

GOLDEN VENTURES LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 171/2017

15 December 2017

Issuer Rating:

A-

Outlook:

Stable

Rating Rationale

TRIS Rating assigns the issuer rating of Golden Ventures Leasehold Real Estate Investment Trust (GVREIT) at “A-”. The rating reflects the trust’s high quality assets located in prime areas of Bangkok, the reliable cash flows received from contract-based rental income, and the conservative financial leverage policy. The rating also takes into consideration the future growth opportunities of the trust, supported by assets from its major sponsors. However, the rating is partially constrained by portfolio concentration on two assets and top-10 tenant concentration in terms of leasable area and revenue contribution.

GVREIT was established in March 2016. Golden Land Property Development PLC (GOLD) is the trust’s major unit holder. As of September 2017, GOLD held a 22.64% stake in GVREIT. The Real Estate Investment Trust (REIT) manager and the property manager are wholly-owned subsidiaries of Univentures PLC (UV) and GOLD, respectively. Both UV and GOLD are companies affiliated with the TCC Group.

The property portfolio of the trust concentrates on two office buildings, Park Ventures Ecoplex (PKV) and Sathorn Square (SSQ), sponsored by UV and GOLD. As of September 2017, GVREIT managed 100,600 square meters (sq.m.) of office space, worth about Bt9,800 million at fair value. The 10 largest tenants occupy around 40% of the total leasable area. The office buildings are located in the Central Business District (CBD) of Bangkok. Each building is connected with BTS Skytrain station. PKV and SSQ are classified as grade-A office space in CBD areas.

Both buildings have achieved high occupancy rates (OR) and rental rates. At the end of September 2017, the average OR of PKV and SSQ was 98.7% and 96.3%, respectively, compared with an industry average OR of 92% during 2016-2017, according to CB Richard Ellis (CBRE). The average rental rates for overall tenants in PKV and SSQ were Bt981 per sq.m. per month and Bt786 per sq.m. per month, respectively. PKV achieved an average rent of Bt1,032 per sq.m. per month in 2017, higher than the industry average of Bt1,000 per sq.m. per month for grade-A CBD office space in the Wireless road area, as noted by the research of Cushman & Wakefield. SSQ achieved an average rent in 2017 of Bt933 per sq.m. per month, more than the industry average of Bt897 per sq.m. per month for grade-A CBD office space in the Sathorn road area.

The average lease term in both buildings is around three years, making rental income quite predictable. Slightly more than one-third (36%) of the existing lease contracts, based on the total leasable area, will expire in 2018. However, the good quality of both buildings and strong demand for office space in the CBD should help the trust mitigate the risk associated with rental contract renewals.

Rental and service income of the trust was Bt1,082 million in fiscal year 2017 (FY2017). Rental and service income from the top 10 tenants constituted around 30% of the total. TRIS Rating’s base case scenario assumes the two buildings will generate Bt1,000 million in rental income annually over the next three years. The OR of the property portfolio is expected to stay above 94%; the rental rate is expected to grow by at least 2% each year.

Contacts:

Jutamas Bunyawanicul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Rapeepol Mahapant
rapeepol@trisrating.com

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

WWW.TRISRATING.COM

The margin of earnings before interest, tax, depreciation and amortization (EBITDA) of the trust as a percentage of revenue was quite high at 83% in 2016 and 79% in 2017, supported by high OR and rental rates. TRIS Rating forecasts the EBITDA margin will stay around 80% over the next three years.

The interest-bearing debt to EBITDA ratio was around 3 times as of September 2016 and September 2017. The debt to capitalization ratio has held at 24% since GVREIT was founded. Both assets owned by the trust are leasehold properties and the trust is obligated to pay at least 90% of adjusted net income as dividends. As a result, the trust is not expected to incur a significant amount of debt. Despite plans to acquire more assets in the future, the interest-bearing debt to EBITDA ratio is expected to stay below 3.5 times and the debt to capitalization ratio should stay below 30%. The ratio of loans to total assets should not exceed 30%, keeping GVREIT in compliance with its bank loan covenants.

The trust's liquidity is adequate, as the funds from operations (FFO) to total debt ratio was 30%-31% during FY2016 through FY2017. The EBITDA interest coverage ratio has held steady at 5-7 times. GVREIT's sources of liquidity included cash on hand of Bt135 million and investments in securities at fair value of Bt521 million as of September 2017, together with our projected FFO of Bt800-Bt1,000 million per annum. The trust had only Bt2,000 million in bank loans coming due in March 2021. Based on its strong operating performance and the lengthy lease terms it has with its tenants, the trust should have no problem when refinancing its debts.

Rating Outlook

The "stable" outlook reflects the expectation that GVREIT's property portfolio will generate reliable streams of cash flow over the next three years. TRIS Rating assumes the two office buildings to sustain high OR and achieve favorable rental rates as targeted. Over the next three years, GVREIT's financial profile will remain strong as the interest-bearing debt to EBITDA ratio should remain below 3.5 times and the debt to capitalization ratio should stay below 30%.

GVREIT's rating and/or outlook could be revised downward if the ratio of interest-bearing debt to EBITDA increases above 4 times for a prolonged period. In contrast, GVREIT's future rating and/or outlook could be revised upward if the trust acquires more properties and can diversify the tenant base in its portfolio, while maintaining a strong financial profile.

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A-

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Financial Statistics and Key Financial Ratios *

Unit: Bt million

	---- Year Ended 30 September ----	
	2017	2016
Rental and service income	1,082	534
Gross interest expense	66	33
Net income from operations	647	244
Funds from operations (FFO)	791	412
Investment in leasehold properties at fair value	9,756	9,814
Total assets	10,562	10,538
Total debts	2,657	2,665
Net asset value	8,216	8,224
Operating income before depreciation and amortization as % of revenue	78.25	82.36
Earnings before interest, tax, depreciation, and amortization (EBITDA) margin (%)	79.29	83.47
Pretax return on permanent capital (%)	7.61	7.89
EBITDA interest coverage (times)	6.67	4.77
FFO/total debt (%)	29.78	30.93
Total debt/capitalization (%)	24.43	24.47
Total debt/capitalization (%) **	19.58	19.56
Total debt/EBITDA (times)	3.10	2.99
Loan to fair value of total assets (%)	18.94	18.98

Note: All ratios are operating lease adjusted

* Consolidated financial statements

** Excluding capitalized annual leases

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

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