

PROSPECT LOGISTICS AND INDUSTRIAL FREEHOLD AND LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 154/2024
13 September 2024

CORPORATES

Issuer Rating: BBB-
Outlook: Stable

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RATIONALE

TRIS Rating assigns a “BBB-” issuer rating to Prospect Logistics and Industrial Freehold and Leasehold Real Estate Investment Trust (PROSPECT or “trust”) with a “stable” rating outlook.

The rating reflects the trust’s modest scale and concentrated assets portfolio, and an anticipated increase in financial leverage due to portfolio expansion. Additionally, the rating incorporates the prospect of intensifying competition and a potential slowdown in the local and global economy, which are likely to put pressure on the occupancy and rental rates of industrial properties. However, the rating is supported by the trust’s currently satisfactory occupancy levels, stable cash flow, and low financial leverage. The rating further takes into consideration potential revenue and earnings growth prospect from new asset acquisitions, supported by its sponsor, Prospect Development Co., Ltd (PD).

KEY RATING CONSIDERATIONS

Modest scale, but growth likely in the next 1-2 years

PROSPECT’s revenues and asset size are considered modest compared with its higher-rated peers. As of June 2024, the trust held properties worth THB5.1 billion. In 2023, PROSPECT’s total revenues reached THB0.6 billion with an EBITDA margin of around 73%, aligning with the industry average.

Looking forward, PROSPECT plans to acquire new assets from its sponsor in 2025 and 2026. With the acquisitions, the trust’s investment properties are forecast to exceed THB10 billion in value from 2025 onwards. We project the trust’s total revenue to increase from around THB0.6 billion in 2024 to THB1.0-THB1.1 billion per annum during 2025-2026. EBITDA is expected to hit THB0.4 billion this year and rise to THB0.7-THB0.8 billion per annum in 2025-2026, with an EBITDA margin in the 73%-76% range during 2024-2026.

Concentrated portfolio

PROSPECT’s portfolio is concentrated in terms of locations, tenants, and lease tenures. With all the properties situated in Samut Prakarn province, the top-ten tenants accounted for 40% of total occupied area and contributed 38% of rental and service income in the first half of 2024 (1H24). Thus, any contract terminations or downsizing of the leased area by major tenants could significantly impact the trust’s operating results.

In addition, PROSPECT’s assets are mainly ready-built warehouses and factories with lease terms of around three years, exposing the trust to lease renewal risks. As of June 2024, 15% of existing contracts by occupied area will expire in 2024, 23% in 2025, 37% in 2026, and the rest thereafter. However, this risk is partially mitigated by the strategic locations of the properties and the high proportion of factory usage which has high renewal rates. The renewal rate of its assets has been in the 71%-91% range from 2020 through 1H24.

Leverage on the rise, but remains low

PROSPECT’s financial leverage has gradually increased over the past few years but is still considered low. New debt-funded acquisitions caused the trust’s adjusted net debt to EBITDA ratio to rise to 3.4-3.6 times in 2023-1H24, up from 2.5-2.6 times in 2021-2022. Consequently, the EBITDA interest coverage ratio declined to 4.3-4.8 times in 2023-1H24 from 7.6-7.7 times in 2021-2022.

Looking forward, we expect PROSPECT's financial leverage to rise further given its plan to acquire new assets worth approximately THB6.8 billion in 2025-2026. The trust expects to fund the acquisitions using a mix of new equity and debt. Consequently, the loan (excluding lease liabilities) to total asset (LTV) ratio is expected to increase to 36%-38% in 2025-2026, from 30% as of June 2024. The trust's adjusted net debt to EBITDA ratio is projected to increase from 3.3 times in 2024 to around 5 times in 2025, while its EBITDA interest coverage ratio will likely stay at 4.2 times in 2024 before deteriorating to 3.5-4.0 times in 2025-2026.

Heightened competition amid the slowdown in investment may pressure rental rates

PROSPECT's ability to increase rental rates while maintaining high levels of occupancy could come under pressure due to the economic slowdown, both locally and globally. Over the past few years, demand has been supported by growing private consumption and the continuing surge in e-commerce sales. However, heightened competition from both existing and new players could negatively affect both occupancy and rental rates. This competitive pressure is likely to be more pronounced in the warehouse segment, with more new supply expected to enter the market.

Looking ahead, we expect the average rental rate of the trust's factory and warehouse space to remain flat during 2024-2026. The rental rate for factories is expected to edge up marginally, driven by increasing demand in several strategic locations where supply is limited. In contrast, the rental rate for warehouses could face downward pressure due to increased competition and a potential oversupply. Despite these challenges, PROSPECT's strategic locations should provide some resilience against market fluctuations.

Satisfactory occupancy rates

TRIS Rating expects PROSPECT to maintain a satisfactory average occupancy rate (OR) of around 90% during 2024-2026. The OR has remained above 90% since 2020, except for a dip to 85% in 1H23 after acquiring new assets with an OR of 56% in March 2023. The property manager was able to fill vacancies, causing the OR to rebound to over 90% in the third quarter of 2023. As of June 2024, the average OR was 95%.

PROSPECT's high occupancy is supported by the strategic location and quality of its assets and services. The trust's properties include three "Bangkok Free Trade Zone" (BFTZ) projects on Bangna-Trad Km. 23 Road (BFTZ 1), Theparak Road (BFTZ 2), and Bangna-Trad Km. 19 Road (BFTZ3) and one built-to-suit factory and office building (x44) on Bangna Km.18 in Samut Prakarn province. As 63% of the trust's investment properties are located in free trade zones, PROSPECT has received positive responses from import- and export-oriented tenants.

Adequate liquidity

We assess PROSPECT's liquidity as adequate for the next 12 months. As of June 2024, the trust's sources of liquidity included cash on hand and investments in money market funds of THB230 million. We forecast funds from operations (FFO) to remain around THB400 million in 2024. PROSPECT's uses of funds include debt repayment of THB35 million and a dividend payment of at least 90% of adjusted net investment income.

Financial covenants on PROSPECT's bank loans require the trust to maintain an LTV ratio below 35% and a reported interest-bearing debt to EBITDA ratio below 4 times. At the end of 2023, the ratios were 30% and 3.97 times, respectively. We expect PROSPECT to manage its financial position carefully to remain in compliance with the covenants over the next 12 months.

Debt structure

As of June 2024, PROSPECT's consolidated debt, excluding lease liability, was THB1.6 billion. All debts were secured long-term bank loans, pledged by some assets of the trust. The ratio of secured debt to fair value of total assets was 30%, below the threshold of 35% according to TRIS Rating's "Rating Methodology for Real Estate for Rent Companies".

BASE-CASE ASSUMPTIONS

Here are our key base-case assumptions for PROSPECT's operations in 2024-2026:

- OR to hover around 90%
- Flat growth in rental rates
- EBITDA margin in the 73%-76% range
- Budget for new asset acquisitions of THB6.8 billion in 2025-2026

RATING OUTLOOK

The “stable” outlook reflects our expectation that PROSPECT will be able to deliver operating performance as targeted with an average OR of around 90% and an EBITDA margin above 70% over the next three years. In addition, we expect the trust will remain in compliance with its financial covenants.

RATING SENSITIVITIES

The ratings and/or outlook on PROSPECT could be revised downward if larger-than-anticipated debt-funded acquisitions cause the trust at risk of breaching financial covenants. Conversely, a credit upside scenario could emerge if the trust can enlarge its revenue and earnings base as targeted while its financial profile does not significantly deteriorate from the current level.

TRUST OVERVIEW

PROSPECT was established on 14 August 2020 and listed on the Stock Exchange of Thailand (SET) on 20 August 2020, with registered capital of THB2.4 billion. The real estate investment trust (REIT) manager of the trust is Prospect REIT Manager Co., Ltd. (PRM) which is wholly owned by PD, the property manager and main sponsor of the trust. As of June 2024, PD was PROSPECT’s largest unitholder, owning a 30.8% stake.

PROSPECT’s property portfolio has expanded continually from THB3.7 billion at its inception to THB5.4 billion as of June 2024. Its leasable area increased from 219,116 square meters (sq.m.) to 292,332 sq.m. over the same period. At the end of June 2024, it owned and managed warehouses and factories in three “Bangkok Free Trade Zone” (BFTZ) projects located on Bangna-Trad Km. 23 Road (BFTZ 1), Theparak Road (BFTZ 2), and Bangna-Trad Km. 19 Road (BFTZ3) and one factory and office building (built-to-suit) (x44) on Bangna Km.18 in Samut Prakarn province. Around 82% of the investment properties are leasehold while the remainder are freehold. The average OR as of June 2024 was 95%.

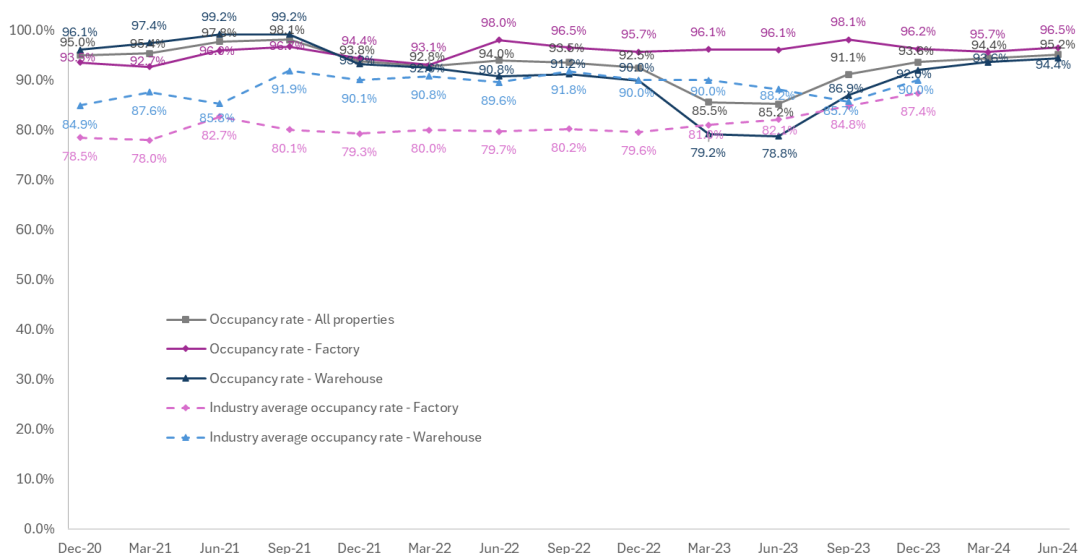
KEY OPERATING PERFORMANCE

Chart 1: Details of Assets

Project	Location	Leasehold	Lease Remaining (Yrs)	Total NLA (Sq.m.)	Free zone (S.m.)	General zone (Sq.m.)
BFTZ1	Bangna-Trad Km.23	Leasehold	15	219,116	134,417	84,699
X44	Bangna-Trad Km.18	Freehold		3,087		3,087
BFTZ2	Theparak Rd.	Leasehold	26	20,996		20,996
BFTZ3	Bangna-Trad Km.19	Freehold		49,133	49,133	
Total				292,332	183,550	108,782

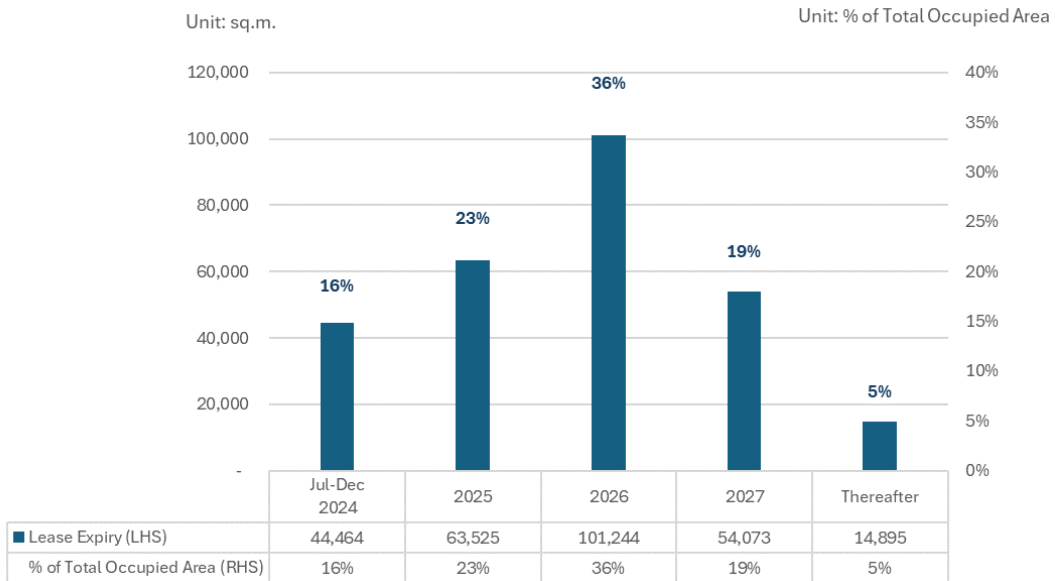
Source: PROSPECT

Chart 2: Occupancy Rate



Sources: PROSPECT and CB Richard Ellis (CBRE)

Chart 3: Lease Expiry



Source: PROSPECT

Chart 4: Peer Comparison

Issuer	Rating/Outlook	Total Assets (THB Mil)	Total NLA (Sq.m.)	Total Revenues (THB Mil)
FTREIT	A/ Stable	50,363	2,266,430	3,776
WHART	A/ Stable	55,132	1,886,642	3,372
WHAIR	BBB+/ Stable	13,122	428,818	870
PROSPECT	BBB-/ Stable	5,399	292,332	567

Sources: PROSPECT, FTREIT, WHART, and WHAIR

Note: Total revenues for fiscal year 2023, total assets and total NLA as of June 2024

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-June 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	297	567	445	443	152
Earnings before interest and taxes (EBIT)	215	414	328	338	116
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	215	414	328	338	116
Funds from operations (FFO)	165	328	285	294	99
Adjusted interest expense	50	87	43	44	16
Investments in properties and leasehold rights over Properties at fair value	0	5,120	3,349	3,344	3,429
Total assets	5,399	5,419	3,538	3,624	3,706
Adjusted debt	1,500	1,507	853	831	833
Adjusted equity	3,481	3,486	2,373	2,395	2,465
Adjusted Ratios					
EBITDA margin (%)	72.4	73.1	73.7	76.3	76.0
Pretax return on permanent capital (%)	8.5 **	9.7	9.7	9.8	3.3
EBITDA interest coverage (times)	4.3	4.8	7.6	7.7	7.1
Debt to EBITDA (times)	3.4 **	3.6	2.6	2.5	7.2
FFO to debt (%)	22.7 **	21.8	33.4	35.4	11.9
Debt to capitalization (%)	30.1	30.2	26.5	25.7	25.3

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021

Prospect Logistics and Industrial Freehold and Leasehold Real Estate Investment Trust (PROSPECT)

Issuer Rating:	BBB-
Rating Outlook:	Stable

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