

# LAND AND HOUSES PLC

No. 196/2021  
29 October 2021

## CORPORATES

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
<b>Outlook:</b>	Stable

**Last Review Date:** 27/09/21

### Company Rating History:

Date	Rating	Outlook/Alert
03/09/14	A+	Stable
01/06/10	A	Stable
03/07/09	A	Negative
27/06/08	A	Stable
04/07/07	A	Negative
28/04/06	A	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Land and Houses PLC (LH) and the ratings on LH's senior unsecured debentures at "A+" with a "stable" rating outlook. The ratings reflect the company's leading position among residential property developers in Thailand, diversified sources of income, and moderately high financial leverage. The ratings take into consideration the financial flexibility derived from its sizable holding in marketable securities, and the effects of the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which have severely impacted its hospitality and retail businesses and also added pressure on demand for condominiums in the short to medium term.

## KEY RATING CONSIDERATIONS

### Strong brand position helps support residential property sales

TRIS Rating views LH's market position in residential property business, especially in the landed property segment, as being relatively strong compared with its peers. Revenues from residential property business ranged around THB25-THB30 billion in the last five years, ranking among the top-five listed property developers. Revenues from residential sales during the first six months of 2021, rose by 27% year-on-year (y-o-y) to THB15.6 billion amid an economic slowdown and the prolonged pandemic. In our view, LH's strong brand position in terms of product quality and after-sale service helps support its sales despite market stagnation.

Looking forward, revenues from residential unit sales are expected to range around THB29-THB31 billion during 2021-2023, with revenue from landed property segment accounting for more than 80% of total residential unit sales. As of June 2021, LH had around 77 existing projects with a total remaining project value of THB52 billion (including built and unbuilt units). Landed property projects accounted for around 80% of total unsold value, while condominium projects constituted the rest. The backlog stood at THB6.5 billion at the end of June 2021 and is expected to be delivered to customers during the remainder of 2021 through 2022.

### Adverse effects from prolonged pandemic on rental assets

LH's rental business was significantly impacted by the prolonged pandemic. LH's existing rental property portfolio comprises five hotels under the "Grande Centre Point" brand, one shopping mall, and three apartment buildings for rent in the United States (US). Revenues from rental and services dropped to only THB2.4 billion in 2020 and THB0.8 billion in the first half of 2021, compared with THB4.9 billion in 2019. The drops were mainly due to the declines in the occupancy rate (OR) and rental rate of its hotels and shopping mall. The revenue per available room (RevPAR) of hotels dropped to THB400-THB900 per night from THB2,600-THB3,300 per night. The rental income from its shopping mall stood at THB519 million in 2020 and THB133 million in the first half of 2021, or around 50% and 25%, respectively, of its normal level.

Due to the prolonged pandemic, we forecast LH's revenue from rental assets to be only THB1.6 billion in 2021, around 33% of the 2019 level. This will gradually recover to around THB2.1 billion in 2022 and THB3 billion in 2023 after its new shopping mall, Terminal 21 on Rama 3 Road, commences operation. Revenues from apartment buildings in the US will be THB600-

THB700 million per annum, based on the average occupancy rate of around 80%-90%. LH plans to sell one or two rental assets each year. Its strategy is to acquire assets, buildup the occupancy rates and sell to a Real Estate Investment Trust (REIT) or investors at a premium. This strategy helps the company to recycle its capital and realize profits faster. During 2015-2019, the company recognized gains from selling its rental assets of around THB1.3-THB2.4 billion per annum. However, the COVID-19 pandemic has delayed its plan to sell assets to 2022.

#### **Diversified sources of income support earnings during the downturn**

LH's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin dropped to around 36%-38% during 2020 through the first half of 2021, from more than 40% in 2019. The drop was mainly due to the loss from hotel operations and lower dividends received from its affiliates. However, LH's operating performance remained favorable compared with its peers which mostly focused on the residential property business. Despite a loss from its hotel operations, its EBITDA stood at around THB10.8 billion in 2020 and THB6.3 billion in the first half of 2021. Its EBITDA margin in the last couple of years remained above other rated property developers that had an average EBITDA margin of around 20%-25% over the same period. More than 35% of its EBITDA came from dividends from its investments and gains from the sales of its rental assets to a REIT or third parties.

At the end of June 2021, LH held shares in four SET-listed companies: Home Products PLC (HMPRO), Quality Houses PLC (QH), LH Financial Group PLC (LHFG), and Quality Construction PLC (Q-CON). Equity income from LH's investments amounted to THB3-THB3.2 billion per annum while the dividend received was around THB2 billion per year in the past five years. The company plans to sell one or two rental assets during 2022-2023. The gain from assets sales is expected to be around THB0.8-THB1 billion per annum. Thus, its EBITDA margin is expected to improve from around 36% in 2021 to 38%-40% during 2022-2023.

#### **Moderately high financial leverage**

We view LH's financial leverage as moderately high. The lower EBITDA margin coupled with the delay in its plan to sell rental assets caused its debt to capitalization ratio to increase to 53% at the end of 2020, up from 47% in 2019. Its funds from operations (FFO) to total debt ratio also dropped from more than 20% in 2019 to only 14% in 2020. According to the key financial covenant on its debentures, LH has to maintain its net interest-bearing debt to equity ratio below 1.5 times. The ratio as of June 2021 was 0.96 times. We believe that LH should be able to comply with the financial covenant on its debt obligations over the next 12-18 months.

Looking forward, the gradual recovery of its operating performance and its plan to sell some of its rental assets should help improve its leverage over the next three years. We forecast the company's debt to capitalization ratio to drop below 50% in 2022. The FFO to debt ratio is expected to recover from 16% in 2021 to stay around 21%-24% in 2022-2023 while its debt to EBITDA ratio should drop below 5 times. This takes into account the company's plan to purchase land worth around THB7 billion per annum and its plan to launch new projects worth around THB20 billion this year and THB25-THB30 billion per annum during 2022-2023. Capital expenditures for its rental assets are expected to be THB4.5 billion in 2021, and around THB2.8 billion per annum during 2022-2023.

LH's total debt at the end of June 2021 stood at THB61.8 billion, of which THB26 billion was priority debt according to TRIS Rating's "Issue Rating Criteria". LH's priority debt, which included debt at its subsidiaries and secured debt at the company, translated into a ratio of priority debt to total debt of 42%. As the company's priority debt ratio was below the threshold of 50%, we view that the company's senior unsecured creditors are not significantly disadvantaged to its priority debt holders.

#### **Adequate liquidity plus financial flexibility from investment portfolio**

We assess LH's liquidity as adequate over the next 12 months. At the end of June 2021, the company had THB13.4 billion in cash and current investments, plus undrawn committed credit facilities of loans from financial institutions of THB11.2 billion. We forecast LH's FFO over the next 12 months to be THB9-THB10 billion. Debts coming due over the next 12 months will amount to THB24.3 billion, comprising mainly THB14 billion in debentures, THB6.9 billion in short-term loans, THB2.6 billion in project loans, and THB0.8 billion in lease obligations. Generally, LH will refinance bonds coming due by new bond issuances. However, LH intends to have back-up facilities to cover all repayments of short-term debts. Its ability to access the capital market and its large investment portfolio also help support its liquidity, if needed.

As of June 2021, the fair market value of the investments in four associated companies (HMPRO, QH, LHFG, and Q-CON) totaled THB71 billion, or 1.03 times of LH's outstanding debts. We acknowledge that the values of the listed securities are subject to market sentiment and volatility. However, in our view, the holdings still provide a considerable cushion for LH's ability to service its debts.

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## BASE-CASE ASSUMPTIONS

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These are the key assumptions in TRIS Rating's base-case forecast for 2021-2023:

- LH to launch residential property projects in 2021 worth THB20.7 billion, comprising landed property projects worth THB19.7 billion and new condominium launches worth THB1 billion. Going forward, the company is expected to launch new residential projects worth THB25-THB30 billion per annum.
- Total revenue to range THB31-THB34 billion per annum.
- Overall gross profit margin to be 32%-33% and EBITDA margin 36%-40%.
- Land acquisition budget forecast to be THB4-THB5 billion per annum over the next three years.
- Capital expenditures expected to be THB4.5 billion in 2021, and THB2.8 billion yearly in 2022 and 2023.
- Divestment of an apartment building in the US scheduled for 2022 and 2023.

## RATING OUTLOOK

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The "stable" outlook on LH's ratings reflects our expectation that the company will maintain its strong market position, achieve steady presales performance and decent operating performance, and maintain acceptable financial leverage. The debt to capitalization ratio should stay around 50% or the debt to EBITDA ratio should stay below 5 times.

## RATING SENSITIVITIES

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LH's ratings and/or outlook could be revised upward should its capital structure improve significantly from the current level, so that its interest-bearing debt to EBITDA ratio stays below 3 times on a sustainable basis while its operating performance remains strongly comparable with peers. Conversely, the ratings and/or outlook could be revised downward should LH's operating performance and/or financial position decline further from its current level.

## COMPANY OVERVIEW

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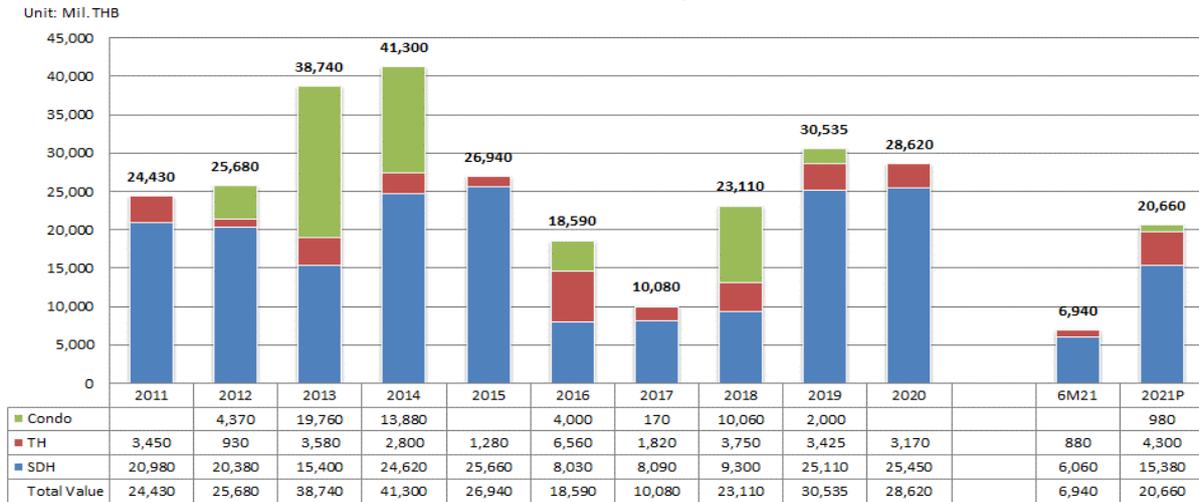
LH was founded by the Asavabhokhin family in 1983 as a real estate developer. The company was listed on the SET in 1989. As of August 2021, the Asavabhokhin family remained LH's largest shareholder with a 30% stake. LH's residential product portfolio is comprehensive, spanning a wide range of prices and product categories. The company offers single detached house (SDH), townhouse, and condominium units covering the low to high-end segments. Its landed property products range in price from THB2 million to above THB25 million per unit. Condominium units are priced from THB50,000 to THB300,000 per sq.m.

Apart from its residential property business, LH operates five hotels under the Grande Centre Point brand, one shopping mall, and four apartment buildings for rent in the US. Also, the company has a sizable portfolio of investments in SET-listed real estate and related businesses. These recurring-income assets and investments in marketable securities provide financial flexibility for the company once the sentiment in the residential property market adversely changes.

LH's revenue contribution from the SDH segment constituted 55%-65% of revenue from sales and rental income during 2016-2020. Revenue contributions from the condominium and the townhouse segments were 20%-30% and 6%-9%, respectively. Revenue from rental assets contributed 8%-11%. In addition, LH earned equity income from its investments in marketable securities of around THB3-THB3.4 billion per annum and received dividends of THB1.7-THB2.5 billion per annum in the past five years.

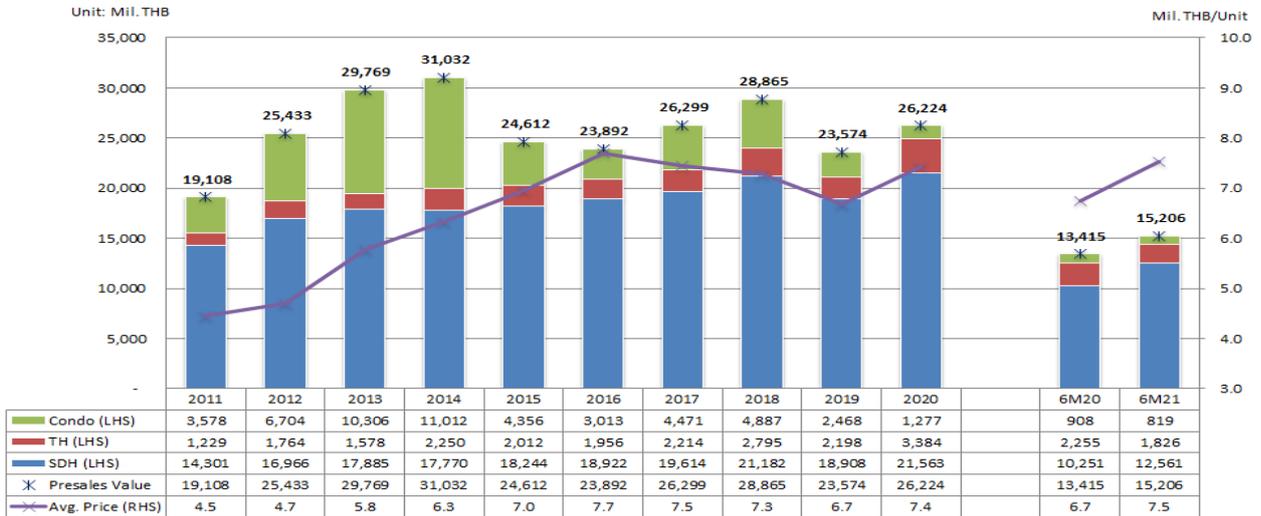
**KEY OPERATING PERFORMANCE**

**Chart 1: New Residential Project Launches**



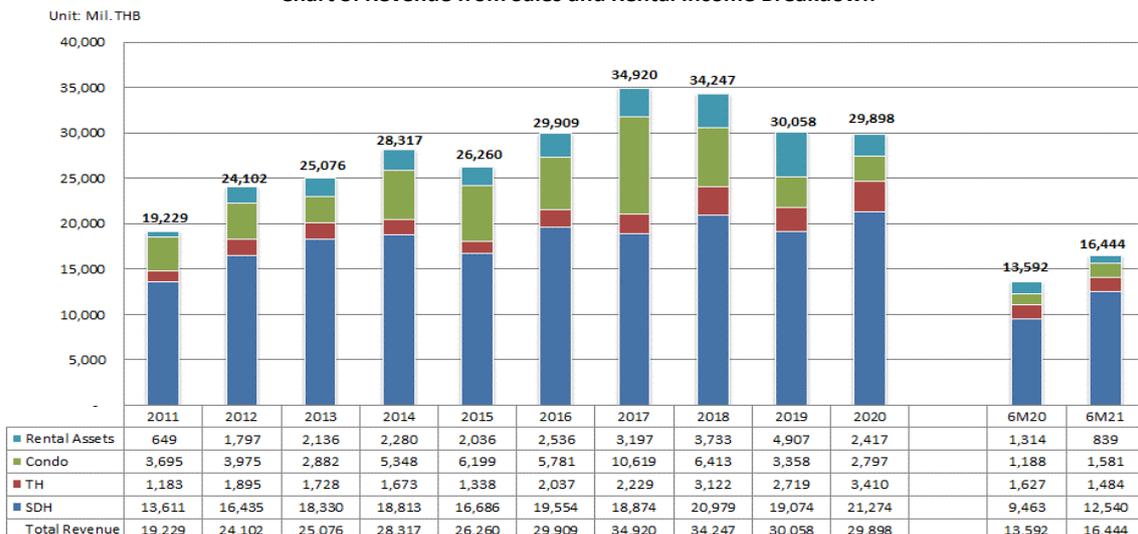
Source: LH

**Chart 2: Presales Performance**



Source: LH

**Chart 3: Revenue from Sales and Rental Income Breakdown**



Source: LH

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	16,682	30,460	30,583	34,694	35,265
Earnings before interest and taxes (EBIT)	5,612	9,903	13,267	13,788	13,558
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,318	10,848	13,634	13,788	13,213
Funds from operations (FFO)	4,970	8,046	10,343	10,581	9,852
Adjusted interest expense	738	1,587	1,572	1,499	1,471
Real estate development investments	55,840	55,833	54,711	49,580	50,706
Total assets	128,238	122,571	113,139	111,481	109,492
Adjusted debt	58,040	57,629	48,881	46,403	46,284
Adjusted equity	50,544	50,601	53,183	50,752	50,809
<b>Adjusted Ratios</b>					
EBITDA margin (%)	37.88	35.61	44.58	39.74	37.47
Pretax return on permanent capital (%)	9.66 **	8.89	12.54	13.32	13.85
EBITDA interest coverage (times)	8.57	6.84	8.67	9.20	8.98
Debt to EBITDA (times)	4.91 **	5.31	3.59	3.37	3.50
FFO to debt (%)	15.13 **	13.96	21.16	22.80	21.29
Debt to capitalization (%)	53.45	53.25	47.89	47.76	47.67

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Land and Houses PLC (LH)**

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
LH224A: THB6,000 million senior unsecured debentures due 2022	A+
LH225A: THB3,000 million senior unsecured debentures due 2022	A+
LH220A: THB7,000 million senior unsecured debentures due 2022	A+
LH235A: THB2,400 million senior unsecured debentures due 2023	A+
LH235B: THB3,000 million senior unsecured debentures due 2023	A+
LH230A: THB3,000 million senior unsecured debentures due 2023	A+
LH244A: THB5,000 million senior unsecured debentures due 2024	A+
LH240A: THB8,000 million senior unsecured debentures due 2024	A+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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