

# DUSIT THANI FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 158/2021  
28 September 2021

## CORPORATES

**Issuer Rating:** BBB-  
**Outlook:** Negative

**Last Review Date:** 28/08/20

### 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-” with a “negative” rating outlook. The rating reflects our view that DREIT’s credit profile is tied, in large part, to credit quality of its sponsor, Dusit Thani PLC (DUSIT), acting as the sole renter and the only source of cash flow to DREIT. The rating also takes into consideration the trust’s small and concentrated asset portfolio.

The “negative” outlook reflects the high degree of uncertainty surrounding the Coronavirus Disease 2019 (COVID-19) developments, vaccine rollout pace and efficacy, as well as the threats of new virus variants, which could protract the distressed operating conditions of the hotel industry.

## KEY RATING CONSIDERATIONS

### Distressed performance of the trust’s hotel properties in Thailand to continue

We view the hospitality industry in Thailand as continuing to be severely affected by the COVID-19 fallout in the coming quarters, considering the evolving COVID-19 situation in Thailand and the vaccination pace.

In our view, initiatives like the “Phuket Sandbox” and government attempts to open more travel destinations including Hua Hin and Chaingmai to support hospitality businesses, are unlikely to have a significant impact on the recovery of DREIT’s properties performance, at least in the next few quarters. Travel complications such as multiple rounds of COVID-19 testing or quarantine requirements when tourists travel back to their home countries, remain significant hurdles to leisure travel at this stage.

We expect the number of foreign travelers and hotel demand will start gaining momentum in the second half of 2022, based on our assessment of vaccination rates and infection rates in Thailand and many parts of the world, as well as travel confidence and the easing of international travel restrictions.

Our base-case forecast projects average revenue per available room (RevPAR) of DREIT’s properties in Thailand in 2021 to be around 75% lower than the 2019 level. We forecast its RevPAR in 2022 of around 20% below the 2019 level and in 2023 to be about 10% lower than the 2019 level.

However, we expect the performance of DREIT’s Maldives property to recover close to the pre-COVID-19 level in 2022. This is based on the proven record of strong performance since the Maldives reopened for tourism late last year coupled with the supportive travel policy of the Maldives government that is helping bolster hotel demand.

### Revenue downside protected by minimum rent scheme under sublease agreements with DUSIT

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 a fixed rental fee and a variable rental fee. 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.

For Dusit Thani Maldives, DMM is renting the hotel for 21 years. 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.

However, as DUSIT is the sole renter and the only source of cash flow to DREIT, the credit quality of DUSIT is the key determinant of the rating on the trust.

### Rental revenue driven by Maldives property

Our baseline projection expects DREIT's rental revenue to be THB450 million in 2021 and THB470-THB500 million per annum during 2022-2023. While we expect DREIT to receive only the minimum rent for the properties in Thailand, the Maldives property is forecast to yield rental income higher than fixed rent. The rental income will translate into earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB390 million in 2021 and around THB420-THB440 million per annum during 2022-2023.

### Rental postponement does not affect liquidity

According to the rental agreement, if the hotel industry is significantly affected by adverse operating conditions which impact the trust's asset performance, DUSIT may request a postponement of the rental payment. However, any postponement is subject to the trust's approval.

With the severe impact of the pandemic, DUSIT requested to postpone the rental payment for the period of November 2020 to April 2021 at 50% of the monthly fixed rent for the assets in Thailand and in the Maldives, and for the period of August 2021 to January 2022 at 50% of the monthly fixed rent for the assets in Thailand.

We do not expect the rental postponement to cause liquidity problems for DREIT. We consider DREIT's liquidity position to be manageable over the next 12 months. The primary sources of funds are rental income after the postponed portion of approximately THB550 million, cash and cash equivalents of THB129 million as of June 2021, and available credit facilities of THB180 million. Uses of funds are expenses, including interest expense and lease payment, estimated around THB135 million, capital expenditure of around THB90-THB100 million, and dividend payments estimated at THB250 million. However, if the depth and duration of the COVID-19 impacts are materially worse than expected, it is possible that more rental payments could be postponed, interrupting DREIT's cash flow and potentially affecting its liquidity status.

### Acceptable leverage

DREIT's leverage has risen due to the acquisition of Dusit Thani Maldives coupled with renovation expenditures. At the end of June 2021, DREIT's adjusted debt was THB1.9 billion. During 2021-2023, our base case scenario projects DREIT's adjusted debt to capitalization ratio to stay around 25%. The ratio of adjusted debt to EBITDA is expected to be 4-5 times.

The main financial covenants on DREIT's loans require the trust to maintain an interest-bearing debt to EBITDA ratio below 6 times and loan to fair value (LTV) ratio of assets below 60%. As of June 2021, DREIT's interest-bearing debt to EBITDA ratio was 4.7 times and the LTV ratio was 23%. We believe that DREIT should have no problems complying with the financial covenants over the forecast period.

### BASE-CASE ASSUMPTIONS

- Average RevPAR of DREIT's properties in Thailand to be around 75% lower than the 2019 level in 2021, 20% below the 2019 level in 2022, and 10% lower than the 2019 level in 2023. RevPAR of the Maldives property to return close to the pre-COVID-19 level in 2022.
- DREIT to receive rental income of THB450 million in 2021 and THB470-THB500 million per annum during 2022-2023.
- EBITDA of THB390 million in 2021 and THB420-THB440 million per annum during 2022-2023.
- Hotel renovation budget of THB120 million in 2021 and around THB50 million per annum during 2022-2023.

### RATING OUTLOOK

The "negative" outlook reflects the high degree of uncertainty surrounding the revival of the hospitality industry amid the persistently fluid COVID-19 situation.

**RATING SENSITIVITIES**

TRIS Rating could revise the rating downward if the effects of the COVID-19 pandemic turn out to be materially worse than expected. We could also lower the rating if the liquidity of DREIT is depleted faster than expected. In addition, as DUSIT is DREIT’s only source of cash flow, a material change in DUSIT’s credit profile could have an impact on the rating on DREIT. The outlook could be revised to “stable” if the operating performance of the trust’s properties steadily recovers and the trust maintains sufficient liquidity to weather any adverse conditions.

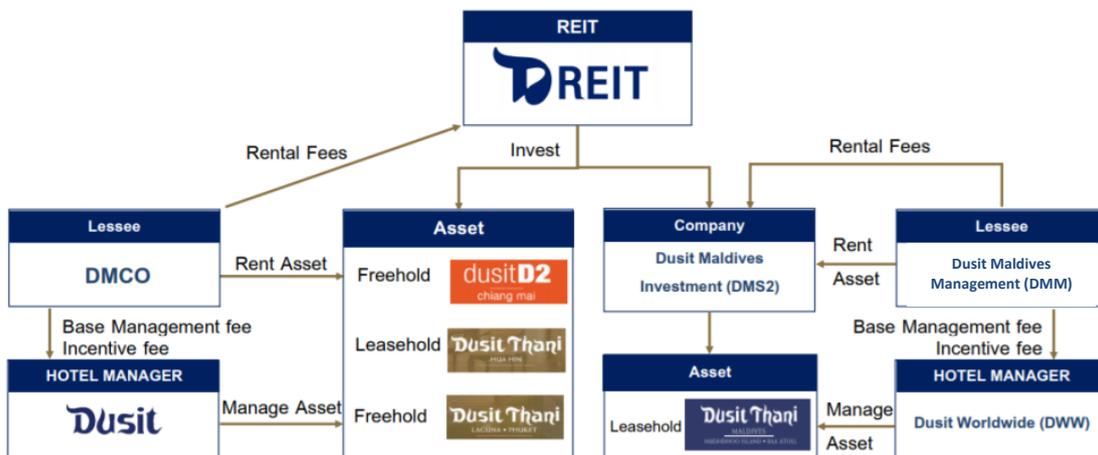
**TRUST OVERVIEW**

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 (DTCPF) on 8 December 2017. DREIT was listed on the Stock Exchange of Thailand (SET) on 15 December 2017. As of April 2020, the major shareholders of the trust consisted of DUSIT with a stake of 30.2% and the Social Security Office (SSO) with 25.41%. 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 2021, the fair value of DREIT’s properties was THB7.38 billion.

At the asset level, Dusit Thani Laguna Phuket, Dusit Thani Hua Hin, and Dusit D2 Chiangmai, together generated revenue of THB61 million and negative EBITDA of THB58 million in the first half of 2021 while Dusit Thani Maldives generated USD10.8 million in revenue and USD4.4 million in EBITDA.

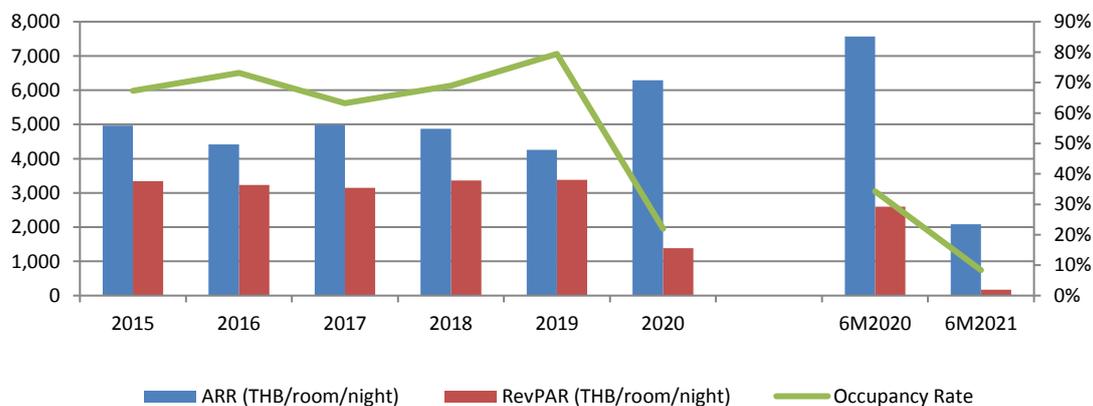
**Chart 1: Trust Structure**



Source: DREIT

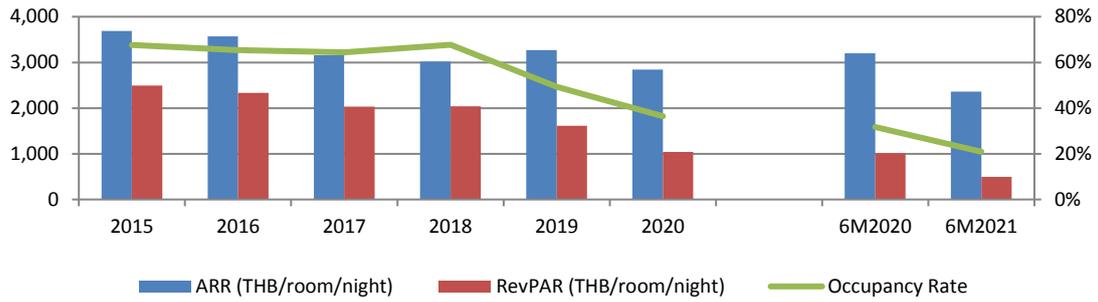
**KEY OPERATING PERFORMANCE**

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



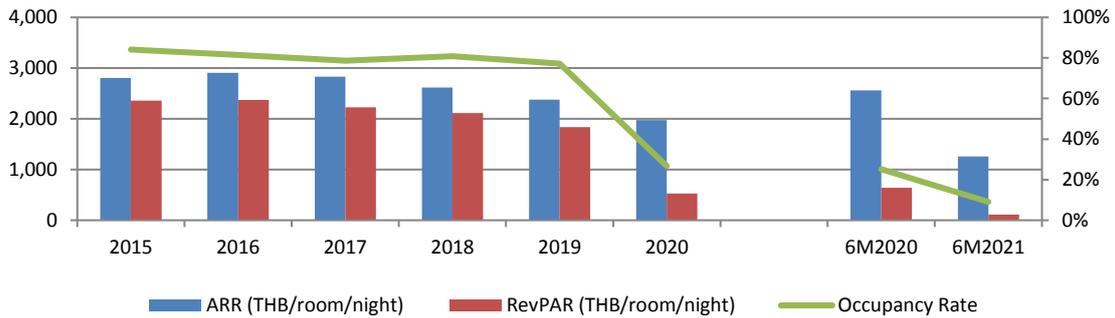
Source: DREIT

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



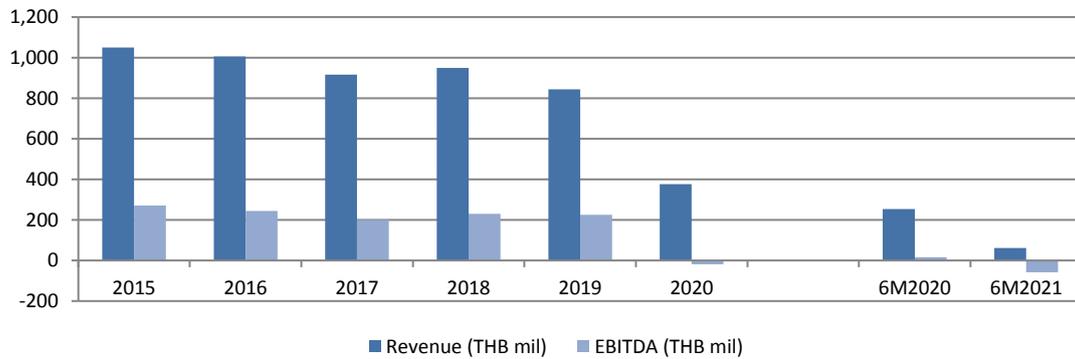
Source: DREIT

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



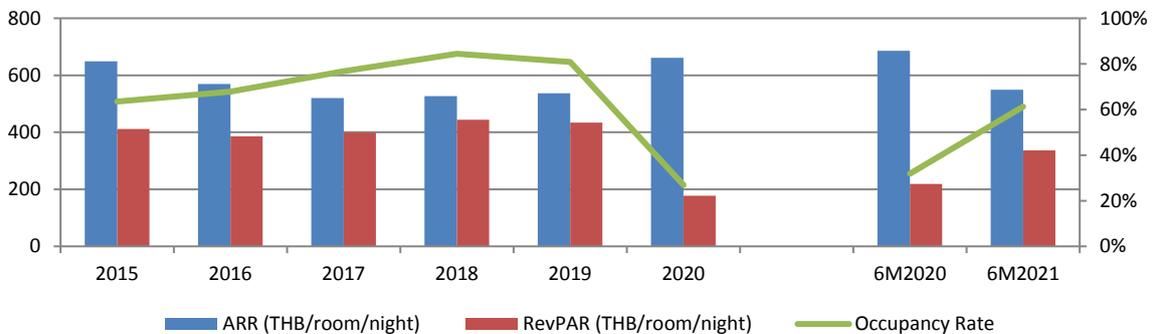
Source: DREIT

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



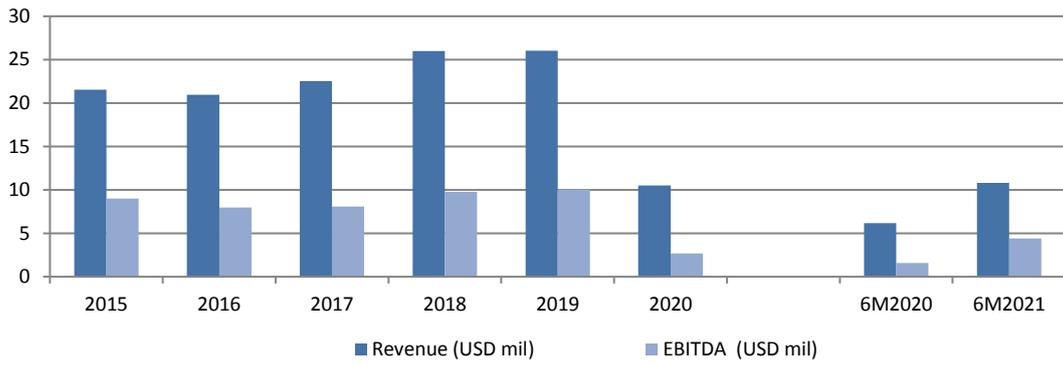
Source: DREIT

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



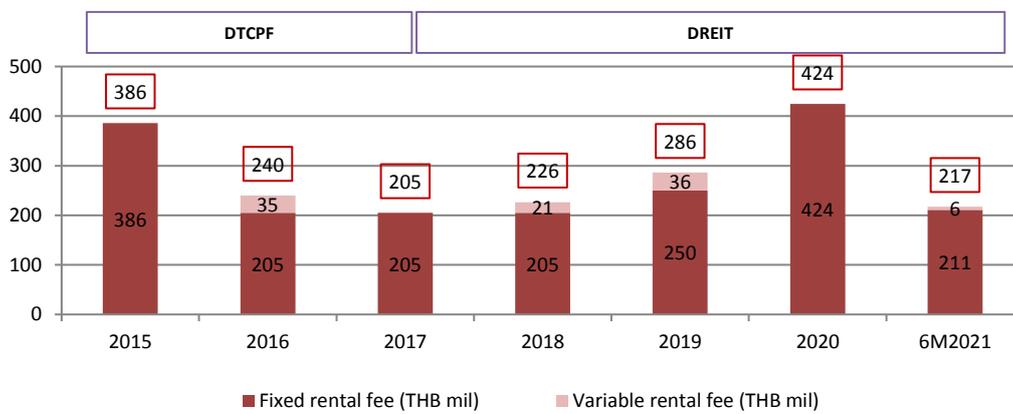
Source: DREIT

**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

	Jan-Jun 2021	-----Year Ended 31 December -----		
		2020	2019	2018
Total operating revenues	218	426	288	226
Earnings before interest and taxes (EBIT)	189	370	263	207
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	195	382	270	207
Funds from operations (FFO)	157	305	217	186
Adjusted interest expense	36	73	46	22
Capital expenditures	55	196	2,561	173
Total assets	7,598	7,492	6,977	4,382
Adjusted debt	1,928	1,836	1,821	564
Adjusted equity	5,524	5,477	5,401	3,728
<b>Adjusted Ratios</b>				
EBITDA margin (%)	89.84	89.65	93.78	91.51
Pretax return on permanent capital (%)	4.96	5.02	4.53	4.82
EBITDA interest coverage (times)	5.46	5.21	5.84	9.62
Debt to EBITDA (times)	5.00	4.80	6.73	2.72
FFO to debt (%)	16.01	16.63	11.90	32.93
Debt to capitalization (%)	25.88	25.11	25.21	13.13
Loan to fair value of total assets (%)	22.85	22.47	21.33	13.67

**RELATED CRITERIA**

- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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

<b>Issuer Rating:</b>	BBB-
<b>Rating Outlook:</b>	Negative

**TRIS Rating Co., Ltd.**

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