

QUALITY HOUSES PLC

No. 23/2023
14 February 2023

CORPORATES

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

Last Review Date: 17/11/22

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 THB1 billion senior unsecured debentures due within three years. The proceeds from the new debentures will be used to refinance outstanding debts.

QH's ratings are supported by its relatively low financial leverage, diversified products, and reliable dividend income from its investments in affiliates. 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. The "negative" outlook reflects QH's deteriorating performance and weakened market position in the landed property segment.

In 2022 QH's net presales revived to THB8.1 billion, from a low of THB7.4 billion in 2021. The company's operating revenues in the first nine months of 2022 hit THB6.7 billion, in line with our forecast. We predict QH's total operating revenue to stand above THB9 billion in 2022, up from THB8.1 billion in 2021, as QH's residential property sales and hospitality business shows signs of recovery. The company's profitability exceeded our expectation, driven by the improving gross profit margin from residential sales and higher shared profit from affiliates. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) was THB2.5 billion during the first nine months of 2022, accounting for 90% of our full-year target.

We forecast its debt to capitalization ratio to remain below 35% over the next three years. As of September 2022, the ratio was 29%. At the end of December 2022, QH had THB11.5 billion debts, comprising THB7.5 billion debentures, THB3 billion long-term loans, and THB1 billion promissory notes (P/Ns). Around THB1.5 billion of its total debts were considered priority debts translating to a priority debt to total debt ratio of 13%.

We assess QH to have adequate liquidity over the next 12 months. As of December 2022, its sources of liquidity included cash on hand of THB1.5 billion and available short-term credit facilities of around THB3.2 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 of THB5.1 billion, which can be pledged as collateral for bank loans, if needed. The company had debts of THB2.9 billion coming due in the next 12 months, comprising THB1.9 billion term loan repayments and THB1 billion maturing P/Ns.

The financial covenant on QH's debt obligations requires the company to maintain its net interest-bearing debt to equity ratio below 2 times. As of September 2022, the ratio was only 0.4 times. 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. A further decline in QH's operating performance could negatively impact its ratings.

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

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- 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:	
QH243A: THB3,000 million senior unsecured debentures due 2024	A-
QH246A: THB1,500 million senior unsecured debentures due 2024	A-
QH24NA: THB730 million senior unsecured debentures due 2024	A-
QH255A: THB1,000 million senior unsecured debentures due 2025	A-
QH25NA: THB720 million senior unsecured debentures due 2025	A-
QH25DA: THB550 million senior unsecured debentures due 2025	A-
Up to THB1,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Negative

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