

QUALITY HOUSES PLC

No. 42/2022
20 April 2022

CORPORATES

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

Last Review Date: 30/07/21

Company Rating History:

Date	Rating	Outlook/Alert
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 "stable" rating outlook. At the same time, TRIS Rating assigns the rating of "A-" to QH's proposed issue of up to THB1 billion in senior unsecured debentures due within three years. The company plans to use the proceeds from the new debentures to repay some of its existing debts.

The ratings reflect QH's diverse product portfolio, moderately strong competitive position in the landed property segment, stable dividend income from its investments in affiliates, and relatively low financial leverage. The ratings also incorporate our concerns over relatively high household debt levels and rising inflation rates which could impact the purchasing power of homebuyers in the medium term. Also, the prolonged Coronavirus Disease 2019 (COVID-19) pandemic is likely to continue to pressure its hospitality businesses.

QH's operating performance in 2021 was weaker than TRIS Rating's previous forecast. Its operating revenue in 2021 declined by 11% year-on-year (y-o-y) to THB8.12 billion, mainly from lower new project launches than expected and the lockdown of construction sites in Bangkok and vicinity in 2021. The lower revenue base coupled with higher selling and administration expenses, and lower profit sharing from affiliates softened QH's profitability. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin in 2021 declined to 33%, slightly down from 34% in 2020.

However, we expect its operating performance to gradually recover in 2022 onwards, supported by more new project launches worth THB9.5 billion this year. In the first quarter of 2022, the company launched one landed property project worth THB2.7 billion. Presales during the first three months of 2022 increased by 16% (y-o-y) to THB2 billion. We forecast QH's operating revenue to range THB10-THB11 billion and its EBITDA margin to stay above 30% over the next 2 - 3 years.

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 50% during 2022-2023. As of December 2021, QH had debts of THB15.14 billion, comprising THB3.14 billion long-term loans and THB12 billion debentures. QH's priority debt to total debt ratio was 21%, less than our 50% threshold, thus we view QH's unsecured creditors as not being significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

We assess QH to have adequate liquidity over the next 12 months. At the end of December 2021, its sources of liquidity included cash on hand of THB3.21 billion and available short-term credit facilities of around THB4.21 billion. We forecast QH's funds from operations (FFO) over the next 12 months to be around THB2 billion. The company also has unencumbered land at cost worth THB5.89 billion, which can be pledged as collateral for new credit facilities. The company had debts of THB9.1 billion coming due in the next 12 months, comprising THB7.5 billion maturing debentures and THB1.6 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

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end of December 2021 was only 0.5 times. Thus, the company should comfortably comply with the financial covenant over the next 12 months.

RATING OUTLOOK

The “stable” outlook on QH reflects our expectation that the company will maintain its operating performance as targeted and keep its financial position at the current level. TRIS Rating expects QH to generate revenues of THB10-THB11 billion per annum during 2022-2023. The company should maintain the debt to capitalization ratio below 50% and the debt to EBITDA below 6 times in 2022-2023. The EBITDA margin is expected to range between 28%-30% over the forecast period.

RATING SENSITIVITIES

The ratings and/or outlook on QH could come under downward pressure if its operating performance continues to be weaker than our base-case forecasts for an extended period. In contrast, the ratings and/or outlook could be revised upward if the company could improve its operating performance significantly, while its financial profile does not deteriorate from current levels.

RELATED CRITERIA

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

Quality Houses PLC (QH)

Company Rating:	A-
Issue Ratings:	
QH225A: THB3,500 million senior unsecured debentures due 2022	A-
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-
Up to THB1,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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