

GOLDEN VENTURES LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 200/2022
31 October 2022

CORPORATES

| | |
|------------------|--------|
| Issuer Rating: | A- |
| Issue Rating: | |
| Senior unsecured | A- |
| Outlook: | Stable |

Last Review Date: 29/10/21

Issuer Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 15/12/17 | A- | Stable |

Contacts:

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Jutamas Bunyawanichkul
jutamas_b@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the issuer rating on Golden Ventures Leasehold Real Estate Investment Trust (GVREIT or “trust”) and the rating on GVREIT’s senior unsecured debentures at “A-” with a “stable” rating outlook. The ratings reflect the trust’s high-quality assets in prime areas of Bangkok, predictable cash flow from contract-based rental income, low financial leverage, and growth prospects supported by assets from its sponsors. However, the ratings are constrained by portfolio concentration in terms of assets, tenants, and lease expiry. The ratings also reflect our concerns over mounting pressure on the occupancy and rental rates of the trust’s assets from weakening demands for office space and expected excess office supply in the central business district (CBD) over the next few years.

KEY RATING CONSIDERATIONS

High-quality assets in prime locations

We expect GVREIT to sustain its satisfactory operating performance in the medium term, thanks to its high-quality and well-situated properties. The trust’s assets comprise two office buildings, “Park Ventures Ecoplex” (PKV) and “Sathorn Square” (SSQ), with total leasable area of 100,023 square meters (sq.m.). Both buildings are classified as grade-A CBD office buildings with direct access to BTS Skytrain stations. Demand for rental space in both buildings declined slightly during the pandemic but remained stronger than the industry average.

Despite a challenging operating environment for office rentals, PKV and SSQ reported average occupancy rates (OR) of above 95% and above 90%, respectively, during fiscal year 2020 (FY2020) through the first nine months of FY2022, while the industry average OR for grade-A CBD office space declined to 82% during the first six months of 2022 from 90% in 2020. The average rental rates during FY2020 through the first nine months of FY2022 remained satisfactory ranging from THB1,072-THB1,106 per sq.m. per month for PKV and THB856-THB881 per sq.m. per month for SSQ, on par with the industry average for grade-A office buildings.

Rising pressure on occupancy and rental rates from FY2023 onwards

We view that the occupancy rates and rental rates of the trust’s properties are likely to continue to be affected by softening demand for office space induced by the hybrid working model. In addition, we anticipate the influx of new supply expected in 2023-2024 to pressure both the occupancy and rental rates. According to CB Richard Ellis (CBRE), around 400,000 sq.m. of new supply is expected to be added to the market annually in 2023 and 2024, while the net take-up of office space is predicted to be only 40,000 sq.m. per annum. The widening gap between new office supply and take-up demand, especially in the CBD, could further depress OR and rental rates in the coming years.

Our base-case forecast expects occupancy rates for each of the trust’s properties to fall to around 85%-90% during the forecast period amid heightened competition. Contract renewals are likely to be subdued while rental rates are expected to stay flat in FY2023 and drop by 2%-3% in the following years. As a result, we expect the trust’s revenue to stay around THB1.1-THB1.2 billion per annum in FY2022-FY2024. The trust’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is

expected to decline but should remain above 70% throughout the forecast period.

Small property portfolio with concentration risk

GVREIT's credit profile takes into consideration its small-scale asset portfolio. The trust's asset portfolio remains highly concentrated in terms of the number of properties, tenants, and lease expiry. The trust's rental income and EBITDA depend solely on two assets in two locations, PKV on Wireless road and SSQ on Sathorn road. SSQ contributes around two-thirds of total income and earnings while PKV makes up the rest. In addition, the top-ten tenants occupied around 40% of the total leased area and contributed around 35% of total rental and service income during FY2021 through the first nine months of FY2022. Tenants affiliated with the TCC Group occupied 9% of the total occupied area and contributed 8% of total rental and service income.

GVREIT is also exposed to contract renewal risk as most of its lease contracts have a three-year term. As of June 2022, 7% of the existing contracts based on leased area will expire in the fourth quarter of FY2022, 35% in FY2023, 40% in FY2024, and 18% will expire in FY2025. Lease contract expirations are highly concentrated in FY2023 and FY2024 since the lease agreements of major tenants of both buildings will expire during the period. In our view, increasing the number of assets should help mitigate this risk to some extent.

Growth prospects

We view that GVREIT has the potential to enlarge its asset portfolio supported by the trust's sponsors. GVREIT is 23.5% held by Golden Land Property Development PLC (GOLD). In addition, the REIT manager is a wholly owned subsidiary of GOLD. GOLD is a core subsidiary of Frasers Property (Thailand) PLC (FPT), whose ultimate shareholders are companies affiliated with the TCC Group. One of the group's businesses is property development, including property for rent and property for sale. Therefore, we expect the trust to acquire more assets from its sponsors in the coming years.

Looking forward, the trust intends to acquire additional assets from both sponsors and non-sponsors to increase the scale and diversity of its portfolio. Besides office buildings for rent, the trust is exploring investments in other types of assets. We expect the growing size and diversity of its portfolio to help alleviate concentration risk and boost the trust's rental and service income in the future.

Low leverage

GVREIT expects to maintain its prudent financial policy with the loan (excluding lease liabilities) to total asset value (LTV) ratio remaining below 20% over the next three years. The trust is expected to fund any future acquisitions with a mix of equity and debt. Our base-case forecast assumes GVREIT will acquire new assets worth THB2-THB5 billion through 25% debt financing in FY2024. Accordingly, the trust's debt to capitalization ratio is expected to hover around 15%-17% over the forecast period. We expect the debt to EBITDA ratio to be around 2-3 times during FY2022-FY2024. As of June 2022, the debt to capitalization ratio was 16.8% and the debt to EBITDA ratio stood at 2.2 times.

The financial covenant on its debentures requires GVREIT to maintain the LTV below 60%. The ratio was 16.4% at the end of June 2022. We believe the trust should have no problems remaining in compliance with the debenture covenants over the next three years.

Adequate liquidity

We assess GVREIT's liquidity as adequate for the next 12 months, supported by its relatively low leverage level and no maturing debt in the near term. As of June 2022, GVREIT had THB2 billion of outstanding debentures due in April 2027. The trust plans to refinance the maturing debentures with new debenture issuance. Given its ability to access the capital market and strong support from its sponsors, the trust should be able to refinance its debentures as planned. 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 September 2022 was THB10.1 billion.

As of June 2022, the trust's sources of liquidity included THB49 million of cash on hand, THB1.2 billion of investments in securities at fair value, and THB160 million of available credit lines from a financial institution. Funds from operations (FFO) are expected to stay around THB700 million in FY2023.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for GVREIT's operations during FY2022-FY2024:

- OR of PKV and SSQ to range from 85%-93% and 87%-89%, respectively
- Flat growth in rental rates in FY2023 but a 2%-3% y-o-y drop in FY2024
- New asset acquisitions totaling THB2-THB5 billion in FY2024
- EBITDA margin to stay above 70%

RATING OUTLOOK

The “stable” outlook reflects our expectation that GVREIT’s property portfolio will continue to generate steady cash flow during FY2022-FY2024. Despite increasing industry risk from anticipated excess supply and softening demand for office space, we expect the trust to maintain high occupancy rates and achieve favourable rental rates as targeted. We also expect the trust to maintain its solid financial profile with a debt to capitalization ratio below 30% and a debt to EBITDA ratio below 3.5 times.

RATING SENSITIVITIES

GVREIT’s ratings and/or outlook could be revised downward should its operating performance deviate significantly from our expectations and/or larger-than-expected debt-funded acquisitions cause the trust’s debt to EBITDA ratio to rise above 4 times for a prolonged period. The credit downside could occur if the industry risk evolves in a way that leads us to believe that the mismatch between supply and demand in office space shows increasing severity and/or impacts the trust’s credit profile. On the other hand, a rating upward revision would materialize if the trust can enlarge its property portfolio as well as diversify locations and tenant bases while maintaining a strong financial profile.

TRUST OVERVIEW

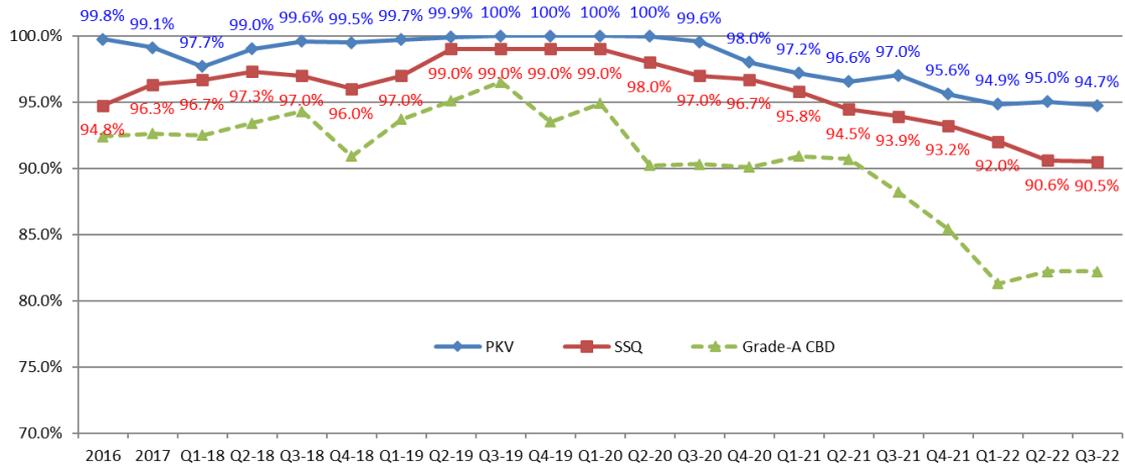
GVREIT was founded in March 2016. The REIT is a non-redeemable and indefinite trust. GOLD is the trust’s major unitholder with a 23.5% stake as of August 2022. GVREIT’s REIT manager and property manager are Frasers Property Commercial Asset Management (Thailand) Co., Ltd. (FPCAMT) (formerly Univentures REIT Management Co., Ltd. (UVRM)) and North Sathorn Realty Co., Ltd. (NSR), two wholly owned subsidiaries of GOLD. The ultimate shareholders of GOLD are companies affiliated with the TCC Group.

GVREIT’s property portfolio is small and concentrated. The trust’s assets consist of two office buildings, PKV and SSQ, with a total leasable area of 100,023 sq.m. as of June 2022. The trust’s total leasable area is split into 95% for office space, 3% for retail space, and the remainder for other uses. The two office buildings are located in the CBD of Bangkok and each is connected to a BTS Skytrain station. The assets are classified as grade-A office space in the Wireless Road area for PKV and in the Sathorn Road area for SSQ.

GVREIT’s rental and service income was THB1.1 billion in FY2021 and THB846 million in the first nine months of FY2022. Around two-thirds of rental and service income was derived from SSQ with one-third from PKV. The 10 largest tenants constituted around 40% of the total occupied area and contributed around 35% of total rental and service income during the first nine months of FY2022.

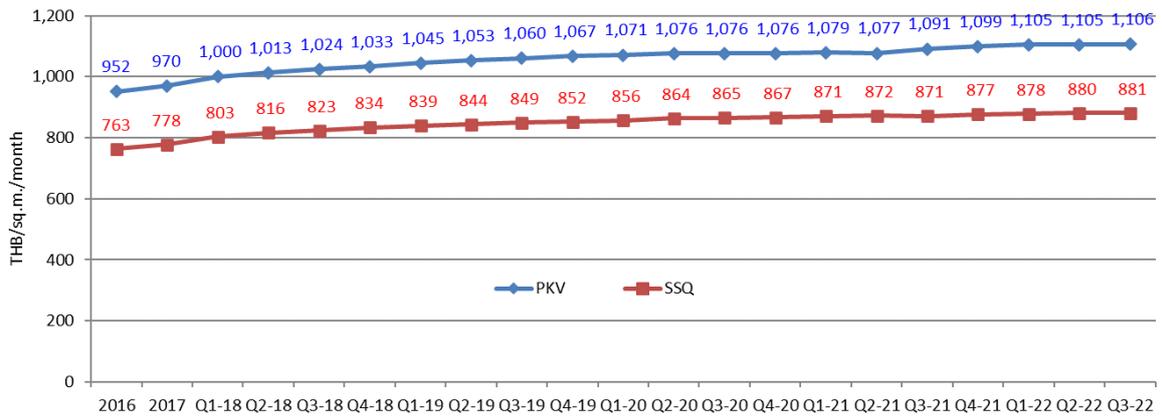
KEY OPERATING PERFORMANCE

Chart 1: Occupancy Rate and Industry Average of Grade-A CBD Offices



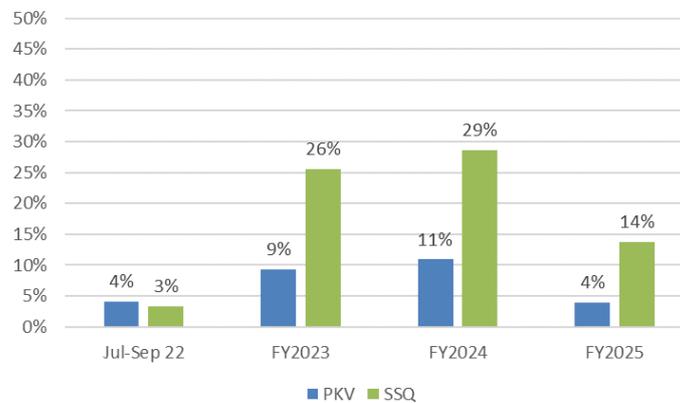
Source: GVREIT and CB Richard Ellis (CBRE)

Chart 2: Rental Rate for Overall Tenants



Source: GVREIT

Chart 3: Lease Expiry by Occupied Area



Source: GVREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

| | | -----Year Ended 30 September ----- | | | |
|---|-----------------------|------------------------------------|--------|--------|--------|
| | Oct 2021- Jun 2022 | 2021 | 2020 | 2019 | 2018 |
| Total operating revenues | 850 | 1,122 | 1,183 | 1,212 | 1,143 |
| Earnings before interest and taxes (EBIT) | 636 | 826 | 839 | 875 | 844 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 636 | 840 | 880 | 916 | 884 |
| Funds from operations (FFO) | 558 | 732 | 762 | 799 | 780 |
| Adjusted interest expense | 79 | 108 | 118 | 117 | 104 |
| Investments in leasehold properties at fair value | 11,012 | 10,989 | 10,198 | 10,181 | 10,067 |
| Total assets | 12,323 | 12,200 | 11,348 | 11,259 | 11,041 |
| Adjusted debt | 1,842 | 1,898 | 1,820 | 1,866 | 1,964 |
| Adjusted equity | 9,115 | 8,990 | 8,930 | 8,849 | 8,648 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 74.90 | 74.90 | 74.35 | 75.57 | 77.34 |
| Pretax return on permanent capital (%) | 6.90 ** | 7.07 | 7.28 | 7.69 | 7.62 |
| EBITDA interest coverage (times) | 8.09 | 7.79 | 7.45 | 7.83 | 8.50 |
| Debt to EBITDA (times) | 2.24 ** | 2.26 | 2.07 | 2.04 | 2.22 |
| FFO to debt (%) | 38.98 ** | 38.59 | 41.83 | 42.81 | 39.71 |
| Debt to capitalization (%) | 16.81 | 17.43 | 16.93 | 17.41 | 18.51 |

* 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

Golden Ventures Leasehold Real Estate Investment Trust (GVREIT)

| | |
|---|--------|
| Issuer Rating: | A- |
| Issue Rating: | |
| GVREIT274A: THB2,000 million senior unsecured debentures due 2027 | A- |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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