

Thailand Research Team
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IPO Report

WHA Corporation (WHA)

Developer of Premium-Quality Warehouses and Factories in Thailand

We initiate coverage on WHA with FV of THB14.90 based on RNAV. The company is one of the few lessors in the industry that specializes in built-to-suit logistics solutions. For such a project, WHA has to develop the warehouse/factory with a client, focusing on serving the client's specific needs. The company's leasable areas (including those already sold to a property fund) have grown at a rate of 29.9% CAGR from 2006 to 2Q12. The expansion should continue as its management aims to develop projects totaling 250,000–300,000 sq.m. annually in the next several years.

Fair Value THB14.90

Property

WHA Corporation provides clients with warehouse, distribution center, and factory solutions. It is a leading developer of custom-built distribution centers and factories in key logistics routes in Thailand.

Stock Summary

Bloomberg Ticker (post-IPO)	WHA TB
Share Capital (Pre-IPO)	381m
Share Capital (Post-IPO)	510.4m
Par Value (THB)	1
Foreign Limit	N/A
Foreign Ownership	N/A

Major Shareholders (Pre-IPO) (%)

Anantaprayoon Group	89.6
Other Pre-IPO Shareholders	7.2
Jarukornsakul Group	3.3

Major Shareholders (Post-IPO) (%)

Anantaprayoon Group	66.8
Public	25.4
Other Pre-IPO Shareholders	5.3
Jaruskornsakul Group	2.5

Disclosure

OSK Securities (Thailand) Public Company Limited is acting as an underwriter for the offering securities by WHA Corporation Public Company Limited. Investors should read the information about the issuer and the securities offering in the prospectus before making any investment decision.

Specializing in built-to-suit logistics solutions. WHA Corp (WHA) focuses on providing custom-made warehouses and factories for leasing, working closely with its clients to develop such projects from the ground up. Since its first project in 2003, WHA has been recognized as a professional warehouse and factory expert by companies from different industries.

Strong customer portfolio. WHA's first project was The Consumer Logistics Center it built for DKSH Consumer Goods, involving an investment of over THB1.1bn. The 53,000-sq.m. warehouse, which it constructed strictly based on the customer's operational requirements is one of the largest warehouses in Thailand. Since then, its customer portfolio has grown rapidly and now consists of many multinational corporations (MNCs) from around the world.

Prime beneficiary of AEC. As Thailand is strategically located in the middle of ASEAN, International headquarters relocation to Thailand is probable when the Asean Economic Community (AEC) is open in 2015. The country also stands a strong chance of being chosen as a regional logistics hub by MNCs. An example of such a company is the Italian motorcycle manufacturer Ducati which made Thailand its regional hub and has just opened its first factory outside Italy with WHA.

Assets to be sold to WHAPF. The company plans to monetize three warehouses with total area of 69,529.3 sq.m. to the WHA Premium Factory and Warehouse Freehold and Leasehold Property Fund (WHAPF) next year. This will raise an estimated THB2bn-THB2.1bn of funds. The management expects to sell assets worth about THB2bn to WHAPF each year, at an expected GPM of around 30%.

Valuation. Using the Revised Net Asset Value (RNAV) approach, we arrive at a FV of THB14.90, based on the company's assets on hand by end-2012 and the appraisal value of the warehouses and factories already sold to WHAPF.

FYE Dec (THBm)	FY10	FY11	FY12f	FY13f	FY14f
Asset Sales to Property Fund	1274.6	0.0	1809.0	2085.9	2190.2
Service Income	43.0	221.0	356.6	591.0	774.0
Net Profit	78.4	405.0	209.4	645.5	721.0
% chg y-o-y	N/A	416.58	-48.29	208.26	11.68
EPS (THB)	0.15	0.79	0.41	1.27	1.41
DPS (THB)	-	-	-	0.16	0.51
Dividend yield (%)	N/A	N/A	N/A	N/A	N/A
ROAE (%)	37.1	62.5	11.5	22.5	21.3
ROAA (%)	21.1	5.6	6.2	11.4	10.5
PER (x)	N/A	N/A	N/A	N/A	N/A
BV/share (THB)	0.5	2.0	5.1	6.2	7.1

Note: (i) FY10 statements are restated and all per share data is calculated based on number of shares post-IPO. (ii) FY11 Net Profit was higher than FY11 Asset Sales + service Income due to extraordinary gain of THB350m from buying stakes in its subsidiaries.

COMPANY BACKGROUND

Built-to-suit warehouses and factories. WHA mainly serves clients with specific needs by focusing on providing built-to-suit warehouses and factories for leasing. Seventy percent of WHA’s finished properties are built-to-suit, so the company had to work closely with its clients to develop these custom-made projects from the ground up. During construction, WHA engineers act as project managers and outsource construction contractors. The project managers would help translate customers’ needs into a tangible construction plan and oversee the construction on behalf of clients.

Outsourcing contractors. From time to time, WHA auctions projects to construction contractors although it chooses to work with BSY Construction in most cases. WHA and BSY have collaborated on R&D and shared technical know-how related to the construction of built-to-suit properties. The two parties co-own the know-how, and BSY has signed a memorandum of understanding (MoU) stating that the contractor will not use this knowledge or share it with WHA’s competitors.

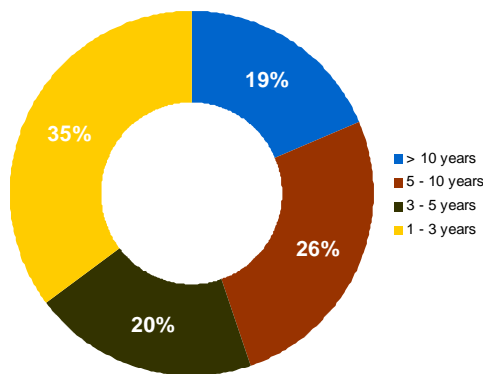
Strong customer portfolio. The Consumer Logistics Center, which the company built for DKSH Consumer Goods for over THB1.1bn, gave the firm a kick-start in this business. It was built strictly based on the customer’s operational requirements (i.e. an air-conditioned distribution center with different temperature zones for healthcare and consumer products) with a total space of 53,000 sq.m., making it one of Thailand’s largest warehouses. Since then, WHA’s customer portfolio has rapidly grown and now boasts many MNC from around the world (see Figure 1).

Figure 1: WHA’s customer portfolio



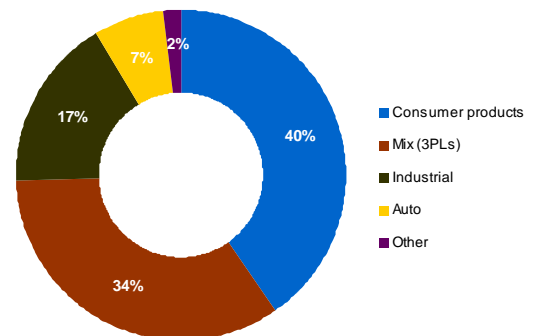
Source: OSK, WHA

Figure 2: Terms of contracts



Note: excluding leasable areas sold to the property fund
Source: OSK, WHA

Figure 3: Tenants by industry segment

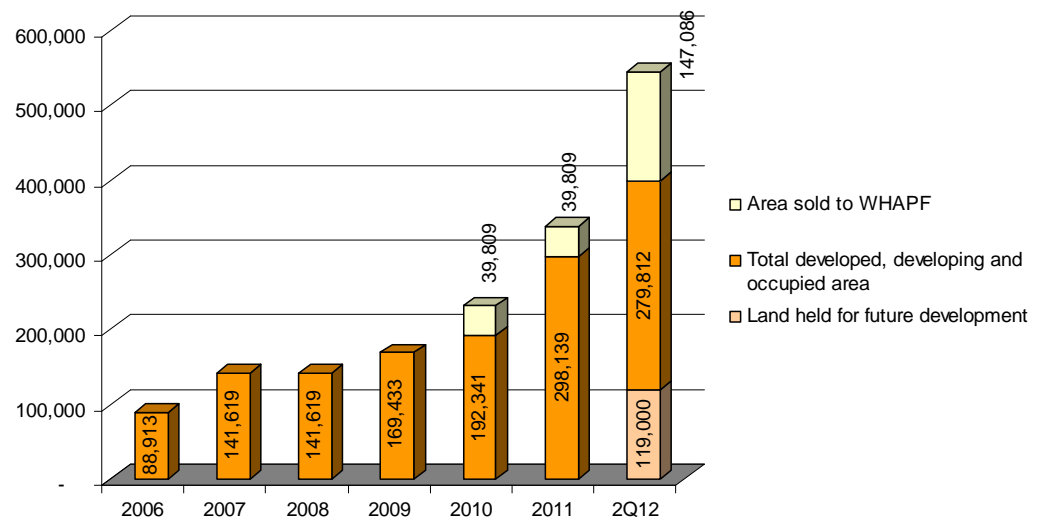


Source: OSK, WHA

45% of the contracts are long-term (5 years or longer)

INVESTMENT HIGHLIGHTS

Figure 4: Leasable areas (unit: square meters)



Source: OSK, WHA

100% occupancy. The advantage in providing built-to-suit industrial properties is that WHA does not start building a property until a client requests the firm to do it because both parties have to develop the facility together. That is partly the reason why WHA's properties have always been fully occupied. Currently, 70% of the company's projects are custom-made while the rest is ready-made.

Premium-quality facilities. WHA has positioned itself as a high-end developer from the start, serving customers with specific and detailed needs. Management said that WHA's customers, the majority of which are multinational companies, are willing to pay "30% to 50% over the industry average" because they realize that quality [logistics] system could save their operating costs".

Figure 5: Example of warehouse specifications

Standard	WHA		General Warehouse #1	General Warehouse #2
	Built-to-Suit	Ready-Built		
Raised Floor	+1.30	+1.30	Raised Floor	On Ground
Warehouse Floor	Concrete Burnished Floor	Concrete Burnished Floor	Concrete Floor Hardener	
Roof Air-Gap	Yes	Yes	No	
Clear Height (Meters)	12 - 13	10	10 - 12	6 - 8
Floor Load (Tons)	4.5 - 5	3	3 - 4	2-3
Size of WH (sqm)	10,000 - 53,000	4,000+	1,000+	
Roller Shutter Door	Motor Operate	Motor Operate	Manual	
Office Space	Yes	Yes	No	
Sprinkle	FM or Local Standard	No	No	
Fire Fighting System	Fire Host Cabinet	Fire Host Cabinet	Fire Extinguisher	

Source: OSK, WHA

Prime beneficiary of AEC. The upcoming ASEAN Economic Community (AEC) is expected to boost trade within Southeast Asia, as well as with its neighbors. Being located in the middle of ASEAN, Thailand has a good chance of being chosen as a regional logistics hub. International headquarters relocation to Thailand is also probable. Ducati, the Italian motorcycle manufacturer, has made Thailand its regional hub and has just opened its first factory outside Italy with WHA in 2011 (see Figure 6).

Medical tourism. When the AEC finally takes off, there will be plenty of opportunities for Thailand to become a medical/healthcare hub. A thriving medical tourism industry increases the need for more healthcare-related products, better facilities and efficient logistics management. In view of this, WHA's big premium-quality warehouses have the potential to ride on this market. WHA was chosen by DKSH, the first and now major client of WHA, to develop two built-to-suit warehouses for the latter to import healthcare and consumer goods into Thailand and distribute them to domestic and regional clients. According to WHA's management, the company has built 95% of DKSH's current warehouse space in Thailand.

Favorable long-term contracts. Seventy percent of the company's properties are built-to-suit, and these custom-made projects entail long-term contracts. That is why 45% of the leasing contracts are long-term, lasting at least five years. The rental rates are expected to increase on average by 3% per year; this is supported by its contractual agreements as most of the company's long-term contracts state that rental rates will be adjusted upward by 10% every three years.

Figure 6: Some of WHA's factories and warehouses

Ducati New Factory Phase I is Ducati's first manufacturing plant outside Italy.



Ducati New Factory Phase I
Amata City, Rayong Province

Aerospace Composite/ Metallic Manufacturing Phase
Amata City, Rayong Province



Customer Logistics Center Phase I
Ladkrabang, Bangkok

Nanatech Wood Replacement Manufacturing
Amata City, Rayong Province



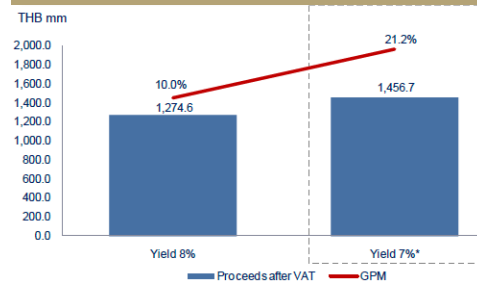
Source: WHA

PROPERTY FUND: WHAPF

WHA holds 17.2% in a property fund namely WHA Premium Factory and Warehouse Freehold and Leasehold Property Fund (WHAPF), to which the company sells its leasable assets.

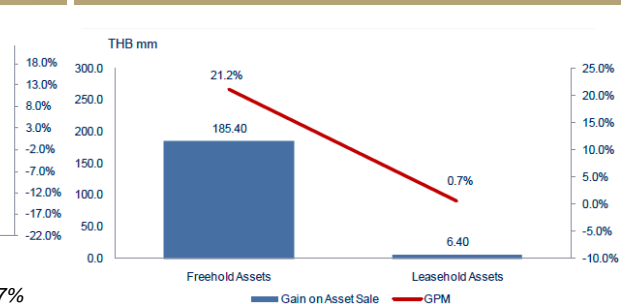
First-time monetization via property fund. In 2010, the company sold assets to WHAPF for the first time recording a gain of THB126.4m from the sale. Had the company recorded the transaction as revenue from assets sales to the property fund, the sales would amount to THB1.27bn, implying a GPM of only 10.0% (vs GPM > 30% for the industry). The company claimed that the GPM for the asset sale was low as the asset was in its first year of operation with no depreciation being expensed, and that the new property fund had to offer a high yield of 8%. The high yield was necessary to attract investors because: i) the small size of the fund, at THB1.27bn, means it has low liquidity, ii) the fact that the fund had only three assets does not offer much diversification for investors, and iii) WHA was not yet well-known. By offering a high yield, the company had to sell its assets at a rather low price. If the firm had sold the assets with a yield of 7%, which was roughly the market yield at the time, the GPM would have jumped to 21.2% (see Figure 7).

Figure 7: Property fund yield and GPM (2010)



*Hypothetical number based on the assumed yield of 7%
Source: WHA

Figure 8: Gain from asset and GPM in 1H12



Source: WHA

Selling assets for second time. WHA also recorded an asset sales income of THB1.8bn in 1H12 and gross profit of THB191.8m, implying a GPM of only 10.6%. The resulting GPM of 10.6% was the average of freehold assets' GPM of 21.2% and leasehold assets' GPM of 0.7% (see Figure 8). There are two reasons why leasehold assets were sold to the property fund at very low GPM. Firstly, property funds require high yields on leasehold assets compared to yields on freehold assets. Secondly, the leasehold asset sold to WHAPF was the company's first development project (DKSH Consumer Goods Project), which has generated quite low EBITDA compared to new projects.

More asset sales, better GPM expected. The company plans to monetize three warehouses with area totaling 69,529.3 sq.m. by selling them to WHAPF next year. It expects to raise funds of not more than THB2.1bn, from which the GPM is expected to be around 30% (vs TICON's GPM of about 32% from warehouse sales). The management expects to sell assets worth about THB2bn to WHAPF every year, at a GPM of 30% or higher.

Figure 9: Assets already sold to WHAPF

Property	Leasable Area (sqm)	Appraisal Value (THB)	Value/sqm	Valuation Date
KAO Warehouse 1 and 2	25,488.0	715,000,000	28,052.4	26-Jun-12
Primus Factory	14,320.8	649,000,000	45,318.7	26-Jun-12
DKSH Consumer and DKSH 3M Warehouse Projects*	63,827.4	956,000,000	14,977.9	1-Dec-11
DKSH Bangpa-in Warehouse Project	36,000.0	596,000,000	16,555.6	1-Dec-11
Ducati Factory Project	7,450.0	263,000,000	35,302.0	1-Dec-11
Total	147,086.2	3,179,000,000		
Average	29417.2		28041.3	

*Leasehold assets
Source: OSK, WHA

VALUATION

We are using a RNAV approach to arrive at the company's share valuation. The assumptions in Figure 10 are derived from Figure 9. For example, the pessimistic value per sq.m. for a freehold warehouse (Warehouse F) is based on the appraisal value of DKSH's Bangpa-in Warehouse Project, priced at THB16,556 per sq.m.; under an optimistic scenario, we use the appraisal value of KAO's Warehouses 1 and 2, priced at THB28,052 per sq.m., then we calculate the average between the two to find the number for the base case, which is THB22,304 per sq.m.. We also apply this method to freehold factory (Factory F).

Figure 10: Valuation

Unit: THB	Pessimistic case	Base case	Optimistic case
RNAV	11.92	14.93	17.95
Assumptions (value per sqm)			
Warehouse F	16,556	22,304	28,052
Warehouse L	14,978	14,978	14,978
Factory F	35,302	40,310	45,319
Factory L	23,652	27,008	30,364

Note: F = Freehold, L = Leasehold
Source: OSK, WHA

For leasehold warehouses (Warehouse L), we assume THB14,978 per sq.m. for every case because there is only one example of leasehold warehouse in the property fund. For leasehold factory (Factory L), we arrive at the value per sq.m. by applying a 33% discount to the Factory F's numbers. This discount is equivalent to the discount of value per sq.m. for Warehouse L to that of Warehouse F under the base case. We expect the companies to have total leasable areas of 467,812 sq.m. by year-end (see Figure 11).

Figure 11: Assets on hand by year-end

Type	Status	Location	Leasable area (sq.m.)	Selling price under base case (THB/sq.m.)	Valuation (THBm)
Warehouse F	Completed and occupied	Bangna Trad km19	52,707	22,304	1,176
Factory F	Completed and occupied	Amata City	9,399	40,310	379
Warehouse F	Completed and occupied	Ladkrabang	18,156	22,304	405
Warehouse F	Developing and occupied	Hemaraj Saraburi	28,278	22,304	631
Warehouse F	Developing and occupied	Chonburi	16,822	22,304	375
Factory L	Completed and occupied	Bangna Trad km18	72,180	27,008	1,949
Warehouse L	Developing and occupied	Bangna Trad km19	58,862	14,978	882
Factory L	Developing and occupied	Wangnoi	23,408	27,008	632
Warehouse L	Land held and occupied	Ladkrabang	17,200	14,978	258
Warehouse F	Land held and occupied	Chonburi	35,000	22,304	781
Warehouse F	Land held and occupied	Hemaraj Saraburi	26,800	22,304	598
Warehouse L	Land held and unoccupied	Bangna Trad km19	14,000	11,982	168
Factory L	Land held and unoccupied	Bangna Trad km23	55,000	21,606	1,188
Warehouse L	Land held and unoccupied	Wangnoi	40,000	7,489	300
			467,812		9,720
17% stake in WHAPP					584
Less: Net debt end-12					2,688
Valuation					7,616
RNAV (base case)					14.93

Note: F = Freehold, L = Leasehold
Source: OSK, WHA

For 'completed and occupied', 'developing and occupied', and 'land held and occupied' projects, we apply the full value per sq.m. as shown in Figure 10 because the risk to the projects' cash flow is rather minimal. On the other hand, we apply a 20% discount to the value shown in Figure 10 for projects with 'Land held and unoccupied' status since construction has yet to begin and the projects are not occupied yet. As such, the timeline for cash inflows/outflows is uncertain at the moment. The 20% discount is based on the assumption that: i) initial cash would not flow in until two years from now, and ii) the project has a 12% internal rate of return. However, we are putting a 50% discount on the warehouse project in Wangnoi (another 'land held and unoccupied' project) since the area was inundated by floods last year, giving rise to the risk of the company being unable to find a tenant for this project, or that its tenants might bargain for cheap rental.

Given these assumptions, we have a FV of THB14.90 per share (rounded up from THB14.93) under our base-case scenario based on RNAV approach.

Figure 12: Valuation comparison

	Closing Price	TP	EPS		PER	
	(28/09/12)		2012f	2013f	2012f	2013f
TICON	12.90	15.00	1.09	1.20	13.8	12.5
WHA	14.90	14.90	0.68	1.69	21.9	8.8

Note: PER is based on TP

Source: OSK

APPENDIX: RISK FACTORS

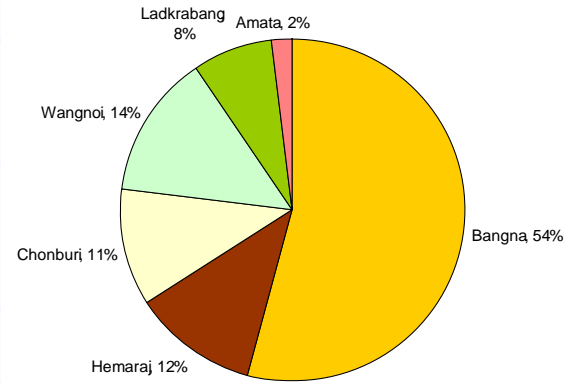
In most industries, one of the most worrying issues for a company is competition. However, that is not the case for WHA. Although there are several major players in warehouse and factory leasing business, none of them focus on built-to-suit properties like WHA does.

Figure 7: Major players

	Market leader in the market of standard factories and warehouses
 	Major players in the market of small standard factories and warehouses for SMEs
 	Providers of standard factories and warehouses only in their own industrial estates
 Warehouse Asia	Leading developer of built-to-suit distribution centers and factories in Thailand

Source: WHA

Figure 8: WHA's assets breakdown by location



Source: WHA

Nevertheless, we believe that there are four major risk factors investors should consider.

Reliance on a handful of contractors. WHA has relied on BSY Construction to build almost all of its turnkey projects as the company has been satisfied with the cost, BSY's quality of work and on-time completion of the projects. This puts WHA at risk should BSY decide to enter the factory-and-warehouse leasing market. This risk, however, is somewhat mitigated as the company has already signed an MoU with BSY preventing the latter from sharing their mutual knowhow with the former's competitors. Also, we believe that BSY is not willing to renege and abandon its lucrative source of income anytime soon.

Scarcity of land. Land in prime areas has become more difficult to find, and those that are available are usually offered at increasingly lofty prices. This is the reason why WHA has to lease some lands for its business, and we believe that the scarcity of land at reasonable prices could limit the company's growth potential. However, WHA's policy is to hold minimal non income-generating assets, so it does not accumulate a huge landbank; it buys the land it requires for development and keeps only a few plots on hand. Also, unnecessary land accumulation may give rise to liquidity problems.

Volatility of income. The company has grown its leasing business rapidly and should continue to do so in the foreseeable future. However, warehouse-and-factory development is very capital-intensive, and in order to avoid being laden with debt, the company has had to monetize some of its assets through WHAPF. As the amount of land value being sold to the property fund might not be stable from year to year, this subjects the company's revenue and earnings to volatility.

Floods. During the 2011 floods, some factory and warehouse owners stopped collecting rental to help their affected clients. WHA has freehold and leasehold assets in different key logistics locations, including a project in Bang Pa-in Industrial in Ayutthaya province which was flooded last year (this project was sold to WHAPF in 2010). Fortunately, the warehouse has incurred no financial toll in terms of both damage of physical assets or loss of rental income. The reason is that, for each project, the internal road is 30–50cm higher than the highest level of flood water over the last 30 years, and the warehouses' or factories' platforms are 0.8m–1.5m higher than their internal roads. Moreover, the company could build an additional 2-metre flood wall on each property's platform.

EARNINGS FORECAST

FYE Dec (THBm)	FY10	FY11	FY12f	FY13f	FY14f
Turnover	1,317.6	221.0	2,205.6	2,726.9	3,026.6
EBITDA	150.4	172.0	481.8	1,125.1	1,360.7
PBT	112.4	80.0	261.1	797.4	890.7
Net Profit	78.4	405.0	209.4	645.5	721.0
EPS (THB)	0.46	1.06	0.41	1.27	1.41
DPS (THB)	-	-	-	0.16	0.51
Margin					
EBITDA (%)	11.4	77.8	21.8	41.3	45.0
PBT (%)	8.5	36.2	11.8	29.2	29.4
Net Profit (%)	6.0	183.3	9.5	23.7	23.8
ROAE (%)	37.1	62.5	11.5	22.5	21.3
ROAA (%)	21.1	5.6	6.2	11.4	10.5
Balance Sheet					
Fixed Assets	507.0	3,340.0	5,070.1	7,014.6	9,954.8
Current Assets	54.0	1,612.0	1,972.9	1,480.1	820.6
Total Assets	743.0	5,188.0	7,688.6	9,507.4	12,175.3
Current Liabilities	135.0	2,321.0	2,050.0	3,155.0	3,260.0
Net Current Assets	(81.0)	(709.0)	(77.1)	(1,674.9)	(2,439.4)
LT Liabilities	353.0	1,827.0	3,050.0	3,200.0	5,300.0
Shareholders Funds	245.4	1,062.4	2,589.4	3,151.2	3,614.0
Net Gearing (%)	130.2	247.0	139.3	100.7	147.1
Cash Flow					
PBT	112.4	80.0	261.1	797.4	890.7
Other Operating Cash	(80.0)	1,938.8	(2,719.9)	(225.7)	(329.8)
Chg in Working Capital	42.0	(955.0)	1,315.0	90.0	105.0
Operating Cashflow	150.4	(903.8)	1,665.9	933.1	1,115.5
CAPEX	(216.0)	(2,562.0)	(2,259.6)	(2,507.2)	(3,616.8)
FCF	(65.6)	(3,465.8)	(593.7)	(1,574.1)	(2,501.3)

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months (scenario analysis in the text may indicate different target prices)

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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