

WHA PREMIUM GROWTH FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 7/2023
31 January 2023

CORPORATES

Company Rating: A

Issue Ratings:

Senior unsecured A

Outlook: Stable

Last Review Date: 31/01/22

Rating History:

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

Contacts:

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company 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 the rating of “A” to WHART’s proposed issue of up to THB2.3 billion in senior unsecured debentures due within seven years. The proceeds from the new debentures will be used to refinance outstanding debts.

The ratings reflect the trust’s growing revenue and earnings base supported by regular new asset acquisitions, robust cash-flow protection, and moderate financial leverage. However, the ratings are partially constrained by tenant concentration risk and lease renewal risk. The ratings also take into consideration our concerns over the prospect of global economic slowdown which may put pressure on the occupancy and rental rates of industrial properties.

KEY RATING CONSIDERATIONS

Good quality industrial assets in strategic locations continue to underpin high occupancy levels

We expect WHART to sustain its average occupancy rate (OR) (with undertaking) around 90% over the forecast period, supported by good quality assets in strategic logistics areas.

The trust achieved a satisfactory average OR of above 90% in 2021 through the first nine months of 2022. In our view, growth in the e-commerce market benefits e-commerce businesses, logistics providers, and related businesses, which are the trust’s major tenants. As of September 2022, the trust’s tenancy base was weighed towards large corporates in logistics services (44%), consumer sector (20%), and e-commerce (17%), based on occupied area.

Growing revenue base expected

We expect WHART’s operating revenue to rise, mainly from frequent asset enhancement and high demand for industrial properties for rent. Apart from growth in the e-commerce market that we mentioned earlier, the country’s opening and the lifting of pandemic restrictions should drive foreign investment in the industrial estate sector. On top of that, the trust plans to acquire new assets with high occupancy worth around THB3-THB5 billion annually over the next three years. In December 2022, WHART acquired new assets with an investment cost of THB4.2 billion.

Our base-case forecast the trust’s operating revenues in 2022 to rise by 22% year-on-year (y-o-y) to THB3.1 billion and continue to grow to THB3.3-THB3.6 billion per year in 2023-2024, as the asset portfolio grows.

Robust cash-flow protection

We expect WHART’s cash-flow protection to remain strong, supported by the contract-based nature of rental properties and the trust’s relatively low operating costs. Its earnings before interest, tax, depreciation, and amortization (EBITDA) rose by 27% y-o-y to THB2.1 billion during the first nine months of 2022. Its EBITDA margin was 92%. Looking forward, we expect

WHART's EBITDA margin to stay around 90% over the next three years, translating to EBITDA of THB2.8-THB3.3 billion during the same period.

WHART's EBITDA interest coverage ratio in the first nine months of 2022 improved to 9 times, from 4.9 times in 2019 and 7-7.6 times in 2020-2021, due to growth of the earnings base and relatively low interest rates. Based on the upward trend of interest rates, we forecast the ratio to decline yet stay in the 7-7.5 times range while the trust's debt to EBITDA ratio should stay between 4-4.5 times.

Exposure to tenant concentration risk and renewal risk

We assess that WHART remains exposed to tenant concentration risk. The top-ten tenants occupied 55% of the total occupied area and contributed more than 50% of total rental and service income in the first nine months of 2022. However, most tenants are well-known domestic and multinational corporations with high credit quality. Rental collection risk is mitigated by the sound financial positions of these renowned companies. We also expect tenant concentration risk to gradually subside as asset size grows.

Also, the trust's lease renewal rates may come under pressure owing to the ongoing economic uncertainty. Under current occupancy, the lease contract expirations are relatively concentrated in 2023 and 2024. However, WHART is confident it will be able to secure renewals on most contracts given its well-located industrial properties and good-quality assets. The trust's renewal rate hovered around 80% in 2021 and 2022. The REIT manager and property manager normally negotiates lease renewal agreements with tenants about three to six months in advance of expiration, which allows sufficient time to look for new tenants. We forecast the trust's contract renewal rate to stay above 70% over the next three years.

Moderate financial leverage

We expect WHART to maintain its loan to fair value of total assets ratio (LTV) (including lease liabilities) below 30% over the next three years, based on the trust's financial policy. At the beginning of December 2022, the trust acquired THB4.2 billion new assets with 33% debt financing. As a result, the trust's LTV is forecast to reach 28% at the end of 2022.

Looking forward, we assume the trust will acquire new assets worth around THB3-THB4 billion per annum during 2023-2024, to be funded by a combination of debt and equity. Its LTV is expected to hover around 28% over the forecast period.

Manageable liquidity

We assess WHART's liquidity to be manageable over the next 12 months, given the trust's ability to access the capital market and its good relationships with financial institutions. The trust's sources of liquidity included cash on hand of THB2.5 billion and available credit lines from financial institutions of THB450 million, as of September 2022. We forecast EBITDA of around THB3 billion over the next 12 months. WHART's EBITDA interest coverage is expected to remain at 7-9 times over the next three years.

As of September 2022, WHART's outstanding debt was THB12.2 billion, comprising THB10.1 billion debentures and THB2.1 billion long-term loans. All debts were unsecured. WHART has a series of debt repayments due in the years ahead, including THB1 billion due in the last quarter in 2022, THB3.6 billion due in 2023, THB2.5 billion in 2024, and THB5.1 billion due thereafter. The trust plans to refinance the maturing debentures and term loan repayments with debenture issuances and/or bank borrowings. We do not expect the trust to have difficulties refinancing its debts, considering its sizable asset portfolio and relatively low LTV.

BASE-CASE ASSUMPTIONS

Here are our key base-case assumptions for WHART's operations during 2022-2024:

- OR (with undertaking) to remain around 90%.
- EBITDA margin to hover around 90%.
- New asset acquisitions of THB4.2 billion in 2022 and around THB3-THB4 billion per annum during 2023-2024.
- 33% debt financing for new acquisitions in 2022 and a combination of debt and equity for the acquisition of new assets in 2023-2024 with a target LTV of below 30%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that WHART's property portfolio will continue to generate steady cash flow with an average OR above 90% and an EBITDA margin above 90% over the next three years. We also expect the trust to keep its LTV ratio below 30% in accordance with the trust's policy and a debt to EBITDA ratio at around 4-4.5 times.

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 the debt to EBITDA ratio to exceed 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 the debt to EBITDA ratio below 2.5 times on a sustained basis.

COMPANY OVERVIEW

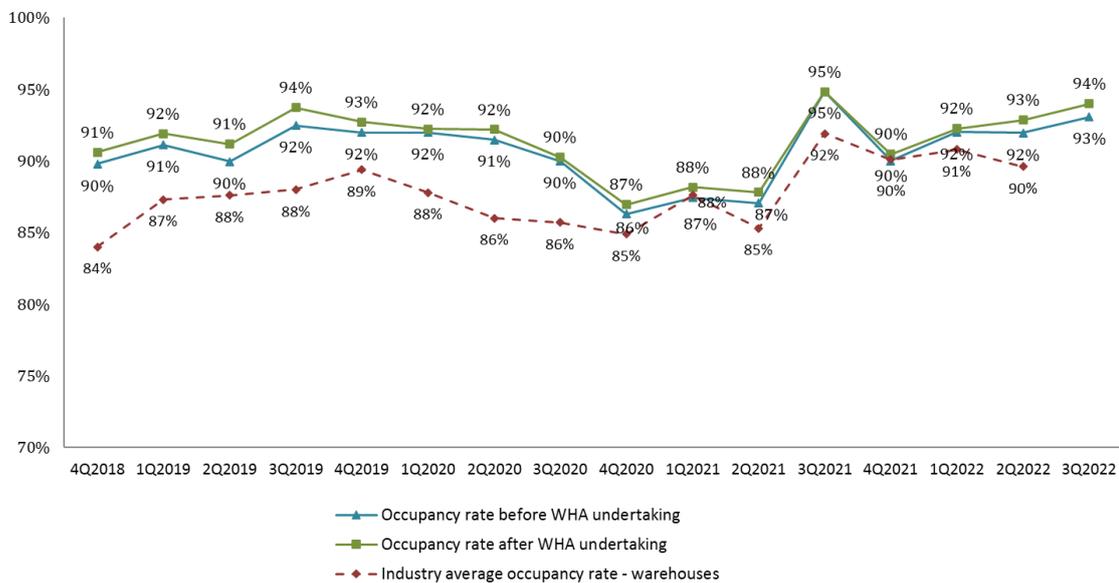
WHART was established and listed on the Stock Exchange of Thailand (SET) in December 2014 as Thailand’s first industrial trust. At present, WHA holds a 15% stake in WHART. WHART’s REIT manager is WHA Real Estate Management Co., Ltd. (WHAREM) which is 99.9% owned by WHA, the property manager and main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

WHART’s property portfolio expanded continually from THB4.41 billion at its inception to THB13.08 billion as of September 2017. Its leasable area increased from 167,107 square meters (sq.m.) to 499,236 sq.m. over the same period. 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.

At present, WHART is one of the leaders in the warehouse and factory rental business in Thailand. The trust’s investment properties worth around THB49 billion with total leasable area is 1,743,984 sq.m., located in key industrial estates and strategic logistics areas including along Bangna-Trad Road (58%), Ayudhya, Saraburi and Pathumthani provinces (22%), Eastern Economic Corridor (19%), and Samut Sakorn province (1%). 45% of the investment properties are freehold while the remainder are leasehold.

KEY OPERATING PERFORMANCE

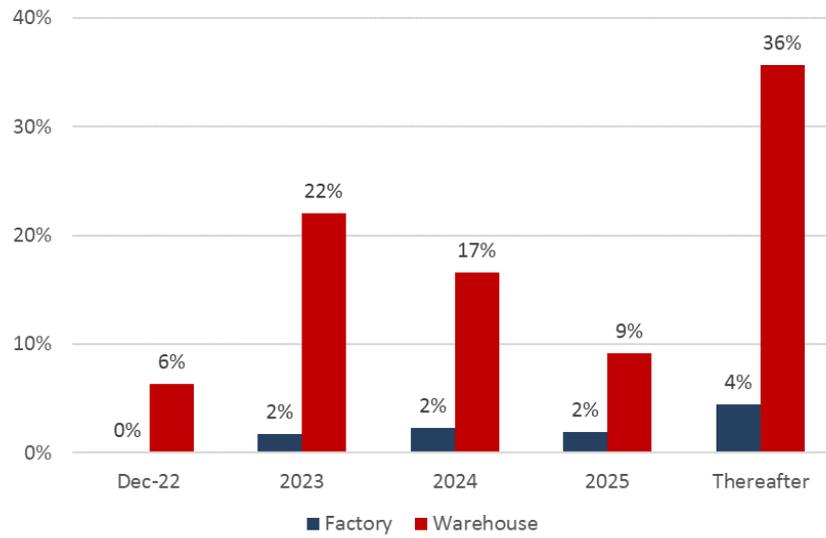
Chart 1: Occupancy Rate



*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 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	2,329	2,568	2,552	2,263	1,978
Earnings before interest and taxes (EBIT)	2,083	2,116	2,125	1,973	1,697
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,143	2,216	2,247	2,091	1,795
Funds from operations (FFO)	1,904	1,911	1,954	1,666	1,408
Adjusted interest expense	239	305	294	425	387
Capital expenditures	50	5,625	3,284	4,918	4,491
Total assets	47,870	48,455	42,595	38,154	32,651
Adjusted debt	10,361	10,415	9,206	9,604	9,457
Adjusted equity	33,756	33,937	30,413	27,316	21,983
Adjusted Ratios					
EBITDA margin (%)	91.98	86.31	88.08	92.41	90.76
Pretax return on permanent capital (%)	5.88 **	4.80	5.36	5.60	5.71
EBITDA interest coverage (times)	8.97	7.27	7.65	4.92	4.64
Debt to EBITDA (times)	3.88 **	4.70	4.10	4.59	5.27
FFO to debt (%)	22.74 **	18.35	21.22	17.35	14.89
Debt to capitalization (%)	23.49	23.48	23.24	26.01	30.08

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- 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

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

Company Rating:	A
Issue Ratings:	
WHART235A: THB1,000 million senior unsecured debentures due 2023	A
WHART242A: THB850 million senior unsecured debentures due 2024	A
WHART245A: THB500 million senior unsecured debentures due 2024	A
WHART245B: THB1,000 million senior unsecured debentures due 2024	A
WHART253A: THB1,200 million senior unsecured debentures due 2025	A
WHART265A: THB1,500 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
WHART288A: THB1,000 million senior unsecured debentures due 2028	A
Up to THB2,300 million senior unsecured debentures due within 7 years	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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