TRIS RATING
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GRANDE ASSET HOTELS AND PROPERTY PLC

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19 March 2021

CORPORATES

Company Rating: BB-
Outlook: Negative

Last Review Date: 24/07/20

Company Rating History:

Date	Rating	Outlook/Alert
24/07/20	BB-	Negative
27/03/20	BB	Alert Negative
13/05/19	BB	Stable
24/03/17	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Grande Asset Hotels and Property PLC (GRAND) at "BB-" with a "negative" outlook. The rating takes into consideration the good quality of the company's hotel properties and its experience as a property developer, as well as the nature of the hotel industry, which is characterized by intense competition and sensitivity to uncontrollable external factors. The rating is, however, constrained by GRAND's weak operating performance aggravated by the lingering impact of the Coronavirus Disease 2019 (COVID-19) pandemic, high level of financial leverage, and tight liquidity. The rating takes into consideration our expectation that the company will be able to sell "Royal Orchid Sheraton Hotel & Towers" to a real estate investment trust (REIT) within the second quarter of 2021, which would help alleviate our concern on the company's near-term liquidity.

The "negative" outlook reflects the uncertainty surrounding the recovery prospects of the company and our expectation that GRAND's credit metrics will continue to be under pressure over the next 12-18 months.

KEY RATING CONSIDERATIONS

Another year of weak hotel performance expected

TRIS Rating projects the operating performance of GRAND's hotel properties will remain weak in 2021 but expects a gradual recovery in 2022-2023. Domestic travel, which rebounded in the second half of 2020, has slowed down substantially due to the impact of the second outbreak which started in late December 2020. Meanwhile, the revival of foreign tourist arrivals will take time depending on the rollout and effectiveness of vaccination programs in Thailand and other countries.

We anticipate that the government will be able to contain the new outbreak in the first quarter of 2021, which should help reboot domestic travel. We expect vaccines will be more widely distributed in the second half of 2021, which may also mark the onset of foreign tourist arrivals to Thailand. We therefore project the performance of the company's hotels outside Bangkok will start to rebound in the second quarter of 2021 driven by domestic demand, while the performance of its hotels in Bangkok will start to revive in the last quarter of 2021 when the government may eventually allow vaccinated foreign tourists to enter Thailand without quarantine requirements.

Under our base-case scenario, we project GRAND's hotel revenue per available room (RevPAR) to be around 70% below the 2019 level in 2021, before improving in 2022 to around 30% below the 2019 level, and in 2023 to around 10% below the 2019 level.

GRAND's hotel properties are well maintained and situated in good locations. The company's strategy is to invest in hotels in prime locations and appoint highly experienced international hotel chains to manage the properties. International hotel chains provide strong brand names, good hotel management systems, and effective sales channels.

Weak sales for residential property projects

GRAND is currently working on two real estate projects, at the company level, namely "Hyde Sukhumvit 11" and a mixed-use project in Rayong province.

The sales progress at Hyde Sukhumvit 11 has been slow as a result of sluggish demand among domestic consumers and a lack of foreign buyers due to the international travel restrictions. The project was completed and ready to transfer to customers in 2017. As of December 2020, remaining units were worth around THB1.4 billion or about 32% of the project value. The company recorded sales of only THB163 million in 2020. We expect the sales of Hyde Sukhumvit 11 will be soft in 2021 due to the impact of COVID-19 but anticipate a rebound in 2022 and 2023 after the easing of international travel restrictions and the recovery of the domestic economy.

The mixed-use property project in Rayong includes three types of property. The project features 61 villas for sale, a 205-key hotel, and a condominium. Total estimated development costs are THB1.5 billion for the villas and THB2.1 billion for the hotel. Currently, the company is developing the villas and plans to kick off sales in 2021. The company will develop the hotel and condominium after the villas are completed.

Our base-case projection assumes sales of Hyde Sukhumvit 11 and the villas in Rayong to be around THB350 million in 2021 and approximately THB600 million annually during 2022-2023.

In addition, GRAND has set up two joint ventures (JV) to develop two condominium projects in Bangkok. The JVs are with Property Perfect PLC (PF), its major shareholder, and Sumitomo Forestry, Japan's leading timber and homebuilding firm. "The Hyde Heritage Thonglor" project, on Sukhumvit road near Soi Sukhumvit 59, is worth around THB6 billion. "The Hyde River Bay" project, located on Charoen Nakorn road by the Chao Phraya river, is worth THB11 billion. The company holds a 40% stake in the Hyde Heritage Thonglor project and a 42% stake in the Hyde River Bay project. The total investment required for the two projects, at the JV level, is around THB10 billion. The Hyde Heritage Thonglor is now under construction with an expected completion in 2021 while the Hyde River Bay project will be delayed until market sentiment improves.

New investment in rubber glove business

In late 2020, GRAND joined with its business partner, which has experience of more than 30 years in the manufacture of rubber gloves, to set up Grand Global Glove Co., Ltd. (GGG) to manufacture rubber glove products. The company has invested around THB150 million in equity and shareholder loans to GGG. The factory will be completed and ready to operate in May 2021. GGG has secured pre-orders for most of the production capacity from its clients. If the GGG project is successful, it will significantly improve GRAND's financial performance. However, the success of the new business remains to be seen.

Financial leverage to remain high with large operating losses expected in 2021

GRAND's financial leverage, as measured by adjusted debt to earnings before interest, taxes, depreciation and amortization (EBITDA), was very high at 11.5 times in 2019, even before the pandemic. Our base-case scenario projects GRAND's performance to continue to be severely affected by the fallout from the pandemic in 2021, with slightly negative EBITDA. We project EBITDA to be around THB800 million to THB1 billion annually during 2022-2023. The projected capital budget for the hotel segment and development costs for new residential properties will total around THB1.7 billion for the next three years.

We assume under our base-case scenario that GRAND, through its subsidiary, Royal Orchid Hotel PLC (ROH), will sell Royal Orchid Sheraton Hotel & Towers to a newly established REIT in the second quarter of 2021 before leasing it back with an initial term of three years, renewable for another year twice, for a maximum lease term of five years. The company has the obligation to buy the asset back after the fifth year at the initial selling price plus some premium, with buyback options in the third year and fourth year at pre-determined prices. This transaction would help alleviate GRAND's tight liquidity situation but, as it comes with future obligations, would not help lower the level of debt in TRIS Rating's calculation of leverage. The adjusted debt to EBITDA ratio is projected to be 13 times in 2022 and 10 times in 2023.

GRAND's bank loan requires the net debt to equity ratio to stay below 2.50 times. With weak financial results, the company breached its financial covenants in 2020. However, the company had already obtained waivers from the lenders.

Tight liquidity

GRAND's liquidity remains very tight. As of December 2020, GRAND's sources of funds comprised cash and cash equivalents of THB695 million. In addition, the company has undrawn credit facilities available from commercial banks of THB929 million. The proceeds from its planned sale of Royal Orchid Sheraton Hotel & Towers to the REIT will be in the range of THB4 billion to THB4.5 billion. These sources of cash should be sufficient for its uses of funds in the next 12 months. The debt repayment schedule over the next 12 months consists of THB3.4 billion in long-term obligations and THB30 million in short-term obligations. In 2021, we forecast the company will record a net cash outflow from operations of around THB760 million with budgeted investments of around THB150 million. The company will face significant refinancing risk if it is unable to secure new funds by selling its hotel to the REIT to meet its financial obligations.

BASE-CASE ASSUMPTIONS

- Revenue from the hotel business to stay at around THB700 million in 2021 then increase to the range of THB1.7 - THB2.3 billion during 2022-2023.
- Revenue from the property business to be around THB400 million in 2021, then improve to THB600 million annually during 2022-2023.
- EBITDA margin to be around -7% in 2021, then improve to around 34% in 2022 and in 2023.
- Total capital spending to be around THB1.7 billion over the three-year forecast period.
- GRAND to sell Royal Orchid Sheraton Hotel & Towers to the REIT in the first half of 2021.

RATING OUTLOOK

The "negative" outlook reflects our expectation that GRAND's credit metrics will continue to be under pressure over the next 12-18 months. The recovery path of its operating results remains uncertain. The lingering weak sales of the company's residential property projects add to our concerns.

RATING SENSITIVITIES

The outlook could be revised to "stable" if the company can improve its liquidity position and we see a clear recovery in GRAND's operating performance after the pandemic has been largely contained and cross-border travel restrictions are eased. On the other hand, the rating could be revised downward if GRAND's operating performance does not recover in line with our projections, or if GRAND is unable to manage the refinancing risk of its maturing debentures.

COMPANY OVERVIEW

GRAND was incorporated in 1988, under the name "Sukhumvit Center Co., Ltd.", to develop and operate the "GRAND Pacific Hotel". The hotel was later renamed "The Westin Grande Sukhumvit, Bangkok". The company added the "Sheraton Hua Hin Resort and Spa" to its portfolio in 2009 and the "Sheraton Hua Hin Pranburi Villas" in 2013. The company added another two new hotels in 2018, including the "Royal Orchid Sheraton Hotel", located on the Chao Phraya river, and the "Hyatt Regency" on Sukhumvit road near Nana BTS station. As of March 2020, GRAND owned hotels with a total of 1,654 rooms.

The company moved into the property development segment in 2007 with the launches of two condominium projects: "The Trendy Condominium" and "Hua Hin Blue Lagoon". The company completed "Hyde Sukhumvit 13" in 2014 and "Hyde Sukhumvit 11" in 2017. Currently, the company is developing a villa project in Rayong province. In addition, in 2017 and 2018, the company set up two JVs with its major shareholder, PF and Sumitomo Forestry, a Japanese housing and wood products corporation, to develop two condominium projects: Hyde Heritage Thonglor and Hyde River Bay. As of March 2019, GRAND's largest shareholders were PF and its affiliates, holding 49% of the total outstanding shares.

The hotel segment has typically contributed the largest share (over 75%) of total revenue during recent years. The balance has come from the residential property segment. However, in some years, such as 2017-2018, the property development segment accounted for around 50% of total revenue as the company completed and transferred a condominium project in those years.

KEY OPERATING PERFORMANCE

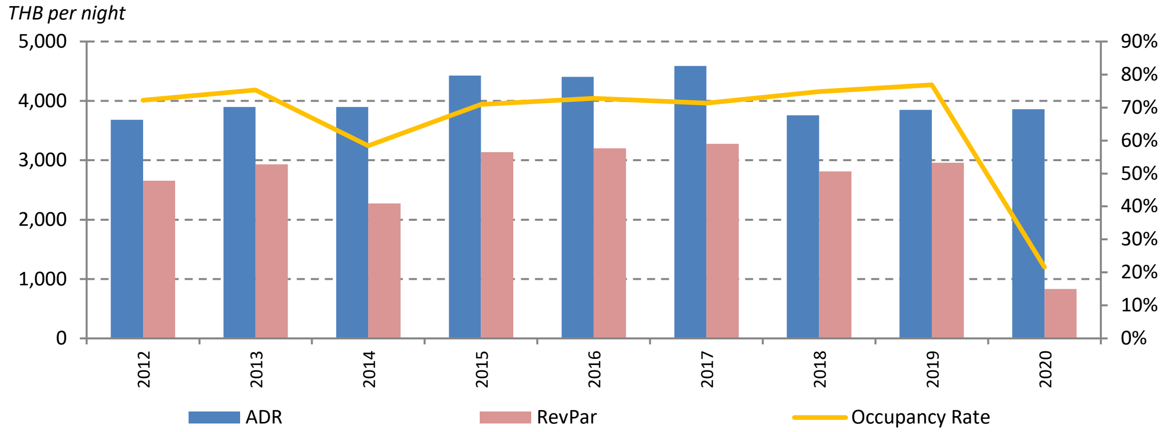
Table 1: GRAND's Revenue Breakdown by Line of Business

Unit: %

Revenue Breakdown	2013	2014	2015	2016	2017	2018	2019	2020
Hotel	81	17	77	76	47	52	85	79
Residential property	17	83	21	23	52	47	14	17
Others	2	0	2	1	1	1	1	4
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total revenue (mil. THB)	**1,226**	**4,886**	**1,361**	**1,417**	**2,305**	**3,343**	**2,987**	**1,000**

Source: GRAND

Chart 1: GRAND's OR, ADR, and RevPar



Source: GRAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----------------------Year Ended 31 December -------------------				
	2020	2019	2018	2017	2016
Total operating revenues	1,081	3,084	3,451	2,339	1,451
Earnings before interest and taxes (EBIT)	(625)	220	459	1,000	135
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(106)	700	798	1,233	396
Funds from operations (FFO)	(496)	179	368	835	226
Adjusted interest expense	631	576	434	306	142
Capital expenditures	66	381	706	647	751
Total assets	13,508	14,525	13,677	9,285	7,689
Adjusted debt	9,242	8,076	7,069	4,422	3,472
Adjusted equity	3,111	4,160	4,562	3,623	2,902
Adjusted Ratios					
EBITDA margin (%)	(9.83)	22.68	23.12	52.70	27.29
Pretax return on permanent capital (%)	(4.60)	1.62	4.07	12.26	2.22
EBITDA interest coverage (times)	(0.17)	1.22	1.84	4.02	2.78
Debt to EBITDA (times)	(86.99)	11.54	8.86	3.59	8.77
FFO to debt (%)	(5.37)	2.22	5.21	18.87	6.52
Debt to capitalization (%)	74.81	66.00	60.78	54.97	54.47

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Grande Asset Hotels and Property PLC (GRAND)

Company Rating:	BB-
Rating Outlook:	Negative

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