

Media Release:

O-Bank Number One REIT 'twBBB+/twA-2' Ratings Affirmed; Outlook Stable

June 14, 2023

Rating Action Overview

- We see a low likelihood that O-bank No.1 REIT will realize property acquisition through increased leverage over the next one to two years. We believe the trust will maintain a debt free position over the same period. Hence, we have raised our assessment of its financial risk to 'minimal' from 'intermediate'.
- However, we lowered the financial policy modifier to 'negative' from 'neutral', with one-notch downward adjustment to the anchor. This reflects the event risk that the REIT still has the capacity to increase its gearing ratio to the top of its debt leverage policy.
- We have also revised the liquidity modifier to 'strong' from 'adequate', which has no impact on the ratings.
- We affirmed our 'twBBB+' long-term and 'twA-2' short-term issuer credit ratings on O-bank No.1 REIT.
- The stable rating outlook reflects our view that the trust's current portfolio could continue to generate stable rental income over the next 12 months and help the REIT maintain its debt-to-EBITDA ratio below 9.5x.

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Rating Action Rationale

Zero debt position with low likelihood of property investments over the next one to two years.

The rating affirmation reflects our view of **O-Bank Number One Real Estate Investment Trust's** (O-bank No.1 REIT) zero debt position and our base-case assumption that the trust is unlikely to realize new property acquisition through increased debt over the next one to two years. This supports our opinion of O-Bank No.1 REIT's enhanced financial risk profile, which is reflected in an upward revision of our financial risk assessment to 'minimal' from 'intermediate'. This also reflects our view the trust manager's priority is to lower the vacancy rate of its Bank of Panhsin Banker Building over the next one to two years.

Capacity to raise the gearing ratio remains. At the same time, we revised our assessment on the trust financial policy modifier to 'negative' from 'neutral'. The REIT still has the capacity to increase its gearing ratio (debt to assets) to up to its regulatory limit of 25%, though we believe the trust is unlikely to engage in property acquisitions over the next one to two years. We still view the trust's debt leverage target to be conservative and we expect the debt-to-EBITDA ratio to remain below 9.5x over the next one to two years.

Liquidity has improved under our base-case scenario. We have also revised our assessment of the liquidity modifier to 'strong' from 'adequate', which has no impact on the ratings. The revision mainly reflects our assumption that the REIT will not materialize property acquisition over the next one to two years.

Our view on the REIT's business risk and other modifiers remains unchanged. We continue to see the trust's small asset base, relatively weak asset quality, and high property and tenant concentration constraining the ratings over the next two years. Although the vacancy rate of the Bank of Panhsin Banker Building will become higher after guaranteed rental period ends in July 2023, we believe this will have a manageable impact on the REIT's profitability. In addition, we expect the occupancy rate of the office building to gradually improve by the end of 2023 through the efforts of new trust manager, New Light International Corp.

Outlook

The stable rating outlook on O-Bank No. 1 REIT reflects our expectation that the current portfolio of the trust could maintain stable profitability over the next 12 months. The outlook also reflects our view that the trust's ratio of debt to EBITDA will remain below 9.5x over the next one to two years.

Downward scenario

We could lower the rating on O-Bank No.1 REIT if:

- Asset profitability deteriorates materially, as indicated by significantly weaker EBITDA margins and higher volatility than under our base case. These could result from a high vacancy rate or a sharp drop in rental rates for the office building or early termination of lease contract for the trust's Tainan FOCUS property; or
- The debt-to-EBITDA ratio increases close to 9.5x, which could result from aggressive debt-funded property acquisitions, high tenant turnover, or sharply decreasing rental rates.

Upward scenario

The probability of an upgrade is low for the next 12 months, given the REIT's property and tenant concentration, as well as relatively smaller scale. However, we may raise the rating on O-Bank No.1 REIT if:

- The trust could increase its property and tenant diversity and maintain stable profitability. At the same time, the trust would need to maintain its financial policy to keep its debt-to-asset ratio no higher than 25%. This could happen if the trust materially enlarges its portfolio and maintains its EBITDA margins or return on capital through business cycle.

Our Base-Case Scenario

- Taiwan real GDP growth at 1.5% in 2023 and 2.5% in 2024.
- We expect O-bank No.1 REIT to generate revenue of NT\$112 million in 2023 and NT\$116 million in 2024.
- Guaranteed rental period for the Bank of Panhsin Banker Building will end in July 2023. This will result in a higher vacancy rate, but we expect the building to become fully occupied by the end of 2023.
- Rental income from Tainan FOCUS to grow by 0.5%-1.0% in 2023 and 1.0%-1.5% in 2024, given 2.0% raise of rental rate since August 2023 per initial contract with the settlor.

- Maintenance expense for 2023-2024 to remain stable. Total operating expense of 23%-24% of total revenue during 2023-2024.
- No new property acquisition within the next one to two years.
- 100% cash dividend payout.

Key Metrics

O-Bank Number One Real Estate Investment Trust--Forecast summary

(Mil. NT\$)	2021a	2022a	2023e	2024f	2025f
Revenue	113	119	112	116	116
EBITDA	86	92	85	89	89
Capital expenditure (capex)	--	--	--	--	--
Dividends	87	87	93	86	90
Debt	--	--	--	--	--
Cash and short-term investments (reported)	87	94	87	91	91
Adjusted ratios					
Debt/EBITDA (x)	--	--	--	--	--
EBITDA margin (%)	76.3	77.4	76.1	76.7	76.9
Debt/debt and equity (%)	--	--	--	--	--

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity

The short-term issuer credit rating is twA-2. We believe that O-Bank No.1 REIT has strong liquidity to meet its needs up to March 2025. We view that the trust's ratio of liquidity sources to liquidity uses will be 2.26x annually over the 12 months ending March 31, 2024, and 2.35x for the subsequent 12 months. Although the ratios are qualified for an exceptional liquidity assessment, we believe the REIT's limited asset scale and property type somewhat constrain its credit standing, ability to maintain exceptional liquidity, and ability to absorb high-impact and low probability event without refinancing, .

Nonetheless, we believe O-Bank No. 1 REIT's liquidity sources will continue to exceed uses even if the trust's EBITDA were to decline by 15%, underpinning our strong liquidity assessment. We also believe the trust has generally prudent risk management, a sound relationship with Taiwan banks, and satisfactory credit standing in local market, backed by its unpledged properties and ample liquidity in Taiwan. O-Bank No. 1 REIT has no debt as of the end of March 2023.

Principal liquidity sources

- Cash and short-term investments of NT\$118.9 million as of March 31, 2023.
- Funds from operation of NT\$85 million-NT\$95 million up to March 31, 2024 and NT\$85 million-NT\$ 95 million up to March 31, 2025

Principal liquidity uses

- Cash dividend of NT\$ 90 million-NT\$95 million up to March 31, 2024, and NT\$85 million-NT\$95 million up to March 31, 2025.

Ratings Score Snapshot

Issuer Credit Rating: twBBB+/Stable/twA-2

Note: The descriptors below are on a global scale.

Business risk: Weak

- Country risk: Intermediate
- Industry risk: Low
- Competitive position: Weak

Financial risk: Minimal

- Cash flow/Leverage: Minimal

Anchor: twa-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Negative (-1 notch)
- Liquidity: Strong (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twbbb+

ESG credit indicator--E-2, S-2, G-2

Related Criteria & Research

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry - February 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities - November 13, 2012
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions - Nov. 11, 2021

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

O-Bank Number One Real Estate Investment Trust

Issuer Credit Rating	twBBB+/Stable/twA-2
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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