

ALLY LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 96/2023
31 May 2023

CORPORATES

Issuer Rating: BBB+
Outlook: Stable

Last Review Date: 13/05/22

Issuer Rating History:		
Date	Rating	Outlook/Alert
13/05/22	BBB+	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Ally Leasehold Real Estate Investment Trust (ALLY) at “BBB+” with a “stable” outlook. The rating reflects the trust’s quality community mall portfolio, its highly predictable cash flow from contract-based income, growth opportunities from new asset acquisition, and prudent financial policy. However, the rating is partially constrained by its modest scale of asset portfolio and an expected rise in financial leverage from portfolio expansion.

KEY RATING CONSIDERATIONS

Rating driven by quality neighborhood malls

We view that ALLY’s asset portfolio is well-maintained as the real estate investment trust (REIT) manager and property manager are experienced operators in the retail property industry. As of March 2023, ALLY owned the leasehold rights in 12 community malls and one office building. The trust’s portfolio is considered modest with investment property worth THB12.6 billion and a total net leasable area (NLA) of 160,197 square meters (sq.m.) The trust’s three main assets contributed around 60% of the entire NLA. The average occupancy rate (OR) has remained at above 90% for community malls and around 70% for office buildings. The tenant retention rate was high at above 90% in 2021-2022.

ALLY focuses on tenant mix offering in-store experiences to mitigate the risk from changing customer behavior trends towards online shopping. The trust’s tenant mix for each mall is designed to serve the lifestyles of those people in its catchment areas and serve the everyday needs of people located in the neighboring community or residential areas. At the end of March 2023, tenants in the food and beverages category accounted for 20% of total occupied area, home and furniture 16%, supermarket 11%, and other lifestyle-related categories such as beauty and health, education, entertainment, fitness, and fashion accounted for 5%-10% each of total occupied area.

Predictable cash flow from contract-based income

The rental and service income of the trust is highly predictable since most tenants are bound by three-year contracts. Fixed-rent contracts accounted for around 80% of the total occupied area, while 20% are revenue sharing.

Based on the area currently under lease, 44% of the total occupied area will expire in 2023, 21% in 2024, 32% in 2025, and the rest from 2026 onwards. The renewal rate has been relatively high at 90% in 2021 and 94% in 2022.

Growth prospect from new asset acquisition

ALLY’s credit profile factors in its growth opportunities from new asset acquisitions from KE Group and partners. KE Group is developing two community malls and has one lifestyle office building in its property portfolio. ALLY also has the first right to acquire assets from the project partners. The trust normally adds matured properties with acceptable OR and stable rental rate growth to the trust.

ALLY has a concrete plan to acquire the 111 Praditmanutham project, an office building situated on Praditmanutham Road, from KE Group in September 2023. The project has an NLA of around 10,000 sq.m. and is 92% occupied. The investment size will not exceed THB700 million. Also, ALLY plans to acquire

community malls either from KE group or partners in 2024, with an estimated acquisition value of THB1 billion. Based on the planned acquisitions, the trust's NLA is projected to increase by around 20% by 2025. The asset mix by NLA will likely be 90% from community malls and 10% from office buildings. The growing size of the quality property portfolio will help boost rental income as well as diversify sources of cash flow of the trust in the future.

Reviving operating performance

We expect the trust's operating performance to continue improving in 2023-2025 underpinned by the gradual recovery of customer traffic after the pandemic. We also expect the OR of the trust's shopping malls to be robust and the rental rate to increase as a result of the fewer discounts provided to tenants from 2023 onwards.

In our base-case forecast, we project the trust's overall OR to remain at 93% during 2023-2025, with an average rental rate growth by 2% per annum. We expect the trust's operating revenue to soar to THB1.7-THB2.0 billion per annum in 2023-2025 from THB1.6 billion in 2022. The trust's earnings before interest, taxes, depreciation, and amortization (EBITDA) is forecast to stay in the THB0.9-THB1.0 billion range per year, with an EBITDA margin of around 50%.

ALLY reported an increase by 41% in operating revenue and 45% in EBITDA in 2022. This was mainly due to the increase in new office space and lower discounts provided to tenants compared to those in earlier years. The trust's operating performance for the first quarter of 2023 continued to surpass that of the same period last year with a 13% year-on-year (y-o-y) growth in revenue and 9% y-o-y growth in EBITDA. The overall OR remained high at 93%.

Elevated financial leverage

We view the trust's financial leverage as rising as a result of its contemplated asset acquisitions. However, the trust aims to uphold its prudent financial policy with a loan to total asset value (LTV) ratio (excluding lease liabilities) staying below 35%. Our base-case scenario incorporates potential new asset acquisitions worth THB1.7 billion in 2023-2024, to be fully debt-funded. Thus, the LTV ratio (excluding lease liabilities) may increase to 30%-34% in 2023-2025 from 26% as of March 2023. The debt to EBITDA ratio is likely to escalate to 5.0-5.5 times in the next three years from 4.6 times at the end of March 2023.

The financial covenants on ALLY's debt obligations require the trust to maintain the debt-to-equity ratio below 1.5 times, the interest-bearing debt (IBD) to EBITDA ratio (excluding lease liabilities) below 5.5 times, and LTV ratio (excluding lease liabilities) below 50%. As of March 2023, the debt-to-equity ratio was 0.6 times, the IBD to EBITDA ratio was 4.4 times, and the LTV ratio was 26%. We believe the trust should have no problems complying with the financial covenants over the next 12 to 18 months.

Adequate liquidity

We assess ALLY's liquidity as adequate for the next 12 months. The trust's sources of liquidity as of March 2023 include cash on hand of THB681 million and undrawn committed credit facilities of THB419 million. We forecast funds from operations (FFO) to stay at THB640 million in 2023. The trust's high-quality unencumbered assets can also be used as collateral for bank loans, if needed. The market value of its unencumbered assets as of March 2023 was around THB 3.9 billion. ALLY's uses of funds include maintenance capital expenditures of 3% of total rental and service income and dividend payment of at least 90% of adjusted net investment income.

At the end of March 2023, the trust had THB3.6 billion in outstanding long-term loans with scheduled repayments of THB100-THB260 million per year in 2024-2028. The remaining 75% of total debt will be due in 2029.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for ALLY's operations in 2023-2025:

- New office acquired for THB 700 million in 2023 and new malls for THB 1billion in 2024
- Average OR to stay above 90% for community malls and above 85% for office buildings
- Average rental rate to grow by 2% per annum
- Rental and service income to increase by 5%-10% per annum
- EBITDA margin to hover around 50%

RATING OUTLOOK

The "stable" outlook reflects our expectation that ALLY's property portfolio will continue to generate highly predictable cash flow steam over the forecast period. We expect the trust will be able to sustain high OR and achieve favorable rental rates as targeted. Also, ALLY should remain a conservative financial policy with the loan (excluding lease liabilities) to total asset ratio remaining below 35%.

RATING SENSITIVITIES

ALLY's rating and/or outlook could be revised downward if the debt to EBITDA ratio rises above 7.5 times for a prolonged period or if the trust incurs any larger-than-expected debt-funded property acquisitions. A credit upside would materialize if its cash generation enlarges significantly and/or the debt to EBITDA ratio stays below 4.5 times for a sustained period.

TRUST OVERVIEW

ALLY, originally named Bualuang K.E. Retail Leasehold Real Estate Investment Trust (BKER), was founded in November 2019 as part of the process to convert the CRYSTAL, a property fund, into a REIT. The CRYSTAL was established and listed on the Stock Exchange of Thailand (SET) in 2013. Upon the conversion in November 2019, BKER acquired CRYSTAL's entire property portfolio (The Crystal Ekamai-Ramintra and Crystal Design Center) and invested in an additional eight community shopping malls from six project owners. In 2021, BKER was renamed ALLY and expanded its investment portfolio to cover all types of commercial properties. KE Group, through its subsidiaries, has been the trust's major unit holder with a 22.4% stake as of 13 March 2023. ALLY REIT Management Co., Ltd. and K.E. Property Management Co.,Ltd., KE Group's subsidiaries, acts as ALLY's REIT manager and property manager, respectively.

After the conversion in 2019, the trust's property portfolio consisted of 10 community shopping malls. The trust acquired two community shopping malls in 2021 and one office building in 2022. As of March 2023, ALLY had 13 properties with a total net leasable area of 160,197 sq.m.

KEY OPERATING PERFORMANCE

Table 1: ALLY's Property Portfolio

	Crystal Design Center	The Crystal Ekamai-Ramintra	The Crystal SB Ratchapruerk	Amorini	I'm Park	Plearnary	Sammakorn Place Ramkhamhaeng
Type	Community mall	Community mall	Community mall	Community mall	Community mall	Community mall	Community mall
Location	Bangkok	Bangkok	Bangkok	Bangkok	Bangkok	Bangkok	Bangkok
Net leasable area (sq.m.)	35,967	30,805	24,578	5,213	6,715	11,342	10,305
OR (%) (as of 31 Mar 2023)	99.1	97.5	92.8	94.7	95.0	87.9	97.0
Investment at fair value (Mil. THB) (as of 31 Mar 2023)	3,929	2,784	1,792	285	243	826	560
Remaining leasehold period (years)	26	26	20	26	11	26	26

	Sammakorn Place Rungsit	Sammakorn Place Ratchapruk	The Scene Town-in-Town	Kadfarang Village	The Crystal Chaipayruerk	The Prime Hua Lamphong
Type	Community mall	Community mall	Community mall	Community mall	Community mall	Office
Location	Bangkok	Bangkok	Bangkok	Chiangmai	Bangkok	Bangkok
Net leasable area (sq.m.)	3,389	4,618	6,925	7,005	9,006	4,330
OR (%) (as of 31 Mar 2023)	87.7	85.7	90.2	82.8	81.1	72.5
Investment at fair value (Mil. THB) (as of 31 Mar 2023)	201	299	660	382	461	189
Remaining leasehold period (years)	26	26	22	28	19	20

Source: ALLY

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	419	1,591	1,127	1,132	117
Earnings before interest and taxes (EBIT)	208	778	530	569	63
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	213	799	551	590	64
Funds from operations (FFO)	164	640	405	455	56
Adjusted interest expense	49	159	146	134	8
Investments in leasehold properties at fair value	12,611	12,497	12,162	11,349	11,171
Total assets	13,629	13,508	13,094	12,251	12,189
Adjusted debt	3,754	3,796	3,562	2,740	1,990
Adjusted equity	8,577	8,456	8,393	8,378	8,635
Adjusted Ratios					
EBITDA margin (%)	50.80	50.23	48.86	52.12	54.75
Pretax return on permanent capital (%)	6.17 **	6.13	4.38	4.93	0.55
EBITDA interest coverage (times)	4.36	5.03	3.78	4.39	7.62
Debt to EBITDA (times)	4.59 **	4.75	6.47	4.65	30.99
FFO to debt (%)	17.23 **	16.87	11.38	16.62	2.80
Debt to capitalization (%)	30.44	30.98	29.80	24.64	18.73
Loan to fair value of total assets (%)	32.54	32.85	31.36	26.94	22.63
Loan to fair value of total assets (%) (excluding lease liability from loan and total assets)	26.49	26.71	26.21	22.54	22.63

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021

Ally Leasehold Real Estate Investment Trust (ALLY)

Issuer Rating:	BBB+
Rating Outlook:	Stable

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