THAI CONSUMER DISTRIBUTION CENTER CO., LTD

No. 93/2017 2 August 2017

Company Rating: BBB-

Outlook: Stable

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Rating Rationale

TRIS Rating assigns the company rating of Thai Consumer Distribution Center Co., Ltd. (TCDC) at "BBB-". The rating reflects the reliable cash flow streams the company receives from the warehouses it rents, under long-term contracts, to creditworthy tenants. These strengths are partially offset by small size of portfolio of rental properties, and geographical concentration. The rating also incorporates the financial support the company will receive from its major shareholder, AQUA Corporation PLC (AQUA, rated "BBB-/Stable", by TRIS Rating). TCDC's rating is also capped by the company rating of AQUA, which holds a 96.13% interest in TCDC, according to TRIS Rating's group rating methodology.

TCDC provides built-to-suit warehouses for rent in Thailand. The company was established in 1998 by Pacific Investment PLC. AQUA acquired 69% of TCDC and became the major shareholder in 2014. AQUA has increased its stake to 96.1% of the company's shares in 2015. In the same year, TCDC expanded by acquiring 100% of Accomplish Way Holding Co., Ltd. (AWH) for Bt165 million.

TCDC's warehouse portfolio is small, comprising four warehouse properties with a total leased area of 122,747 square meters (sq.m.). TCDC's warehouses are located in Chacheongsao province, and in Bang Pa-in Industrial Estate, Ayudhya. Two warehouses, with 108,902 sq.m. of space or 90% of the total leased area owned by TCDC, are leased to the Unilever Group, the world leader in branded consumer products. The remaining area is leased by two well-known providers of logistics services, Agility Co., Ltd. and Ceva Logistics (Thailand) Ltd.

TCDC's credit rating is supported by the recurring income it receives under the long-term rental contracts it has with the warehouse tenants. TCDC earned rental income of Bt283 million in 2016 because all four warehouses were operating for the full year. Rental income will grow by 1%-4% per annum on average according to the rental rate hikes stipulated in the contracts.

TCDC carries customer concentration risk, as 90% of its rental income is derived from a single tenant: Unilever. This risk is partially alleviated by the lengths of the contract terms. The contracts cover 10 years and will expire in 2022 and 2024. The contract for the first warehouse leased to Unilever was renewed for another 10 years after the contract expired in 2012. The counter party risk is also low as Unilever is recognized for its high credit standing worldwide.

TCDC's financial profile is fair. Its financial leverage is decreasing. The total debt to capitalization ratio peaked at 76.1% as of June 2014. Leverage rose because TCDC made some significant capital expenditures to build a second, built-to-suit warehouse for Unilever. After 2014, the total debt to capitalization ratio gradually declined, falling to 56.5% as of March 2017 as TCDC made the scheduled debt repayments. Cash flow protection is moderate. The ratio of funds from operations (FFO) to total debt improved from a low of 2.9% in 2013 to 9.8% (annualized, from the trailing 12 months) in the first quarter of 2017. Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio also improved, climbing from 1.4 times in 2013 to 3.8 times in the first quarter of 2017.

Total revenues of TCDC grew from Bt101 million in 2013 to Bt286 million in 2016 after it completed the new warehouse and acquired AWH. TCDC's operating profit before depreciation and amortization is high, which is common for most lessors of rental property. The operating margin ranged between 76%-90% during

2012-2016, depending on the repair and maintenance expenses in a given year. FFO rose from Bt27 million in 2013 to Bt158 million in 2016 after all four warehouses are fully operated.

During 2017, the company plans to build equipment to rent to its tenants with the budget of Bt56 million. Most of this capital expenditure is funded by advance payments made by the tenants. The capital expenditures required to maintain the warehouse space are minimal. As a result, TCDC's leverage and cash flow protection are expected to improve gradually as it makes the scheduled debt repayments. TRIS Rating expects that the financial leverage will gradually fall below 40% over the next few years. The FFO to total debt ratio is forecast to increase from 9.8% in 2016 to 15% in 2019 and the EBITDA interest coverage ratio will rise to 5 times in 2019. Liquidity is manageable. TCDC had a long-term debt totaling Bt1,575 million as of March 2017. These loans are collateralized by most of TCDC's fixed assets. Scheduled loan repayments amount to Bt175-Bt187 million per annum from 2017 through 2019. This can be mostly repaid from cash flow from operations which are projected to range between Bt165-Bt190 million per annum and some financial support from AQUA, its major shareholder. However, TCDC has limited financial flexibility because it has no undrawn credit facilities and most of its fixed assets are collateralized for bank loans.

Rating Outlook

The "stable" outlook reflects the expectation that TCDC will be able to control its costs to generate cash flow as planned. TCDC is expected to maintain sufficient liquidity, with additional support coming from its major shareholder, if needed.

TCDC's credit upsides may happen if the cash flow improves significantly on an ongoing basis while maintaining current financial profile. The downside risk could emerge if rising costs and maintenance expenses weaken cash flow for an extended period. Any debt-funded expansion, which will deteriorate the balance sheet and cash flow protection or repayment profile, would also be a negative factor for TCDC's rating.

Thai Consumer Distribution Center PLC (TCDC)

Company Rating:	BBB-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		--------------------------Year Ended 31 December----------------------				
	Jan-Mar 2017	**2016**	**2015**	**2014**	**2014 ***	**2013**
Sales and service revenues	71	286	249	88	103	101
Gross interest expense	17	73	74	50	86	50
Net income from operations	38	161	118	34	36	26
Earnings before interest, tax, depreciation, and amortization (EBITDA)	65	273	222	79	83	77
Funds from operations (FFO)	38	158	115	36	36	27
Total capital expenditures and investments	-	14	412	171	825	265
Total assets	3,171	3,166	3,232	2,759	2,411	1,415
Total debt	1,575	1,616	1,777	1,531	1,519	949
Shareholders' equity	1,214	1,176	1,054	827	478	337
Operating income before depreciation and amortization as % of sales	90.25	89.87	83.01	89.24	80.56	76.19
Pretax return on permanent capital (%)	9.68 **	9.71	8.56	4.32	6.75	6.75
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.84	3.73	2.99	1.58	0.97	1.53
FFO/total debt (%)	10.02 **	9.79	6.49	2.33	2.38	2.87
Total debt/capitalization (%)	56.46	57.88	62.77	64.94	76.07	73.81

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
Note: *All are operating leased adjusted ratios.*

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