

QUALITY HOUSES PLC

No. 117/2022
17 November 2022

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Negative

Last Review Date: 26/07/22

Company Rating History:

Date	Rating	Outlook/Alert
26/07/22	A-	Negative
18/04/13	A-	Stable
24/11/11	A-	Negative
10/05/10	A-	Stable
02/07/09	A-	Negative
21/07/08	A-	Stable
12/07/04	BBB+	Stable
24/03/04	BBB+	-
23/07/03	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on Quality Houses PLC (QH) and the ratings on QH's existing senior unsecured debentures at "A-", with a "negative" rating outlook. At the same time, we assign the rating of "A-" to QH's proposed issue of up to THB2 billion senior unsecured debentures due within three years. The company plans to use the proceeds from the new debentures to refinance some of the debentures coming due in November 2022.

The ratings reflect QH's deteriorating performance and weakened market position in the landed property segment. The ratings continue to reflect its diversified product portfolio, reliable dividend income from its investments in affiliates, and its prudent financial management. The ratings also incorporate our concerns over the relatively high household debt level and rising inflation which could impact the purchasing power of homebuyers in the short- to medium-term while pushing up development and funding costs for developers.

QH's operating revenues during the first nine months of 2022 were THB6.7 billion, rose 17% year-on-year (y-o-y) and in line with our forecast. Growth in revenues was supported by growth in residential property sales and recovery in the hospitality business. The company's profitability exceeded our expectation thanks to the improving gross profit margin from residential sales and higher profit sharing from affiliates. As a result, its earnings before interest, taxes, depreciation, and amortization (EBITDA) during the first nine months of 2022 stood at THB2.5 billion, accounting for 90% of our full-year target.

As of September 2022, QH had 70 projects, comprising 56 landed property projects and 14 condominium projects. The total unsold value of these projects was THB40.2 billion (including built and unbuilt units). Landed property projects accounted for 71% of the total remaining value, while the rest comprised ready-to-transfer condominium projects. Its backlog was THB1.1 billion.

We expect QH to maintain its prudent financial policy. As the company plans to launch only landed property projects, we forecast its debt to capitalization ratio to stay below 35% over the next three years. As of September 2022, the ratio was 29%. QH had THB12.9 billion debts, comprising THB9.5 billion debentures and THB3.4 billion long-term loans. Around THB1.9 billion of its total debts were considered priority debts translating to a priority debt to total debt ratio of 15%.

We assess QH to have adequate liquidity over the next 12 months. At the end of September 2022, its sources of liquidity included cash on hand of THB2.9 billion and available short-term credit facilities of around THB4.2 billion. QH's funds from operations (FFO) is expected to be around THB2 billion per annum. The company also has unencumbered land at book value worth THB5.4 billion, which can be pledged as collateral for new credit facilities. The company had debts of THB6 billion coming due in the next 12 months, comprising THB4 billion maturing debentures and THB2 billion term loan repayments.

The financial covenant on QH's debt obligations requires QH to keep the net interest-bearing debt to equity ratio (net IBD/E) below 2 times. The ratio at the end of September 2022 was only 0.4 times. Thus, the company should comfortably comply with the financial covenant over the next 12 months.

RATING OUTLOOK

The “negative” outlook reflects a slower-than-expected recovery in QH’s revenue and earnings and its weakened market position in the landed property segment. Amid economic headwinds, QH’s operating performance could further decline from the current level.

RATING SENSITIVITIES

We could revise QH’s outlook to “stable” if its operating performance improves such that its revenue and EBITDA stay above THB10 billion and THB3 billion respectively on a sustained basis. At the same time, its financial profile should not further deteriorate from the current level. In contrast, a rating downward revision could occur if QH’s operating performance and/or financial profile significantly deteriorate from our base-case expectation causing the debt to capitalization ratio to rise above 50% and the debt to EBITDA ratio to exceed 5 times on a sustained basis.

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

Quality Houses PLC (QH)

Company Rating:	A-
Issue Ratings:	
QH22NA: THB4,000 million senior unsecured debentures due 2022	A-
QH243A: THB3,000 million senior unsecured debentures due 2024	A-
QH246A: THB1,500 million senior unsecured debentures due 2024	A-
QH255A: THB1,000 million senior unsecured debentures due 2025	A-
Up to THB2,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Negative

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