

Press Release

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TRIS Rating Upgrades Company & Senior Unsecured Debt Ratings of "TICON" to "A" from "A-" with "Stable" Outlook

TRIS Rating has upgraded the company rating of TICON Industrial Connection PLC (TICON) and the ratings of TICON's senior unsecured debentures to "A" from "A-" with "stable" outlook. The upgrade reflects TICON's strengthened balance sheet following a sizeable capital increase through a private placement. The ratings continue to reflect TICON's proven record in developing ready-built factories (RBFs) and warehouses for rent, plus the recurring cash flows it receives from rental contracts plus geographic diversification of its rental properties. The ratings also take into consideration the slow recovery in investment, which may reduce demand for industrial properties.

The "stable" outlook reflects the expectation that TICON will be able to maintain its leading position in the market of providing rental factories and warehouses. The company is expected to gradually increase its OR as planned. The rating upside is unlikely in the short term due to the current upgrade. However, the rating upside would emerge in the long term should the company increase its OR, and enlarge its rental income base considerably on a sustainable basis while capital structure remains healthy. A downside risk could occur if its operating performance was weaker than expectation for an extended period. Any aggressive investment, which drives the total debt to capitalization ratio significantly higher than expectation and weakens cash flow protection, is also a negative factor for TICON's credit ratings.

TICON is the leading provider of RBFs and warehouses for rent in Thailand. It was established in 1990 and listed on the Stock Exchange of Thailand (SET) in 2002. As of March 2017, the leased area managed by TICON totaled 1,839,804 square meters (sq.m.), comprising 1,170,861 sq.m., owned by the property fund and real estate investment trusts (REIT), and 668,943 sq.m., owned by TICON itself. TICON's portfolio of RBFs and warehouses is geographically diversified. The properties are located, in major industrial estates and along the main logistics routes in Thailand. TICON remained the leading provider of RBFs and warehouses in Thailand in 2016, according to CB Richard Ellis (CBRE). TICON and its affiliated property funds in the RBF industry had a combined market share of 47%, based on leased area, as of December 2016. TICON's market share still outpaced the share of the second-largest leading providers of RBFs, which had a 19% market share. In terms of warehouses for rent, TICON is one of the two main providers. TICON and its affiliated property funds/TREIT supplied about 45% of the total rentable warehouse area, as of December 2016.

In 2016, TICON added 159,585 sq.m. of leased area (before subtracting the space sold to TREIT), 88% of the total was from the warehouse segment. The leased area in TICON's warehouse segment rose by 139,910 sq.m. in 2016, compared with an average yearly increase of 140,000 sq.m. during 2010-2015. The demand for leased warehouse area in 2016 was largely driven by the healthy demand from the logistics providers in the central area and areas proximity to Bangkok. TICON's RBF area increased by 19,675 sq.m. in 2016, compared with around 22,875 sq.m. net increase in 2015. The automotive and electronics industries had been two of the major drivers of demand for the RBF space. As of March 2017, TICON added 37,155 sq.m. of leased area, 77% of the total was from the warehouse segment. TICON's occupancy rate (OR) gradually increased. The OR for all of TICON's tenants, excluding pre-leased areas, was 61% at the end of December 2016, compared with 55%-57% in 2013-2015. The higher OR was primarily due to the stronger demand for warehouse space from logistic providers and the limited sale of property to TREIT in 2016.

TICON's rental income increased, rising by 12% year-on-year (y-o-y) to Bt1,172 million in 2016 from Bt1,049 million in 2015 following the increase in net leased area. As of March 2017, the rental income rose to Bt339 million, growing by 37% y-o-y. However, TICON's had lower revenue from the asset sales to the REIT during 2016 through the first quarter of 2017. TICON's funds from operations (FFO) declined to Bt321 million in 2016, from approximately Bt1,500-Bt2,000 million in 2014-2015. TICON' FFO was Bt244 million during the first three months of 2017, higher than Bt14 million during the first three months of 2016.

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In December 2016, TICON successfully increased a Bt13,230 million paid up capital through a private placement. The private placement comprises 735 million newly-issued shares of TICON sold to Fraser Property Holding Thailand Co., Ltd. (FPHT) at an offering price of Bt18 apiece. TICON plans to use two thirds of the proceeds from the capital increase to repay outstanding debt; the balance will be reserved for capital expenditures.

FPHT is a wholly-owned subsidiary of Frasers Centrepoint Ltd. (FCL), a company controlled by the Sirivadhanabhakdi family. FCL is one of leading real estate companies in Singapore, listed on the main board of the Singapore Exchange Securities Trading Ltd. FCL's scope of business covers residential, commercial, retail, and industrial property in Singapore and Australia, as well as the hospitality business in more than 80 cities worldwide. FCL also has an international business arm that attends to FCL's investments in China, Southeast Asian nations, and the United Kingdom (UK). FCL earned revenues of S\$3,439.6 million in the 2016 fiscal year spanning October 2015 to September 2016.

After the capital increase, FPHT became the major shareholder of TICON, holding 40.0% of the company. FPHT has nominated three directors out of nine seats on TICON's board of directors. FPHT has joined the existing management team of TICON. TICON under the new major shareholder continue its business direction to develop industrial properties for rent with more focus on increasing OR of all properties. TICON expects to leverage FCL's expertise in developing built-to-suit industrial properties, enhance its competency in project management as well as to broaden its customer base with support from FCL.

TICON's capital structure strengthened significantly after a capital injection from FPHT. The total debt to capitalization ratio (lease adjusted) improved from 71.7% in 2015 and 77.2% in 2016 to 47.8% at the end of March 2017 because 45% of proceeds from the capital increase were used to repay debt. As of March 2017, TICON had available cash on hand and marketable securities totaling Bt7,127 million to support its scheduled debt repayment of Bt2,920 million in 2017 and planned capital expenditures. TICON sets a limited capital expenditures only for the construction of rental properties totaling Bt1,400 million per year in 2017-2019. With a low leverage level and limited capital spending plan, TICON has no plan to raise funds via property sales during 2017-2018. As a result, the OR and rental income are expected to rise along with increasing leased area. Under TRIS Rating's base case scenario, TICON's funds from operations (FFO) will gradually rise and range around Bt700-Bt1,200 million per annum during 2017-2019, compared with the FFO, without properties sales, of approximately Bt600 million per annum in 2014-2015 and Bt321 million in 2016. The net debt to capitalization ratio (lease adjusted) is projected to be below 40%. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio will increase to 2-3 times and the FFO to net total debt ratio will gradually improve to 10%-15% in 2017-2019.

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TICON Industrial Connection PLC (TICON)

Company Rating:

A

Issue Ratings:

TICON177A: Bt500 million senior unsecured debentures due 2017	A
TICON177B: Bt1,150 million senior unsecured debentures due 2017	A
TICON178A: Bt300 million senior unsecured debentures due 2017	A
TICON181A: Bt1,550 million senior unsecured debentures due 2018	A
TICON185A: Bt1,200 million senior unsecured debentures due 2018	A
TICON187A: Bt350 million senior unsecured debentures due 2018	A
TICON188A: Bt700 million senior unsecured debentures due 2018	A
TICON189A: Bt300 million senior unsecured debentures due 2018	A
TICON191A: Bt600 million senior unsecured debentures due 2019	A
TICON195A: Bt1,000 million senior unsecured debentures due 2019	A
TICON190A: Bt620 million senior unsecured debentures due 2019	A
TICON205A: Bt500 million senior unsecured debentures due 2020	A
TICON205B: Bt100 million senior unsecured debentures due 2020	A
TICON208A: Bt600 million senior unsecured debentures due 2020	A
TICON217A: Bt800 million senior unsecured debentures due 2021	A
TICON225A: Bt1,000 million senior unsecured debentures due 2022	A
TICON229A: Bt1,000 million senior unsecured debentures due 2022	A
TICON235A: Bt2,300 million senior unsecured debentures due 2023	A
TICON238A: Bt700 million senior unsecured debentures due 2023	A

Rating Outlook:

Stable

[TRIS Rating Co., Ltd./www.trisrating.com](http://www.trisrating.com)

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

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