TRIS Credit News ข่าวเครดิต

TICON Industrial Connection Public Company Limited

Announcement No. 365 — 21 November 2005

Company Rating: A
Rating Outlook: Stable

Rationale: TRIS Rating assigns the company rating of TICON Industrial Connection PLC (TICON) at "A". The rating reflects the stability of TICON's rental income, its leading position and proven record in the ready-built factory business, and good operating performance. However, these strengths are partially constrained by the slowing economy, threats from potential competitors especially industrial estate operators and the large capital expenditure required to build the logistics facility.

TICON is Thailand's leading ready-built factory provider. At the end of the first half 2005, the company portfolio comprises 126 factories it leases to customers in 11 industrial estates. At the end of August 2005, major shareholder groups consist of Rojana Industrial Park Group (20%), Mr. Wei Cheng Kuan, TICON's president (14%), Thailand Equity Fund (9%), and City Realty Group (7%). TICON's competitive advantages stem from its 15-year record in the ready-built factory business, the ability to provide a standard factory at a competitive price,cost advantages from economies of scale, and a strategy of managing its own factory construction.

According to CB Richard Ellis (CBRE), based on the number of leased units, TICON has the greatest market share (46%) of the rental factory market, far higher than other players. In addition, TICON manages the TICON Property Fund (TFUND), which is 33.3% owned by TICON. TFUND has the market share of 14%. TICON and TFUND, therefore, have a combined market share of 60%, leading to strong economies of scale for TICON. Major industrial estate developers, Hemaraj Land and Development PLC (Hemaraj) and Amata Corporation PLC (Amata) have entered this business to generate recurring incomes. However, the revenue from ready-built factories is relatively small compared with their land sales income from industrial estate development.

Japanese firms are major tenants of TICON, contributing approximately 49% of total clients, followed by European and Singaporean companies which each account for approximately 13%. Most customers are small and medium enterprises (SMEs) that supply the electronic and electrical appliances and automotive industries. TICON's occupancy rate has averaged more than 90% over the last five years. Tenants normally sign three-year contracts and TICON's tenant retention rate has averaged 89% for the last five years. TICON is expanding into the logistics park business by building rental space for warehouses. The project involves creation of a big logistics center to take advantage of the new Suvarnabhumi Airport.

TICON's operating performance has been quite strong. Its rental revenue has continuously grown, from Bt226 million in 2000 to Bt522 million in 2004 and Bt445 million in the first nine-month of 2005. TICON generated Bt1,730 million from the sales of properties to the TICON Property Fund in the second quarter of 2005. Net income from operations has increased from Bt85 million in 2000 to Bt893 million in the first nine-month of 2005, while TICON's debt to capitalization ratio has been stable in the 45% -55% range during the last five years. However, this ratio is likely to increase during the construction period of its logistics park project.

Rating Outlook: The "stable" outlook is based on the expectation that TICON will be able to maintain leadership in its niche market of rental factories. Rental incomes have historically been stable, providing a cushion for TICON. Prospects for new tenants remain bright. A planned expansion through construction of a new logistics park will require more investment than the rental factory business. TICON's debt to capitalization ratio will peak at an acceptable level of around 60%-65%, when the new project requires the maximum investment. In the medium term, TICON has a policy to keep the ratio in the range of 40%-60%.

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