# GRANDE ASSET HOTELS AND PROPERTY PLC

No. 54/2022
8 April 2022

## CORPORATES

**Company Rating:** BB-
**Outlook:** Negative

**Last Review Date:** 19/03/21

**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 constrained by GRAND's weak operating performance aggravated by the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, high financial leverage, and tight liquidity.

The "negative" outlook reflects the uncertainty surrounding the COVID-19 situation and the ongoing geopolitical conflict between Russia and Ukraine which could dent the recovery of GRAND's operating performance and put more pressure on the company's credit metrics.

## KEY RATING CONSIDERATIONS

### Gradual recovery of the hotel business expected but uncertainty remains

GRAND's hotel operating performance continued to deteriorate in 2021. The results were weaker than our expectations due to the prolonged COVID-19 pandemic. In 2021, GRAND's average hotel occupancy rate was 16% and revenue per available room (RevPAR) was 84% below the 2019 level. The emergence of new COVID-19 variants and several waves of infections prompted the government to impose entry restrictions such as quarantine and COVID-19 testing requirements, limiting the number of foreign tourist arrivals in 2021. We saw signs of improvement in GRAND's hotel performance in the fourth quarter of 2021 when the government eased travel restrictions following an improved COVID-19 situation. However, the situation remained fluid as the government tightened rules once again in late 2021 in response to the Omicron variant and the surge in new cases.

We expect GRAND's hotel performance to start to recover meaningfully in the second half of 2022, until reaching pre-COVID-19 levels in 2024. The government relaxed entry restrictions again in February 2022 as Omicron concerns eased. We expect a further lifting of entry requirements for international travelers. Foreign tourists are likely to be able to enter Thailand without any requirements in the latter half of 2022 which should help increase the number of foreign tourist arrivals. Our base-case forecast projects GRAND's RevPAR in 2022 to be around 40% of the 2019 level, before increasing to 80% of the 2019 level in 2023, and reaching the 2019 level in 2024. However, there remain downside risks to our base-case forecast. We view that the COVID-19 situation remains highly uncertain. The emergence of more severe variants or fresh outbreaks could hinder the recovery of the hotel business. Added to that risk, the ongoing Russia-Ukraine conflict, if protracted, might have significant impact on the recovery of international travel and the tourism industry.

### Slow residential sales due to sluggish demand

GRAND currently has two active 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 remained very slow in 2021 due to sluggish demand among domestic consumers and a lack of foreign buyers due to the lingering COVID-19 pandemic. Hyde Sukhumvit 11 recorded sales of only THB41 million in 2021. The project was completed and ready to transfer to customers in 2017. As of December 2021, remaining units were worth THB1.35 billion or about 31% of the project value.

The mixed-use property in Rayong includes three types of property. The project features 61 villas for sale, a 205-key hotel, and a condominium. GRAND delayed the launch of the villas from 2021 to 2022 as the COVID-19 situation did not improve in 2021. The company now plans to kick off marketing activities in the second quarter of 2022. Currently, the company has nine completed villas in the beachfront area ready to transfer to customers in 2022. The company will develop the hotel and condominium after the villas are completed. Construction on the hotel is expected to start in 2024-2025 and in 2025-2026 on the condominium.

We anticipate residential sales to remain under pressure but rebound moderately in 2022-2024. Under our base-case projection, we assume sales of the two projects to be THB400 million in 2022 and THB500 million per annum during 2023-2024. The demand for condominiums will likely remain soft and developers may need to offer promotions and discounts to drive sales which will in turn continue to pressure margin. For villas, we expect the demand to be less affected as it targets wealthy customers who are less impacted by COVID-19. However, the company has a limited track record in developing villas for sale and Rayong is a relatively new location for luxury villas. How customers receive GRAND's villa project remains to be seen.

GRAND has set up two joint ventures (JV) to develop two condominium projects in Bangkok, namely "The Hyde Heritage Thonglor" project, on Sukhumvit Road near Soi Sukhumvit 59 and "The Hyde River Bay" project, located on Charoen Nakorn Road by the Chao Phraya River. The Hyde Heritage Thonglor is now under construction and is expected to be completed and ready to transfer to customers in the second quarter of 2022. Presales of Hyde Heritage Thonglor had reached around THB2.2 billion or 37% of the total project value as of December 2021. Meanwhile, the Hyde River Bay project is currently under revision and will be delayed until market sentiment improves. Under our base-case assumptions, we expect the Hyde Heritage Thonglor project to be able to transfer most of its backlog in 2022 and the Hyde River Bay project to start construction work in mid-2023.

**Start-up of rubber glove operations delayed**

In late 2020, GRAND worked with a business partner, which has experience of more than 30 years in the manufacture of rubber gloves, to set up Grand Global Gloves Co., Ltd. (GGG) to manufacture rubber glove products. The company had invested around THB390 million in equity and shareholder loans in GGG as of December 2021.

GRAND's rubber glove business fell behind the initial schedule. Only two production lines were in operation as of December 2021, compared with the company's initial plan of 16 production lines up and running in 2021. The delay was primarily due to slow construction brought on by the COVID-19 restrictions. The process of securing a loan from a financial institution also took longer than expected. The company is currently installing production lines 3-4 and aims to have eight lines in operation by the end of 2022 and 16 lines by the end of 2023.

TRIS Rating views that if the GGG project is successful, it will significantly improve GRAND's financial performance. However, the JV's profitability might not be as good as previously expected as the prices of rubber gloves have started to normalize to the pre-COVID-19 level and raw material prices might surge in tandem with high oil prices if the Russia-Ukraine conflict lingers on. Hence, the success of the execution and operating performance of the new business remains to be seen.

**Financial leverage expected to improve but remain high**

Our base-case scenario projects GRAND's performance to remain weak but start to recover in 2022, with EBITDA to turn slightly positive in 2022. We expect EBITDA to continue to improve to around THB700 million in 2023 and THB900 million in 2024. The projected capital budget for the hotel segment and development costs for new residential properties should total around THB1.3 billion over the next three years. Hence, the adjusted debt to EBITDA ratio is projected to remain at a very high level in 2022, before improving to 18 times in 2023 and 14 times in 2024.

The company, through its subsidiary, Royal Orchid Hotel PLC (ROH), sold Royal Orchid Sheraton Hotel & Towers to a newly established real estate investment trust (REIT) with buy-back conditions in July 2021 and leased back the asset. The company has the obligation to buy back the asset after the fifth year at around THB4.9 billion, with buy-back options in the third and fourth years at pre-determined prices. This transaction has helped 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.

GRAND's bank loan covenant requires the net interest-bearing debt to equity ratio to stay below 2.50 times. The ratio was 1.25 times as of December 2021 as the company's interest-bearing debt decreased due to the sale of Royal Orchid Sheraton Hotel & Towers to the REIT while its equity increased thanks to gains from revaluations of land. However, the covenant headroom is likely declining as we expect the company to continue operating at losses due to high financial cost over the next few years, leading to weakened equity.

As of December 2021, GRAND had consolidated debt of THB10.8 billion, of which around THB7.9 billion was considered priority debt. Priority debt comprised secured loans and debentures at GRAND and the obligation to buy back the asset from REIT. As its priority debt ratio was 73%, higher than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that GRAND's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

**Tight liquidity**

We assess GRAND to have tight liquidity over the next 12 months. As of December 2021, GRAND's sources of funds comprised cash and cash equivalents of around THB1 billion, proceeds from issuance of secured debentures of THB1 billion issued in January 2022, proceeds from a capital increase of around THB300 million in February 2022, and undrawn short-term loans of THB30 million. The uses of funds comprised debt coming due over the next 12 months of THB3.3 billion, expected net cash outflow from operations of around THB600 million, and budgeted investments of around THB600 million in 2022. The company plans to refinance its maturing debt and secure additional funding to meet its financial obligations and investment plan.

## BASE-CASE ASSUMPTIONS

- Revenue from the hotel business to stay at around THB1.1 billion in 2022 then increase to the range of THB2.1-THB2.6 billion during 2023-2024.
- Revenue from the property business to be around THB400 million in 2022, before improving to THB500 million annually during 2023-2024.
- EBITDA margin to be around 3% in 2022, before improving to around 26% in 2023 and 30% in 2024.
- Total capital spending to be around THB1.3 billion over the three-year forecast period.

## RATING OUTLOOK

The "negative" outlook reflects the uncertain COVID-19 situation and potential impact of the Russia-Ukraine conflict on the recovery of GRAND's operating performance, adding pressure on the company's credit metrics.

## RATING SENSITIVITIES

The rating could be revised downward if GRAND's operating performance does not recover in line with our expectations and credit metrics deteriorate further from our projections, or if GRAND is unable to manage the refinancing risk of its maturing debentures. However, the outlook could be revised to "stable" if the company's operating performance and credit metrics outperform or track our base-case forecast while maintaining an acceptable liquidity position.

As GRAND is a subsidiary of Property Perfect PLC (PF), a multiple-notch downgrade in the credit rating on PF could have an impact on the rating on GRAND.

## 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 December 2021, 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 2022, 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

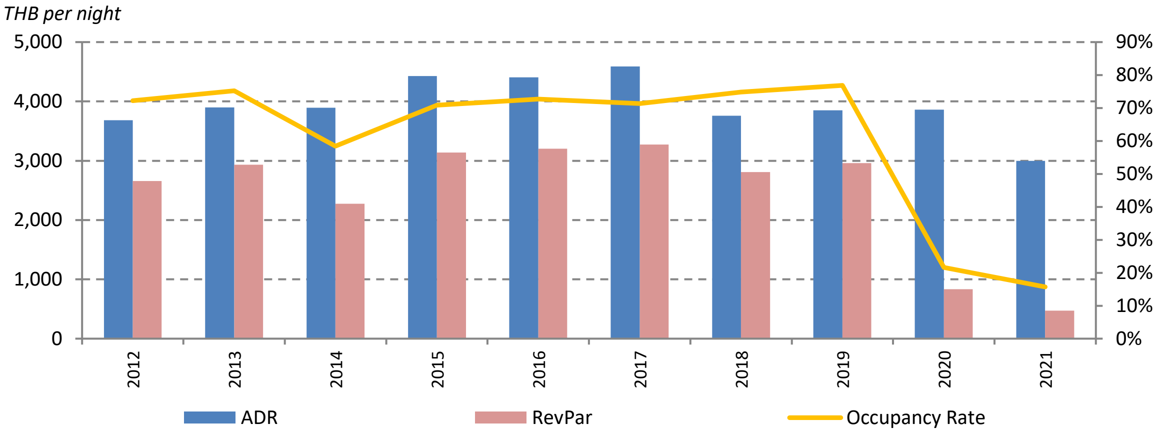
**Table 1: GRAND's Revenue Breakdown by Line of Business**

*Unit: %*

| Revenue Breakdown | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|
| Hotel | 17 | 77 | 76 | 47 | 52 | 85 | 79 | 85 |
| Residential property | 83 | 21 | 23 | 52 | 47 | 14 | 17 | 12 |
| Others | 0 | 2 | 1 | 1 | 1 | 1 | 4 | 3 |
| **Total revenue** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |
| **Total revenue (mil. THB)** | **4,886** | **1,361** | **1,417** | **2,305** | **3,343** | **2,987** | **1,000** | **515** |

*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---- | | | | |
|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total operating revenues | 574 | 1,081 | 3,084 | 3,451 | 2,339 |
| Earnings before interest and taxes (EBIT) | (819) | (625) | 220 | 459 | 1,000 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | (308) | (106) | 700 | 798 | 1,233 |
| Funds from operations (FFO) | (1,104) | (740) | 87 | 329 | 830 |
| Adjusted interest expense | 748 | 631 | 576 | 434 | 306 |
| Capital expenditures | 119 | 66 | 381 | 706 | 647 |
| Total assets | 17,596 | 13,508 | 14,525 | 13,677 | 9,285 |
| Adjusted debt | 11,096 | 9,242 | 8,076 | 7,069 | 4,422 |
| Adjusted equity | 4,381 | 3,111 | 4,160 | 4,562 | 3,623 |
| **Adjusted Ratios** | | | | | |
| EBITDA margin (%) | (53.62) | (9.83) | 22.68 | 23.12 | 52.70 |
| Pretax return on permanent capital (%) | (5.55) | (4.60) | 1.62 | 4.07 | 12.26 |
| EBITDA interest coverage (times) | (0.41) | (0.17) | 1.22 | 1.84 | 4.02 |
| Debt to EBITDA (times) | (36.06) | (86.99) | 11.54 | 8.86 | 3.59 |
| FFO to debt (%) | (9.95) | (8.01) | 1.08 | 4.65 | 18.78 |
| Debt to capitalization (%) | 71.69 | 74.81 | 66.00 | 60.78 | 54.97 |

## RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

## Grande Asset Hotels and Property PLC (GRAND)

| | |
|---|---|
| **Company Rating:** | BB- |
| **Rating Outlook:** | Negative |

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