

WHA INDUSTRIAL DEVELOPMENT PLC

No. 184/2021
27 October 2021

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 05/10/20

Company Rating History:

Date	Rating	Outlook/Alert
27/09/19	A-	Negative
14/11/17	A-	Stable
18/09/15	BBB+	Stable
19/11/14	A	Developing
15/11/13	A-	Positive
06/08/10	A-	Stable
11/06/09	A-	Negative
25/01/08	A-	Stable
14/09/05	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on WHA Industrial Development PLC (WHAID) at “A-” and revises the rating outlook to “stable” from “negative”. The company has requested TRIS Rating to withdraw the rating. As a result, the rating assigned to WHAID will no longer be monitored from the date of this announcement.

The rating reflects WHAID’s status as a core subsidiary of WHA Corporation PLC (WHA) according to TRIS Rating’s “Group Rating Methodology”. WHA is rated at “A-” with a “stable” outlook by TRIS Rating.

We assess WHAID’s stand-alone credit profile at an “a” level. This reflects WHAID’s relatively low financial leverage and its proven record of developing industrial estates and strong base of recurring income. WHAID earns substantial recurring income from the sale of utility services, rental income, and dividends from investments in power projects.

KEY RATING CONSIDERATIONS

Core subsidiary of WHA Group

We assess WHAID as a core subsidiary of WHA, based on its strategic importance and predominant revenue contribution to the WHA Group. WHAID and its subsidiaries cover two key businesses: industrial estates and utility services. WHA controls WHAID’s business direction and financial policies. We view WHAID’s credit profile as being directly linked to WHA’s credit profile.

In 2020, WHAID contributed 77% of WHA’s total operating revenues and 85% of WHA’s earnings before interest and tax, depreciation, and amortization (EBITDA).

Leader in industrial estate industry

WHAID is the largest industrial estate developer in Thailand, based on the total amount of industrial land sold in Thailand. WHAID’s market share hovered around 30%-66% during 2016-2020. WHAID’s market share has averaged 44% over the past 10 years. Competitors such as Amata Corporation PLC (AMATA; 30% share) and Rojana Industrial Park PLC (ROJNA; 22% share) rank as the second- and the third-largest developers in the industry.

During the recent years, WHAID has expanded into Vietnam, where its first overseas project is located in Nghe An province. WHA was granted an investment registration certificate for 498 hectares (or 3,113 rai) of land. The first phase covers 631 rai of land available for sale, of which 334 rai was the remaining sellable area at the end of June 2021. The next phase is waiting for site clearance and construction approval.

COVID-19 significantly affected land sale

Industrial land sale dropped substantially owing to travel restrictions and the economic fallout from the Coronavirus Disease 2019 (COVID-19) pandemic.

The volume of WHAID’s land sales in Thailand slipped to 218 rai in 2020 and 241 rai in the first half of 2021, compared with 800-1,000 rai per year in 2016-2019. Revenue from land sales was THB1.5 billion in 2020 and THB0.6 billion in the first half of 2021, a dip from THB 3.5 billion per year in 2019.

We expect the latest escalation of COVID-19 outbreak to have lingering impact upon WHAID's land sales in the second half of 2021, before a strong recovery in 2022 and 2023 following the easing of travel restrictions. Our base-case forecast projects WHA's land presales in Thailand of around 500 rai in 2021 before bouncing back to the pre-COVID level of 800-900 rai annually in 2022-2023. Revenue from land transfers in Thailand is projected to reach THB1.3 billion in 2021 and rise to THB2.3-THB2.9 billion per year in 2022-2023.

We view the prospects of the industrial property sector in the medium to long term to remain reasonably positive. The supply chain disruptions during the pandemic, coupled with the ongoing the United States (US)-China trade tensions will likely accelerate the relocation of production bases out of China. Countries in Southeast Asia have been the most preferred relocation choices. Additionally, WHAID is in a good position to take advantage of the next wave of foreign direct investment from its plentiful land banks of about 8,058 rai, (including land to be developed), 82% of which are in Rayong and Chonburi provinces in the Eastern Economic Corridor (EEC) area.

Favorable demand for WHAID's rental properties

Demand for WHAID's rental properties posted satisfactory growth over the past few years. WHAID's rental income increased from THB210 million in 2019 to THB290 million in 2020, before dipping slightly to THB120 million in the first half of 2021 as a result of selling sizable rental properties to Hemraj Leasehold Real Estate Investment Trust (HREIT) in late 2020. We hold the view that demand for ready-built factories and warehouses, most of which are in the EEC area, should hold up well in the medium to long term. We also expect EEC development to attract more foreign direct investment.

Reliable cash flows from utility services and power business

WHAID's strong business profile is underpinned by reliable cash flows from its utility services and power business.

Utility services are a resilient source of revenue that can partially offset fluctuations in land sales. Revenue from utility services grew steadily at a compound annual growth rate (CAGR) of 8.1% from THB1.8 billion in 2016 to THB2.3 billion in 2019, before dipping by 9.5% year-on-year (y-o-y) to THB2.0 billion in 2020 following the severe drought. However, revenue from utility services strongly rebounded, surging by 16.4% y-o-y to THB1.2 billion in the first half of 2021. The improvement was attributed to the resumption of production, that had been suspended during the height of pandemic, as well as higher demand from several plants, which had water usage curbed during the severe droughts of 2020. Additionally, there was incremental demand from two power plants, which commenced operations in the first half of 2021. Going forward, TRIS Rating views the demand for utility services will increase steadily as the economy recovers and buyers of industrial land gradually start operating, as well as the rising demand from new power plants in WHAID's industrial estates.

WHAID also receives a reliable stream of dividends from its investment in power plants. Proportionate to its equity stakes in the power plants, WHAID has a combined power generating capacity of 596 megawatts (MW). We project the company's dividend income from the power business to be THB0.9-THB1.0 billion in 2021-2023, accounting for 19%-28% of WHAID's EBITDA in 2021-2023.

Improved leverage

WHAID's leverage has improved during the past five years. The company gradually repaid its debt by using the proceeds from the initial public offering of WHA Utility and Power PLC (WHAUP), funds received from selling assets to HREIT, and inter-company loan repayment from its parent company. Adjusted debt declined to THB14.8 billion at the end of June 2021, from a peak of THB23.7 billion in 2016. The debt to capitalization ratio improved, declining to 37.8% as of June 2021, from 56.4% in 2016.

Going forward, we expect WHA's leverage to increase moderately following several investments in pipeline. We project WHAID's capital expenditures to be about THB13 billion in total during 2021-2023. The planned investments include site developments in Thailand and Vietnam, as well as investments in utility plants and power plants. Our baseline projection forecasts WHAID's EBITDA to be THB3.6-THB4.9 billion per year and funds from operations (FFO) of THB2.9-THB4.0 billion during 2021-2023. Based on the projected cash flow, debt repayments, and capital expenditures, the FFO to total debt ratio is projected to be 20%-27% during the next three years. Adjusted net debt to EBITDA is expected to hover at 3-4 times during the same period.

BASE CASE ASSUMPTIONS

- Operating revenue to decline by 15% to THB5.4 billion in 2021 and ramp up to THB7.8-THB8.0 billion in 2022-2023.
- The adjusted EBITDA margin to be 60%-67% in 2021-2023.
- Capital spending to be about THB13 billion in total in the next three years.

RATING OUTLOOK

The “stable” outlook reflects the outlook revision on WHA, according to TRIS Rating’s “Group Rating Methodology”.

RATING SENSITIVITIES

As a core subsidiary of WHA, the ratings on WHAID are linked to WHA’s credit profile. Any change in WHA’s ratings will affect WHAID’s ratings accordingly.

COMPANY OVERVIEW

Established in 1988 and listed on the Stock Exchange of Thailand (SET) in 1992, WHAID originally developed and operated an industrial estate in Chonburi province. After being acquired by WHA, WHAID was delisted from the SET in March 2016. At the end of June 2021, WHA was the major shareholder, holding 98.5% of WHAID’s shares.

In Thailand, WHAID owns 11 industrial estates, plus 3 industrial estates yet to be developed. WHAID’s industrial estates, except for WHA Saraburi Industrial Land (WHA SIL), are located in Rayong and Chonburi provinces. WHAID has approximately 855 customers in its industrial estates. Across all the estates, 32% of the customers are in the automotive industry. Apart from Thailand, WHAID initiated its first overseas project in Nghe An province in northern Vietnam, where it was granted an investment registration certificate on 498 (or 3,100 rai) of land. The first phase covers 631 rai of land available for sale. At the end of June 2021, the amount of land available for sale was 334 rai. Additionally, WHAID recently signed a memorandum of understanding with the Thanh Hoa Provincial People’s Committee for the development of two industrial zones in Thanh Hoa province in northern Vietnam, with a total gross area of 1,150 hectares. Construction expected to commence in 2023-2024.

In addition to industrial estate development, WHAID provides ready-built factories and warehouses for rent and for sale. As of June 2021, the leased areas managed by WHAID totaled 590,024 square meters (sq.m.), comprising 467,469 sq.m. owned by a property fund and a real estate investment trust (REIT), and 122,555 sq.m. owned by WHAID.

Through its subsidiary, WHAID provides utility services to clients in the industrial estates. The services include raw water, potable water, clarified water, and wastewater treatment. Additionally, the company also explores and expands its investment to tap the growing demand in neighboring countries. In 2019, the company’s subsidiary entered into a share purchase agreement to buy a 34% equity stake in a water supplier in Hanoi, Duong River Surface Water Plant JSC (SDWTP), at a cost of VND1.89 trillion (or THB2.47 billion). SDWTP was established in 2016 and became one of the main water suppliers in Hanoi, Vietnam. Recently, WHA’s subsidiary initiated an arbitration process to sell its SDTW’s shares to Aqua One Water Corporation, a major shareholder in SDTWP, as SDTWP could not deliver the amended investment certificate stated in the share purchase agreement. WHA’s management expects the arbitration process to take 12 months to conclude and this arbitration process will not impact SDTW’s normal operation.

WHAID receives an ample flow of dividends from the power projects, property funds, and an investment in HREIT. WHAID also owns stakes in several power producers under the independent power producer (IPP), small power producer (SPP), and very small power producer (VSPP) schemes.

KEY OPERATING PERFORMANCE

Table 1: WHAID's Revenue Breakdown

Unit: %

Revenue Breakdown	2016	2017	2018	2019	2020	Jan-Jun 2021
Property sales						
- Industrial land	21	55	33	55	28	27
- Sales of investment properties	54	1	26	-	20	-
- Sale of residential properties	-	-	-	-	-	-
Total sales	75	56	59	55	48	27
Recurring income						
- Rental and services	7	7	7	7	11	12
- Utility services	15	35	32	35	38	51
- Others	2	1	2	3	4	11
Total recurring income	25	44	41	45	52	73
Total revenues (%)	100	100	100	100	100	100
Total revenues (mil. THB)	11,548	5,930	6,593	6,406	5,372	2,325

Source: WHAID

Chart 1: WHAID's Industrial Land Sales



Source: WHAID

Table 2: Summary of WHAID's Investment in Power Companies

Project Name	Type	JV Partner	Location	Installed Capacities (MW)	WHAUP Portion	Equity MW	COD
Operating Phase							
Gheco-I	IPP	Coal	Glow	Map Ta Phut IE	660	35.00%	231
Glow IPP	IPP	Gas Combined Cycle	Glow	WHA CIE 1	713	5.00%	36
Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152	12.75%	19
GJP NLL	SPP	Gas Co-gen	Gulf JP	WHA RIL	123	25.01%	31
Gulf Solar	VSPP	Solar	Gulf	WHA LP 1, WHA CIE 1, WHA ESIE 1, ESIE	0.6	25.01%	0.2
WHA Gunkul	VSPP	Solar	Gunkul	Bangna and Ayudthaya	3.3	74.99%	2.5
BGWHA-1	SPP	Gas Co-gen	B Grimm	WHA CIE 1	130	25.01%	33
GVP	SPP	Gas Co-gen	Gulf MP	ESIE	137	25.01%	34
GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34
GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	134	25.01%	34
GTS3	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32
GTS4	SPP	Gas Co-gen	Gulf MP	WHA ESIE 1	130	25.01%	32
GNLL2	SPP	Gas Co-gen	Gulf MP	WHA RIL	127	25.01%	32
CCE	VSPP	Waste-to-energy	Glow & Suez	WHA CIE 1	8.6	33.33%	2.9
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center/Outside IEs	46	100.0%	46
Total					2,628		596
Development Phase							
Solar Rooftop Projects	Private PPA	Solar	100% Owned	IEs/ Logistic Center/Outside IEs	16.7	100.0%	16.7
Total					16.7		16.7

Source: WHAID

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	2,886	6,333	7,221	7,502	7,298
Earnings before interest and taxes (EBIT)	1,286	3,522	4,472	5,393	5,390
Earnings before interest, tax, depreciation, and amortization (EBITDA)	1,940	4,793	3,998	4,296	4,342
Funds from operations (FFO)	1,623	4,111	3,323	3,212	3,063
Adjusted interest expense	214	398	444	666	1,065
Capital expenditures	263	1,311	991	474	402
Total assets	46,380	46,901	47,888	49,371	48,428
Adjusted debt	14,752	14,523	15,280	14,341	17,176
Adjusted equity	24,240	24,410	25,827	27,325	24,752
Adjusted Ratios					
EBITDA margin (%)	67.22	75.68	55.36	57.27	59.49
Pretax return on permanent capital (%)	8.62	8.30	10.24	12.25	12.26
EBITDA interest coverage (times)	9.07	12.03	9.01	6.45	4.08
Debt to EBITDA (times)	3.33	3.03	3.82	3.34	3.96
FFO to debt (%)	24.93	28.30	21.75	22.40	17.83
Debt to capitalization (%)	37.83	37.30	37.17	34.42	40.97

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

WHA Industrial Development PLC (WHAID)

Company Rating:	A-
Rating Outlook:	Stable

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