

ALLY LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 75/2022

13 May 2022

CORPORATES

Company Rating: **BBB+**
Outlook: **Stable**

Contacts:

Suchana Chantadisai
suchana@trisrating.com

Jutamas Bunyawanichkul
jutamas@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Wiyada Pratoomsuan, CFA
wiyada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns the company rating of “BBB+” to Ally Leasehold Real Estate Investment Trust (ALLY) with a “stable” rating outlook. The rating reflects the good quality of the trust’s portfolio of community shopping malls in Bangkok and vicinities, its highly predictable cash flow from contract-based rental and service income, and its conservative financial policy. The rating also takes into consideration growth opportunities open to the trust and the shift of its investment policy toward other commercial properties. However, the rating is partially constrained by the small scale of Ally’s property portfolio and concerns over the prospects of office property.

KEY RATING CONSIDERATIONS

Good quality neighborhood shopping malls in Bangkok

As of March 2022, ALLY owned leasehold rights in 11 community shopping malls in Bangkok and vicinities. Ally’s community shopping malls are of smaller scale and offer more open-air space when compared to enclosed malls. ALLY’s tenant mix of each mall is designed to serve lifestyle of people in its catchment areas and serve every day needs of people located in neighborhood community or residential areas.

ALLY’s retail properties vary from large luxury community shopping malls in mid-town areas with leasable areas of around 20,000 square meters (sq.m.) to small-sized community shopping malls with leasable areas of around 5,000 sq.m. in suburban areas. As of March 2022, Ally’s net leasable area totaled 160,256 sq.m. The average occupancy rate (OR) was 93%. Average rental rates were THB400-THB600 per sq.m. per month in 2021 and for the first quarter of 2022.

ALLY’s tenant mix covers operators of home decoration, food and beverage, entertainment, supermarkets, banks, and education centers.

Reliable cash flow

The rental and service income of the trust is highly predictable since most tenants are bound by three-year contracts. Fixed-rent contracts account for approximately 80% of the total, while 20% are revenue sharing.

Based on the area currently under lease, 38% of total occupied area will expire in 2022, 33% in 2023, 21% in 2024, and the rest will expire from 2025 onwards. The renewal rate has been relatively high at around 93% in 2020-2021 and for the first quarter of 2022.

Operation was hit during the COVID-19 pandemic

During 2020-2021, the Coronavirus Disease 2019 (COVID-19) pandemic had severe impacts on most retail properties in Thailand including shopping malls, department stores and community malls. Some tenants had to close their stores to comply with the government lockdown measures. To ease the hardships and maintain high occupancy, ALLY offered rental discounts by an average of 20%-30% to tenants during 2020-2021.

We consider ALLY’s recent performance as satisfactory given the circumstances. The trust has been able to manage its properties and remain profitable throughout the pandemic. We expect the trust’s performance to gradually improve following the government’s relaxation of restricting

measures and an improvement of the country's COVID-19 situation from the fourth quarter of 2021 onwards.

Strong recovery in retail property in 2022

Retail property in Thailand began to normalize operations since November 2021 when the government gradually relaxed restrictions on retail businesses. With continued improvement of COVID-19 situation in the country, we expect to see a strong recovery for retail property in 2022. The latest number of customer traffic is close to pre-COVID-19 levels in 2019. However due to the continuing weak consumer spending, Ally expects to continue to provide some rent discount of 3%-7% for some tenants during 2022-2024.

Diversify into other commercial properties

ALLY has a policy to diversify its portfolio into other commercial properties namely office and warehouse spaces for rent.

In February 2022, ALLY acquired an office property located opposite the Hua Lampong railway station with leasable area of 4,346 sq.m. and for an investment cost of THB 170 million. At the end of March 2022, the office property had an OR of 69%. Approximately 40% of office space is covered by 10-year rent contract with the property owner.

The demand for office spaces has been on a declining trend in recent years which got worsened during the pandemic. Many companies have scaled down their office spaces and implemented work-from-home policies during and post pandemic. In addition to declining demand, the supply of office spaces in Bangkok has risen noticeably. The oversupply of office spaces is likely to intensify during the next few years with an anticipated addition of new office spaces of 1 million sq.m. during 2022-2024.

Assets to double within five years

ALLY has an investment policy to acquire mature properties with high OR and stable rental rate growth. We expect ALLY to double its current leasable area within 3-5 years with retail property continues to account for 70%-80% of total portfolio. Rental and services revenue is expected to reach THB1.4-THB2.1 billion per year during 2022-2024, up from THB1.1 billion in 2021. The earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is forecast to be 40%-50%.

Currently ALLY has properties from seven property owners. The main sponsor is KE Group, with a 22.4% stake in the trust as of 31 March 2022. KE Group's properties represent 65% of ALLY's total leasable areas. Moreover, ALLY's real estate investment trust (REIT) manager and property manager is K.E. REIT Management Co., Ltd., a subsidiary of KE Group.

KE Group is a non-listed property developer with almost 20 years of experience in developing and managing luxury housing projects and community shopping malls.

Conservative leverage policy

ALLY has a policy to maintain its loan to total asset value ratio (LTV) of less than 35%. We expect the trust to continue this policy and maintain its interest-bearing debt to EBITDA ratio at around 6 times. The funds needed to expand ALLY's portfolio are expected to be sourced from both debt financing and new equity from unit holders.

At the end of March 2022, ALLY's LTV and its debt to capitalization ratio were healthy at 27% and 31%, respectively. The interest-bearing debt to EBITDA ratio was 4-7 times during 2020-2021 and for the first quarter of 2022.

We forecast ALLY to acquire a couple of new properties every year during 2022-2024 with an LTV of less than 35%.

Adequate liquidity

We view that ALLY's liquidity profile is adequate. As of 31 March 2022, Ally had cash on hand of THB563 million, and undrawn committed credit facilities from banks of THB419 million. We forecast its FFO over the next 12 months to be around THB470 million.

At the end of March 2022, ALLY had an outstanding long-term loan of THB3.6 billion with scheduled repayments of THB100-THB260 million every year during 2024-2028, totaling 25% of the drawdown amount. The remaining 75% of the drawdown amount has to be repaid in 2029.

ALLY's uses of fund include maintenance budget, set at 4% of total rental and service income, and dividend payments of at least 90% of adjusted net investment income. The trust should be able to repay its long-term loan over the next few years given its steady operating performance.

BASE-CASE ASSUMPTIONS

- ALLY to provide rental discounts of 3%-7% in 2022-2024 for community shopping mall tenants.
- Average rental rate to grow by 1%-3% per annum for community shopping malls and to be flat for office space over the next three years.
- Average OR to stay above 90% for community shopping malls and around 80% for office space.
- Rental and service income to grow by 20%-35% during 2022 -2024.
- ALLY to acquire new assets with an investment cost of THB7 billion over 2022-2024
- EBITDA margin to be maintained at 40%-50%.

RATING OUTLOOK

The “stable” outlook reflects the expectation that ALLY’s property portfolio will continue to generate steady cash flow during the next three years. TRIS Rating expects the trust’s assets to sustain high OR and achieve favourable rental rates as targeted. In addition, ALLY’s financial policy should remain conservative with the loan to total asset ratio remaining below 35%.

RATING SENSITIVITIES

ALLY’s rating and/or outlook could be revised downward if the interest-bearing debt to EBITDA ratio increases above 7.5 times for a prolonged period or the trust makes any larger-than-expected debt-funded property acquisitions. The credit upside could occur if its cash generation enlarges significantly and/or the interest-bearing debt to EBITDA ratio stays below 4.5 times for a sustained period.

COMPANY OVERVIEW

ALLY, originally named Bualuang K.E. Retail Leasehold Real Estate Investment Trust (BKER), was founded in November 2019 as part of the process to convert the CRYSTAL, a property fund, into a REIT. The CRYSTAL was established and listed on the Stock Exchange of Thailand (SET) in 2013. Upon the conversion in November 2019, BKER acquired CRYSTAL’s entire property portfolio (The Crystal Ekamai-Ramintra and Crystal Design Center) and invested in an additional eight community shopping malls from six project owners. In 2021, BKER was renamed to ALLY and revised its investment policy to cover all types of commercial properties. KE Group, through its subsidiaries, has been the trust’s major unit holder with a 22.4% stake as of 31 March 2022. KE REIT Management Co., Ltd., a subsidiary of KE Group, acts as ALLY’s REIT manager and property manager.

After the conversion in 2019, the trust’s property portfolio consisted of 10 community shopping malls. In 2021, the trust acquired an additional two community shopping malls. An office property was acquired in February 2022. As of March 2022, ALLY had 13 properties: 12 community shopping malls and one office property with total net leasable area of 160,256 sq.m.

KEY OPERATING PERFORMANCE
Table 1: ALLY's Property Portfolio

	Crystal Design Center	The Crystal Ekamai-Ramintra	The Crystal SB Ratchapruet	Amorini	I'm Park	Plearnary	Sammakorn Place Ramkhamhaeng
Type	Community mall	Community mall	Community mall	Community mall	Community mall	Community mall	Community mall
Location	Bangkok	Bangkok	Bangkok	Bangkok	Bangkok	Bangkok	Bangkok
Net leasable area (sq.m.)	35,972	30,778	24,578	5,213	6,715	11,424	10,305
OR (%) (as of 31 Mar 2022)	98.5	97.6	96.4	95.7	84.2	85.5	91.0
Investment at fair value (Mil. THB) (as of 31 Mar 2022)	3,803	2,708	1,836	285	246	829	551
Remaining leasehold period (years)	28	28	21	28	12	28	28

	Sammakorn Place Rungsit	Sammakorn Place Ratchapruk	The Scene Town-in-Town	Kadfarang Village	The Crystal Chaiyapruet	The Prime Hua Lamphong
Type	Community mall	Community mall	Community mall	Community mall	Community mall	Office
Location	Bangkok	Bangkok	Bangkok	Chiangmai	Bangkok	Bangkok
Net leasable area (sq.m.)	3,389	4,587	6,925	7,005	9,020	4,346
OR (%) (as of 31 Mar 2022)	88.8	85.2	86.2	86.5	84.8	69.4
Investment at fair value (Mil. THB) (as of 31 Mar 2022)	197	297	662	385	448	172
Remaining leasehold period (years)	28	28	23	29	20	21

Source: ALLY

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December ----		
		2021	2020	2019
Total operating revenues	371	1,127	1,132	117
Earnings before interest and taxes (EBIT)	190	530	569	63
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	195	551	590	64
Funds from operations (FFO)	158	405	455	56
Adjusted interest expense	37	146	134	8
Capital expenditures	176	701	14	7,270
Total assets	13,406	13,094	12,251	12,189
Adjusted debt	3,771	3,562	2,740	1,990
Adjusted equity	8,456	8,393	8,378	8,635
Adjusted Ratios				
EBITDA margin (%)	52.48	48.86	52.12	54.75
Pretax return on permanent capital (%)	4.44 *	4.38	4.93	0.55
EBITDA interest coverage (times)	5.26	3.78	4.39	7.62
Debt to EBITDA (times)	6.67 *	6.47	4.65	30.99
FFO to debt (%)	11.04 *	11.38	16.62	2.80
Debt to capitalization (%)	30.84	29.80	24.64	18.73
Loan to fair value of total assets (%)	32.33	31.36	26.94	22.63
Loan to fair value of total assets (%) (excluding lease liability from loan and total assets)	26.88	26.21	22.54	22.63

* Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Rating Methodology – Corporate, 26 July 2019

ALLY Leasehold Real Estate Investment Trust (ALLY)

Company Rating:	BBB+
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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