

HEMARAJ LAND AND DEVELOPMENT PLC

Announcement no. 885

28 June 2012

Company Rating: A-

Outlook: Stable

New Issue Rating: A-

Rating History:

Date	Company	Issue (Secured/ Unsecured)
20/09/11	A-/Sta	-/A-
06/08/10	A-/Sta	-
11/06/09	A-/Neg	-
02/09/08	A-/Sta	-/A-
25/01/08	A-/Sta	-
14/09/05	BBB+/Sta	-

Rating Rationale

TRIS Rating affirms the company rating of Hemraj Land and Development PLC (Hemraj) at “A-”. At the same time, TRIS Rating assigns the rating of “A-” to Hemraj’s proposed issue of up to Bt2,000 million in senior debentures. The proceeds from the new debentures will be mainly used to finance a planned expansion. The ratings continue to reflect the company’s proven record in industrial estate development and its growing base of recurring income from the sale of utility services. The ratings also take into consideration heavy capital expenditures for expansion both in industrial estate and power generation businesses. The volatile nature of the industrial property market and the global economic slowdown following the European debt crisis remain rating concerns.

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 2012, the Horrungruang family held 15.0% of Hemraj’s shares. In addition to selling industrial land and utilities, the company also developed a luxury condominium project in central Bangkok. Over the past three years, property sales accounted for 60%-70% of the company’s total revenue, except in 2009 when industrial land sales were hard hit by the global economic slump. Recurring income, mainly from the sale of utilities and rental income, made up the remainder, or about 30%-40% of total revenue.

Hemraj owns and operates six industrial estates located in Rayong, Chonburi, and Saraburi provinces with a total gross area of 32,025 rai. Among the 756 existing customers in Hemraj’s estates as of March 2012, 34% were in the automotive industry and 10% were in the petrochemical industry. Approximately 40% of the remaining salable area of 6,261 rai, as of March 2012, was located in Hemraj Eastern Seaboard Industrial Estate (H-ESIE). The major customers in this estate are in the automotive industry.

Land sales in 2011 reached a record high. Hemraj sold 1,670 rai, a significant increase from 930 rai sold in 2010. The major driver for the spectacular jump in land sales was the expansion of manufacturing activity, especially in the auto industry. According to a CB Richard Ellis report, total industrial land sales in Thailand rose to 5,758 rai in 2011, from 3,622 rai in 2010. In addition to the normal business expansion, land sales were also higher because of the relocation of some companies from the flooded industrial estates in central Thailand. These two supporting factors prolonged to 2012. Therefore, Hemraj was able to sell 928 rai of industrial land in the first quarter of 2012.

Hemraj’s recurring income has remained resilient and has increased gradually. Income from utility services which made up about two thirds of total recurring income for 2011, was Bt1,722 million, up by 20% over 2010. In the first three months of 2012, utility income continued to rise, climbing to Bt490 million, or a 16% increase over the same period last year. This was attributed to higher demand following expansion of existing customers and growing numbers of customers in Hemraj’s estates. The ready-built factory for rent business also showed impressive performance. The rented area increased by 52,594 square meters (sq.m.) in 2011, or a 49% year-on-year (y-o-y) growth. The rented area

Contacts:

Rungrat Suntornpagasit
rungrat@trisrating.com

Chanaporn Pinpitak
chanaporn@trisrating.com

Ruangwud Jarurungsipong
ruangwud@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

WWW. TRISRATING.COM

further rose by 13,694 sq.m. in the first quarter of 2012, or a 9% increase from the level at the end of 2011.

In 2011, Hemraj's total revenue fell by 4% to Bt4,150 million from Bt4,322 million in 2010. Earnings before interest, tax, depreciation, and amortization (EBITDA) fell by 27% to Bt1,360 million in 2011. The drop in EBITDA was the result of less revenue from land transferred to customers in 2011 and the unrealized foreign exchange loss from GHECO-One Co., Ltd. (GHECO-One), Hemraj's joint-venture power project. In the first quarter of 2012, Hemraj's performance recovered noticeably. Total revenue surged by 196% over the same period last year to Bt1,676 million in the first quarter of 2012, underpinned by the growth in most business segments. Revenue from land sales rose to Bt1,149 million in the first quarter of 2012 from only Bt28 million in the first quarter of 2011. EBITDA in the first quarter of 2012 jumped by 634% y-o-y to Bt1,084 million. In short term, the demand for industrial land is expected to remain good, especially in the non-flooded area, the east of Thailand. The recovery in manufacturing activity after the severe flood continues to drive new investment, both for factory expansions and for relocations. The manufacturing utilization rate in the automotive industry picked up strongly to 93.6% during the first four months of 2012, from 31.8% in the fourth quarter of 2011 and 67.1% for the whole year of 2011. The value of projects applied for the Board of Investment (BOI) promotional privileges rose by 87% to Bt374 billion during the first five months of 2012. Although European debt crisis may negatively affect export and new foreign direct investment in Thailand, the impact is partly alleviated by the relocation of manufacturing plants of foreign investors, especially Japanese firms. Foreign investors continue to invest in Thailand because of the nation's international trade promotion policies and good infrastructure, together with Thailand's desirable geographic location.

Hemraj's leverage level has risen since 2010. The total debt to capitalization jumped to 48.0% as of December 2011 from 32.4% in 2009, mainly due to finance investment in GHECO-One, a 660-megawatt-coal-fired power project. Hemraj's equity investment in GHECO-One totaled to Bt4,500 million. GHECO-One is expected to be in operation and provide a sizeable stream of dividends for Hemraj from 2013 onwards. Hemraj plans a substantial capital expenditures worth about Bt15,000 million during 2012-2013. The expenditures include the expansion in industrial estates, expanding capacity of utilities services, continued investments in GHECO-One, and investments in property development and Small Power Producer (SPP) projects. TRIS Rating expects the company to maintain the debt to capitalization ratio, according to its stated policy, of approximately 50% when pursuing its growth strategy in the medium to long term.

Rating Outlook

The "stable" outlook reflects an expectation that the company can maintain its leading position in the industrial property industry. The expanding base of recurring income from the sale of utility services, energy business, and rental factories will provide a cushion for the company, despite the rising risk of a global economic slowdown.

Hemraj Land and Development PLC (Hemraj)

Company Rating:	A-
Issue Ratings:	
HEMRAJ16OA: Bt1,500 million senior debentures due 2016	A-
Up to Bt2,000 million senior debentures due within 2021	A-
Rating Outlook:	Stable

Financial Statistic and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 2012	2011	2010 **	2009	2008	2007
Sales	1,676	4,150	4,322	2,050	4,492	5,152
Gross interest expense	106	407	317	208	252	243
Net income from operations	875	789	1,316	767	2,728	310
Funds from operations (FFOs)	512	1,180	1,174	937	2,703	534
Inventory investment	(708)	(287)	(603)	59	2,255	(999)
Total assets	21,210	20,010	18,569	13,681	13,712	13,897
Total debt	8,218	8,442	8,011	4,058	3,494	4,450
Shareholder equity	9,944	9,129	9,167	8,459	8,138	7,618
Operating income before depreciation and amortization as % of sales	38.00	33.39	29.05	32.11	37.75	25.09
Pretax return on permanent capital (%)	5.78 ***	8.06	11.61	7.45	28.20	7.47
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	10.32	3.91	6.00	5.09	12.87	3.55
FFOs/total debt (%)	6.23 ***	13.97	14.66	23.09	77.37	11.99
Total debt/capitalization (%)	45.25	48.04	46.64	32.42	30.04	36.88

* Consolidated financial statements

** Restatement of revenue recognition from percentage of completion to ownership transfer method

*** Non-annualized

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

- AAA** The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.
- AA** The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.
- A** The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.
- BBB** The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.
- BB** The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.
- B** The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.
- C** The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.
- D** The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year. The symbols and definitions for short-term ratings are as follows:

- T1** Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.
- T2** Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.
- T3** Issuer has acceptable capacity for meeting its short-term obligations.
- T4** Issuer has weak capacity for meeting its short-term obligations.
- D** The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating differentiates a "structured finance product" from other debt instruments by attaching the "(sf)" identifier next to the original letter rating symbol. The "(sf)" identifier is assigned to all debt instruments that are deemed to meet the definition of a "structured finance product" defined by the Securities and Exchange Commission (SEC). The addition of this subscript to the rating symbol does not change the definition of the letter rating symbols mentioned above.

TRIS Rating also assigns a "Rating Outlook" that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for "Rating Outlook" are as followed:

- Positive** The rating may be raised.
- Stable** The rating is not likely to change.
- Negative** The rating may be lowered.
- Developing** The rating may be raised, lowered, or remain unchanged.

TRIS Rating may announce a "CreditAlert" as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing*.

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2012, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at http://www.trisrating.com/en/rating_information/rating_criteria.html.