

# Thailand Company Guide

## Ticon Freehold and Leasehold Real Estate Investment Trust

Version 2 | Bloomberg: TREIT TB | Reuters: TREITu.BK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Jun 2018

### BUY

Last Traded Price ( 12 Jun 2018): Bt11.30 (SET : 1,727.29)

Price Target 12-mth: Bt12.90 (14% upside) (Prev Bt11.90)

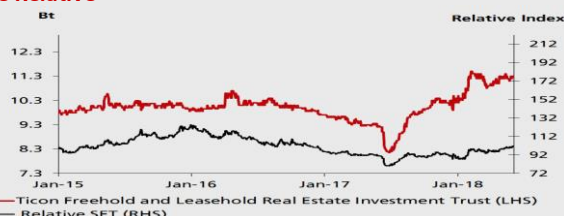
#### Analyst

Wasu MATTANAPOTCHANART +66 2857 7826 wasum@th.dbs.com

### What's New

- New assets from TICON to start contributing in 4Q18
- Converting 63k sqm of leasable area to freehold
- Raise FY19F net investment income by 8%
- Maintain BUY; more asset purchases to come

#### Price Relative



#### Forecasts and Valuation

FY Dec (Btm)	2016A	2017A	2018F	2019F
Gross Revenue	563	587	2,399	2,708
Net Property Inc	448	512	2,187	2,472
Total Return	563	587	2,399	2,708
Distribution Inc	412	385	1,861	2,082
EPU (Bt)	0.86	0.40	0.70	0.79
EPU Gth (%)	86	(54)	76	12
DPU (Bt)	0.67	0.63	0.68	0.76
DPU Gth (%)	(13)	(6)	8	12
NAV per shr (Bt)	10.1	9.79	9.93	9.96
PE (X)	13.1	28.2	16.1	14.3
Distribution Yield (%)	5.9	5.6	6.0	6.8
P/NAV (x)	1.1	1.2	1.1	1.1
Aggregate Leverage (%)	23.4	17.3	25.9	25.8
ROAE (%)	8.6	1.5	7.1	7.9

Distn. Inc Chng (%): 0 8  
 Consensus DPU (Bt): 0.70 0.72  
 Other Broker Recs: B: 1 S: 0 H: 1

Source of all data on this page: Company, DBSVTH, Bloomberg Finance L.P

### Buying new assets and converting old ones

**New transactions add Bt1 to our TP.** The new assets from TICON (purchase price = Bt3.3bn) and asset conversion to freehold (Bt255m) will be financed by debt. The new assets lead us to raise FY19F net investment income by 8% and the inclusion of the two transactions bumps up our TP from Bt11.90 to Bt12.90. We maintain our BUY call on TREIT, expecting even more asset purchases next year.

**New assets from TICON and some asset conversions.** The new assets from TICON are worth a combined Bt3.3bn (150k sqm of leasable area). TREIT is also converting 63k sqm of leasable area to freehold. The status conversion (Bt255m) together with asset purchases will cost TREIT Bt3.6bn, which will be completely financed by debt. After the transaction, we expect TREIT's cost of debt to remain below 3.5%.

**Raise FY19F net investment income by 8%.** We expect the new assets to generate revenue in Nov 2018, and we raise FY19F earnings by 8%. Thanks to the new assets, TICON's yield is expected to rise from 6.0% to 6.8% in 2019.

#### Valuation:

The inclusion of new assets and the conversion from leasehold to freehold results in an upward revision of our TP from Bt11.90 to Bt12.90, based on 6.3% WACC, actual leasehold lives and 2% terminal growth rate for freehold assets.

#### Key Risks to Our View:

Slowdown in FDI which could lead to stagnant or declining occupancy rates (ORs).

#### At A Glance

Issued Capital (m shrs)	2,602
Mkt. Cap (Btm/US\$m)	29,407 / 918
Major Shareholders (%)	
Social Security Office	24.0
Ticon Industrial Connection	13.5
Bangkok Life Assurance	7.1
Free Float (%)	81.2
3m Avg. Daily Val (US\$m)	0.40

ICB Industry : Financials / Real Estate Investment Trust

## Ticon Freehold and Leasehold Real Estate Investment Trust

### WHAT'S NEW

#### New assets and status conversion add Bt1 to our TP

**New assets from TICON to come in 4Q18:** TREIT is in the process of buying new assets worth a combined Bt3.3bn (150k sqm of leasable area). The new assets comprise 17 factories (40k sqm) and 41 warehouses (110k sqm) in Chonburi, Prachinburi, Samutprakarn, Ayutthaya and Pathumthani; 50k sqm of warehouse will be under a 30-year leasehold term, and the rest of the area will be freehold assets. We now forecast that the new assets will start contributing revenue in Nov 2018.

**Converting 63k sqm of leasable area to freehold:** TREIT is also planning to convert 63k sqm of leasable area (43k factories and 20k warehouse) in Amata Nakhon – Chonburi from leasehold to freehold assets. The status conversion will cost TREIT Bt255m. As a result, the asset purchases and the conversion will cost TREIT Bt3.6bn.

**Raise FY19F net investment income by 8%:** We expect the new assets to generate revenue in Nov 2018, and we raise FY19F earnings by 8%. Thanks to the new assets, TICON's yield is expected to rise from 6.0% to 6.8% in 2019.

**Maintain BUY with higher TP; more asset purchases to come next year:** The inclusion of new assets and the conversion from leasehold to freehold results in an upward revision of our DCF-based TP from Bt11.90 to Bt12.90, which is in line with the range of Bt12.60-13.10 mentioned in our previous report's scenario analysis. TREIT is also in talks for more asset purchases both in Thailand and abroad next year. Frasers Property Holding, which holds 40% of TICON, is priming TREIT to become a leading industrial REIT in emerging markets while Frasers' REITs will be the leaders in the developed markets.

#### Details of new assets

	Price	Asset Type	Leasable Area (sqm)
Asset from TICON	Bt3.3bn	Warehouse	110k
		Factory	40k
		<b>Total</b>	<b>150k</b>
		Freehold	100k
		Leasehold	50k
Conversion to freehold	Bt255m	<b>Total</b>	<b>150k</b>
		Warehouse	20k
		Factory	43k
		<b>Total</b>	<b>63k</b>

Source of all data: Company, DBSVTH

#### Portfolio breakdown

	Now (sqm)	%	After asset purchase (sqm)	%
Ayuthaya, Pathumthani	385,990	26%	411,990	25%
Samut Prakarn and Prachinburi	178,722	12%	247,722	15%
EEC	918,898	62%	974,898	60%
<b>Total</b>	<b>1,483,610</b>	<b>100%</b>	<b>1,634,610</b>	<b>100%</b>
	Now	%	After asset purchase	%
Leasehold	459,919	31%	446,919	27%
Freehold	1,023,691	69%	1,187,691	73%
<b>Total</b>	<b>1,483,610</b>	<b>100%</b>	<b>1,634,610</b>	<b>100%</b>
	Now		After asset purchase	
Warehouse	739,125	50%	849,125	57%
Factory	744,485	50%	785,485	53%
<b>Total</b>	<b>1,483,610</b>	<b>100%</b>	<b>1,634,610</b>	<b>100%</b>

Source of all data: Company, DBSVTH

## Ticon Freehold and Leasehold Real Estate Investment Trust

### CRITICAL DATA POINTS TO WATCH

#### Critical Factors

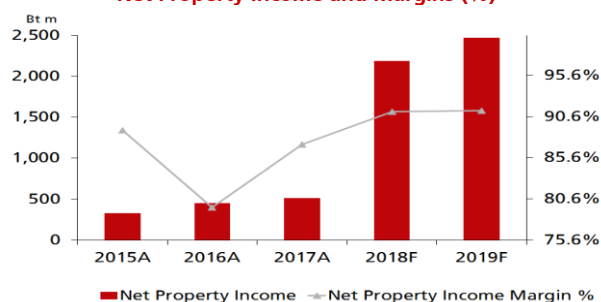
**Four funds just finished merging in Dec 2017.** Three property funds – Ticon Property Fund (TFUND), Ticon Industrial Growth Leasehold Property Fund (TGROWTH) and Tpark Logistics Property Fund (TLOGIS) – converted into a REIT by merging with TREIT. TREIT issued 2,036m shares and borrow Bt3.5bn to purchase the three property funds. The purchase was completed in Dec 2017, allowing the funds to qualify for a waiver of conversion-related fees such as registration fees, stamp duty, VAT and special business tax.

**Planning to buy new assets every year.** Fraser is positioning TREIT to be a leader in the ownership of industrial assets in Southeast Asia, and TREIT plans to buy new assets (100-150k of leasable area) every year. It is currently in talks with assets owners in Thailand and overseas. It is also open for investments in both TICON-owned and third-party assets. High-tech industry is of particular interest because it has a long lease term (>10 years).

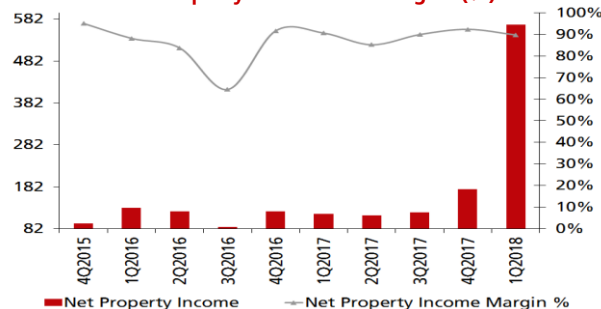
**Potential change in tenant mix.** Given the longer rental period, TICON, which holds 21.3% of TREIT, plans to develop more built-to-suit assets in the future. As a result, we could see more built-to-suit warehouses and factories in TREIT in the future.

**Room for improvement in occupancy rate.** TREIT's occupancy rate (OR) is now 79%. With the implementation of the EEC act, we expect the OR to gradually rise until it hits the plateau of 86% in 2022.

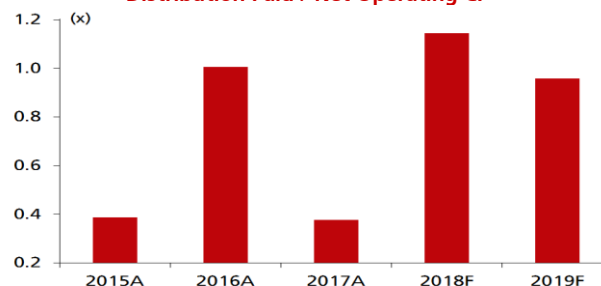
**Net Property Income and Margins (%)**



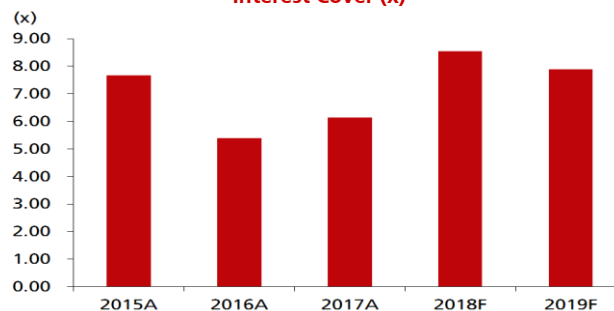
**Net Property Income and Margins (%)**



**Distribution Paid / Net Operating CF**



**Interest Cover (x)**



Source: Company, DBSVTH

## Ticon Freehold and Leasehold Real Estate Investment Trust

### Balance Sheet:

The debt-to-asset ratio has fallen from 23% to 17% in 2017 as the four funds merged to become TREIT. TREIT plans to issue another Bt3.6bn of bonds to buy new assets. This should lead to 26% leverage ratio by the end of FY18F.

### Share Price Drivers:

Improving ORs, attractive yields of new assets and any surge in FDI.

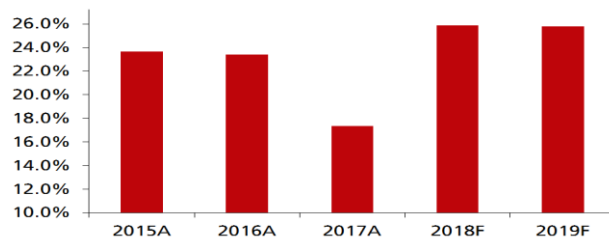
### Key Risks:

Slowdown in FDI which could lead to stagnant or declining ORs.

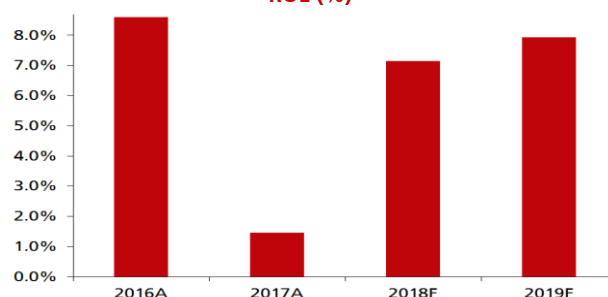
### Company Background

Ticon Freehold and Leasehold Real Estate Investment Trust (TREIT) owns 490 units of warehouses and factories with a combined leasable area of 1.5m sqm (31% leasehold and 69% freehold). With c.Bt25.5bn net asset value, TREIT is the largest industrial REIT in Thailand. TREIT is a combination of three property funds (TFUND, TGROWTH and TLOGIS) and one REIT (the old TREIT), and its portfolio is quite diversified with the top ten tenants accounting for 22% of total income. Around 60% of its leasable area is in the tax-privileged EEC area.

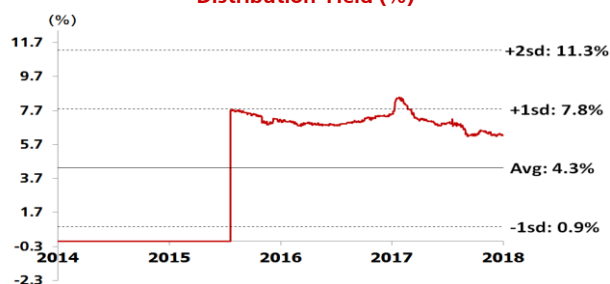
### Aggregate Leverage (%)



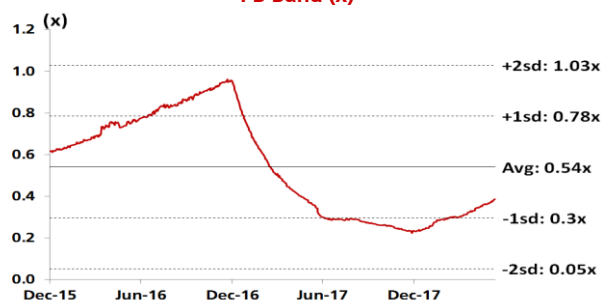
### ROE (%)



### Distribution Yield (%)



### PB Band (x)



Source: Company, DBSVTH

## Ticon Freehold and Leasehold Real Estate Investment Trust

### Segmental Breakdown

FY Dec	2017A	2018F	2019F
<b>Revenues (Btm)</b>			
Warehouse	N/A	1,072	1,272
Factory	N/A	1,327	1,436
<b>Total</b>	<b>587</b>	<b>2,399</b>	<b>2,708</b>
<b>Leasable area (sqm)</b>			
Warehouse	739,125	752,317	843,125
Factory	744,485	762,543	785,485
<b>Total</b>	<b>1,483,610</b>	<b>1,514,860</b>	<b>1,634,610</b>
<b>OR (%)</b>			
Warehouse	76.5	78.6	82.0
Factory	81.3	80.1	81.8
<b>Total</b>	<b>78.6</b>	<b>79.0</b>	<b>80.2</b>

### Income Statement (Btm)

FY Dec	2015A	2016A	2017A	2018F	2019F
Gross revenue	366	563	587	2,399	2,708
Property expenses	(40.6)	(115)	(75.3)	(212)	(236)
<b>Net Property Income</b>	<b>326</b>	<b>448</b>	<b>512</b>	<b>2,187</b>	<b>2,472</b>
Other Operating expenses	(50.1)	(69.3)	(76.1)	(113)	(122)
Other Non Opg (Exp)/Inc	47.0	88.8	4.12	0.0	0.0
Net Interest (Exp)/Inc	(35.9)	(70.3)	(71.1)	(243)	(298)
Exceptional Gain/(Loss)	(126)	90.9	(142)	0.0	0.0
<b>Net Income</b>	<b>160</b>	<b>488</b>	<b>227</b>	<b>1,832</b>	<b>2,052</b>
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>160</b>	<b>488</b>	<b>227</b>	<b>1,832</b>	<b>2,052</b>
Total Return	366	563	587	2,399	2,708
Non-tax deductible Items	0.0	0.0	0.0	0.0	0.0
Net Inc available for Dist.	299	412	385	1,861	2,082
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	N/A	53.8	4.3	308.4	12.9
N Property Inc Gth (%)	nm	37.6	14.3	327.0	13.0
Net Inc Gth (%)	nm	204.5	(53.5)	707.4	12.0
Dist. Payout Ratio (%)	88.7	92.1	105.0	97.0	97.0
Net Prop Inc Margins (%)	88.9	79.5	87.2	91.2	91.3
Net Income Margins (%)	43.8	86.7	38.6	76.3	75.8
Dist to revenue (%)	72.5	67.5	68.7	75.3	74.6
Managers & Trustee's fees	(49.2)	1.8	12.9	4.7	4.5
ROAE (%)	N/A	8.6	1.5	7.1	7.9
ROA (%)	N/A	6.3	1.1	5.4	5.8
ROCE (%)	N/A	5.1	2.3	6.3	6.7
Int. Cover (x)	7.7	5.4	6.1	8.5	7.9

Source: Company, DBSVTH

## Ticon Freehold and Leasehold Real Estate Investment Trust

### Quarterly / Interim Income Statement (Btm)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Gross revenue	129	133	134	191	633
Property expenses	(12.1)	(19.7)	(13.5)	(14.5)	(64.8)
Net Property Income	117	114	121	176	568
Other Operating expenses	(14.6)	(14.8)	(14.8)	(31.8)	(109)
Other Non Opg (Exp)/Inc	0.52	3.60	0.0	0.0	3.99
Net Interest (Exp)/Inc	(17.4)	(15.9)	(15.7)	(22.1)	(36.6)
Exceptional Gain/(Loss)	0.0	(49.5)	0.0	(142)	0.0
<b>Net Income</b>	<b>85.5</b>	<b>37.1</b>	<b>90.3</b>	<b>(20.1)</b>	<b>427</b>
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>85.5</b>	<b>37.1</b>	<b>90.3</b>	<b>(20.1)</b>	<b>427</b>

### Growth & Ratio

Revenue Gth (%)	(4)	3	1	42	232
N Property Inc Gth (%)	(5)	(3)	6	46	223
Net Inc Gth (%)	(18)	(57)	144	(122)	(2,228)
Net Prop Inc Margin (%)	90.6	85.2	89.9	92.4	89.8
Dist. Payout Ratio (%)	N/A	N/A	N/A	N/A	N/A

### Balance Sheet (Btm)

FY Dec	2015A	2016A	2017A	2018F	2019F
Investment Properties	7,261	7,352	30,451	34,051	34,051
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash & ST Invt	362	363	1,398	1,186	1,273
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	0.0	0.0	0.0	0.0	0.0
Other Current Assets	64.2	56.4	113	113	113
<b>Total Assets</b>	<b>7,687</b>	<b>7,771</b>	<b>31,961</b>	<b>35,350</b>	<b>35,436</b>
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	53.2	6.17	18.5	18.5	18.5
Other Current Liab	214	199	935	347	347
LT Debt	1,819	1,819	5,540	9,140	9,140
Other LT Liabilities	0.0	0.0	0.0	0.0	0.0
Unit holders' funds	5,601	5,747	25,468	25,845	25,931
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>7,687</b>	<b>7,771</b>	<b>31,961</b>	<b>35,350</b>	<b>35,436</b>
Non-Cash Wkg. Capital	(203)	(149)	(840)	(252)	(252)
Net Cash/(Debt)	(1,457)	(1,456)	(4,142)	(7,954)	(7,867)
<b>Ratio</b>					
Current Ratio (x)	1.6	2.0	1.6	3.6	3.8
Quick Ratio (x)	1.4	1.8	1.5	3.3	3.5
Aggregate Leverage (%)	23.7	23.4	17.3	25.9	25.8
Z-Score (X)	1.4	2.3	0.7	0.7	3.3

Source: Company, DBSVTH

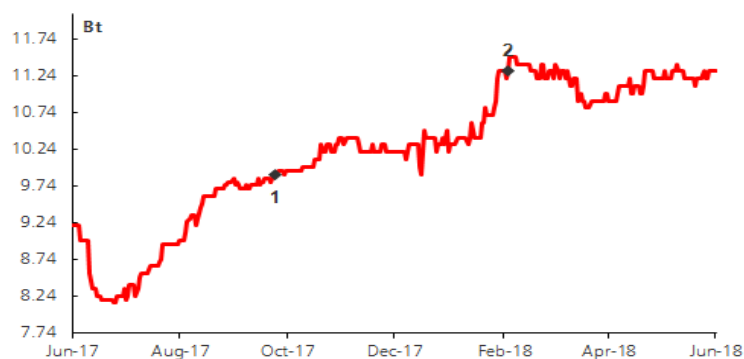
## Ticon Freehold and Leasehold Real Estate Investment Trust

### Cash Flow Statement (Btm)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Income	160	488	227	1,832	2,052
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(4.8)	(56.6)	655	(561)	0.0
Other Operating CF	127	(90.9)	142	0.0	0.0
<b>Net Operating CF</b>	<b>282</b>	<b>341</b>	<b>1,025</b>	<b>1,271</b>	<b>2,052</b>
Net Invnt in Properties	(3,159)	0.0	(3,360)	(3,600)	0.0
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(310)	39.7	129	0.0	0.0
<b>Net Investing CF</b>	<b>(3,470)</b>	<b>39.7</b>	<b>(3,231)</b>	<b>(3,600)</b>	<b>0.0</b>
Distribution Paid	(109)	(342)	(387)	(1,455)	(1,966)
Chg in Gross Debt	959	0.0	3,721	3,600	0.0
New units issued	2,117	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>2,967</b>	<b>(342)</b>	<b>3,334</b>	<b>2,145</b>	<b>(1,966)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(220)	37.8	1,127	(184)	86.4
Operating CFPS (Bt)	0.83	0.70	0.65	0.70	0.79
Free CFPS (Bt)	(8.3)	0.60	(4.1)	(0.9)	0.79

Source: Company, DBSVTH

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Oct 17	9.90	12.00	BUY
2:	14 Feb 18	11.30	11.90	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBSVTH






Analyst: Wasu MATTANAPOTCHANART

THAI-CAC n/a  
Corporate Governance CG Rating (as of Feb 2018) n/a

**THAI-CAC** is Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of Feb 2018) are categorised into:

Score	Description
Declared	Companies that have declared their intention to join CAC
Certified	Companies certified by CAC.

**Corporate Governance CG Rating** is based on Thai Institute of Directors (IOD)'s annual assessment of corporate governance practices of listed companies. The assessment covers 235 criteria in five categories including board responsibilities (35% weighting), disclosure and transparency (20%), role of stakeholders (20%), equitable treatment of shareholders (10%) and rights of shareholders (15%). The IOD then assigns numbers of logos to each company based on their scoring as follows:

Score	Range Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	No logo given	N/A

DBSVTH recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

Completed Date: 13 Jun 2018 06:10:15 (THA)

Dissemination Date: 13 Jun 2018 07:54:19 (THA)

Sources for all charts and tables are DBSVTH unless otherwise specified.

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