

LAND AND HOUSES PLC

No. 209/2022
16 November 2022

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Outlook:	Stable

Last Review Date: 25/08/22

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 strong brand position among residential property developers with satisfactory operating performance, diversified sources of income, and moderately high financial leverage during the prolonged Coronavirus Disease 2019 (COVID-19) pandemic.

The ratings take into consideration the financial flexibility derived from its sizable holding in marketable securities, and our concerns over the persistently high household debt level and rising inflation which could impact the purchasing power of homebuyers and development costs of property developers in the short to medium term.

KEY RATING CONSIDERATIONS

Strong brand position with satisfactory operating performance

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 recovered to THB30 billion in 2021 from THB25 billion in 2019, amid an economic slowdown and the prolonged pandemic. LH's revenue ranked among the top-three listed property developers. Revenues from residential sales during the first half of 2022 stood at THB15.3 billion, relatively flat from the same period last year. 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 THB31-THB33 billion per annum during 2022-2024, with revenue from landed property segment accounting for more than 80% of total residential unit sales. As of June 2022, LH had 74 existing projects with a total remaining project value of around THB50 billion (including built and unbuilt units). Landed property projects accounted for 82% of total unsold value, while condominium projects constituted the rest. The backlog stood at THB4.4 billion at the end of June 2022 and is expected to be delivered to customers during the remainder of 2022.

Recovery operating performance on rental assets

LH's rental business was significantly affected by the prolonged pandemic. Revenues from rental and services dropped to THB2.4 billion in 2020 and only THB1.8 billion in 2021, compared with THB4.9 billion in 2019. Rental revenue recovered to THB1.6 billion in the first half of 2022 following the reopening after the pandemic. The occupancy rate (OR) and rental rate of its hotels and shopping mall improved over-time. The revenue per available room (RevPAR) of hotels increased to THB1,300-THB1,800 per night from THB600-THB800 per night in 2021. However, this was still lower than the pre-COVID level at THB2,500-THB3,000 per night. The rental income from its shopping mall stood at THB519 million in 2020 and dropped to THB258 million in 2021, then improved to THB220 million in the first half of 2022, compared with around THB1 billion in 2019.

Given the increasing number of tourist arrivals, we forecast LH's revenue from rental assets to be THB2.8 billion in 2022, around 56% of the 2019 level. This should recover to around THB4.1 billion in 2023 and THB4.5 billion in 2024.

Rental revenue is expected to increase further following the openings of the hotel “Grande Centre Point Space Pattaya” in August 2022, and the shopping mall “Terminal 21 Rama 3” in October 2022. Both assets have been well received by customers.

In addition to its rental assets in Thailand, LH also invested in three apartments and one hotel in the United States (US). Revenues from the apartment buildings and hotel in the US are expected to be around THB900 million per annum, based on an average occupancy rate of around 90%. LH’s strategy is to acquire assets, build up the occupancy rates and sell to a Real Estate Investment Trust (REIT) or investors at a premium. This strategy helps the company 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, its plan to sell assets was interrupted by the COVID-19 pandemic.

Diversified sources of income support earnings during the downturn

LH’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin dropped to around 35%-37% during 2020 through the first half of 2022, from more than 40% in 2019. The drop was mainly due to the loss from hotel operations and less dividends received from its affiliates. However, LH’s operating performance remained favorable compared with its peers which mostly focused on residential property businesses. Despite a loss from its hotel operations, its EBITDA stood at around THB11-THB12 billion yearly in 2020-2021 and THB6.4 billion in the first half of 2022. 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. Almost 20% of its EBITDA came from dividends from its investments.

At the end of June 2022, 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 THB2.5-THB3.4 billion per annum while the dividend received was THB2.0-THB2.5 billion per year in the past five years. LH’s EBITDA margin is expected to improve further as the company plans to sell one or two rental assets during 2023-2024. The gain from assets sales could be THB0.8-THB1.2 billion per annum. Thus, its EBITDA margin is projected to increase to 38%-40% in 2023-2024 from around 36% in 2022.

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 and hold at 53% during the end of 2020 through the end of June 2022, up from 47% in 2019. Its funds from operations (FFO) to total debt ratio also dropped from more than 20% in 2019 to 14%-15% between 2020 through the first half of 2022. The financial covenant on its debentures requires the company to maintain its net interest-bearing debt to equity ratio below 1.5 times. The ratio as of June 2022 was 0.97 times. We believe that LH should be able to comply with the financial covenant on its debt obligations over the next 12-18 months. Its priority debt to total debt ratio at the end of June 2022 was 29%.

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 2023. The FFO to debt ratio is expected to recover from 16% in 2022 to stay around 20%-23% in 2023-2024 while its debt to EBITDA ratio should stay below 5 times. This takes into account the company’s plan to purchase land worth around THB4-THB5 billion per annum and its plan to launch new projects worth around THB30 billion this year and THB25-THB30 billion per annum during 2023-2024. Capital expenditures for its rental assets are expected to be THB4.6 billion in 2022, THB3.7 billion in 2023, and THB2.0 billion in 2024.

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 2022, the company had THB5.1 billion in cash and current investments, plus undrawn committed credit facilities of loans from financial institutions of THB14 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 THB16.8 billion, comprising mainly THB12.4 billion debentures, THB3.5 billion short-term loans, THB0.2 billion project loans, and THB0.7 billion lease obligations. LH typically refinances maturing debentures with new debenture issuances. LH intends to have back-up facilities to cover all repayments of short-term debts. Its ability to access capital markets and its large investment portfolio also help support its liquidity, if needed.

As of June 2022, the fair market value of the investments in four associated companies (HMPRO, QH, LHFG, and Q-CON) totaled THB62.4 billion, or 1.02 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 represent a significant enhancement on LH’s debt servicing ability.

BASE-CASE ASSUMPTIONS

- LH to launch residential property projects in 2022 worth THB29.6 billion, comprising landed property projects worth THB28.8 billion and new condominium launches worth THB0.8 billion. Going forward, the company is expected to launch new residential projects worth THB25-THB30 billion per annum.
- Total revenue to range between THB35-THB37 billion per annum during 2022-2024.
- 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 for rental assets will be THB4.6 billion in 2022, THB3.8 billion in 2023, and THB2.0 billion in 2024.
- Divestment of the hotel scheduled for 2023 and shopping mall for 2024.

RATING OUTLOOK

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

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

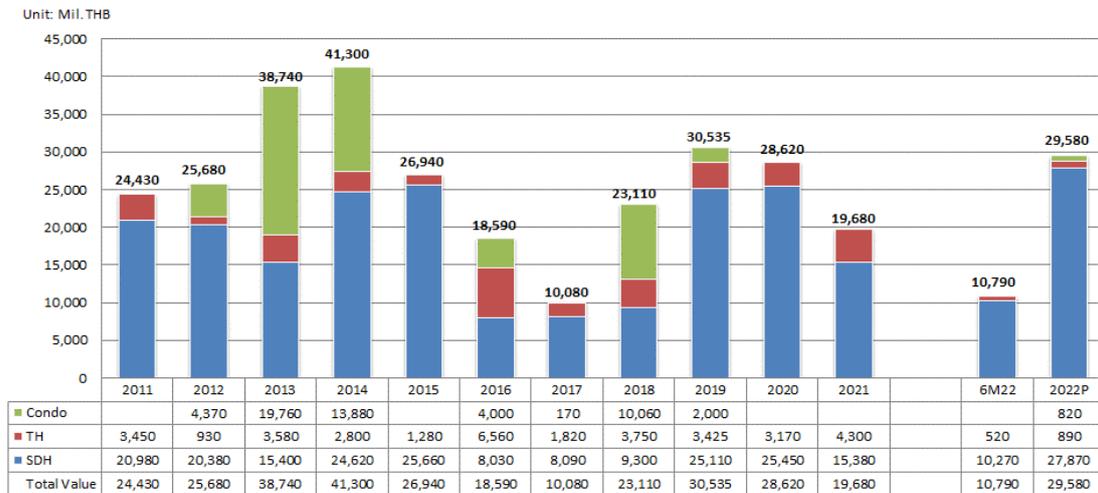
LH was founded by the Asavabhokhin family in 1983 as a real estate developer. The company was listed on the SET in 1989. As of August 2022, the Asavabhokhin family remained LH’s largest shareholder with a 31% stake. LH’s residential product portfolio is comprehensive, spanning a wide range of prices 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 square meters (sq.m.)

Apart from its residential property business, LH operates six hotels under the Grande Centre Point brand, two shopping malls, 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 60%-70% of total revenues during 2018-2021. Revenue contributions from the condominium and the townhouse segments were 10%-20% and around 10%, respectively. Revenue from rental assets contributed around 10%. In addition, LH earned equity income from its investments in marketable securities of around THB2.5-THB3.5 billion per annum and received dividends of THB2.0-THB2.5 billion per annum in the past five years.

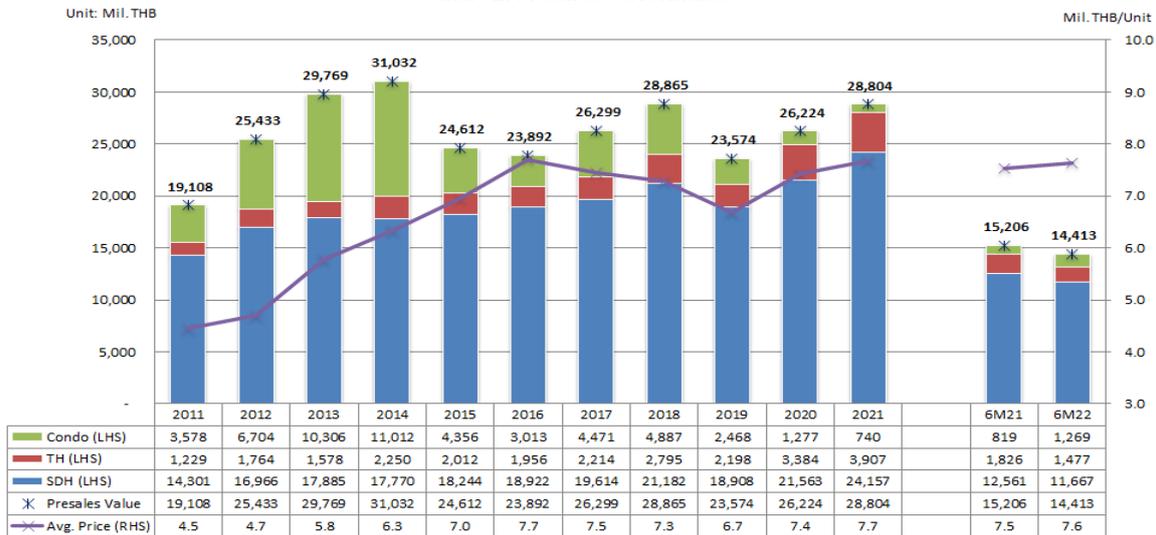
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



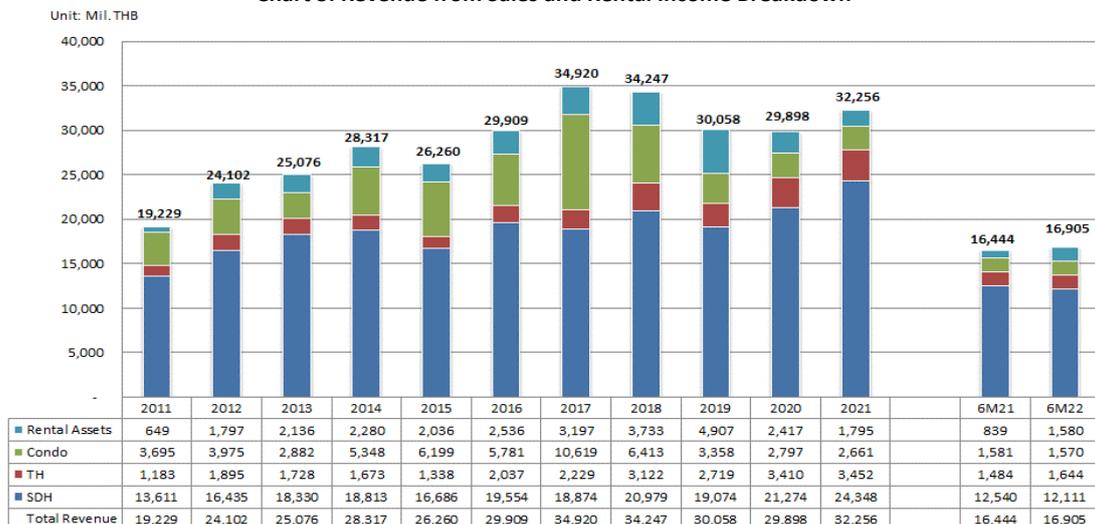
Source: LH

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 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	17,229	32,905	30,504	30,583	34,694
Earnings before interest and taxes (EBIT)	5,982	10,598	9,903	13,267	13,788
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,429	11,719	10,848	13,634	13,788
Funds from operations (FFO)	4,896	8,725	7,966	10,682	10,577
Adjusted interest expense	703	1,512	1,587	1,572	1,499
Real estate development investments	53,216	52,706	55,833	54,711	49,580
Total assets	121,261	125,198	122,571	113,139	111,481
Adjusted debt	57,982	57,889	57,629	48,881	46,403
Adjusted equity	51,142	50,646	50,601	53,183	50,752
Adjusted Ratios					
EBITDA margin (%)	37.32	35.61	35.56	44.58	39.74
Pretax return on permanent capital (%)	9.30 **	9.02	8.89	12.54	13.32
EBITDA interest coverage (times)	9.15	7.75	6.84	8.67	9.20
Debt to EBITDA (times)	4.90 **	4.94	5.31	3.59	3.37
FFO to debt (%)	15.15 **	15.07	13.82	21.85	22.79
Debt to capitalization (%)	53.13	53.34	53.25	47.89	47.76

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Land and Houses PLC (LH)

Company Rating:	A+
Issue Ratings:	
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+
LH244B: THB2,000 million senior unsecured debentures due 2024	A+
LH240A: THB8,000 million senior unsecured debentures due 2024	A+
LH240B: THB1,150 million senior unsecured debentures due 2024	A+
LH254A: THB4,700 million senior unsecured debentures due 2025	A+
LH254B: THB1,600 million senior unsecured debentures due 2025	A+
LH250A: THB4,250 million senior unsecured debentures due 2025	A+
Rating Outlook:	Stable

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