

QUALITY HOUSES PLC

No. 16/2021
16 February 2021

CORPORATES

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

Last Review Date: 14/07/20

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 THB3 billion senior unsecured debentures due within five years. The company plans to use the proceeds from the new debentures to repay some of its existing debentures.

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 adverse effects of the Coronavirus Disease 2019 (COVID-19), which could continue to suppress the demand for residential properties over the short to medium term.

QH's operating performance remains under pressure amid concerns over the lingering impact of COVID-19. QH's operating revenue during the first nine months of 2020 declined by 20% year-on-year (y-o-y) to THB6.72 billion, in line with our previous forecast. The drop was mainly due to the intense competition and poor performance of its hotel operations during the pandemic. However, the company was able to maintain its profitability at a satisfactory level. Although its gross profit margin softened from promotional campaigns on condominium projects and margin pressure on its hospitality business, effective cost controls helped the company maintain the gross profit margin at 31% during the first nine months of 2020. In addition, a significant amount of share of profits from the company's investments in affiliates helped sustain its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin at 36.5% in the first nine months of 2020. Given its cost efficiency and profit sharing from affiliates, we expect QH to maintain its EBITDA margin of above 30% over the next three years.

However, the recent resurgence of COVID-19 infections may dampen the recovery prospects of the Thai economy in 2021. We see continued challenges to property developers in the short- to medium-term. We expect QH will have to constantly update its products and marketing strategy to stay competitive in this market. In 2021, QH plans to launch three housing projects worth THB5.33 billion. As of September 2020, QH had 78 projects, comprising 64 housing projects and 14 condominium projects. The value of unsold units was THB45.3 billion. Landed property projects accounted for 70% of the total remaining value, while the rest was ready-to-transfer condominium projects.

We expect QH to maintain financial leverage at the current level in the short to medium term. QH's debt to capitalization ratio was 40% at the end of September 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 the maintenance of net interest-bearing debt to equity ratio below 2 times. The ratio at the end of September 2020 was 0.6 times. We believe the company should be able to comply with this financial covenant over the next 12 months.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

We assess QH’s liquidity to be manageable over the next 12 months. At the end of December 2020, QH has debts coming due over the next 12 months of THB6.4 billion, comprising THB4.6 billion in debentures, THB1 billion in bills of exchange (B/Es), and THB800 million in long-term loans. The company plans to refinance the maturing debentures with new debenture issues and/or bank borrowings, as well as repay all outstanding B/Es with internal cash. QH’s source of liquidity at the end of December 2020 comprised cash on hand of around THB2.5 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 land at cost worth THB21.17 billion. In addition, the sizeable investments in its affiliates could be another source of liquidity, if needed. QH holds stakes in two listed companies and two property funds: Home Product Center PLC (HMPCO, a 19.9% stake), LH Financial Group PLC (LHFG, 13.7%), Quality Houses Leasehold Property Fund (QHLPF, 25.7%), and Quality Houses Hotel and Residence Freehold and Leasehold Property Fund (QHHR, 31.3%). At the end of December 2020, the portfolio carried a fair value of THB41.50 billion.

RATING OUTLOOK

The “stable” outlook reflects our expectation that QH will be able to sustain its operating performance at the target levels. During 2020-2022, we expect QH to generate revenues of THB8-THB11 billion per annum. The company should maintain the debt to capitalization ratio below 50%. The debt to EBITDA is forecast to jump in 2020 and then drop 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

QH’s ratings and/or outlook 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 higher than 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)

Company Rating:	A-
Issue Ratings:	
QH213A: THB3,000 million senior unsecured debentures due 2021	A-
QH214A: THB600 million senior unsecured debentures due 2021	A-
QH225A: THB3,500 million senior unsecured debentures due 2022	A-
QH22NA: THB4,000 million senior unsecured debentures due 2022	A-
Up to THB3,000 million senior unsecured debentures due within 5 years	A-
Rating Outlook:	Stable

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