

# WHA PREMIUM GROWTH FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 8/2022

31 January 2022

## CORPORATES

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

Last Review Date: 30/12/21

### 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 highly predictable cash flow from contract-based rental income, robust cash flow protection, moderate financial leverage, and growth prospects supported by assets from its sponsor. However, the ratings are partially constrained by the tenant concentration risk. The ratings also take into consideration our concerns over the prolonged Coronavirus Disease 2019 (COVID-19) outbreak, which may put pressure on the occupancy, rental rates, and renewal rate of industrial properties.

## KEY RATING CONSIDERATIONS

### Satisfactory occupancy rate

We expect WHART to perform well with an average occupancy rate (OR) (with undertaking) of around 90% over the next three years, given its good-quality properties in strategic locations and frequent asset enhancement.

During the COVID-19 pandemic, the trust was able to keep its average OR of around 90% in 2020 and the first nine months of 2021. Growth in the e-commerce market has led to rising demand in warehouses for e-commerce businesses, logistics providers, and related businesses, which are the trust’s major tenants. As of September 2021, the trust’s tenants are mainly engaged in logistics services (43%), consumer products (27%), and manufacturers (12%), based on occupied area.

### Modest impact from COVID-19, but pressure on lease rental rate and renewal rate

The COVID-19 pandemic has not had a significant impact on the trust’s operating performance given the contract-based nature of rental properties. Its revenue grew by 13% year-on-year (y-o-y) to THB2.55 billion in 2020. The trust’s revenue in the first nine months of 2021 stood at THB1.93 billion, a negligible change from the same period last year, due to the reversion of revenue in accounting basis from the disposal of asset to a tenant during the second quarter of 2021.

However, the trust’s OR, rental rates, and lease renewal rates may come under pressure from the ongoing uncertainty. Under current occupancy, the lease contract expirations are relatively concentrated in 2022 and 2023. WHART is confident it will be able to secure renewals on most contracts given the strategic location for logistics and quality of its properties. In addition, the property manager typically negotiates lease renewal agreements with tenants about six to twelve months in advance of expiration, which allows sufficient time to look for new tenants. WHART’s contract renewal rate is expected to stay above 70% over the next three years.

In our base-case forecast, we assume flat growth in rental rates with average OR remaining around 90% over the forecast period. The trust’s revenue is expected to be in the THB2.6-THB3.2 billion per annum range in 2021-2023.

### Future growth opportunities

In our view, WHART has the potential to enlarge its asset portfolio supported by the trust's sponsors. WHA Corporation PLC (WHA), the trust's sponsor, is one of two leading developers of warehouses and factories for rent in Thailand. WHA has transferred built-to-suit and general warehouses and factories with high OR to the trust annually. WHA also undertakes rental income to WHART for any vacant space for the first three years as specified in the undertaking agreement to enhance the OR to 100% at the time of sale. As of September 2021, its investment properties were worth THB39.6 billion.

On 2 December 2021, WHART acquired new assets for an investment cost of THB5.78 billion from its sponsors. Going forward, the trust intends to invest in additional assets from both sponsors and third parties every year, in order to enlarge the scale and diversity of its portfolio.

### Robust cash flow protection

We view WHART's cash flow protection to remain robust, supported by increasing cash flows from regular acquisitions of good-quality assets. In 2020, the trust's earnings before interest, tax, depreciation, and amortization (EBITDA) rose by 7% y-o-y to THB2.25 billion due to a growth in revenue. However, its EBITDA during the first nine months of 2021 slightly declined by 3% y-o-y to THB1.69 billion, mainly as a result of the contra revenue items after disposal of assets and extra spending in selling, general, and administrative expenses (SG&A). We anticipate the EBITDA margin to recover in 2022-2023 as the additional expenditures during the first nine months of 2021 are not recurring expenses. Overall, we expect the trust's EBITDA margin in 2021 to slightly decline to 86%, from 88% in 2020, and to recover and stay around 90% during 2022-2023. Thus, its EBITDA is expected to range from THB2.2-THB2.9 billion over the next three years.

WHART's EBITDA interest coverage ratio in 2020 improved to 7.6 times from 4.9 times in 2019, due to a growth in the earnings base and lower average interest rates. We expect its EBITDA interest coverage ratio to stay at around 6.8-8.4 times while its debt to EBITDA ratio to stay at 4.5-4.8 times.

### Exposure to portfolio concentration risk

WHART remains exposed to tenant concentration risk. The top-ten tenants occupied 49% of the total occupied area and contributed 53% of total rental and service income in the first nine months of 2021. However, most tenants are well-known domestic and multinational corporations with high credit quality. Rental collection risk is partially mitigated by the sound financial positions of these reputable companies. We also expect tenant concentration risk to gradually dissipate as asset size grows.

### Moderate financial leverage

We expect WHART to maintain its financial leverage at a moderate level over the next three years. Based on the trust's policy that aims to maintain the loan to fair value of total assets ratio (LTV) (including lease liabilities) below 30%, we expect the trust to balance the funding mix for its future acquisitions in line with the level of its financial leverage over the past five years.

At the beginning of December 2021, the trust acquired THB5.78 billion in new assets with 36% debt financing. As a result, we expect the trust's LTV to stay around 27% at the end of 2021. Looking forward, we assume the trust to acquire new assets worth around THB3-THB4 billion per annum during 2022-2023. Its LTV is expected to hover around 28% during the same period.

At the end of September 2021, WHART had secured debt of THB160 million. As the trust's secured debt to fair value of total assets ratio was only 0.38%, we view that WHART's unsecured creditors are not significantly disadvantaged with respect to claims against the trust's assets.

The financial covenant on WHART's loan obligations requires the trust to maintain the LTV ratio below 35% and an interest-bearing debt to EBITDA ratio of less than 6.5 times. The ratios at the end of September 2021 were 25.4% and 4.9 times, respectively.

### Manageable liquidity

We assess WHART's liquidity to remain manageable over the next 12 months, given the trust's ability to access the capital market and the support it has received from financial institutions. The trust's sources of liquidity include cash on hand of THB2.44 billion and available credit lines from financial institutions of THB450 million. We forecast EBITDA of around THB2.6 billion over the next 12 months. WHART's EBITDA interest coverage is expected to remain at 6.8-8.4 times over the next three years.

As of September 2021, WHART's outstanding debt was THB10.16 billion, comprising debentures of THB10 billion and long-term loans of THB160 million. WHART has a series of debt repayments due in the years ahead, including THB1.95 billion due in 2022, THB1.66 billion due in 2023, THB2.35 billion in 2024, and THB4.2 billion due thereafter. The trust has already used the proceeds from the new debenture issuance to refinance THB950 million of debentures due in February 2022 and plans to refinance the other scheduled bullet repayments with debenture issuances and/or bank borrowings. We believe the trust should have no difficulty refinancing its debts.

#### BASE-CASE ASSUMPTIONS

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- OR (with undertaking) to remain around 90% over the next three years.
- New asset acquisitions of around THB3-THB4 billion per annum in 2022 and 2023.
- EBITDA margin to hover around 90% in 2021-2023.
- Acquisition of new assets to be financed by a combination of debt and equity to keep LTV below 30%.

#### RATING OUTLOOK

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The "stable" outlook reflects our expectation that WHART's property portfolio will continue to generate steady cash flow with average OR above 90% and sound profitability over the next three years. We also expect the trust to keep the LTV ratio below 30% in accordance with the trust's policy and the debt to EBITDA ratio at around 5 times.

#### RATING SENSITIVITIES

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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% for a sustained period. On the other hand, a rating upward revision could occur if the trust can enlarge its cash flow substantially and improve its capital structure considerably, leading to higher cash flow protection over an extended period.

#### COMPANY OVERVIEW

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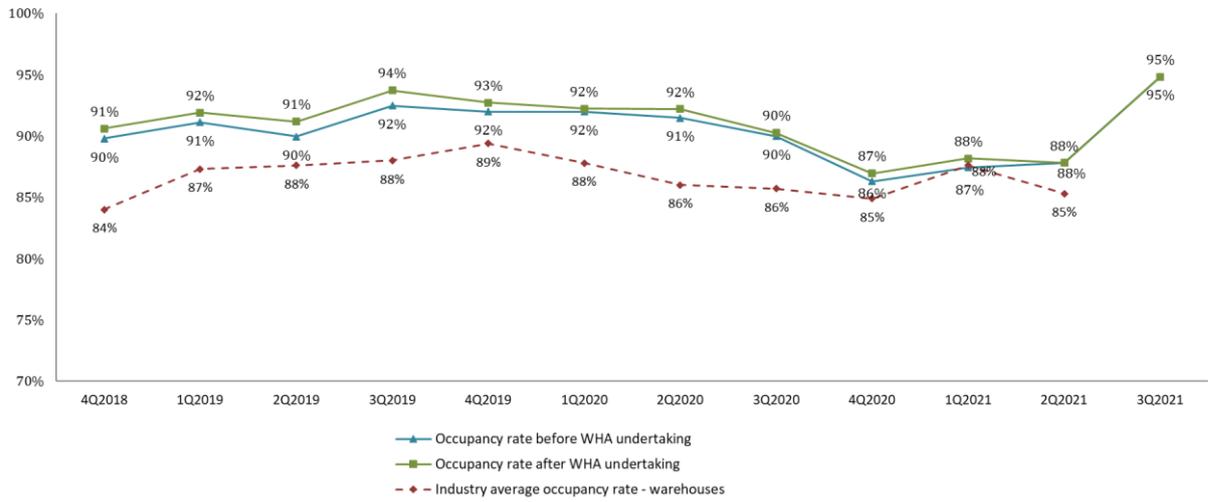
WHART was established and listed on the Stock Exchange of Thailand (SET) in December 2014 as Thailand's first industrial trust. At present, WHA holds a 15% stake in WHART. WHART's REIT manager is WHA Real Estate Management Co., Ltd. (WHAREM) which is 99.9% owned by WHA, the property manager and main 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 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 1,582,750 sq.m., located in key industrial estates and strategic logistics areas including along Bangna-Trad road (58%), Eastern Economic Corridor (21%), Ayudhya and Saraburi provinces (20%), and Samut Sakorn province (1%). Half of the investment properties are freehold while the remainder are leasehold.

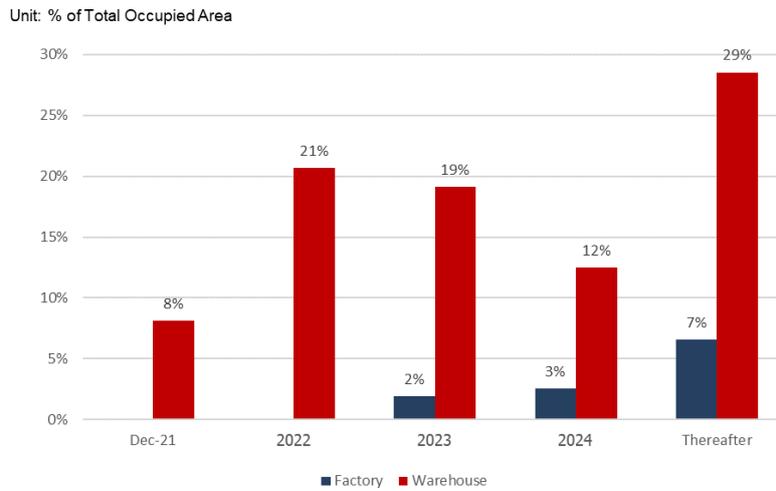
**KEY OPERATING PERFORMANCE**

**Chart 1: Occupancy Rate**



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

**Chart 2: Lease Expiry**



*Source: WHART*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Sep 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	1,928	2,552	2,263	1,978	1,079
Earnings before interest and taxes (EBIT)	1,614	2,125	1,973	1,697	927
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,690	2,247	2,091	1,795	992
Funds from operations (FFO)	1,458	1,954	1,666	1,408	793
Adjusted interest expense	232	294	425	387	199
Capital expenditures	0	3,284	4,918	4,491	3,107
Total assets	42,586	42,595	38,154	32,651	27,814
Adjusted debt	8,373	9,206	9,604	9,457	6,884
Adjusted equity	30,539	30,413	27,316	21,983	19,099
<b>Adjusted Ratios</b>					
EBITDA margin (%)	87.67	88.08	92.41	90.76	91.87
Pretax return on permanent capital (%)	5.29 **	5.36	5.60	5.71	4.56
EBITDA interest coverage (times)	7.30	7.65	4.92	4.64	4.98
Debt to EBITDA (times)	3.81 **	4.10	4.59	5.27	6.94
FFO to debt (%)	22.60 **	21.22	17.35	14.89	11.51
Debt to capitalization (%)	21.52	23.24	26.01	30.08	26.49

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Key Financial Ratio 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)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
WHART222A: THB950 million senior unsecured debentures due 2022	A
WHART22DA: THB1,000 million senior unsecured debentures due 2022	A
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
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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