured debentures due 2026	A
WHART271A: THB950 million senior unsecured debentures due 2027	A
WHART271B: THB850 million senior unsecured debentures due 2027	A
WHART272A: THB300 million senior unsecured debentures due 2027	A
WHART275A: THB200 million senior unsecured debentures due 2027	A
WHART288A: THB1,000 million senior unsecured debentures due 2028	A
WHART288B: THB940 million senior unsecured debentures due 2028	A
Up to THB1,700 million senior unsecured debentures due within 7 years	A
Rating Outlook:	Stable

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