

TICON FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 39/2018

31 May 2018

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
23/04/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating of TICON Freehold and Leasehold Real Estate Investment Trust (TREIT) at “A”. At the same time, TRIS Rating assigns the rating of “A” to TREIT’s proposed issue of up to Bt3,740 million in senior unsecured debentures due within 10 years. The trust plans to use the proceeds from these debentures to repay its existing loans. Also, TRIS Rating assigns the ratings of “A” to TREIT’s existing senior unsecured debentures totaling Bt1,800 million.

The ratings of TREIT and its debentures reflect 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 ratings also incorporate rising leverage given its financial policy and investment plans.

As of March 2018, TREIT managed 1,484,660 square meters (sq.m.) of industrial estate space, comprising 745,535 sq.m. of factory space and 739,125 sq.m. of warehouse space, worth about Bt30,451 million at fair value. The trust achieved a satisfactory average OR of 79%, with an OR of 80% in factory and 79% in warehouse. The top 10 largest tenants contribute only 22% of total rental and service income.

TREIT’s rental and service income in the first three months of 2018 experienced strong growth to Bt633 million, up 388% compared with the same period last year. This increase was the result of merging three funds of the TICON Group into TREIT. However, the profitability of TREIT slightly dropped yet remained satisfactory. The operating margin (operating income before depreciation and amortization as a percentage of revenue) in the first three months of 2018 was 75%, decreasing from 87% in the first quarter of 2017. The main reason for the drop was due to the change in REIT fee structure, i.e. REIT management fee, property management fee, trustee fee, and registrar fee.

At the end of March 2018, the ratio of interest-bearing debt to total assets (LTV) was at 17%, and the total debt to capitalization ratio was around 18%, staying at the same level as the end of 2017. However, TREIT plans to spend Bt3,500 million for new asset acquisition from its sponsor with 100% 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. The funds from operations (FFO) to total debt ratio was 13.7% through the first quarter of 2018, increasing from 7.4% in 2017, as income from the new assets from the merger was fully consolidated.

As TREIT planned to spend Bt3,870 million for new asset acquisition including Bt3,500 million from its sponsor and Bt370 million from a non-sponsor by 2018. Recently, TREIT considered indefinitely postponing the investment in qualified assets from the non-sponsor. However, this event will have a negligible effect on the trust’s capability.

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 Bt3,500 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 ratings 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 ratings 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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2018	Year Ended 31 December			
		2017	2016	2015	2014
Revenue	633	588	627	408	10
Gross interest expense	39	75	74	38	1
Net income from operations	420	369	397	287	8
Funds from operations (FFO)	456	424	421	303	9
Investment in properties at fair value	30,451	30,451	7,352	7,261	4,228
Total assets	32,098	31,961	7,771	7,687	4,507
Total debts	5,540	5,540	1,819	1,819	860
Net asset value	25,602	25,468	5,747	5,601	3,433
Operating income before depreciation and amortization as % of sales	74.5	80.3	74.5	81.8	80.8
Pretax return on permanent capital (%)	2.6 *	2.3	6.3	5.6	0.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	9.3	5.5	6.0	8.1	10.2
FFO/total debt (%)	13.7 *	7.4	21.4	15.7	1.0
Total debt/capitalization (%)	18.3	18.4	25.5	25.6	20.0

Notes: All ratios have been adjusted by operating leases (such as interest and depreciation expenses).

Total debt means interest-bearing debt.

* Annualized with trailing 12 months

TICON Freehold and Leasehold Real Estate Investment Trust (TREIT)

Company Rating:	A
Issue Ratings:	
TREIT204A: Bt800 million senior unsecured debentures due 2020	A
TREIT244A: Bt1,000 million senior unsecured debentures due 2024	A
Up to Bt3,740 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

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