

WHA PREMIUM GROWTH FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 10/2018
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CORPORATES

Company Rating: A
Outlook: Stable

RATIONALE

TRIS Rating assigns the company rating of WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART) at "A". The rating reflects WHART's predictable income stream from medium- to long-term rental contracts with well-recognized tenants, high occupancy rate (OR) of rental warehouse, as well as limited development risk. The rating is also supported by the growth prospects from asset injection from the trust's sponsor, WHA Corporation PLC (WHA). The strengths are partially offset by tenant concentration, and renewal rates of tenants, which are sensitive to economic conditions.

KEY RATING CONSIDERATIONS

High occupancy rate

Despite the economic slowdown and oversupply situation in the warehousing industry, WHART has enjoyed high occupancy rates of over 90% since its inception in 2014. This is because most rental contracts are medium to long term and warehouses are located in strategic logistics areas. As of September 2017, OR stood at 91%, rising to 96% if undertaking from the sponsor is included. The trust's average occupancy rate outperformed the industry average which stayed around 79%-83% during 2015 through the third quarter of 2017, according to CB Richard Ellis (CBRE), Thailand. After the conversion of WHA Premium Factory and Warehouse Fund (WHAPF) into WHART and the acquisition of additional assets were completed in November 2017, the trust's OR would further rise to 94%, or 97% if the undertaking is included.

Increased scale after conversion of WHAPF into WHART

WHART completed its merger with WHAPF along with the acquisition of new assets in November 2017. As a result, total investment properties of WHART doubled to Bt26,198 million. WHART becomes one of significant player in the rental warehouse business with leasable area of warehouse totaling 971,557 square meters (sq.m.), accounting for 28.6% of the total leasable area of warehouse in Thailand, according to CBRE, Thailand.

Medium to long term contracts with high credibility tenants

Of the 908,532 sq.m. of leased contracts, about two-thirds of all contracts span more than three years. About 38% of rental contracts will be expired in 2018 and about 40% to be expired after three years. Therefore, WHART's cash flow is secured with these medium- to long-term contracts. Most of WHART's tenants are also well-known domestic and multi-national corporations with high credit quality. Rental collection risk is minimal, considering the sound financial positions of these reputable companies.

Growth prospect from regular asset injection from sponsor

WHART's assets have expanded every year. WHA, the trust's sponsor, is well-known as one of only two major developers in the warehouses and factories for rent market in Thailand. WHA has regularly sold rental warehouses to the trust every year. WHA also undertakes to pay rental income to WHART for three years for vacant warehouse space to be sold in order to enhance OR to 100% at the time of the sale. As a result, WHART's investment portfolio continues to grow from Bt4,406 million in 2014 to Bt13,083 million in 2017, and to Bt26,198 million after the conversion of WHAPF and the latest acquisition of assets.

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Rental income rose from Bt332 million in 2015 to Bt742 million in the first nine months of 2017 and is projected to grow to about Bt2,000 million per year after the year of conversion of WHAPF and latest acquisition of assets. Funds from operations (FFO) will rise to Bt1,600 million per year from Bt575 million in the first nine months of 2017. WHA still has plans to sell assets to WHART. In addition, WHART is during study to invest in non-sponsor assets, as well, in order to additionally enlarge its asset size.

Tenant concentration risk

The top 10 largest tenants occupy around 60% of total rental and service income. However, this concentration risk is partly mitigated by the high credit standing of its tenants. In addition, some contracts are medium- to long-term contracts, in which the lessees will be penalized to pay the remaining rental value if the lessee early terminates its contracts.

Higher renewal risk, but partially alleviated by new tenants acquired

Due to the economic slowdown, the oversupply in the rental warehouse business as well as more expired contracts, the renewal rate of the expired contracts fell to about 70% in 2017, compared with 90%-100% in 2015-2016. However, as the properties are located in strategic locations for logistics management, property manager can replace 75% of vacant properties within three to six months. As a result, the OR of the trust remained high at 91% as of September 2017, compared with 95% at the end of 2016. By 2018, about 38% of total leased area will expire. So far, 44% of the expiring contracts have agreed to renew. With more encouraging economic conditions, the trust expects the renewal rate in 2018 will not be less than 70%.

Limited refinancing risk in the next few years

After the conversion of WHAPF and the latest debt-funded asset acquisition, total debt would rise to Bt7,715 million by the end of 2017. The interest-bearing debt to total assets ratio (LTV) would be about 29% and the total debt to capitalization ratio would be about 31%. Out of the Bt7,715 million, WHART has scheduled debt repayment of only Bt2.7 million in 2018. In 2019-2020, about Bt1,350 million will be due each year. However, WHART has prematurely managed the refinancing by engaging back-up long term loan facilities with a financial institution to repay the scheduled bullet repayments in 2019-2020.

RATING OUTLOOK

The “stable” outlook reflects the expectation that WHART’s property portfolio will generate reliable cash flows and can sustain high level of occupancy rate above 90% with sound profitability.

Under TRIS Rating’s base case scenario, we assume that WHART’s assets will increase by Bt3,000 million per year and the occupancy rate will maintain at approximately 95%, including the undertaking from WHA. Operating margin will stay around 80%. The company is expected to keep its interest-bearing debt to total assets ratio below 35% as per the trust’s policy. The EBITDA interest coverage ratio should range between 4-6 times in 2018-2020.

RATING SENSITIVITIES

The credit rating of WHART could be under downward pressure if the occupancy rate notably drops below expectations and/or the interest-bearing debt to total assets ratio stays above 35% for a prolonged period. On the other hand, the rating could be revised upward if WHART’s capital structure improves significantly, leading to higher cash flow protection over an extended period.

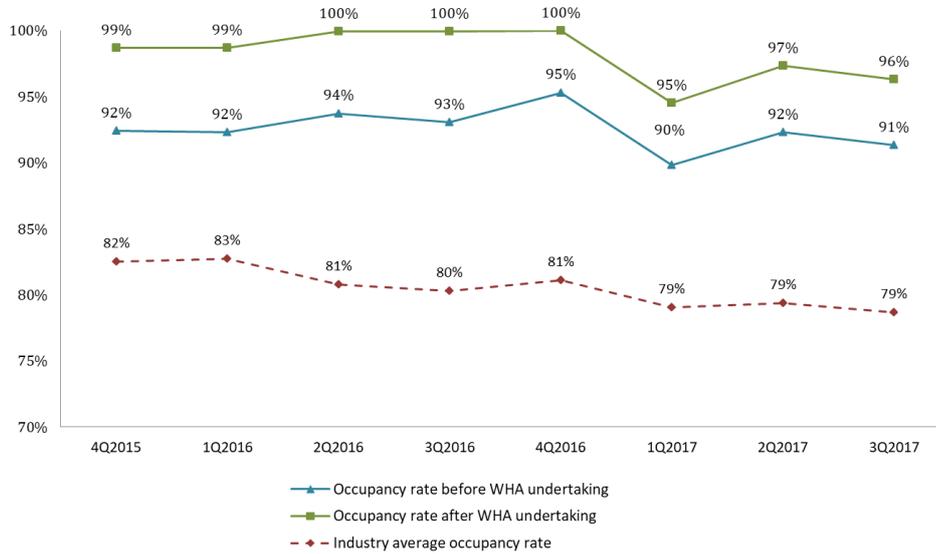
COMPANY OVERVIEW

WHART was listed on the Stock Exchange of Thailand (SET) in December 2014 as Thailand’s first industrial Trust with asset size at of Bt4,406 million. WHART’s assets mainly comprise warehouses for rent and rooftops for rent. More than 95% of total income comes from warehouses and factories for rent. Its assets are 70% freehold, with the remaining leasehold. WHART’s REIT manager is WHA Real Estate Management Co., Ltd. (WHAREM) which is 99.9% owned by WHA, the property manager and main sponsor of the trust. WHART’s property portfolio has expanded continually from Bt4,406 million at its inception to Bt13,083 million as of September 2017. Its leasable area increased from 167,333 sq.m. to 499,236 sq.m. over the same period. In November 2017, WHAPF was merged into WHART with the swap ratio at one unit of WHAPF for 1.0562 units of WHART. At the same time, WHART also invested in additional assets with debt financing at the amount of Bt3,747 million. After the conversion, WHA holds a 15% stake in total. At present, WHART is one of the leaders in the warehouse rental business in Thailand, with 20 properties with total leasable area of 971,557 sq.m. located in prime strategic areas including along Bangna-Trad road, Ladkrabang, Ayudhaya, Rayong, Saraburi, Chonburi, and Pathum Thani.

About 67% of the leasable properties are located along Bangna-Trad road.

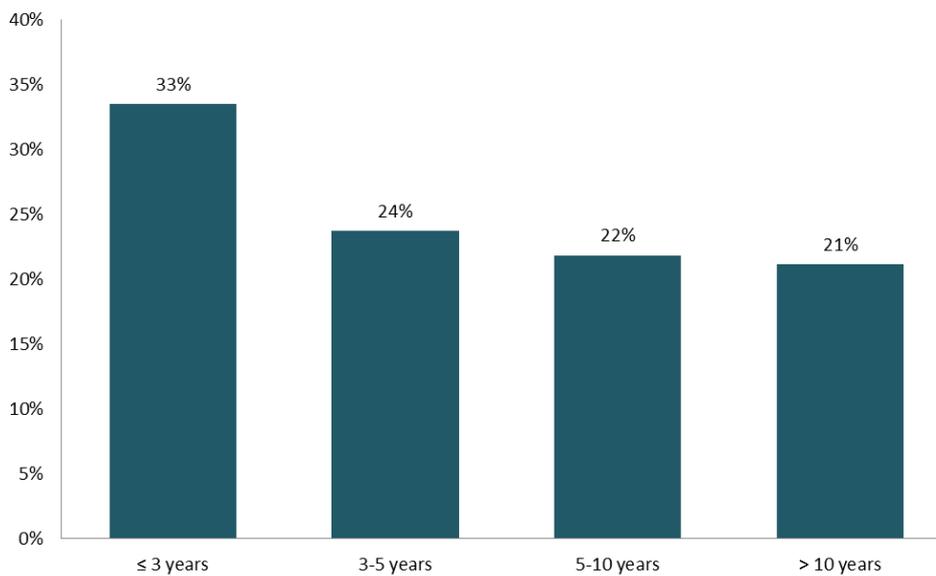
KEY OPERATING PERFORMANCE

Chart 1: Occupancy Rate



Sources: WHART and CB Richard Ellis (CBRE)

Chart 2: Lease Profile



Note: Lease profile depicts all contract terms after conversion and new asset acquisition.

Source: WHART

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Year Ended 31 December ----			
	Jan-Sep 2017	2016	2015	2014
Revenue	742	709	332	14
Gross interest expense	123	121	62	3
Net income from operations	502	475	217	7
Funds from operations (FFO)	575	544	253	15
Investment in properties at fair value	13,029	13,083	8,971	4,406
Total assets	13,821	13,923	9,595	4,613
Total debts	3,970	3,970	2,720	1,323
Net asset value	9,530	9,541	6,542	3,115
Operating income before depreciation and amortization as % of sales	87.7	86.9	87.9	66.8
Pretax return on permanent capital (%)	4.6	5.3	4.2	0.7
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.7	4.5	4.0	1.8
FFO/total debt (%)	12.9	12.2	8.4	1.0
Total debt/capitalization (%)	31.9	31.8	31.5	32.8

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

WHA Premium Growth Freehold and Leasehold Real Estate Investment Trust (WHART)

Company Rating:	A
Rating Outlook:	Stable

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