

TICON FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 44/2018

23 April 2018

CORPORATES

Company Rating: A
Outlook: Stable

RATIONALE

TRIS Rating assigns the company rating of TICON Freehold and Leasehold Real Estate Investment Trust (TREIT) at "A". The rating reflects TREIT's predictable income stream from rental contracts, largest portfolio of industrial property for rent, geographical diversification, plus diverse tenant base. The strengths are partially offset by occupancy rate (OR) of industrial properties, which is sensitive to economic conditions. The rating also incorporates rising leverage given its financial policy and investment plans.

KEY RATING CONSIDERATIONS

Largest industrial REIT with geographical diversification, and diverse industry of tenant

As a result of the merger of TICON Property Fund (TFUND), TICON Industrial Growth Leasehold Property Fund (TGROWTH), and TPARK Logistics Property Fund (TLOGIS) into TREIT, TREIT becomes the largest industrial REIT in Thailand with total investment properties worth Bt30,451 million in 2017, up from Bt7,352 million in the previous year. At present, the leasable area jumps to 1,484,660 square meters (sq.m.), consisting of 745,535 sq.m. for factory and 739,125 sq.m. for warehouse, scattering across 24 locations in seven provinces. On top of geographical diversification, TREIT also has diverse tenant base. The top 10 largest tenants contribute only 22% of total rental and service income. The leased area in 2017 was mainly driven by demand from automotive industry, electronics industry, and logistics providers with the 30%, 23%, and 18% of the tenants' portfolio, respectively.

Medium term contract-based income

The leases of TRIET's properties portfolio are usually medium term covering for a period of three years; therefore, cash flow is secured from contract-based rental income. Three-year contracts make up 82% of the total area under lease. Around one-third of all tenant contracts will expire each year. Of the 1,172,408 sq.m. of leased contracts, about 33% of the rental contracts will expire in 2018, and about 25% and 27% to expire by 2019 and 2020, respectively. The weighted average lease life stood at 1.97 years as of December 2017.

Relatively high occupancy rate despite stagnant demand in some areas

Despite the lingering investment activities and oversupply situation in the rental factory and warehouse business, TREIT can achieve a satisfactory average OR of 79%, with an OR of 81% in factory and an OR of 77% in warehouse, in 2017. This is because its properties portfolio is located in diverse key industrial areas and strategic logistics location. Even though stagnant demand in the flood-prone areas, i.e., Ayudhya and Pathumthani provinces, which accounted for about 13% of total leasable area, partially depressed the OR, strong demand for industrial properties in the eastern area offsets the impact. In addition, contract renewal rate of TREIT was good, about 80%-85% during 2016-2017. By 2018, about 33% of total leased area will expire. So far, 33% of the expiring contracts have agreed to renew. Including expected improving investment activities, TRIS rating expects the trust can keep average OR higher than 80% in 2018-2020.

Contacts:

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Jutatip Chitphromphan
jutatip@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com

Rungrat Suntornpagasit
rungrat@trisrating.com



Growth prospect from regular asset injection by sponsor and some asset acquisition from non-sponsor

TICON Industrial Connection PLC (TICON), the trust's sponsor, is well-known as the leading developers in the factories and warehouses for rent market in Thailand. TICON has regularly sold rental properties to the trust. As a result, TREIT's investment portfolio continues to grow from Bt4,228 million in 2014 to Bt7,352 million in 2016, and to Bt30,451 million in the end of 2017, after the merger. In addition, TREIT plans to invest in qualified assets from non-sponsor in order to additionally enlarge its asset size. The growing size of the quality industrial properties regularly results in the boost in its revenue and operating cash flow. Rental and service income is projected to grow to about Bt2,500 million per year after the merger and additional acquisition of assets by the end of 2018, rising from Bt588 million in 2017. Funds from operations (FFO) will rise to Bt1,500 million in 2018 from Bt424 million in 2017.

Leverage will rise, but stay below 30% to total asset value

As a result of merging funds of the TICON Group into TREIT, the ratio of interest-bearing debt to total assets (LTV) suddenly dropped to 17% from 23% in the previous year, and the total debt to capitalization ratio also sank, sliding to about 18% in 2017 from 26% in 2016. However, after the conversion, TREIT plans to spend Bt3,870 million for new asset acquisition including Bt3,500 million from its sponsor and Bt370 million from non-sponsor by 2018 with a 90% debt financing. Consequently, the interest-bearing debt to total assets ratio (LTV) will rebound and climb to not over 26% and the total debt to capitalization ratio will stay at about 27% in 2018. Looking forward, TREIT intends to expand its property portfolio continually mainly from its sponsor, amounted approximately Bt3,000 million per year in 2019-2020, with target to keep LTV not higher than 30% in the medium to long term.

Fair cash flow protection

An increase in debt outstanding from the merger in 2017, while revenues was partially consolidated, the funds from operations (FFO) to total debt ratio declined to 7.4% in 2017 from 21.4% in 2016. The EBITDA interest coverage ratio was 5.5 times in 2017, down slightly from 6.0 times in 2016. Looking forward, the annual FFO is forecast to inch up gradually to approximately Bt2,000 million over the next few years. The FFO to total debt ratio is projected to stay around 12%-16% and the EBITDA interest coverage ratio is forecast at 5-7 times during the next three years.

Manageable refinancing risk

Out of the Bt5,540 million in debt, TREIT has scheduled bullet debt repayment of Bt3,740 million and Bt800 million in the mid of 2018 and in 2020, respectively. The scheduled debt repayment of Bt3,740 million is the bridging loan in merging with the other three property funds. TREIT plans to refinance this bullet repayment by using the proceeds from new debentures issuance. Given its market access capability and abundant unencumbered assets, refinancing risk is manageable. In the medium term, TREIT intends to engage long-term loan with financial institutions in order to be used as back-up facilities for bullet repayment each year.

RATING OUTLOOK

The "stable" outlook reflects the expectation that TREIT's property portfolio will generate reliable cash flows, and can maintain the level of OR above 80% together with keeping its leverage as per TREIT's financial policy.

Under TRIS Rating's base case scenario, we assume that TREIT's assets will increase by Bt3,870 million in 2018 and will increase by an average of Bt3,000 million per year in 2019-2020. Rental and service income is projected to grow from Bt2,500 million in 2018 to Bt3,000 million in 2020. The OR will be maintained at approximately 80%. Operating margin will stay around 70%. The ratio of interest-bearing debt to total assets is forecast to stay below 30% as per the trust's policy.

RATING SENSITIVITIES

The rating of TREIT could be under a downward pressure if the OR declined significantly below expectation or larger than expected debt-funded expansion for a prolonged period. In contrast, the rating could be revised upward if TREIT increases its cash flow generation or strengthens its balance sheet noticeably, which will lead to higher cash flow protection over an extended period.

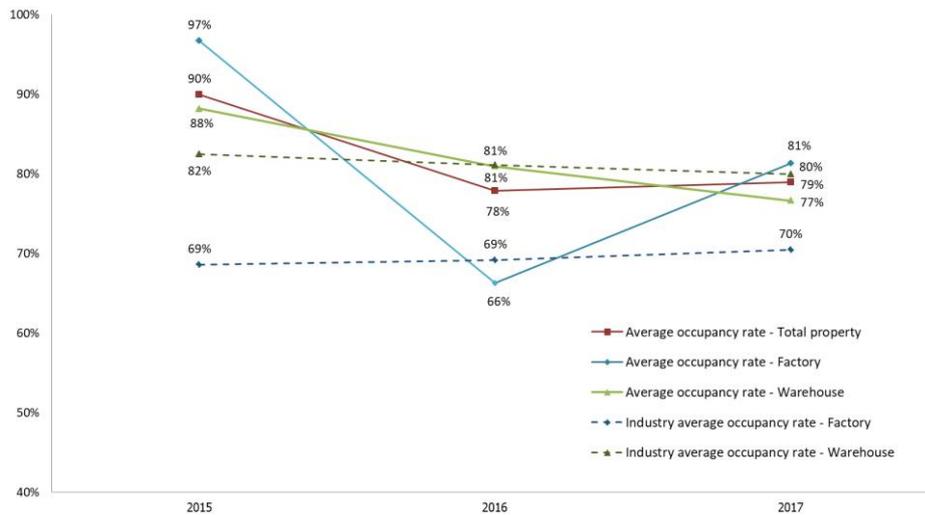
COMPANY OVERVIEW

TREIT was established in December 2014 and listed on the Stock Exchange of Thailand (SET) in January 2015, with registered capital of Bt3,425 million. The REIT manager of the trust is TICON Management Co., Ltd. (TMAN) which is 70% owned by TICON, the property manager and main sponsor of the trust. The REIT manager has appointed TICON and TICON Logistics Park Co., Ltd. (TPARK), the ex-owners of the properties, as the property managers for factories and warehouses, respectively. At the end of December 2017, TFUND, TGROWTH, and TLOGIS were merged into TREIT. After the conversion,

TREIT becomes the largest industrial REIT in Thailand with asset size at the amount of Bt30,451 million, comprising 490 properties of warehouses and factories in seven provinces and total leasable area of 1,484,660 sq.m., 69% of The investment properties are freehold while the remaining are leasehold. TREIT’s properties are located in key industrial estates and along strategic logistics areas including along Bangna-Trad road, Ladkrabang, Ayudhya, and the Eastern Economic Corridor (EEC). About 62% of the leasable properties are located in the EEC development area. Presently, TICON holds a 22% stake in total.

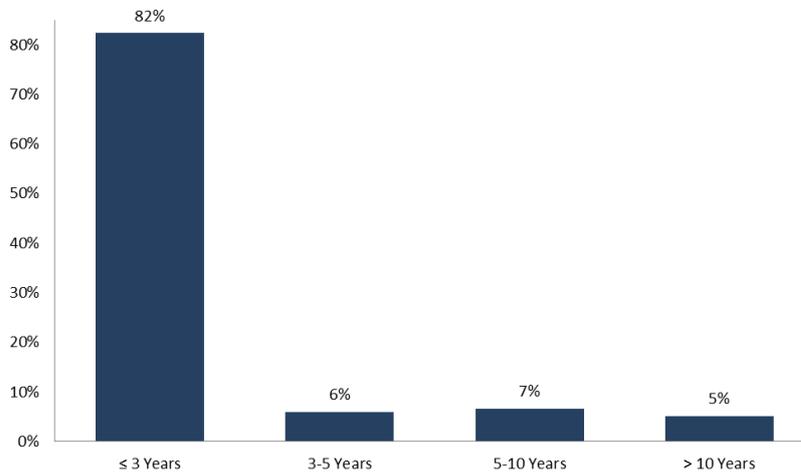
KEY OPERATING PERFORMANCE

Chart 1: Occupancy Rate



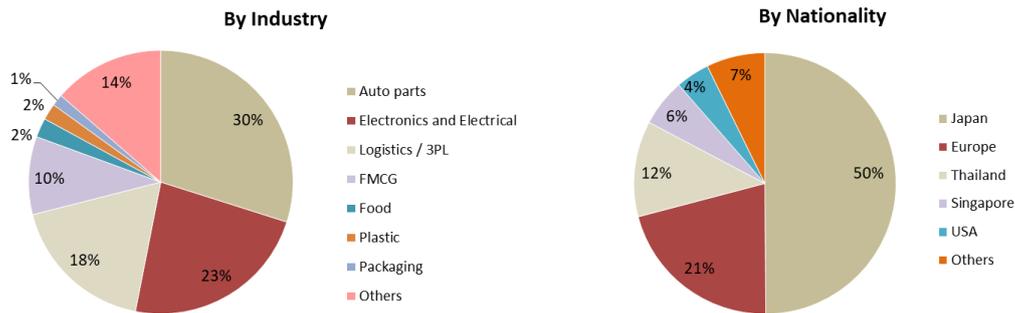
Sources: TREIT and CB Richard Ellis (CBRE)

Chart 2: Lease Profile



Source: TREIT

Chart 3: Tenant Profile



Source: TREIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Year Ended 31 December -----			
	2017	2016	2015	2014
Revenue	588	627	408	10
Gross interest expense	75	74	38	1
Net income from operations	369	397	287	8
Funds from operations (FFO)	424	421	303	9
Investment in properties at fair value	30,451	7,352	7,261	4,228
Total assets	31,961	7,771	7,687	4,507
Total debts	5,540	1,819	1,819	860
Net asset value	25,468	5,747	5,601	3,433
Operating income before depreciation and amortization as % of sales	78.3	73.0	80.8	80.8
Pretax return on permanent capital (%)	2.3	6.3	5.6	0.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.5	6.0	8.1	10.2
FFO/total debt (%)	7.4	21.4	15.7	1.0
Total debt/capitalization (%)	18.4	25.5	25.6	20.0

Notes: All ratios have been adjusted by operating leases.
Total debt means interest-bearing debt.

TICON Freehold and Leasehold Real Estate Investment Trust (TREIT)

Company Rating:	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2018, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria