

FRASERS PROPERTY THAILAND INDUSTRIAL FREEHOLD AND LEASEHOLD REIT

No. 97/2023
31 May 2023

CORPORATES

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

Last Review Date: 23/02/23

Issuer Rating History:

Date	Rating	Outlook/Alert
23/04/18	A	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT or trust) and the ratings on its existing senior unsecured debentures at “A” with a “stable” outlook. The ratings reflect the trust’s growing revenue and earnings base supported by regular new asset acquisitions, well-diversified portfolio, acceptable cash flow protection, and moderate financial leverage. The ratings also take into consideration our concerns over the prospect of a global economic slowdown which are likely to weigh on the occupancy, rental rates, and renewal rate of industrial properties.

KEY RATING CONSIDERATIONS

Diversified portfolio with satisfactory occupancy rates

We expect FTREIT to sustain its average occupancy rate (OR) (with undertaking) at around 85% over the forecast period. The trust achieved a satisfactory average OR of above 85% in fiscal year 2022 (FY2022, the period of the trust’s financial year is from 1 October to 30 September) through the first half of FY2023. As of March 2023, its OR stood at 88%. The fast-growing e-commerce market benefits logistics providers and related businesses, which are the trust’s major tenants. In addition, the country’s reopening and the lifting of pandemic restrictions has driven foreign investment in the industrial estate sector. On top of that, the acquisition of new assets with high ORs supported by the trust’s sponsor and the divestment of some non-performing assets have helped maintain satisfactory portfolio performance.

FTREIT’s investment portfolio remains well diversified across geographies and tenant wise. Based on leasable area, FTREIT’s assets consist of warehouses (58%) and factories for rent (42%). The trust’s properties are strategically located in three key industrial and logistics areas in Thailand, comprising the Eastern Economic Corridor (EEC) (59%), north of Bangkok (23%), and eastern Bangkok (18%). Based on occupied area, FTREIT’s tenants are engaged in various industries, including logistics (37%), automotive (18%), electronics (17%), and retailers (6%). The top 10 largest tenants occupied 27% of total leased area and contributed around 24% of total rental and service income in the first half of FY2023.

Growing revenue and earnings base

We expect FTREIT’s operating revenue and earnings to continue to grow, supported by frequent asset enhancement and high demand for industrial properties for rent. Its operating revenue grew by 7% year-on-year (y-o-y) to THB3.6 billion in FY2022. Similarly, the trust’s earnings before interest, taxes, depreciation, and amortization (EBITDA) rose by 7% y-o-y to THB2.9 billion in the same period. Under our base case, we forecast the trust’s operating revenues to grow to THB3.7-THB4.1 billion per annum in FY2023-FY2025. This is based on the assumption that the trust to acquire new assets with an investment cost of around THB3.5 billion in FY2023 and around THB2 billion per annum in FY2024-FY2025, and maintain an average OR (with undertaking) of around 85%. Its EBITDA is expected to stay in the THB2.9-THB3.2 billion range with an EBITDA margin of around 79% over the forecast period.

However, rising competition from existing and new players and concerns over a global recession could prove challenging for FTREIT. We anticipate the trust’s rental rates and lease renewal rates to come under pressure. Around 70% of lease contracts will be expired within three years, exposing the trust to some

degree of lease renewal risk every year. Nevertheless, the relatively high renewal rate of more than 80% in the last two consecutive years and the expected growth in demand after the opening of several countries should help alleviate this risk. Around 87% of the contracts that expired in the first half of FY2023 have already been renewed. We expect the contract renewal rate to stay above 80% over the forecast period.

Cash flow protection softens, but remains acceptable

FTREIT's cash-flow protection is likely to soften owing to rising financial leverage. The trust's debt to EBITDA ratio is expected to reach 5 times at the end of this year, from below 4.5 times in FY2018 through the first half of FY2023. Also, the EBITDA interest coverage ratio is forecast to decline, falling to 7 times in FY2023 from 8 times in FY2022 and the first half of FY2023.

Looking forward, based on the trust's deleveraging plan for FY2024 and the growth of the earnings base from the regular acquisition of good-quality assets, we expect the trust's debt to EBITDA ratio to revert back to the level of around 4.5-4.7 times in FY2024-FY2025. Following the upward trend of interest rates, we forecast the EBITDA interest coverage ratio to decline to 6 times over the same period.

Moderate financial leverage

We expect FTREIT's loan to fair value of total assets ratio (LTV) (including lease liabilities) to temporarily stay above 30% at the end of FY2023 following its plans to acquire new assets with 100% debt financing. However, we predict the trust's financial leverage to gradually improve with an LTV ratio below 30% in the following years, in line with the trust's financial policy.

FTREIT plans to acquire new assets worth around THB3.5 billion with 100% debt financing within September 2023. Based on that, we estimate its LTV ratio to reach 31% at the end of FY2023. However, the trust intends to control LTV ratio to drop below 30% within FY2024. Under its growth strategy, FTREIT intends to enlarge its asset portfolio by 4%-5% annually. We expect the trust to fund its future acquisitions through a combination of debt and equity. Its LTV ratio will likely stay in the 28%-29% range over the forecast period.

Adequate liquidity

We assess FTREIT's liquidity as adequate for the next 12 months, given the trust's ability to access the capital market and its good relationships with financial institutions. The trust's sources of liquidity as of March 2023 included cash on hand of THB337 million and available credit lines from financial institutions of THB4 billion. We forecast funds from operations (FFO) to stay around THB2.5 billion over the next 12 months, and EBITDA interest coverage to remain at 6-7 times over the next three years.

As of March 2023, FTREIT's outstanding debt was THB11.8 billion made up entirely of senior unsecured debentures. The trust has a series of debt repayments due in the years ahead, including THB500 million during the rest of FY2023, THB1.85 billion in FY2024, THB2.38 billion in FY2025 and THB7.11 billion thereafter. The trust plans to refinance the maturing debentures with debenture issuances and/or bank borrowings. We do not expect the trust to have difficulties refinancing its debts, considering its sizable asset portfolio and relatively low LTV ratio.

BASE-CASE ASSUMPTIONS

Here are our key base-case assumptions for FTREIT's operations during FY2023-FY2025:

- OR (with undertaking) of around 85%
- EBITDA margin of around 79%
- Budget for new asset acquisitions set at around THB3.5 billion in FY2023 and around THB2 billion per annum during FY2024-FY2025
- 100% debt financing for asset acquisitions in FY2023 and a combination of debt and equity for acquisitions in FY2024-FY2025 with a target LTV ratio of below 30%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that FTREIT will be able to deliver operating performance as targeted with an average OR above 80% and an EBITDA margin above 70% over the next three years. We also expect the trust to keep its LTV ratio below 30% in accordance with the trust's policy.

RATING SENSITIVITIES

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 debt to EBITDA ratio to exceed 5.5 times for a prolonged period. In contrast, a rating upward revision could occur if the trust can enlarge its cash generation and improve its capital structure meaningfully, leading to a debt to EBITDA ratio of below 2.5 times on a sustained basis.

TRUST OVERVIEW

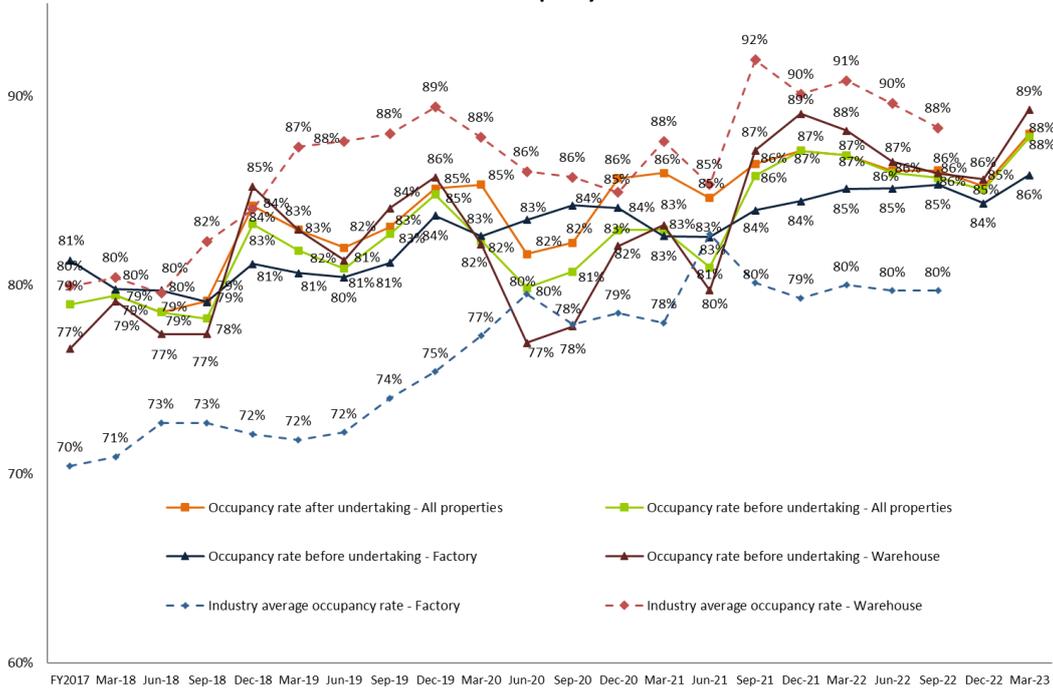
FTREIT was established in December 2014 and listed on the Stock Exchange of Thailand (SET) in January 2015, with registered capital of THB3.4 billion. The REIT manager of the trust is Frasers Property Industrial REIT Management (Thailand) Co., Ltd. (FIRM) (formerly TICON Management Co., Ltd. (TMAN)) which is 70% owned by Frasers Property (Thailand) PLC (FPT) (formerly TICON PCL. (TICON)), the property manager and main sponsor of the trust. The REIT manager has appointed Frasers Property Industrial (Thailand) Co., Ltd. (FPIT) (formerly TICON Logistics Park Co., Ltd. (TPARK)), the ex-owner of the properties, as the property managers for factories and warehouses. The REIT manager also appointed Sahathai Property and Development Co., Ltd. as the temporary property manager for free trade zone operations in a logistics center.

At the end of December 2017, FPT Group's three property funds (TICON Property Fund (TFUND), Ticon Industrial Growth Leasehold Property Fund (TGROWTH), and TPARK Logistics Property Fund (TLOGIS)) were merged into FTREIT. After the conversion, FTREIT became the largest industrial REIT in Thailand with assets amounting to THB30.5 billion. FTREIT's property portfolio has expanded continually from THB4.2 billion at its inception to THB46.27 billion as of March 2023. Its leasable area increased from 214,523 square meters (sq.m.) to 2,136,006 sq.m. over the same period.

At present, FTREIT is one of the leaders in the warehouse and factory rental business in Thailand. It owns and manages 667 properties, with a total leasable area of 2,136,006 sq.m., located in key industrial estates and strategic logistics areas including the EEC (59%), north of Bangkok (23%), and eastern Bangkok (18%). Around 73% 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: FTREIT and CB Richard Ellis (CBRE)

Chart 2: Lease Expiry

Unit: % of Total Occupied Area



Source: FTREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct 22- Mar 23	-----Year Ended 30 September -----			
		2022	2021	2020	2019
Total operating revenues	1,866	3,642	3,412	3,036	2,791
Earnings before interest and taxes (EBIT)	1,458	2,880	2,692	2,374	2,031
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,461	2,892	2,706	2,410	2,071
Funds from operations (FFO)	1,274	2,531	2,335	2,085	1,790
Adjusted interest expense	187	361	371	326	282
Investments in properties and leasehold rights over Properties at fair value	46,273	46,319	44,758	41,144	37,049
Total assets	46,822	46,891	46,066	42,870	38,495
Adjusted debt	11,760	12,028	10,830	10,480	9,064
Adjusted equity	33,362	33,207	32,911	29,975	27,489
Adjusted Ratios					
EBITDA margin (%)	78.29	79.42	79.31	79.39	74.21
Pretax return on permanent capital (%)	6.45**	6.38	6.23	6.00	5.64
EBITDA interest coverage (times)	7.82	8.01	7.30	7.40	7.35
Debt to EBITDA (times)	4.06**	4.16	4.00	4.35	4.38
FFO to debt (%)	21.50**	21.05	21.56	19.89	19.74
Debt to capitalization (%)	26.06	26.59	24.76	25.91	24.80

* 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
- Issue Rating Criteria, 15 June 2021

Frasers Property Thailand Industrial Freehold and Leasehold REIT (FTREIT)

Issuer Rating:	A
Issue Ratings:	
FTREIT238A: THB500 million senior unsecured debentures due 2023	A
TREIT244A: THB1,000 million senior unsecured debentures due 2024	A
FTREIT246A: THB850 million senior unsecured debentures due 2024	A
FTREIT24DA: THB1,000 million senior unsecured debentures due 2024	A
FTREIT255A: THB1,000 million senior unsecured debentures due 2025	A
TREIT256A: THB380 million senior unsecured debentures due 2025	A
FTREIT263A: THB1,000 million senior unsecured debentures due 2026	A
FTREIT266A: THB700 million senior unsecured debentures due 2026	A
FTREIT268A: THB500 million senior unsecured debentures due 2026	A
FTREIT274A: THB450 million senior unsecured debentures due 2027	A
FTREIT275A: THB600 million senior unsecured debentures due 2027	A
FTREIT283A: THB150 million senior unsecured debentures due 2028	A
TREIT286A: THB1,260 million senior unsecured debentures due 2028	A
FTREIT286A: THB700 million senior unsecured debentures due 2028	A
TREIT28DA: THB600 million senior unsecured debentures due 2028	A
FTREIT303A: THB350 million senior unsecured debentures due 2030	A
FTREIT304A: THB550 million senior unsecured debentures due 2030	A
FTREIT316A: THB250 million senior unsecured debentures due 2031	A
Rating Outlook:	Stable

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