

WHA PREMIUM GROWTH FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 9/2021

29 January 2021

CORPORATES

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

Last Review Date: 31/01/20

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART or “trust”) and the issue ratings on WHART’s outstanding senior unsecured debentures at “A” with a “stable” outlook. The ratings reflect the trust’s reliable cash flow from contract-based rental income, strong operating performance, and its moderate financial leverage. However, the ratings are partially constrained by the tenant concentration risk. The ratings also take into consideration our concerns over the negative impacts of the Coronavirus Disease 2019 (COVID-19) outbreak, which may suppress the demand for industrial properties over the short to medium term.

KEY RATING CONSIDERATIONS

Satisfactory occupancy rate

We expect WHART to be able to maintain its satisfactory occupancy rate (OR) in the medium term, supported by the strategic locations of WHART’s properties comprising the estates along Bangna-Trad road (63%), Eastern Economic Corridor (EEC, 15%), Ayudhya and Saraburi provinces (21%), as well as Samut Sakorn province (1%).

WHART has achieved an average annual OR not less than 90% since its inception in 2014. We expect the trust to maintain an average OR of around 90% over the next three years, based on the historical performance of contract replacement and renewal managed by the trust’s real estate investment trust (REIT) manager and property manager, as well as asset enhancement supported by its sponsor.

Modest impact from COVID-19

The COVID-19 outbreak has minor impact on the trust’s performance, estimated to be less than 1% of its rental income. Rapid growth in the e-commerce market has resulted in growing demand in logistics and related businesses, the trust’s major tenants. The trust’s tenants are mainly logistics providers (42%), in the consumer products industry (25%), and manufacturers (14%), based on occupied area. In addition, tenants in the e-commerce business has been growing to 6% in 2020 from 1% in 2018.

In our base-case forecast, we project the trust to generate stable income streams over the next three years based on mostly medium-term lease contracts signed with tenants.

However, the second wave of outbreak is showing signs of holding the recovery of the Thai economy. We see the risk that the trust’s performance could be affected by further drops in occupancy and lease renewal rates. Based on the outstanding lease contracts, 25% of total occupied area will expire within one year, 34% within the next 1-3 years, with the rest expiring thereafter. The lease contract expirations are relatively concentrated in 2021, with half of the expired contracts having already been renewed as of January 2021. Given the strategic locations for logistics and the quality of the properties, WHART’s management are confident they are able to secure renewals on most of their contracts.

Exposure to tenant concentration risk

WHART remains exposed to tenant concentration risk. The top-ten tenants occupied 56% of the total occupied area and contributed above 50% of total

rental and service income in the first nine months of 2020. However, the tenant concentration risk is partly alleviated by the high credit profiles of its top tenants. Also, the property manager typically negotiates lease renewal agreements with tenants about six to twelve months in advance of expiration. We expect the tenant concentration risk to gradually dissipate as WHART's asset size grows.

Growth prospects

We view that WHART has the potential to enlarge its asset size supported by the trust's sponsors. WHA Corporation PLC (WHA), the trust's sponsor, is one of only two major developers of warehouses and factories for rent in Thailand. WHA has regularly transferred built-to-suit and standard warehouses and factories with high OR to the trust every year. In addition, WHA also undertakes to pay rental income to WHART for three years for any vacant space to enhance the OR to 100% at the time of sale.

WHART's investment portfolio consistently grew from THB4.41 billion at inception in 2014 to THB35.85 billion in 2019. On 3 December 2020, WHART acquired new assets with an investment cost of THB3.42 billion from sponsors. Going forward, the trust plans to invest in additional assets every year. In our view, the growing size and diversity of its portfolio will help lower the concentration risk and boost the trust's rental and service income in the future.

Moderate financial leverage

We view that WHART's financial leverage is at a moderate level. According to its financial policy, WHART aims to maintain its loan to fair value of total assets ratio (LTV) at not higher than 35%. At the end of September 2020, the trust's LTV ratio stood at 24%.

In order to keep its financial leverage on target, we expect the trust to fund future investments using a combination of equity and debt. We forecast WHART to acquire new assets of around THB2-THB3 billion per annum in 2021-2022. The LTV ratio is projected to range 28%-30% during 2021-2022.

The financial covenant on WHART's loan obligations requires the maintenance of the LTV ratio below 35% and the interest-bearing debt to earnings before interest, taxes, depreciation and amortization (EBITDA) at less than 5.5 times. The ratios at the end of September 2020 were 24% and 4 times, respectively. We assess the company should have no problems complying with this financial covenant over the next 12 months.

Manageable liquidity

We assess WHART's liquidity to be manageable. The ratio of funds from operations (FFO) to debt was around 23% and the EBITDA interest coverage ratio was 8 times during the first nine months of 2020. We expect WHART's FFO to be in the THB1.98-THB2.25 billion range in 2020-2022. The FFO to debt ratio is forecast to be 18%-21% and the interest coverage ratio is projected to be 6-7 times over the next three years.

As of December 2020, WHART's outstanding debt was THB10.16 billion, comprising debentures of THB8 billion and long-term loans totaling THB2.16 billion. The trust has bullet debt repayments of THB3.5 billion coming due in 2021. WHART plans to repay debentures due in 2021 with its internal cash and bank borrowings or new debentures, with considering liquidity in the bond market and interest rate at that time. WHART has a number of bullet debt repayments due in the years ahead, including THB1.95 billion due in 2022, followed by THB820 million due in 2023, and THB3.89 billion due thereafter. The trust plans to refinance these bullet repayments with the proceeds from new debentures and/or long-term loans. We believe the trust to have no difficulty refinancing its debts.

BASE-CASE ASSUMPTIONS

- Investment assets to increase by THB3.42 billion at the end of 2020 and THB2-THB3 billion per year during 2021-2022.
- OR (with the sponsor's undertaking) to hold at around 90% over the next three years.
- Total revenue of THB2.57-THB3.02 billion per annum during 2020-2022.
- EBITDA margin to hover around 90% over the next three years.
- Acquisition of new assets to be financed by a combination of debt and equity, with LTV not more than 30%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that WHART's property portfolio will continue to generate steady cash flow during 2020-2022. We also expect the trust's assets to sustain a high level of OR above 90% with sound profitability. In addition, we expect the trust will be able to keep the LTV below 35% in accordance with the trust's policy and able to comply with its financial covenants.

RATING SENSITIVITIES

WHART's ratings and/or outlook could be revised downward if the OR drops meaningfully below expectations and/or the LTV ratio stays above 35% for a prolonged period. On the other hand, the ratings and/or outlook could be revised upward if WHART can enlarge its cash flows substantially and improve its capital structure noticeably, leading to higher cash flow protection over an extended period.

COMPANY OVERVIEW

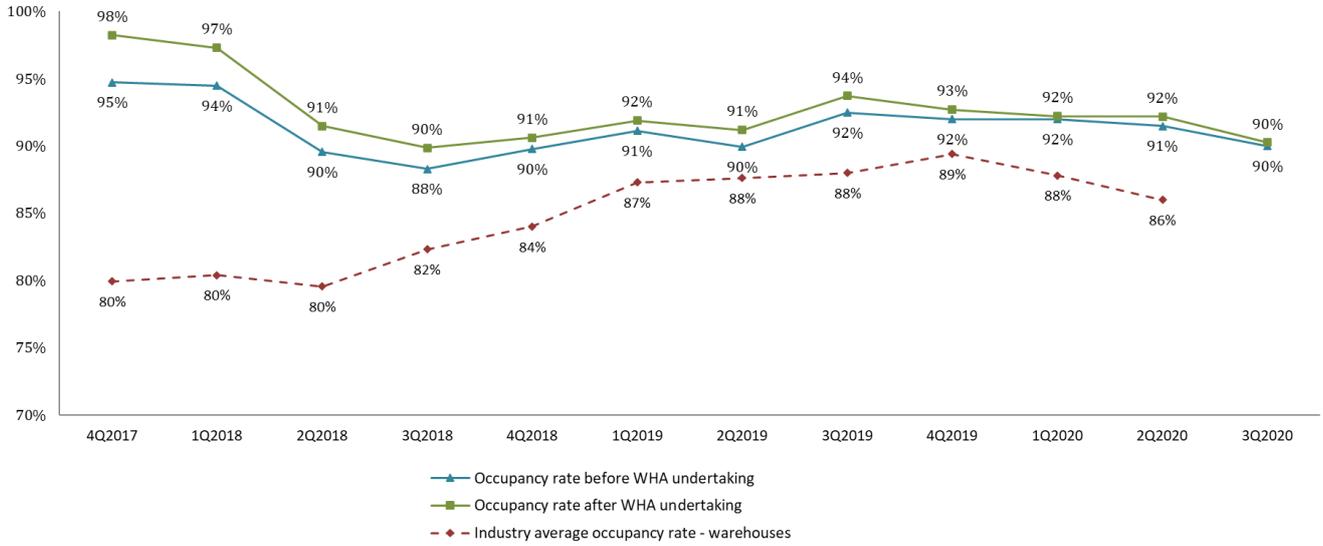
WHART was established and listed on the Stock Exchange of Thailand (SET) in December 2014 as Thailand's first industrial trust. At present, WHA holds a 15% stake in WHART. WHART's REIT manager is WHA Real Estate Management Co., Ltd. (WHAREM) which is 99.9% owned by WHA, the property manager and main 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. More than 96% of WHART's total revenue comes from warehouses and factories for rent.

WHART's property portfolio has 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 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 warehouses and factories rental business in Thailand. The trust's total leasable area is 1,412,140 sq.m., located in prime strategic areas including along Bangna-Trad road (63%), EEC (15%), Ayudhya and Saraburi provinces (21%), as well as Samut Sakorn province (1%). Of the investment properties, 56% are freehold and the remaining long-term leasehold.

KEY OPERATING PERFORMANCE

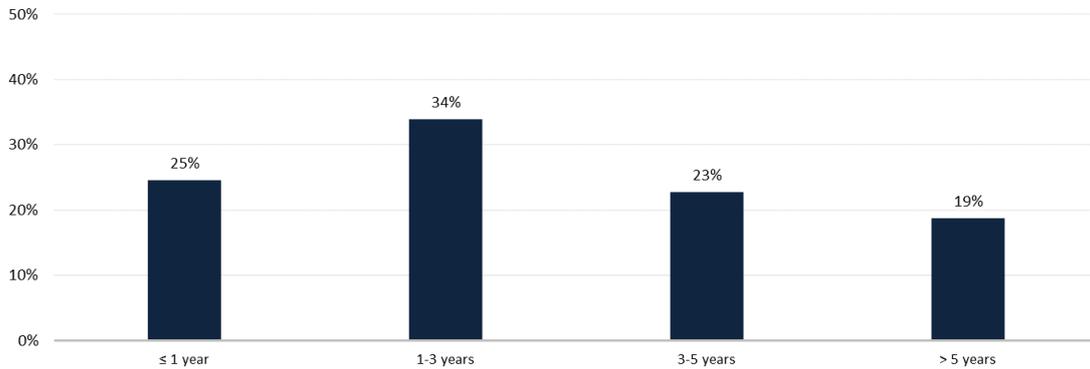
Chart 1: Occupancy Rate



Note: Occupancy rate as of end of period

Sources: WHART and CB Richard Ellis (CBRE)

Chart 2: Lease Expiry by Occupied Area



Source: WHART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	1,919	2,263	1,978	1,079	709
Earnings before interest and taxes (EBIT)	1,647	1,973	1,697	927	609
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,740	2,091	1,795	992	651
Funds from operations (FFO)	1,520	1,666	1,408	793	517
Adjusted interest expense	220	425	387	199	134
Capital expenditures	0	4,918	4,491	3,107	4,209
Total assets	38,929	38,154	32,651	27,814	13,923
Adjusted debt	8,463	9,604	9,457	6,884	3,651
Adjusted equity	27,595	27,316	21,983	19,099	9,541
Adjusted Ratios					
EBITDA margin (%)	90.67	92.41	90.76	91.87	91.83
Pretax return on permanent capital (%)	6.07 **	5.60	5.71	4.56	5.31
EBITDA interest coverage (times)	7.92	4.92	4.64	4.98	4.85
Debt to EBITDA (times)	3.73 **	4.59	5.27	6.94	5.61
FFO to debt (%)	23.00 **	17.35	14.89	11.51	14.15
Debt to capitalization (%)	23.47	26.01	30.08	26.49	27.68

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Real Estate Investment Trust, 12 October 2016

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

Company Rating:	A
Issue Ratings:	
WHART212A: THB500 million senior unsecured debentures due 2021	A
WHART213A: THB3,000 million senior unsecured debentures due 2021	A
WHART222A: THB950 million senior unsecured debentures due 2022	A
WHART22DA: THB1,000 million senior unsecured debentures due 2022	A
WHART242A: THB850 million senior unsecured debentures due 2024	A
WHART253A: THB1,200 million senior unsecured debentures due 2025	A
WHART26DA: THB500 million senior unsecured debentures due 2026	A
Rating Outlook:	Stable

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