



Press Release

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TRIS Rating Assigns "A-/Positive" Rating to Senior Debt Worth Up to Bt2,500 Million of "HEMRAJ"

TRIS Rating has assigned the rating of "A-" to the proposed issue of up to Bt2,500 million in senior debentures of Hemaraj Land and Development PLC (HEMRAJ). At the same time, TRIS Rating has affirmed the company and existing senior debenture ratings of HEMRAJ at "A-". The outlook remains "Positive". The proceeds from the new debentures will be mainly used for business expansion. The ratings continue to reflect company's proven record in industrial estate development and its healthy profitability. These strengths are offset in part by the volatile nature of the industrial property market. The current slowdown in the Thai economy and the prolonged political unrest are rating concerns. The "positive" outlook reflects the recent improvement in HEMRAJ's business profile and growing proportion of recurring income. The ratings could be upgraded if the company is able to maintain business and financial strength amidst the uncertainties of land sales. The prolonged political stalemate and ongoing expansions, which result in deterioration in the company's financial profile, could cause its ratings or outlook to be revised downward.

HEMRAJ is one of the leading industrial estate developers in Thailand. It was established in 1988 and listed on the Stock Exchange of Thailand (SET) in 1992. As of March 2014, the Horrungruang family held 15.01% of HEMRAJ's shares. In addition to selling industrial land and utilities services, the company has made investments in several electricity generating projects. During 2011-2013, property sales accounted for 60%-70% of the company's total revenue. Recurring income, mainly from utilities services and rental income, comprised about 30%-40% of total revenue.

HEMRAJ owns and operates seven industrial estates in Thailand. Its estates are located in Rayong, Chonburi, and Saraburi provinces with a total gross area of 40,624 rai. Of the 615 customers in HEMRAJ's estates as of December 2013, 35% were in the automotive industry and 14% were in consumer industry. HEMRAJ had 8,665 rai of land available for sales, as of December 2013. Of the total saleable area, 72% of the remaining salable area was located in Rayong province.

HEMRAJ's land sales in 2013 remained healthy. The company sold 2,200 rai of industrial land, down slightly from the record sales of 2,317 rai in 2012. The major driver for the impressive land sales was an expansion in the auto industry. According to CB Richard Ellis report, total industrial land sales in Thailand declined to normal level of 4,746 rai in 2013, compared with an abnormally high level of 10,871 rai in 2012. HEMRAJ's average market share, in terms of land sold, was 26% of total industrial land sold in Thailand during 2008-2012 while the top seller accounted for 27% of land sold during the same period. In 2013, HEMRAJ was marked as the top seller of industrial land sales with sales of 2,200 rai, representing 46% of total land sales in the period.

HEMRAJ's recurring income continued rising. Income from the sales of utilities services and other service fees for 2013 were Bt2,579 million, up by 18.9% from the 2012 level. The rise was due to rising demand from existing customers and more new customers in HEMRAJ's estates. Utility sales, which typically accounts for 60%-67% of total recurring income, increased by 12.8% in 2013 to Bt1,569 million. The ready-built factory (RBF) and warehouse for rent segment, which made up about one-fourth of total recurring income, also showed an impressive performance. The expansion of warehouses for rent helped accelerate the growth of rental portfolio. In 2013, total rented area increased by 116,884 square meters (sq.m.), an increase of 46.3% from the end of 2012. The increase comprised 61,559 sq.m. of additional rented area from RBF space and 55,325 sq.m. of warehouses space for rent. The surge in rented area drove rental income higher by 65.5% to Bt718 million in 2013.

In 2013, HEMRAJ's total revenue jumped by 37.0% to Bt8,770 million, from Bt6,399 million in 2012. Earnings before interest, tax, depreciation, and amortization (EBITDA) rose by 34.9% to Bt4,334 million in 2013. The sharp increase in EBITDA was the result of the robust industrial land sold and transferred to customers in 2013, as well as continuing growth in recurring income. HEMRAJ also benefited from the rising prices of land in flood-free areas after the massive flood in Thailand in late 2011. The gross margin of HEMRAJ's industrial land sales rose to 48% in 2013, compared with a normal level of 42%-44%. Operating income before depreciation and amortization, as percentage of total sales, rose to 40.3% in 2013, from 29%-38% in 2009-2012. The start-up of GHECO-One Co., Ltd. (GHECO-One), HEMRAJ's joint-venture power project, in the third quarter of 2012, was another factor boosting HEMRAJ's EBITDA in

(Continue on page 2)

2013. GHECO-One contributed equity income of Bt865 million in 2013, excluding an unrealized loss from foreign exchange of Bt297 million. The EBITDA from sale of utility services plus income HEMRAJ earned from its investments in power projects made up about 40% of total EBITDA in 2013. The EBITDA interest coverage ratio was strong at 6.3 times in 2013. The funds from operation (FFO) to total debt ratio was healthy at 19.4% in 2013.

Successful sales of assets to a property fund in 2013 helped keep HEMRAJ's leverage under control. In December 2013, HEMRAJ sold and leased a total of 150,117 sq.m. of RBF to a property fund for Bt4,700 million. HEMRAJ recorded a gain of Bt2,233 million from the property sales, net of a provision for the minimum rental guarantee to the fund. The net cash received of Bt3,613 million from the property sales and good operating performances resulted in moderate leverage level with an ample cash balance of Bt4,780 million even though HEMRAJ made considerable investments during the year. The total debt to capitalization ratio was at 48.7% at the end of 2013 from 49.2% in 2012.

In the short term, the demand for industrial land is weakening. Manufacturing activity, which underpinned the recent jump in industrial land sales, has slowed. The industrial capacity utilization rate (seasonally adjusted) of manufacturers in Thailand in the first two months of 2014 declined to 61.5%, compared with 66.7% in the first quarter of 2013. In addition, the political unrest and an economic slowdown will lead buyers to delay industrial land purchases. In the long term, TRIS Rating believes prospects for investment in Thailand remain intact. Thailand remains an attractive location as a manufacturing base for a number of industries, especially the auto industry, which requires an established supply chain. Thailand is appealing to foreign investors because of investment promotion incentives and good infrastructure, together with Thailand's desirable geographic location. HEMRAJ is expected to weather the current challenges facing the industry owing to its healthier income structure, sales backlog and plenty of cash on hand. However, if the political conflict is prolonged by more than one year, the appeal of Thailand as an investment destination would weaken and subsequently depress industrial land sales.

Hemaraj Land and Development PLC (HEMRAJ)

Company Rating:

A-

Issue Ratings:

HEMRAJ160A: Bt1,500 million senior debentures due 2016

A-

HEMRAJ217A: Bt2,000 million senior debentures due 2021

A-

HEMRAJ231A: Bt2,500 million senior debentures due 2023

A-

Up to Bt2,500 million senior debentures due within 2024

A-

Rating Outlook:

Positive

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