

# QUALITY HOUSES PLC

No. 36/2021  
11 May 2021

## CORPORATES

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

**Last Review Date:** 16/02/21

### 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 issue ratings on QH's outstanding senior unsecured debenture 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 THB1.5 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 diversified portfolio with moderately strong market position in the landed property segment, satisfactory profitability despite a decline in revenues, financial flexibility from its investments in affiliates, and its lower leverage level during the downturn. The ratings also take into consideration our concerns over the prolonged Coronavirus Disease 2019 (COVID-19), which could put further pressure on the demand for the residential property and hospitality business.

QH's operating performance in 2020 was in line with our previous forecast. Its operating revenue in 2020 declined by 14% year-on-year (y-o-y) to THB9.14 billion, mainly from intense competition in the residential market and the poor performance of its hotel operations during the pandemic. Its profitability also weakened from the margin drop in residential projects and operating loss on its hospitality business. QH's gross profit in 2020 declined to 31%, compared with 34% in 2019. However, its lower selling and administrative expenses and profit sharing from affiliates helped alleviate the impact from the margin drop. As a result, its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin in 2020 stood at 34%, slightly down from 35.5% in 2019.

However, we view the impact of the ongoing COVID-19 pandemic on the domestic economy will weaken purchasing power and further suppress demand from homebuyers. Hence, we expect competition among homebuilder developers to become increasingly intense. In response, QH needs to adjust its products and marketing strategy in order to maintain its competitive position in the market. In our base-case forecast, we project QH's revenue from real estate sales to range THB9-THB10 billion while its EBITDA margin to stay above 30% over the next 2 - 3 years.

We expect QH to maintain its financial leverage at the current level in the short to medium term. QH's debt to capitalization ratio was 37% at the end of 2020. As the company plans to launch only housing projects which require less capital than high-rise condominium projects, we forecast its debt to capitalization ratio to stay below 50% during 2021-2022. The financial covenant on QH's debt obligations requires QH to maintain its net interest-bearing debt to equity ratio below 2 times. The ratio at the end of December 2020 was 0.6 times. We believe the company should have no problem complying with this financial covenant over the next 12 months.

We assess QH's liquidity to be adequate over the next 12 months. At the end of March 2021, QH has debts coming due over the next 12 months of THB3.6 billion, comprising THB1.6 billion in debentures, THB1 billion in bills of exchange (B/Es), and THB1 billion in long-term loans. The company already repaid THB600 million of debentures due in April 2021 with its internal cash. QH intends to use the proceeds from the new debentures to refinance the remaining maturing

debentures and some of the due B/Es. The remaining B/Es will be rolled over and/or internal cash. QH's sources of liquidity at the end of March 2021 comprised cash on hand of around THB3.11 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 THB2.38 billion. The company also has unencumbered assets at cost worth THB26.84 billion, which can be pledged as collateral for new credit facilities.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that QH will be able to sustain its operating performance at the target levels. During 2021-2022, we expect QH to generate revenues of THB10-THB11 billion per annum. The company should maintain the debt to capitalization ratio below 50%. The debt to EBITDA is forecast to stay below 6 times in 2021-2022. The EBITDA margin is expected to remain above 30% over the next 2-3 years.

## RATING SENSITIVITIES

The ratings and/or outlook on QH could be revised downward should its operating performance and/or financial profile deteriorate significantly from the target levels, such that the debt to capitalization ratio stays above 60%, and the interest-bearing debt to EBITDA ratio exceeds 6 times 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

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

## Quality Houses PLC (QH)

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
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-
Up to THB1,500 million senior unsecured debentures due within 3 years	A-
<b>Rating Outlook:</b>	Stable

## TRIS Rating Co., Ltd.

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