

WHA Corporation

Specialist in value-added, Built-to-Suit warehouses

Tailor-made products provide higher yields

Based on our latest meeting with management, sentiment towards WHA's business has improved after the company saw a slowdown in 2H13. We reiterate our Buy rating based on WHA's continued expansion, its strategy to enhance rental yield and rates via gearing towards higher value-added segments, its in-house expertise and moves to lower construction costs. We also anticipate an increase in recurring income from dividend income, REIT management fees as well as ongoing sales of assets to its REIT.

Targeting value-added segments to achieve higher rents

We expect WHA to record higher rental and services income this year. This should be driven by its strategy to target higher value-added customers and services segments e.g. building a cold store with utility management, on-line warehouses or E-Commerce centres.

2014 revenue and net profit forecasts unchanged

We maintain our 2014 revenue forecast of Bt5.4bn based on a projected 50% YoY increase in recurring rental income (assuming a total leased area of about 530,000 sq m. at end-2014) and estimated income of Bt4.59bn from WHA's REIT. Our gross profit margin estimate of 36% vs. 35% last year is based on margin expansion in rental and services income and a stronger margin from sale of investment properties. Our 2014F net profit of Bt1.38bn remains unchanged.

Target price of Bt46 is based on the SOTP method

We value WHA based on the sum-of-the-parts (SOTP) method. We used the DCF method to value the company's core rental and services business, assuming WACC of 8.7% and 2% terminal growth (Bt44.5). We use the NAV of WHAPF to value its 15% stake in the fund, which is equal to Bt1.5/share, and thus derive a total TP of Bt46/share. The key downside risk is increasing difficulty in finding land for new logistics operations in the future.

Rating

BUY

(unchanged)

12 month Target Price

Bt46.00

Current Price (04/06/2014)	Bt29.50
Upside/Downside	55.9%
CG Rating	N/R

Sector	PROP
Sector PER (x)	16.2x

SHARE SUMMARY

Issued shares:	963.9m
Par value:	Bt1.0
Market capitalization:	Bt28.4bn
Avg. Daily Turnover:	Bt93.0m
Foreign Limit/Actual (%)	49/39
Free Float:	24.5%
NVDR:	0.6%
Beta (3 years)	2.1x

TISCO's forecast vs. consensus

EPS (Bt)	TISCO	Consensus	% Diff.
2014F	1.43	1.41	1.1%
2015F	1.45	1.57	-7.5%

PRICE / PRICE RELATIVE



Source: Bloomberg Finance LP

Performance (%)	-1m	-3m	-12m
WHA	(3.28)	(9.23)	(22.71)
SET	3.34	7.23	(6.83)

CONSOLIDATED FINANCIAL SUMMARY

Year	2011	2012	2013	2014F	2015F	2016F
Sales (Bt, m)	221	2,169	7,085	5,424	5,327	5,455
EBITDA (Bt, m)	172	462	1,950	2,016	2,099	2,203
Net profit (Bt, m)	402	301	1,363	1,377	1,400	1,426
Net profit growth (%)	357.3	(25.1)	352.5	1.0	1.7	1.9
EPS (Bt)	2.17	0.43	1.48	1.43	1.45	1.48
EPS growth (%)	320.2	(80.4)	249.0	(3.8)	1.7	1.9
PER (X)	n.a.	85.8	19.9	20.7	20.3	19.9
PBV (X)	n.a.	6.4	6.5	5.9	5.0	4.5
Yield (%)	0.0	0.0	4.5*	2.7	2.7	2.8
ROE (%)	21.9	15.3	38.7	30.7	27.4	24.9

Source: TISCO Research, *including stock dividend paid from 1Q13 and 2013 operations

Rasmiman Sermprasert

(ID: 18175)

(66) 2633 6421

rasmiman@tisco.co.th

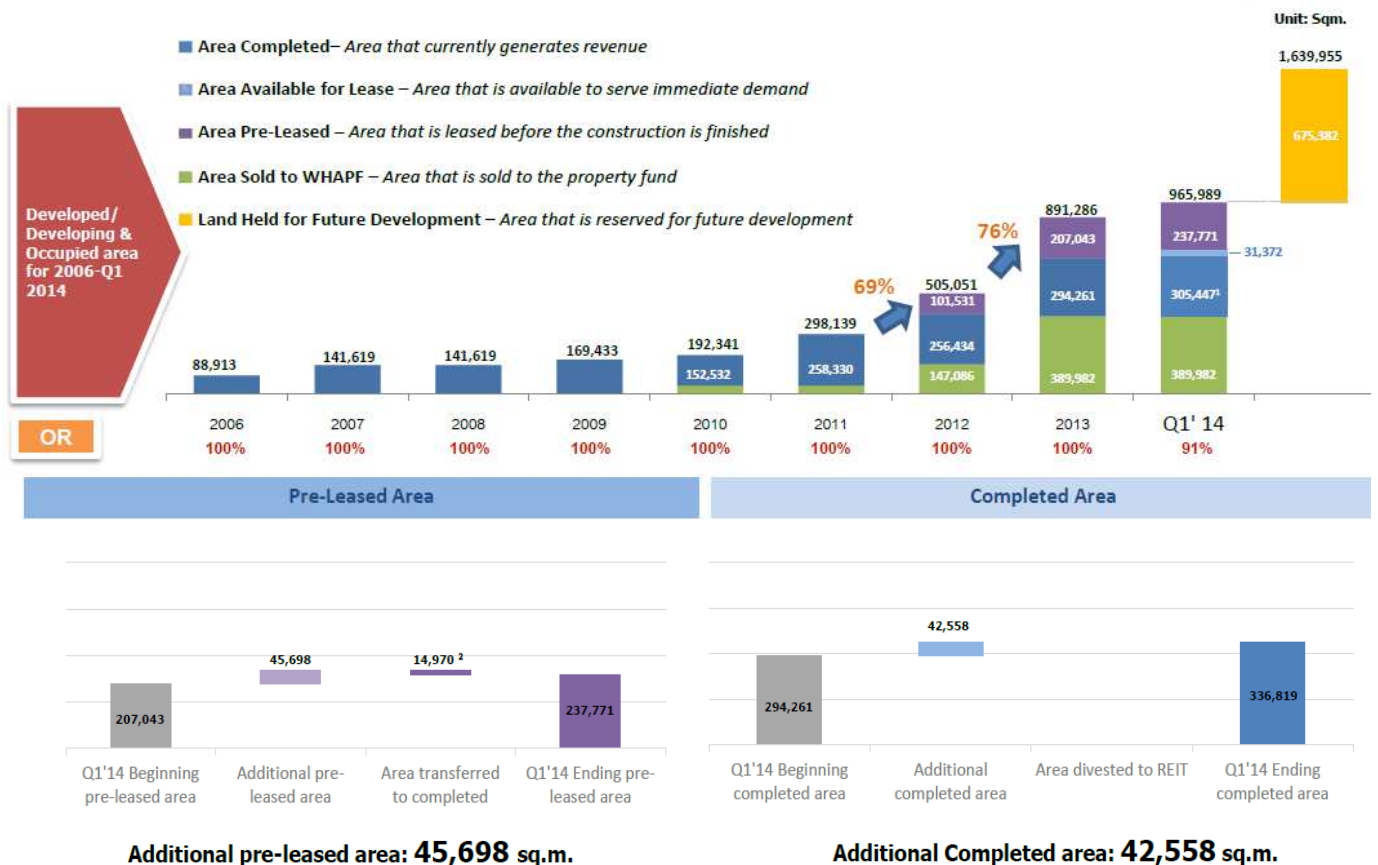
Continued expansion in value-added segments and potential JV partners; reaffirm BUY

Sentiment towards WHA’s business showing signs of improvement

Based on our latest meeting with management (Opportunity Day at the SET yesterday), sentiment towards WHA’s business improved in 1H14 after the company saw a slowdown in 2H13. Interest from potential built-to-suit customers has picked up while its key clients remain multinational companies in consumer products and the pharmaceutical and health care industry. We expect to see an improvement in its business in 3Q14. As of 1Q14, Japan-based companies (which are often perceived as the most conservative investors) accounted for 45% of WHA’s total customer base. This was up from 39% late last year and from 30% early last year, confirming a back-to-normal business investment/expansion mode despite Thailand’s volatile political climate.

Management also expects to form joint venture partnerships with overseas companies for its core business, thereby boosting WHA’s growth outlook. We reiterate our **Buy** rating on the stock with a target price of Bt46 (SOTP method) based on a continued vertical and horizontal expansion in key operations and new business opportunities (but still related to its core business). Moreover, we like WHA’s strategy to enhance rental yields and rates via gearing towards higher value-added segments as well as its in-house expertise and moves to lower construction costs (yet maintain high standards using its high-end construction technology and innovative designs). Other positive factors are favourable locations in WHA’s well-developed logistics system and a projected increase in recurring income from dividend income, REIT management fees and ongoing sales of assets to its REIT (WHA-REIT) on an annual basis. Finally, we expect WHA to continually lower financial costs by using various financial instruments, which is a key part of its long-term strategy.

Figure 1. Strong track record of growth



Additional pre-leased area: 45,698 sq.m.

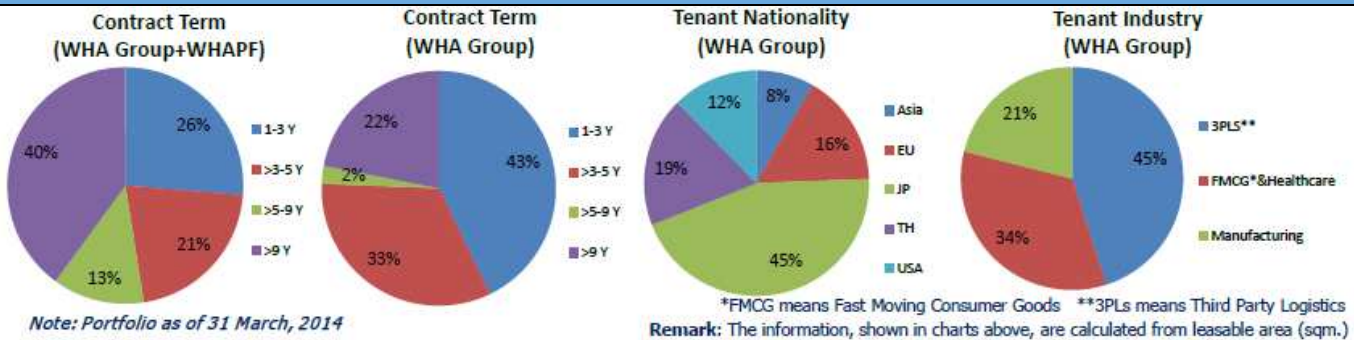
Additional Completed area: 42,558 sq.m.

Source: Company data, Note: 1A part of this area, approximately 33,000 sqm., is under specific modification for new built-to-suit client 2Note that 14,970 sqm. Is a part of additional pre-leased area 45,698 sqm.

Total area of 965,989 sq. m. under management as of 1Q14

As of 1Q14, WHA managed 965,989 sq. m. of developed, developing and occupied area and assets sold to WHAPF with an occupancy rate of 91%. Note that about 80% of the areas under management is freehold property. The below 100% occupancy rate was due to a modification from one warehouse farm project to a Built-to-Suit model. This should soon be completed, thereby raising occupancy to 100% in 3Q14F. The current 675,382 sq. m. of land held for future development should be used for expansion projects over the next few years. Of this total, about 300,000 sq. m. should become a new leased area for expansion in 2014F and about 200,000 sq. m. in 2015F.

Figure 2. Tenant Profile: 45% of clients are from third-party logistics (3PLS)



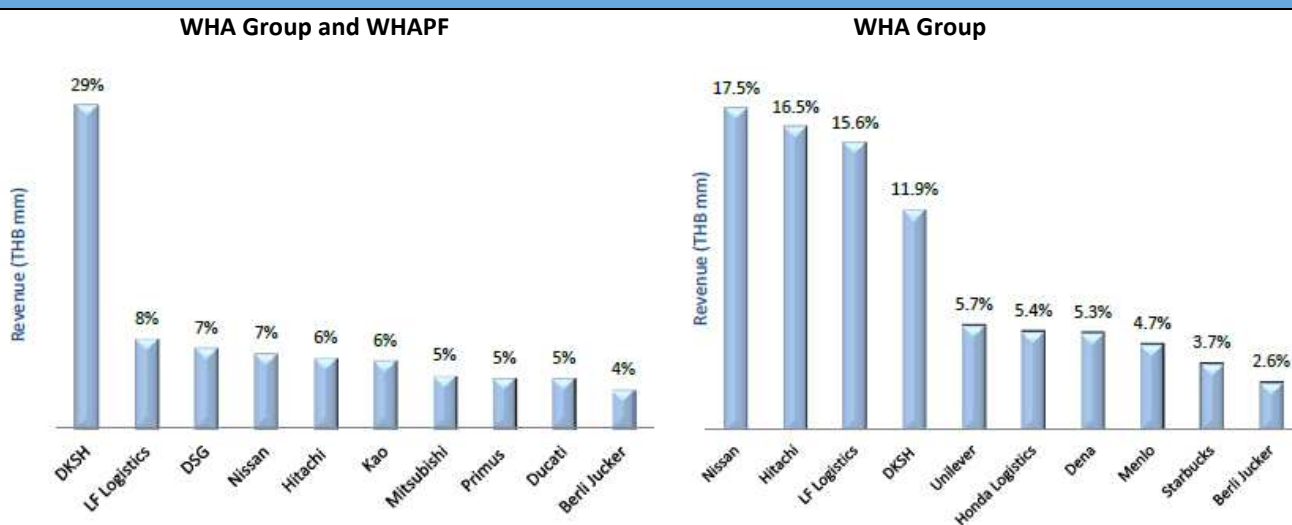
Source: Company data

Figure 3. About 3,000 more 3PLs were registered in Thailand in four years



Source: NESDB, Department of Business Development and Department of Trade Negotiation

Figure 4. Top 10 Tenants by Rental Income

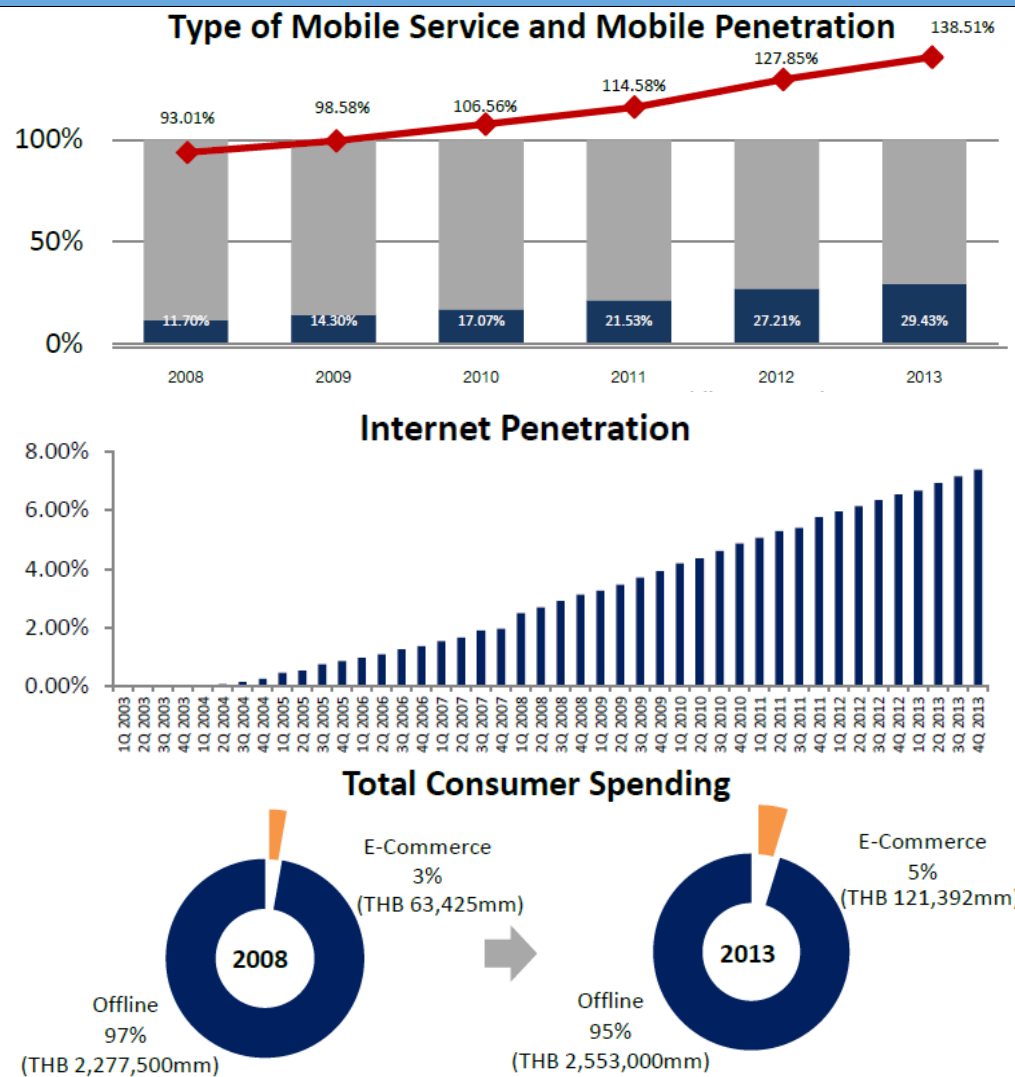


Source: Company data

Targeting value-added customers and service segments to generate higher rents

We expect WHA to achieve higher rental and services income this year driven by its strategy to target higher value-added customers and service segments. Examples include building warehouse facilities such as a cold store (-25 celcius degrees) for stockpiling ice cream products plus utility management, storage centre for chocolate and confectionary products, an on-line warehouse or E-Commerce centre or a building storing pharmaceutical products. With a combined service, the company can charge higher rental rates while customers would benefit from paying only a combined rental rate.

Figure 5. E-Commerce Trend



Source: Thailand Yearbook of Telecommunications Indicators 2012-2013, Office of the National Broadcasting and Telecommunications Commission (NBTC), National Statistical Office, Tradingeconomics.com, NESDB

WHA-REIT size of Bt4.5-4.6bn in 4Q14F is on track

Last month WHA set up a wholly-owned subsidiary, WHA Real Estate Management Co. Ltd. This will manage its REIT (in which WHA plans to hold a 15% stake) in accordance with regulations of the Securities and Exchange Commission (SEC). WHA expects asset sales to take place in 4Q14 with a total value of Bt4.5-4.6bn. Note that about 65% of total assets sales are freehold, with the remainder leasehold, and these have already been factored into our forecast.

Greater focus on sales and leaseback model

In recent years WHA has signed sales and leaseback contracts with a few customers but we expect it to step up efforts for this model in 2014. Key criteria in selecting which assets to buy and lease back include location, fighting brand segment and mid-to-high segment. We expect an announcement on this issue in 3Q14. Meanwhile, the company is also focusing on its Built-to-Suit concept for clients, particularly for the consolidation and diversification needs of a large Thai conglomerate this year. Note that we previously reported that some customers are interested in leasing warehouses but do not want to hurt their balance sheets (and financial leverage) by buying outright. Sales and leaseback agreements often provide a suitable solution for such customers. Initially, the company expects a maximum size of Bt3bn while it can recognize rental and services income from this business model right away without having lag time (from the construction period to completion and begin realizing revenue). This model would also support the company’s expansion plan on total leasable area as assets are already there (on top of newly-

built-to-suit warehouses). At the end, the company can sell these assets to WHA-REIT later (to improve its leverage). Note that we have not yet factored this part of WHA's business into our forecasts.

Overseas investment starting in Indonesia; revenue target from overseas is 20% by 2017

As mentioned in our previous research report, WHA is investing in a built-to-suit warehouse in Indonesia, with construction due to start in the next few months. The initial size is about 15,000 sq m although we have not yet factored this project in our forecasts. Management expects to increase revenue from its overseas investments (particularly in Southeast Asia) to 20% of total revenue by 2017.

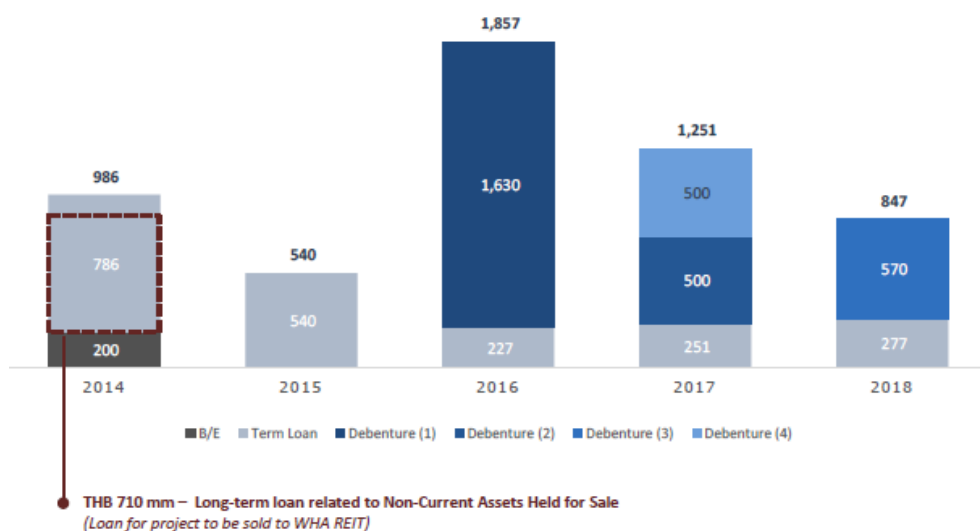
WHA to complete first electricity sales this year

The company is also diversifying into electricity sales, with an initial target of 4.2 MW from its solar roof top projects this year. However, in the first phase which began last month, WHA expects sales of 3.2MW with the remaining 1MW due to be sold by end-2014F. We also have yet to factor this project into our forecasts. Note that WHA has a total warehouse area of about 900,000 sq. m. which can generate 80-90MW of electricity. It has set up new 16 subsidiaries, in JV partnerships with Gunkul Engineering PLC. (GUNKUL) to carry out solar rooftop projects. WHA holds a 75% stake while GUNKUL holds 25%.

Average cost of funds expected to fall to 4% in 2014

On May 29th WHA issued debentures worth Bt1.81bn following an AGM resolution permitting it to issue debentures with a value up to Bt4bn. The debenture issue consists of two tranche: the first is Bt700m (3-year, 3.75%) and the second is Bt1.11bn (5-year, 4.42%). We expect the company's average cost of funds to dip to 4% from 4.6% last year.

Figure 6. Debt Maturity Profile



Source: Company Data

2014 revenue and net profit forecasts unchanged

We maintain our 2014 revenue forecast of Bt5.4bn based on a projected 50% YoY increase in recurring rental income (we assume a total leased area of about 530,000 sqm. at end-2014) and income of Bt4.59bn from WHA-REIT. Our gross profit margin estimate of 36% vs. 35% last year is based on margin expansion in rental and services income and a stronger margin from sale of investment properties. Our 2014F net profit of Bt1.38bn remains unchanged.

Note that the company announced a cash dividend of Bt651.77m and 20:1 stock dividend of Bt45.9m, totaling Bt697.67m from 2013 operations. Combined with an interim dividend payment of Bt339.99m, the total 2013 dividend payment is Bt1,037.67m, implying a payout ratio of 70.91% and a yield of 4% as of end-Feb14.

Figure 7. Dividend Payment for 2013 operations

1) Stock Dividend in a Ratio of 2:1

1 Jan – 31 Mar 2013	Dividend per Share (THB/share)	Amount Paid (THB mm)
• Cash dividend	0.056	40.00
• Stock dividend	0.500	305.99
Total Payment @ 18 Sept 2013	0.556	339.99

2) Stock Dividend in a Ratio of 20:1

1 Jan – 31 Dec 2013	Dividend per Share (THB/share)	Amount Paid (THB mm)
• Cash dividend	0.710	651.77
• Stock dividend	0.050	45.90
Total Payment @ 27 May 2014	0.760	697.67

Key Dates

Ex-dividend date	6 May 2014
Record date	8 May 2014
Book closing date	9 May 2014
Payment date	27 May 2014

Source: Company Data, SET

Target price of Bt46 is based on the sum-of the parts method

We value WHA based on the sum-of-the-parts (SOTP) method. We employ DCF methodology to value the company's core rental and services business, assuming an 8.7% WACC (Deutsche Bank's risk-free rate of 3%, market risk premium of 9.7% and 1.5x beta) and 2% terminal growth to derive a DCF value per share of Bt44.5. We use the NAV of WHAPF to value its 15% stake investment in the fund, which is equal to Bt1.5/share, and thus derive a total TP per share at Bt46.

The key downside risk is increasing difficulty finding land bank for new logistics operations in the future.

Figure 8. Discount Cash Flow – Rental and Services

(Bt, m)	2014F	2015F	2016F	2017F	2018F	2019F
NOPLAT	1,478	1,536	1,604	1,670	1,725	1,775
Depreciation and Amortization	180	179	199	224	249	278
Chg. In Working Capital	357	-433	6	36	49	56
Capex	3,000	3,000	3,000	3,000	3,000	3,000
Add Asset Disposals	4,590	4,200	4,200	4,200	4,200	4,200
Enterprise free cash flow	2,891	3,347	2,996	3,058	3,125	3,197
Present value of FCF	2,891	3,113	2,586	2,444	2,309	2,179
Sum of PV FCF (14-24F)	24,897					
PV of terminal value	22,802					
Net cash (debt)	5,221					
Net enterprise value	42,478					
DCF value/share	44.5					
					WACC assumption	
					Risk free rate (%)	3.0
					Risk premium (%)	9.7
					Beta	1.5
					Cost of equity (%)	17.5%
					Cost of debt after tax (%)	4.0%
Weighting of 2014-24F (%)	52.2%				WACC (%)	8.7%
Weighting of terminal value (%)	47.8%				Terminal growth (%)	2.0%

Source: TISCO Research estimates

Figure 9. Sum-of-the-part Valuations

DCF value per share (Bt)	44.5	(A)
Value of investment in WHAPF		
Value of investment in WHAPF (Bt, m)	1,432	
NAV as of 30 Apr'14 (Bt/share)	10.17	
No. of units held by WHA (15% stake)	141	
No. of WHA's share (m)	964	
Value of investment in WHAPF per WHA's share (Bt)	1.5	(B)
NAV per share (Bt) -- (A) + (B)	46	

Source: TISCO Research estimates

CONSOLIDATED INCOME STATEMENT (Bt, m)

	Year Ended December 31,				
	2012	2013	2014F	2015F	2016F
Total Revenue	2,169	7,085	5,424	5,327	5,455
Total Cost	1,743	5,141	3,480	3,301	3,342
Gross Profit	426	1,945	1,944	2,026	2,113
S&A Expenses	68	132	108	107	109
Interest Expense	149	183	197	242	293
Gain from business acquisition	0	0	0	0	0
Interest Income	2	0	0	0	0
Other Incomes	42	84	72	72	72
Net Profit before Tax	253	1,712	1,710	1,750	1,783
Income Tax from Operations	41	249	334	350	357
Net Profit before M.I.	212	1,463	1,377	1,400	1,426
Net (Profit) Loss of M.I.	0	0	0	0	0
Net Profit before Extra. Items	212	1,463	1,377	1,400	1,426
Gain (Loss) on re-measuring available-for-sale investments	89	(100)	0	0	0
Other gain (loss)	0	0	0	0	0
Net Profit	301	1,363	1,377	1,400	1,426
Revenue Growth (%)	881.7	226.7	(23.4)	(1.8)	2.4
Gross Margin (%)	19.6	27.4	35.8	38.0	38.7
Net Profit Margin (%)	13.9	19.2	25.4	26.3	26.1
Net Profit Growth (%)	(25.1)	352.5	1.0	1.7	1.9

CONSOLIDATED QUARTERLY RESULTS (Bt, m)

	1Q13	2Q13	3Q13	4Q13	1Q14
	Total Revenue	2,143	107	140	4,696
Total Cost	1,963	34	45	3,099	37
Gross Profit	180	72	95	1,597	79
S&A Expenses	21	31	34	47	28
Interest Expense	37	36	47	63	48
Net Result of Inv. in Asso.	0	0	0	0	(3)
Interest Income	3	1	0	(5)	0
Other Incomes	18	18	18	30	33
Net Profit before Tax	145	25	32	1,511	33
Income Tax from Operations	23	3	2	221	(1)
Net Profit before M.I.	122	22	30	1,290	32
Net (Profit) Loss of M.I.	0	0	0	0	0
Net Profit before Extra. Items	122	22	30	1,290	32
Gain (Loss) on re-measuring available-for-sale investments	0	(57)	(12)	(57)	0
Net Profit	122	(35)	18	1,232	32
Revenue Growth (YoY %)	13.1	47.0	67.1	3,865.7	(94.6)
Gross Margin (%)	8.4	67.8	68.0	34.0	67.9
Net Profit Margin (%)	5.7	(32.4)	12.6	26.2	27.4
Net Profit Growth (YoY %)	(26.6)	n.a.	(43.2)	1,432.4	(74.0)

KEY FINANCIAL RATIOS

	2012	2013	2014F	2015F	2016F
Other Incomes to Total Revenue (%)	2.1	1.2	1.3	1.3	1.3
S&A to Sales (%)	3.1	1.9	2.0	2.0	2.0
Current (Times)	1.4	1.3	1.1	1.2	1.2
Quick (Times)	1.4	1.3	1.1	1.2	1.2
A/R Turnover (Days)	6.3	3.8	3.8	3.8	3.8
Inventory Turnover (Days)	n.a.	n.a.	n.a.	n.a.	n.a.
A/P Turnover (Days)	263.7	119.1	119.1	103.0	103.0
Debt to Equity (Times)	1.9	1.7	1.6	1.5	1.5
Net Debt to Equity (Times)	1.0	0.9	1.1	1.1	1.1
Gearing (Times)	1.3	1.1	1.1	1.1	1.1
Interest Coverage (Times)	3.1	10.7	10.2	8.7	7.5
Return on Avg. Assets (%)	4.5	14.1	11.6	10.7	9.9
Return on Avg. Equity (%)	15.3	38.7	30.7	27.4	24.9

CONSOLIDATED CASHFLOW STATEMENT (Bt, m)

	Year Ended December 31,				
	2012	2013	2014F	2015F	2016F
Cash Flows from Operations (CFO)					
Net Profit	301	1,363	1,377	1,400	1,426
Adjusting Items Not Affecting Cash					
Depreciation and Amortization	105	137	180	179	199
Unrealized FX Loss (Gain)	0	0	0	0	0
Others	0	0	0	0	0
+ (-) in Working Capital	(345)	896	357	(433)	6
Net CFO	61	2,398	1,914	1,146	1,631
Cash Flows from Investing Activities (CFI)					
- (+) in Short-term Investment	0	0	0	0	0
- (+) in Investment in Affiliates & others	(830)	(157)	(1,178)	365	(0)
- (+) in Fixed Assets	(1,369)	(3,051)	(1,586)	(1,342)	(1,647)
Net CFI	(2,199)	(3,208)	(2,764)	(977)	(1,647)
Cash Flows from Financing Activities (CFF)					
+ (-) in Debt Financing	1,672	795	771	675	855
+ (-) in Share Capital and Premium	129	408	46	(46)	0
+ (-) in Minority Interest	0	0	0	0	0
+ (-) in Warrant	0	0	0	0	0
+ (-) in Equity Adjustment	87	(100)	0	0	0
- Cash Dividend Paid	(242)	(404)	(757)	(770)	(784)
Net CFF	3,180	698	60	(141)	70
Net Cash Increase (Decrease)	1,043	(112)	(790)	27	54

CONSOLIDATED BALANCE SHEET (Bt, m)

	As of December 31,				
	2012	2013	2014F	2015F	2016F
Current Assets	3,431	3,332	3,560	3,306	3,362
Current Liabilities	2,386	2,530	3,196	2,848	2,856
Total Assets	8,298	11,049	12,683	13,594	15,098
Total Liabilities	5,410	6,895	7,864	8,191	9,053
Minority Interest	0	0	0	0	0
Total Equity	2,887	4,154	4,819	5,403	6,045
Paid-up Capital	510	918	964	918	918
Share Premium	1,549	1,549	1,549	1,549	1,549
Capital surplus from additional acquisition of subsidiaries by share swap	173	173	173	173	173
Retained Earnings	561	1,520	2,140	2,770	3,412
Equity Adjustment	94	(6)	(6)	(6)	(6)
		1Q14			
Market Cap (Bt, m)		28,435			
Cash&cash equivalent (Bt, m)		176			
Borrowings (Bt, m)		4,971			
Gearing (X)		1.2			

FORECAST ASSUMPTIONS

	2012	2013	2014F	2015F	2016F
Sale and Service Income Breakdown (%)					
-Rental and services income	16.6	7.1	15.4	21.2	23.0
-Income from sales of investment properties	83.4	92.9	84.6	78.8	77.0
Total leasable area under WHA management (sqm.)	544,860	966,095	1,286,095	1,753,202	2,203,202
Net leasable area owned by WHA (sqm.)	357,965	281,730	529,197	529,197	559,197
Occupancy rate (%)	100	100	100	100	100
Avg. rental rate (Bt/sqm./month)	133	160	172	178	192
Avg. price of assets disposal to WHAPF (Bt/sqm.)	16,862	27,110	28,690	28,000	28,000
% Investment stake in WHAPF/ WHA-REIT	15	15	15	15	15

TISCO Securities Company Limited

www.tiscosec.com

Bangkok

48/8 TISCO Tower 4th Floor, North Sathorn Road, Bangkok 10500, Thailand
Tel : (66) 2633 6999 Fax : (66) 2633 6490, (66) 2633 6660

Esplanade Branch

99 Esplanade Shopping Center, Room 202-2, 2nd Floor, Ratchadapisek Road, Din Daeng, Bangkok 10400
Tel : (66) 2641 3251, (66) 2641 3252 Fax : (66) 2641 3253

Chiang Mai

275/4, 2nd Floor, Chang Phuak Road, Chang Phuak, Muang District, Chiang Mai 50300
Tel. 0 5322 4722 Fax. 0 5322 4711

Nakhon Pathom

386, 388 Petchkasem Road, Prapatone, Muang District, Nakhon Pathom 73000
Tel: 0 3421 1812 Fax: 0 3425 1676

Nakhon Ratchasima

Tesco Lotus Korat, 719/5 Mittraphap Road, Naimuang, Muang District, Nakhon Ratchasima 30000
Tel: 0 4425 7752 Fax: 0 4425 3752

Udon Thani

227/21 2nd Floor, Udondussadee Road, Muang District, Udon Thani 41000
Tel: 0 4224 6888 Fax: 0 4224 5793



คณะกรรมการกำกับดูแล
National CG Committee

Corporate Governance Report
of Thai Listed Companies 2013

Score Range	Level	Description
90 - 100	5	Excellent
80 - 89	4	Very Good
70 - 79	3	Good
60 - 69	2	Satisfactory
50 - 59	1	Pass
< 50	n.a.	n.a.
	N/R	Does not appear in the CGR report

Disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association (“IOD”) regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information. (In order to recognize well performed companies, companies classified into the three highest score groups (Good, Very Good, and Excellent) will be announced to the public).

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. TISCO Securities Company Limited does not confirm nor certify the accuracy of such survey result.

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. TISCO and other companies in the TISCO Group and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. No person is authorized to give any information or to make any representation not contained in this document and any information or representation not contained in this document must not be relied upon as having been authorized by or on behalf of TISCO. This document is for private circulation only and is not for publication in the press or elsewhere. TISCO accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user.