

DUSIT THANI FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 176/2022
11 October 2022

CORPORATES

Issuer Rating: BBB-
Outlook: Stable

Last Review Date: 28/09/21

Issuer Rating History:

Date	Rating	Outlook/Alert
28/08/20	BBB-	Negative
27/03/20	BBB	Alert Negative
19/12/19	BBB	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT or trust) at “BBB-”. The rating outlook is revised to “stable”, from “negative”, reflecting our expectation that the performance of DREIT’s hotel properties will steadily recover as the Coronavirus Disease 2019 (COVID-19) situation improves. The rating continues to reflect the structure of DREIT’s rental income, comprising fixed and variable portions, which offers downside protection to its cash flow over the leaseback period, subject to the credit risk of Dusit Thani PLC (DUSIT), its sole renter and the only source of cash flow. The rating also takes into consideration the asset quality of the trust’s properties, the trust’s small and concentrated asset portfolio, and the cyclical nature of the hotel industry.

KEY RATING CONSIDERATIONS

Gradual improvement in the trust’s properties performance

With the continued easing of the COVID-19 situation and the lifting of travel restrictions, we expect the performances of DREIT’s hotel properties, especially in Thailand, to gradually improve. However, economic headwinds and rising inflation could hamper the recovery, in our view.

We expect uneven recoveries of the trust’s properties in Thailand given each property’s market position. We expect “Dusit Thani Hua Hin” to recover the fastest among the three properties as it serves a higher proportion of local guests. Also, the property has finished renovations which should support room rate growth. In our base-case assumption, we project the average revenue per available room (RevPAR) of Dusit Thani Hua Hin to exceed the 2019 level by 10% in 2022 and grow by 15%-25% year-on-year (y-o-y) during 2023-2024.

We project the RevPAR of “Dusit Thani Laguna Phuket” to be around 20% below the pre-pandemic level in 2022 and then grow by 10%-20% per year during 2023-2024. Our projection takes into account a potential global recession, heightened inflation, as well as prolonged Russia-Ukraine military conflict, which could dampen leisure demand and spending from Western tourists, the main guest profile of Phuket.

“Dusit D2 Chiangmai” could take the longest to recover to the pre-COVID-19 level, in our view. The number of outbound Chinese tourists will play an important part in the recovery of Dusit D2 Chiangmai. We project that it could take another 2-3 years for the RevPAR to fully recover.

We expect “Dusit Thani Maldives” to continue delivering sound operating results. However, demand could be more muted compared with the previous two years as most competing travel destinations reopen. Furthermore, hotel supplies in the Maldives have already fully returned to the market. We forecast Dusit Thani Maldives’s RevPAR to grow by low to mid-single digit figures on average during 2022-2024. We view economic headwinds as a key risk weighing on the property’s performance.

Revenue downside protection

Revenue downside risk of the trust is limited by a committed minimum rental fee scheme. The laws governing real estate investment trusts (REIT) prohibit a REIT from operating a hotel. Because of this, DREIT leases Dusit Thani Laguna Phuket and Dusit D2 Chiangmai, and subleases Dusit Thani Hua Hin to Dusit

Management Co., Ltd. (DMCO). DREIT also subleases Dusit Thani Maldives to Dusit Maldives Management Pvt., Ltd. (DMM). Both DMCO and DMM are subsidiaries of DUSIT.

DMCO pays DREIT fixed and variable rental fees. The fixed portion of the rent is reset each year depending on the actual operating results of each hotel but is not less than THB205 million per year. The variable portion of the rent is 85% of what DMCO makes after deducting hotel operating expenses and the fixed portion of the rent. This will decline to 80% after 2022.

For Dusit Thani Maldives, DMM is renting the hotel for 21 years, ending in 2040. DMM pays a minimum fixed rental fee of USD7 million per year. The variable portion of the rent is 90% of what DMM makes after deducting hotel operating expenses and the fixed portion of the rent.

Our baseline projection expects DREIT's rental revenue to be THB510-THB545 million per annum during 2022-2024. We expect DREIT to receive only the minimum rent for the properties in Thailand for 2022-2023 and a modest variable rent in 2024. Meanwhile, the Maldives property is forecast to yield rental income higher than fixed rent. The rental income will likely translate into earnings before interest, taxes, depreciation, and amortization (EBITDA) of around THB440-THB480 million per annum during 2022-2024.

When the trust's assets perform weakly such that the minimum fixed rental fee committed by DUSIT is the main source of the trust's cash flow, we might consider DUSIT's credit risk to be a factor constraining the trust's credit profile. However, we could assign a rating on DREIT higher than the rating on DUSIT if the trust's assets can generate sufficient cash flow to warrant such a higher rating by themselves, irrespective of the rental scheme.

Sound financial profile

At the end of June 2022, DREIT's adjusted debt was THB1.9 billion. Our base-case scenario projects DREIT's adjusted debt to capitalization ratio to remain below 25% during 2022-2024. The adjusted debt to EBITDA ratio is expected to be around 4 times. We expect no major capital expenditures during the forecast period.

The main financial covenants on DREIT's loan obligations require the trust to maintain an interest-bearing debt to EBITDA ratio below 6 times and a loan to fair value (LTV) of asset ratio below 60%. As of June 2022, the ratios were 4.1 times and 26.3%, respectively. We believe that DREIT should have no problems complying with the financial covenants over the forecast period.

We assess DREIT's liquidity position to be adequate over the next 12 months. The primary sources of funds are cash and cash equivalents of THB180 million as of June 2022, estimated funds from operations (FFO) of THB360 million, and available credit facilities of THB204 million. Uses of funds are capital expenditure of around THB100-THB150 million, including the investment for the hotel extension project at Dusit Thani Hua Hin and dividend payments estimated at THB300-THB350 million.

BASE-CASE ASSUMPTIONS

- DREIT to receive rental income of THB510-THB545 million per annum during 2022-2024.
- EBITDA at around THB440-THB480 million per annum during 2022-2024.
- Hotel renovation budget of THB100-THB150 million per annum during 2022-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the performances of DREIT's properties will steadily recover as the COVID-19 situation improves and DREIT will maintain sufficient liquidity to weather adverse conditions.

RATING SENSITIVITIES

A rating upside could happen if the trust's properties steadily show stronger-than-expected performances, resulting in its enlarged earnings base without weakening its balance sheet. Conversely, rating downside pressure could occur if the trust's properties continue to perform weakly while the credit profile of the trust's current sole renter and source of cash flow, DUSIT, materially deteriorates.

TRUST OVERVIEW

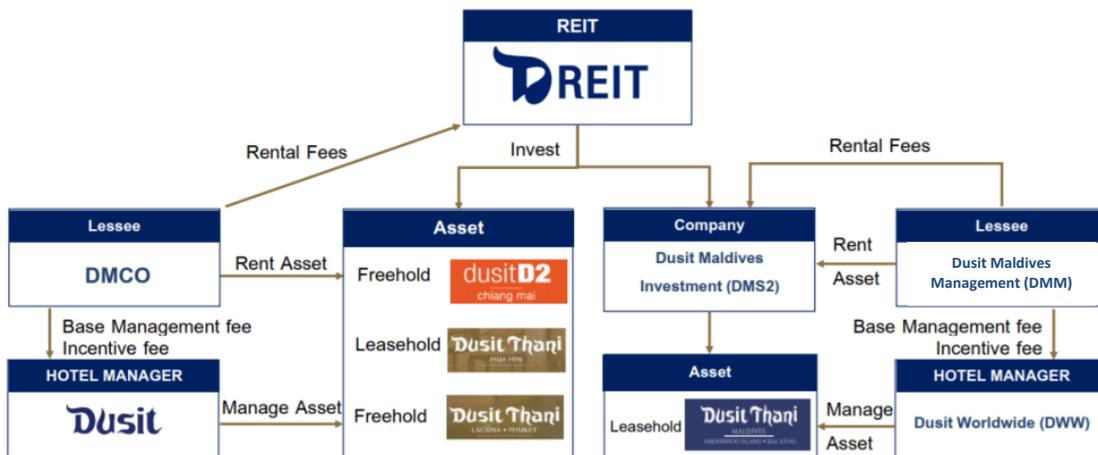
DREIT is a non-redeemable and indefinite REIT. It was established on 29 November 2017 and received assets and liabilities transferred from Dusit Thani Freehold and Leasehold Property Fund (DTCPPF) on 8 December 2017. DREIT was listed on the Stock Exchange of Thailand (SET) on 15 December 2017. As of March 2022, the major shareholders of the trust consisted of DUSIT with a stake of 30.2% and the Social Security Office (SSO) with 25.4%. The REIT manager is Dusit Thani Properties REIT Co., Ltd., a subsidiary of DUSIT.

DREIT has a policy to generate benefits from hotel investments by leasing assets and subleasing leasehold rights to DMCO, a subsidiary of DUSIT. The property portfolio currently comprises four hotels, Dusit Thani Laguna Phuket, Dusit Thani Hua Hin, Dusit D2 Chiangmai, and Dusit Thani Maldives. As of June 2022, the fair value of DREIT's properties was THB7.65 billion.

At the asset level, Dusit Thani Laguna Phuket, Dusit Thani Hua Hin, and Dusit D2 Chiangmai, together generated revenue of THB274 million and EBITDA of THB58 million in the first half of 2022 while Dusit Thani Maldives generated USD11.9 million in revenue and USD4.6 million in EBITDA.

KEY OPERATING PERFORMANCE

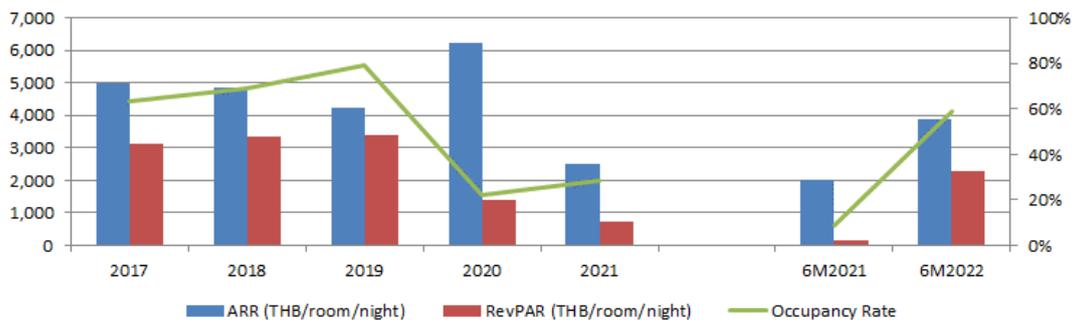
Chart 1: Trust Structure



Source: DREIT

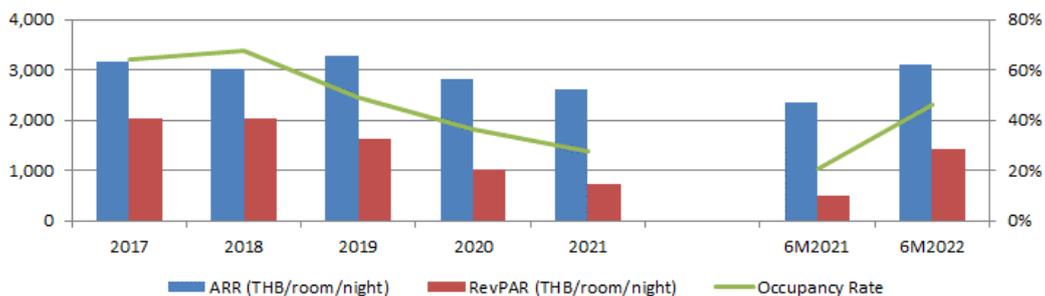
KEY OPERATING PERFORMANCE

Chart 2: Average Room Rate and Occupancy Rate of Dusit Thani Laguna Phuket



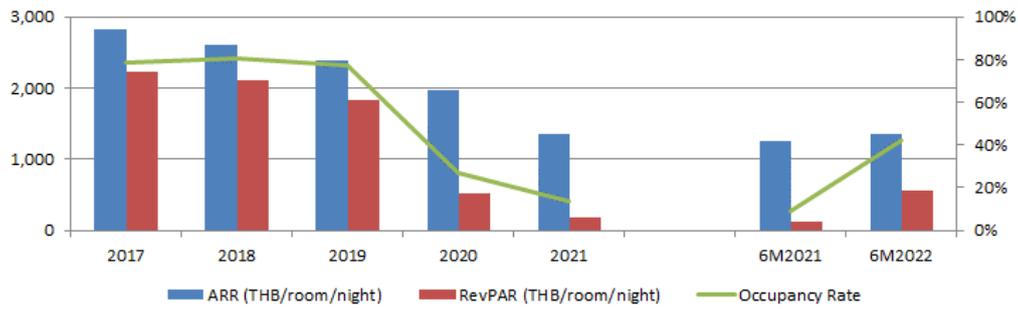
Source: DREIT

Chart 3: Average Room Rate and Occupancy Rate of Dusit Thani Hua Hin



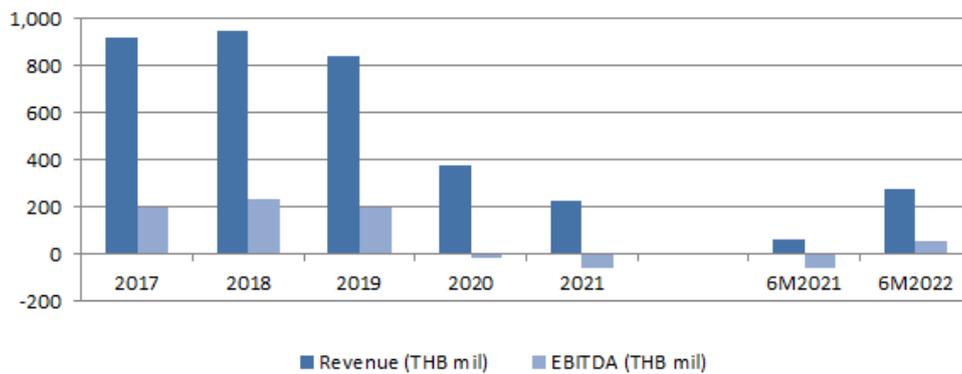
Source: DREIT

Chart 4: Average Room Rate and Occupancy Rate of Dusit D2 Chiangmai



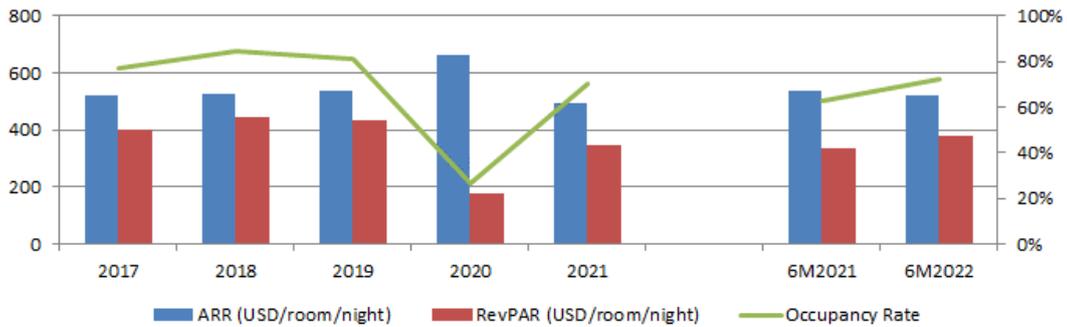
Source: DREIT

Chart 5: Performance of Three Hotels in Thailand (Dusit Thani Laguna Phuket, Dusit Thani Hua Hin, and Dusit D2 Chiangmai)



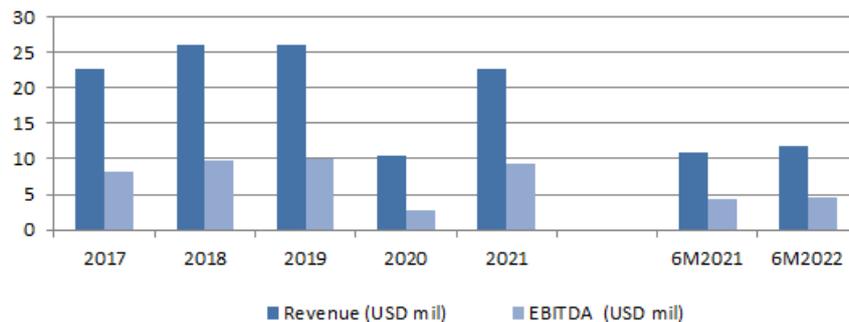
Source: DREIT

Chart 6: Average Room Rate and Occupancy Rate of Dusit Thani Maldives



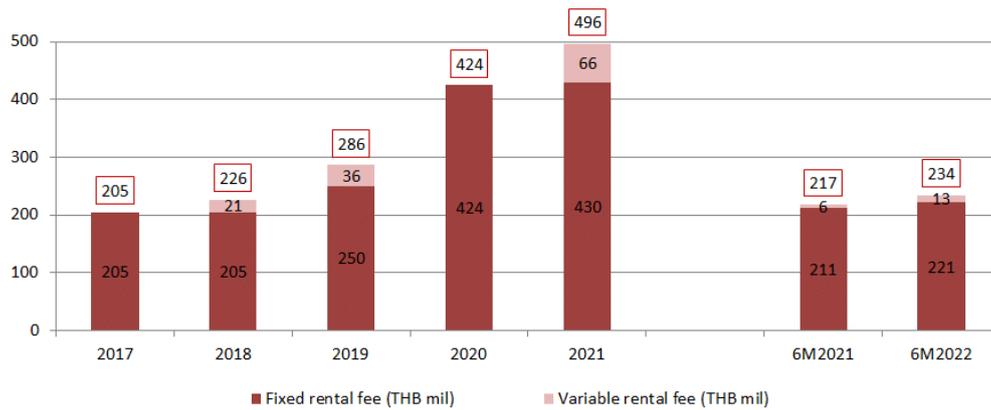
Source: DREIT

Chart 7: Performance of Dusit Thani Maldives



Source: DREIT

Chart 8: Rental Revenue of DREIT



Source: DREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Jun 2022	2021	2020	2019	2018
Total operating revenues	235	499	426	288	226
Earnings before interest and taxes (EBIT)	204	441	370	263	207
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	210	453	382	270	207
Funds from operations (FFO)	168	369	305	217	186
Adjusted interest expense	38	74	73	46	22
Capital expenditures	42	90	196	2,561	173
Total assets	7,894	7,795	7,492	6,977	4,382
Adjusted debt	1,897	1,927	1,836	1,821	564
Adjusted equity	5,784	5,693	5,477	5,401	3,728
Adjusted Ratios					
EBITDA margin (%)	89.55	90.89	89.65	93.78	91.51
Pretax return on permanent capital (%)	5.90	5.80	5.02	4.53	4.82
EBITDA interest coverage (times)	5.49	6.13	5.21	5.84	9.62
Debt to EBITDA (times)	4.06	4.25	4.80	6.73	2.72
FFO to debt (%)	20.08	19.18	16.63	11.90	32.93
Debt to capitalization (%)	24.70	25.28	25.11	25.21	13.13
Loan to fair value of total assets (%)	26.32	26.45	26.44	21.33	13.67

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
- Issue Rating Criteria, 15 June 2021

Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT)

Issuer Rating:	BBB-
Rating Outlook:	Stable

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