

DUSIT THANI FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 246/2023
20 December 2023

CORPORATES

Issuer Rating: BBB-
Outlook: Stable

Last Review Date: 11/10/22

Issuer Rating History:

Date	Rating	Outlook/Alert
11/10/22	BBB-	Stable
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 “stable” outlook. The rating reflects DREIT’s moderate level of financial leverage and the structure of its rental income that offers downside protection to its cash flow over the leaseback period, subject to the credit quality of Dusit Thani PLC (DUSIT) as its sole renter and the only source of cash flow. The rating also takes into consideration the trust’s small and concentrated asset portfolio consisting of only three hotels, which could make it more vulnerable to adverse changes in operating conditions or event risk than a peer with a more geographically diversified and sizable portfolio.

KEY RATING CONSIDERATIONS

Variable performance among the trust’s properties

The performance of DREIT’s hotel properties in Thailand has improved alongside favorable developments in travel conditions after the pandemic. We anticipate the positive trend in Thailand to continue, albeit at a moderate pace, as the industry gradually returns to normal and pent-up travel demand diminishes. The sluggish return of Chinese tourists is another factor limiting the pace and prospects of overall recovery. Conversely, we foresee ongoing challenges in the Maldives market.

“Dusit Thani Laguna Phuket” has performed solidly since the fourth quarter of 2022. Our base-case assumptions forecast the average revenue per available room (RevPAR) of the hotel to be at THB3,750 per room per night in 2023, surpassing the 2019 level by 12%. The improvement in RevPAR was due to the hotel’s ability to command higher room rates after renovation and solid demand from European tourists, especially Russian. We expect the RevPAR to grow at a more normal pace by mid-single-digit percentages per year during 2024-2025.

We forecast the RevPAR of “Dusit Thani Hua Hin” during 2023-2025 will be at THB2,250-THB2,600 per room per night, driven mainly by elevated room rates post-renovation. While seminar and meeting customer groups have returned to the pre-pandemic levels, leisure customers are still catching up. We expect the increasing numbers of events and activities to be organized in Hua Hin will serve as the growth driver for the hotel next year.

For “Dusit Thani Maldives”, despite strong performance in the past two years, heightened competition within the islands and from other competing destinations, alongside softer demand from European tourists due to more cautious spending, negatively affect the hotel’s performance. We project RevPAR of USD310-USD400 per room per night during 2023-2025, compared with USD427 per room per night in 2019. The upside potential hinges on a more robust return of Chinese tourists. The completion of expanded airport capacity in 2025 is anticipated to bolster tourist arrivals thereafter.

Revenue downside protection

The trust’s revenue downside risk 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 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 THB186 million per year. The variable portion of the rent is 80% 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, 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.

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 a higher rating by themselves, irrespective of the rental scheme.

Leverage could increase from potential new investment

Our baseline projection expects DREIT's rental revenue from the three hotels to be THB490-THB510 million per annum during 2023-2025. The forecast is based on the assumption that Dusit Thani Laguna Phuket will continue delivering strong operating performance and yield rental income higher than the fixed rent while the performance of Dusit Thani Hua Hin will continue improving. Meanwhile, the Maldives property is forecast to yield only fixed rent during 2023-2024 and will start contributing variable rent in 2025. The rental income will likely translate into earnings before interest, taxes, depreciation, and amortization (EBITDA) of around THB435-THB460 million per annum during 2023-2025.

The projection also incorporates an assumption that DREIT will invest in a new hotel property in the first half of 2024, with total investment of THB500-THB700 million. We assume the new hotel will generate additional EBITDA of around THB60-THB70 million per annum.

As the new investment will be funded mainly by debt, we expect DREIT's adjusted debt to reach around THB2.3 billion during 2024-2025, compared with THB1.8 billion at the end of September 2023. During 2024-2025, we project DREIT's adjusted debt to EBITDA ratio to increase to around 4.5-5.0 times, from 4.1 times (annualized from the trailing 12 months) at the end of September 2023. The adjusted debt to capitalization ratio is expected to be around 29%.

All DREIT's interest-bearing debt is secured debt. 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 September 2023, the ratios were 3.6 times and 23.8%, 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 THB371 million as of September 2023 and estimated funds from operations (FFO) of around THB350 million. Uses of funds are capital expenditures of around THB100-THB150 million and dividend payments estimated at THB300-THB320 million. DREIT has a loan due of THB1.8 billion in September 2024 which is expected to be refinanced.

BASE-CASE ASSUMPTIONS

- DREIT to receive rental income from Dusit Thani Laguna Phuket, Dusit Thani Hua Hin, and Dusit Thani Maldives totaling THB490-THB510 million per annum during 2023-2025.
- EBITDA from the three hotels at around THB435-THB460 million per annum during 2023-2025.
- Hotel maintenance and renovation budget of THB250-THB300 million in total during 2023-2025.
- Investment in a new hotel of THB500-THB700 million in 2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that DREIT's property portfolio will continue to generate reliable cash flow from rental income and DREIT will maintain sufficient liquidity to weather any adverse conditions.

RATING SENSITIVITIES

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

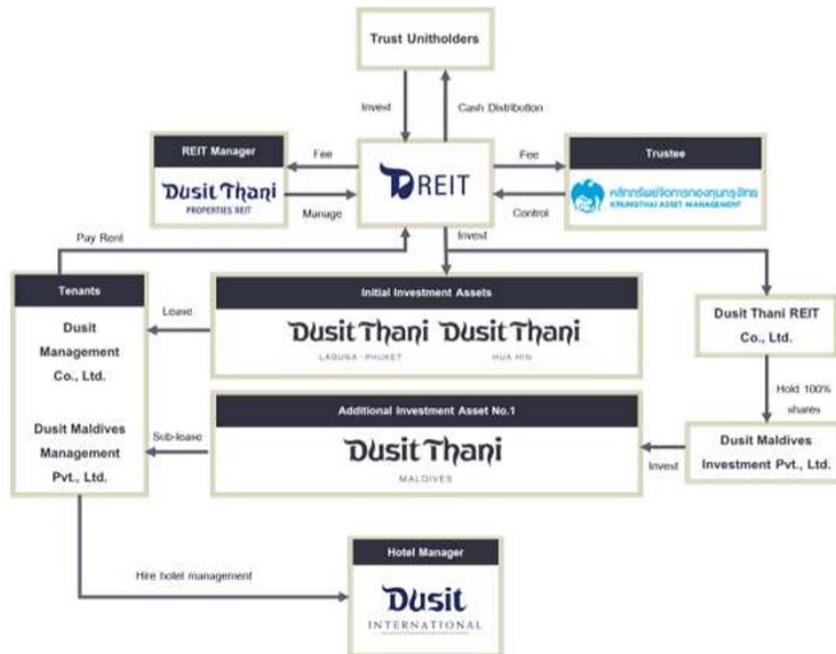
TRUST OVERVIEW

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 (DTCPF) on 8 December 2017. DREIT was listed on the Stock Exchange of Thailand (SET) on 15 December 2017. As of March 2023, 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 three hotels, Dusit Thani Laguna Phuket, Dusit Thani Hua Hin, and Dusit Thani Maldives, after divesting Dusit D2 Chiangmai in December 2022 for THB467 million. As of September 2023, the fair value of DREIT’s properties was THB7.5 billion.

At the asset level, Dusit Thani Laguna Phuket and Dusit Thani Hua Hin together generated revenue of THB615 million and EBITDA of THB186 million in the first nine months of 2023 while Dusit Thani Maldives generated USD14 million in revenue and USD3.1 million in EBITDA.

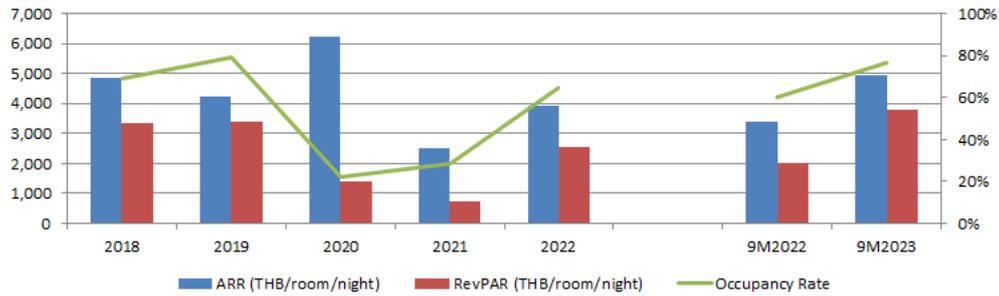
Chart 1: Trust Structure



Source: DREIT

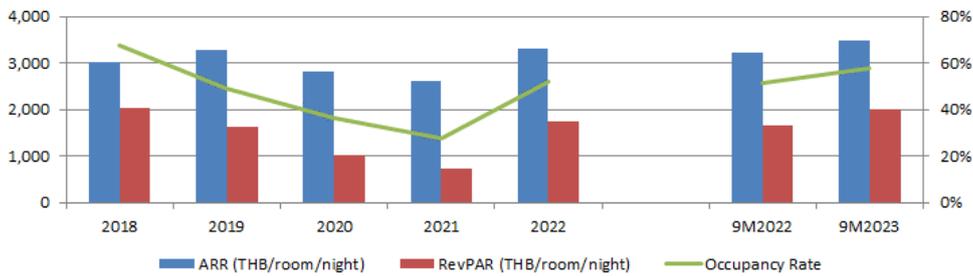
KEY OPERATING PERFORMANCE

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



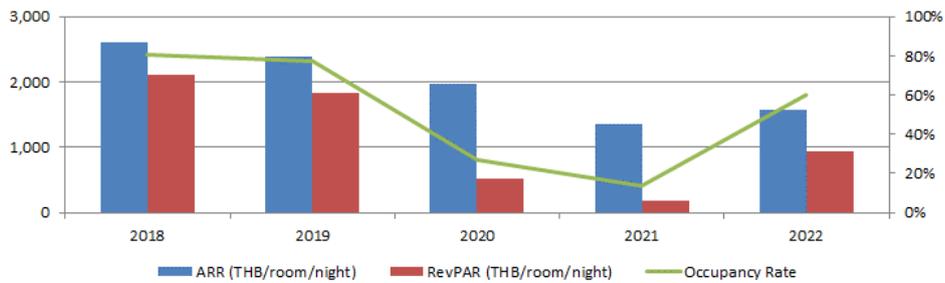
Source: DREIT

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



Source: DREIT

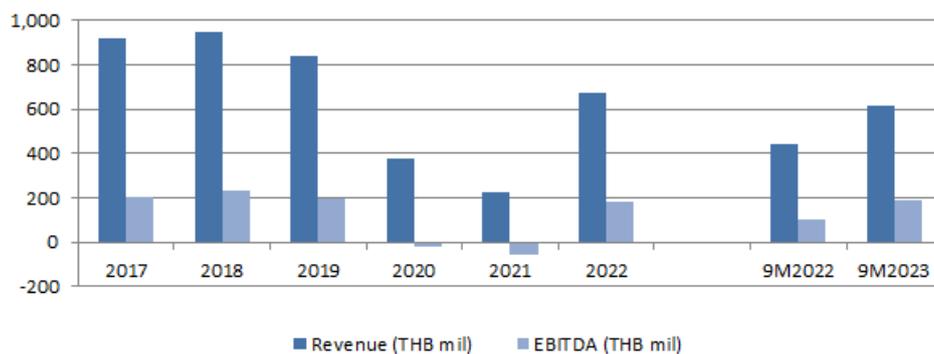
Chart 4: Average Room Rate and Occupancy Rate of Dusit D2 Chiangmai*



* DREIT divested Dusit D2 Chiangmai in December 2022

Source: DREIT

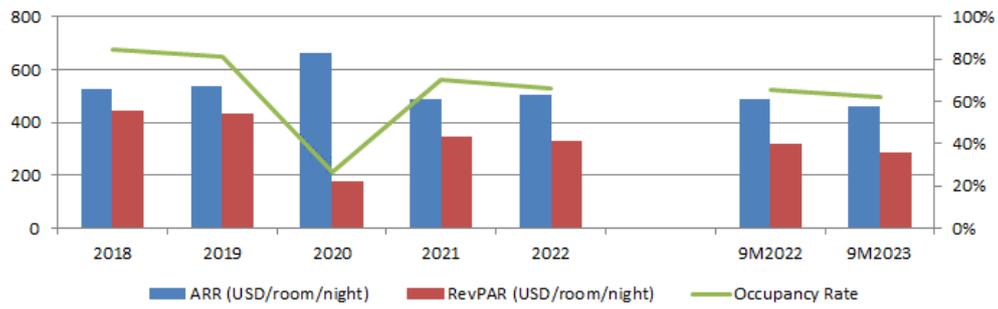
Chart 5: Performance of Three Hotels in Thailand (Dusit Thani Laguna Phuket, Dusit Thani Hua Hin, and Dusit D2 Chiangmai*)



* DREIT divested Dusit D2 Chiangmai in December 2022

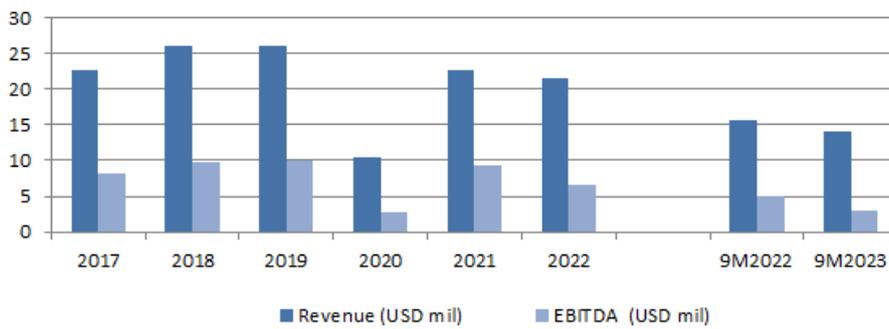
Source: DREIT

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



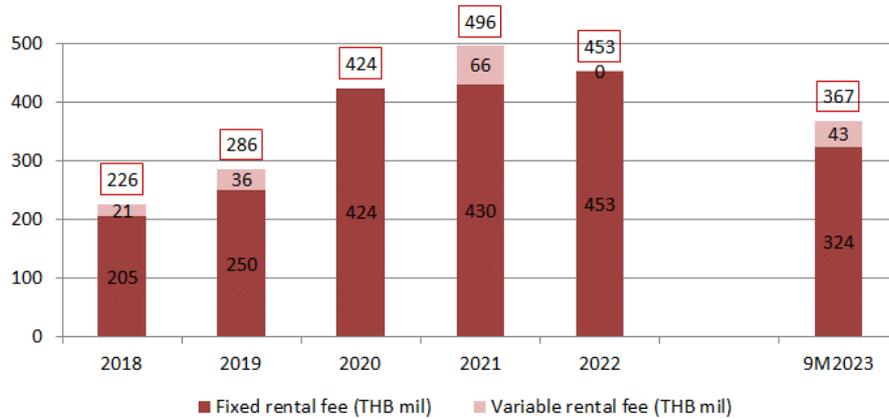
Source: DREIT

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-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	369	454	499	426	288
Earnings before interest and taxes (EBIT)	324	391	441	370	263
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	333	403	453	382	270
Funds from operations (FFO)	256	322	369	305	217
Adjusted interest expense	76	80	74	73	46
Capital expenditures	55	146	90	196	2,561
Total assets	7,947	7,910	7,795	7,492	6,977
Adjusted debt	1,765	1,617	1,927	1,836	1,821
Adjusted equity	5,762	5,764	5,693	5,477	5,401
Adjusted Ratios					
EBITDA margin (%)	90.20	88.76	90.89	89.65	93.78
Pretax return on permanent capital (%)	5.28 *	5.00	5.80	5.02	4.53
EBITDA interest coverage (times)	4.36	5.03	6.13	5.21	5.84
Debt to EBITDA (times)	4.07 *	4.02	4.25	4.80	6.73
FFO to debt (%)	19.10 *	19.88	19.18	16.63	11.90
Debt to capitalization (%)	23.44	21.91	25.28	25.11	25.21
Loan to fair value of total assets (%)	22.46	22.55	22.28	22.47	21.33

** Annualized from the 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
- 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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