

DHANARAK ASSET DEVELOPMENT CO., LTD.

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CORPORATES

Company Rating: AA-
Outlook: Stable

Contacts:

Jutamas Bunyawanichkul
jutamas_b@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns the company rating of “AA-” to Dhanarak Asset Development Co., Ltd. (DAD), with a “stable” rating outlook. The rating reflects DAD’s integral linkage with the Thai government and its limited role as a state enterprise responsible for developing and managing the Government Complex and properties owned by the state.

The rating also takes into consideration DAD’s relatively reliable and predictable rental income streams from government agencies, the close monitoring of its project development and capital expenditure funding by government entities, and the likelihood that the company will receive financial support from the government if needed. These factors help alleviate our concerns over DAD’s project development risk and its relatively high financial leverage.

KEY RATING CONSIDERATIONS

Rating underpinned by integral linkage with the government

DAD was established on 25 May 2004, according to the Cabinet’s resolution, as a state enterprise under the supervision of the Treasury Department (TD), Ministry of Finance (MOF). MOF holds a 99.99% stake in DAD. DAD has 11 directors on the board of directors, most of them are representatives from government entities.

DAD’s activities are closely linked with the government since its operations, investments, and financing plan are monitored and approved by the government agencies. Its operating performance and dividend payments are under oversight of the State Enterprise Policy Office (SEPO). The investment budget worth more than THB1 billion is subject to the approval of the Office of the National Economic and Social Development Council (NESDC) and the Cabinet, respectively. In addition, its debt service and funding plans are closely supervised by the Public Debt Management Office (PDMO).

Limited degree of importance

DAD’s main responsibilities are to develop and manage the Government Complex Zones A, B, and C, and other governmental properties. Most of its projects; including offices, retail spaces, and residences, are developed primarily to serve government agencies.

We view DAD’s roles and responsibilities as quite limited. Although it will be more efficient to delegate DAD to develop and manage the government’s assets on behalf of various government agencies, many agencies are still investing in and developing property projects by themselves. In addition, we view that DAD’s activities and services can be substituted by private enterprises.

Since its inception, DAD has completed six projects, including the Government Complex Zones A and B. Four projects are currently under development, including the Government Complex Zone C, while nine projects are undergoing feasibility studies.

Investment in Zone C supported by 30-year lease with TD

According to the Cabinet resolution on 26 November 2018, DAD was approved to develop the Government Complex Zone C, with an estimated investment

budget of THB30 billion. DAD is responsible for the construction and property management of the project, while MOF is in charge of finding sources of funds.

DAD expects to complete and transfer the project phase-by-phase from the second quarter to the last quarter of 2024. Once the project completes, TD is obliged to lease the whole usable area of 510,000 square metres (sq.m.), on behalf of various government agencies, from DAD for 30 years. The 30-year rental budget of THB98.9 billion was approved by the Cabinet in January 2023. As a result, DAD will receive a secured rental income from this project, starting from October 2024, throughout the lease period.

Despite DAD has to source tenants and command rental rates for the Zone C commercial area, the net leasable area (NLA) of commercial space is only 13,000 sq.m. and the company has secured almost half of total NLA with expected higher rental rates than those of Zone A and B. DAD is expected to fill the remaining vacant space within 2025. We project rental income from the Zone C commercial area of around THB80-THB100 million per annum in 2025-2026.

Low project development risk

Besides the Government Complex Zone C, we view DAD is subject to low project development risk for other office buildings and residential projects for rent. For the development of office buildings serving for specific government agencies, each agency is obliged to sign a long-term building lease contract with DAD. The annual government budget set aside for office rental for each government agency is expected to cover the operating and investment costs made by DAD. For residential projects owned by other government agencies, each agency is responsible for the investment costs and for sourcing the tenants. DAD only receives the construction management fee.

However, for the Rama-Dhanarak seniors living complex project, DAD will act as a property developer to be in charge of marketing, sourcing the tenants, managing construction, and managing the whole project. DAD will be responsible for all operating and investment costs of this project. DAD will recognize revenue once the project is completed, and each unit is transferred to the tenants. Under the conditions specified in the agreement with tenants, DAD will start the construction only when all units in the project are fully booked and all tenants' financial status meet the conditions. As a result, we view that DAD has low risk to operate this project by itself. The project is currently under the budget revision, and thus its project feasibility will be approved by NESDC and the Cabinet, respectively. We anticipate that the project will require capital expenditures in 2025-2026. In addition, DAD is managing the construction of the residential projects for government officers and expects to deliver all projects within mid-2024.

Risk from elevated leverage largely contained

We view that DAD's high financial leverage is mitigated by reliable and predictable rental income streams, mostly from TD and other government entities. In addition, its funding plan and debt repayment are closely monitored by the PDMO. Based on its status as a wholly owned state enterprise, we believe that the government will promptly provide financial support to DAD, if needed.

Before 2019, DAD's debt comprised only structured finance debt securities issued by its subsidiary, DAD SPV Co., Ltd., to finance the construction of the Government Complex Zones A and B. These debt securities are collateralized by the rights to receive lease payments from TD for 30 years, starting in July 2008. For the Government Complex Zone C, DAD commenced its construction in mid-2019 and financed the project by long-term loans from banks. The project required large capital expenditures, cumulating to THB13.6 billion in 2019-2023. DAD's debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio increased to 10 times in 2022-2023 from 7-8 times in 2019-2021. Its EBITDA interest coverage ratio stood at 2 times in the past five years.

With several projects in pipeline, our base-case scenario projects DAD will need capital spending of THB8.6 billion in 2024, THB5.5 billion in 2025, and THB1.6 billion in 2026. Around 80% of them will be invested for the Government Complex Zone C. We incorporate the annual maintenance budget of the Government Complex Zones A and B as well as investment costs of potential projects in our assumptions. As a result, we expect DAD's debt to EBITDA ratio will increase to 14 times in 2024 following the construction progress of Zone C. After the Zone C project completes and DAD starts receiving rental income, the ratio should improve to 9 times in 2025-2026. Its EBITDA interest coverage ratio is expected to stay 2-3 times over the forecast period.

Tight but manageable liquidity

We assess DAD's liquidity to be tight but should be manageable over the next 12 months. As of December 2023, DAD's maturing debts over the next 12 months amounted to THB5.2 billion. All maturing debts were long-term loans from banks supporting for the development of Government Complex Zone C. DAD plans to refinance them by either new debentures issuance or loans from banks.

On the flip side, DAD's sources of funds as of December 2023 comprised cash on hand of THB0.8 billion plus short-term investments in deposit accounts of THB1.2 billion. DAD had undrawn short-term credit facilities of THB2.6 billion and undrawn long-term credit facilities totaling THB2.5 billion. We project DAD's funds from operations (FFO) in 2024 to be THB1 billion.

BASE-CASE ASSUMPTIONS

There are the key assumptions in TRIS Rating's base case forecast for DAD's operations in 2024-2026:

- Total operating revenue to soar to THB3.7 billion in 2024 and jump to the THB5.0-THB5.5 billion per annum level in 2025-2026 after the completion of Government Complex Zone C in mid-2024
- EBITDA to grow to THB3 billion in 2024, before rising to THB4 billion per annum in 2025-2026
- Aggregate capital expenditure of THB16 billion
- Debt to EBITDA ratio to increase to 14 times in 2024 and gradually improve to 9 times in 2025-2026

RATING OUTLOOK

The "stable" outlook reflects our expectation that DAD's linkage with the government and the importance of its roles as a state enterprise responsible for developing and managing the Government Complex and properties owned by the state remain unchanged in the foreseeable future.

RATING SENSITIVITIES

The rating could be changed should DAD's linkage and/or level of importance to the government change.

COMPANY OVERVIEW

DAD was incorporated on 25 May 2004, according to a Cabinet resolution, as a state enterprise. The company is under the supervision of TD, MOF. Since its inception, MOF has owned a 99.99% share in DAD. DAD's main responsibilities are to develop and manage the Government Complex and other state properties. As of December 2023, DAD had four projects under development. The largest project is the Government Complex Zone C, with an investment budget of THB30 billion and a five-year development period. Other projects under development include the residential projects for government officers, the Rama-Dhanarak seniors living complex, and interior decoration of MOF's new office. DAD is in the initial stage of development for the Rama-Dhanarak seniors living complex. Feasibility studies are being undertaken for projects of the Department of Physical Education, the Ministry of Public Health, The Customs Department, The Revenue Department, and The Government Lottery Office.

Nearly all of DAD's revenue in the past five years was derived from the Government Complex Zones A and B. Revenue from the projects includes interest income from financial lease, income from office-related services, and rental and service income from retail areas. Revenue from office areas contributed around 80% of total revenue. Most of the rental and service income received from TD has been assigned to DAD SPV.

KEY OPERATING PERFORMANCE

Table 1: Revenue from Sales and Services Breakdown

Unit: %

	2017	2018	2019	2020	2021	2022	2023
Interest income from financial lease	40	43	41	43	44	43	41
Revenue from rendering of services							
- Government Complex Zones A & B	31	35	36	37	37	37	38
- Bangpra golf club, Chonburi	1	4	4	3	1		
- Chiang Mai International Exhibition and Convention Centre			1	1	1	1	1
- Residential projects for government officers					1		
- Others (not existing projects)	13						
Rental and service income from retail area of Government Complex Zones A & B	15	18	18	16	16	19	20
Total	100						
Total revenue from sales and services (Mil. THB) (excluding amortization adjustment)	2,797	2,591	2,672	2,553	2,467	2,513	2,592

Source: DAD

Table 2: Under Development Projects

No.	Project Name	Investment by DAD (Mil. THB)	Expense by DAD (Mil. THB)	Construction Start	Construction Completion
1	Government Complex Zone C	30,000		Jul-2019	Q2-2024
2	Residential projects for government officers		16	Aug-2021	May-2024
3	Rama-Dhanarak seniors living complex	1,345.93			18 months after construction start
4	Interior decoration of new office, Ministry of Finance			Nov-2021	Jun-2024

Source: DAD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	3,146	2,933	2,825	2,903	2,954
Earnings before interest and taxes (EBIT)	1,932	1,735	1,848	2,017	2,049
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,574	2,256	2,309	2,472	2,426
Funds from operations (FFO)	1,195	1,051	1,131	1,072	1,035
Adjusted interest expense	1,379	1,205	1,179	1,400	1,391
Capital expenditures	5,762	2,750	2,225	1,685	662
Total assets	37,956	32,846	28,883	25,546	27,026
Adjusted debt	26,703	21,781	19,457	16,950	18,501
Adjusted equity	5,005	4,475	4,140	3,607	3,334
Adjusted Ratios					
EBITDA margin (%)	81.8	76.9	81.8	85.1	82.1
Pretax return on permanent capital (%)	6.2	6.4	7.7	8.6	8.6
EBITDA interest coverage (times)	1.9	1.9	2.0	1.8	1.7
Debt to EBITDA (times)	10.4	9.7	8.4	6.9	7.6
FFO to debt (%)	4.5	4.8	5.8	6.3	5.6
Debt to capitalization (%)	84.2	83.0	82.5	82.5	84.7

* Adjusted financial information by TRIS Rating Co., Ltd.

RELATED CRITERIA

- Rating Methodology for Government-related Entities, 27 October 2023
- 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

Dhanarak Asset Development Co., Ltd. (DAD)

Company Rating:	AA-
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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