

LAND AND HOUSES PLC

No. 98/2023
7 September 2023

CORPORATES

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

Last Review Date: 18/04/23

Company Rating History:

Date	Rating	Outlook/Alert
03/09/14	A+	Stable
01/06/10	A	Stable
03/07/09	A	Negative
27/06/08	A	Stable
04/07/07	A	Negative
28/04/06	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Land and Houses PLC (LH) and the ratings on LH's existing senior unsecured debentures at "A+" with a "stable" rating outlook. At the same time, TRIS Rating assigns the "A+" rating to LH's proposed issue of up to THB8 billion senior unsecured debentures due within five years. The proceeds from the new debentures will be used to repay some of its existing loans and/or fund business expansion.

The ratings reflect LH's strong brand position among residential property developers with satisfactory operating performance, diversified sources of income, and moderately high financial leverage. The ratings factor in the financial flexibility derived from its sizable holding in marketable securities. However, the ratings are weighed down by our concerns over the imposition of more stringent loan-to-value (LTV) rules this year and interest rate hikes. These could negatively impact demand for housing and the funding costs of developers in the short to medium term.

LH's operating performance in the first half of 2023 (1H2023) was weaker than TRIS Rating's expectations. Revenue in 1H2023 declined by 19% year-on-year (y-o-y) to THB13.9 billion. This decline was mainly due to a significant drop in revenue from residential property sales to THB9.8 billion from THB15.3 billion in the same period last year. However, the strong recovery in the hospitality and retail businesses helped boost the company's rental and service income to THB3.6 billion from only THB1.5 billion in 1H2022. LH's earnings before interest, taxes, depreciation, and amortization (EBITDA) and funds from operations (FFO) in 1H2023 also fell by 20%-22% y-o-y to THB5 billion and THB4 billion, respectively. However, its EBITDA margin remained in the 34%-36% range.

Looking ahead, we expect LH's operating performance to improve in the second half of this year, driven by its plan to launch more projects in the latter half of 2023. According to TRIS Rating's base case, we expect these new projects to be worth around THB30 billion in 2023. In the first half of 2023, the company launched new projects worth only THB7.5 billion. Also, LH had a total backlog worth THB2.4 billion which is expected to be transferred within 2H2023.

LH's financial leverage was also higher than expected. At the end of June 2023, LH's debt to capitalization ratio stood at 56%, increasing from around 53% over the past few years. Its debt to EBITDA ratio also rose to 6.65 times, above our target of 5 times. However, we expect LH to bring down its leverage to our target range as the company plans to sell its two hotels to a Real Estate Investment Trust (REIT) in 2H2023.

A key financial covenant on LH's debenture obligations requires the company to maintain its interest-bearing debt to equity ratio below 1.5 times. As of June 2023, the ratio was 1.23 times. We expect the company to carefully manage its financial ratios to comply with the covenants. Its priority debt to total debt ratio at the end of June 2023 was 28%. The ratio of FFO to total debt was 12.6%, while EBITDA interest coverage was 7.3 times at the end of June 2023.

We assess LH's liquidity as adequate over the next 12 months. As of June 2023, the company's liquidity sources comprised cash on hand of THB5.4 billion and unused committed credit facilities of THB9 billion. LH's annual FFO is projected to be around THB10 billion. LH's uses of funds over the next 12 months will

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amount to THB21.1 billion, comprising THB10 billion debentures, THB7.6 billion short-term loans, THB2.6 billion project loans, and THB0.9 billion lease obligations.

LH's ability to access capital markets and its large investment portfolio also help support its liquidity, if needed. The company holds a sizable investment portfolio of marketable securities, with a total fair value of THB67.4 billion at the end of June 2023. We acknowledge that the values of the listed securities are subject to market sentiment and volatility. However, in our view, the significant size of its investments could provide a significant source of liquidity to enhance LH's debt servicing ability.

RATING OUTLOOK

The "stable" outlook on LH's ratings reflects our expectation that the company will maintain its strong market position, achieve steady presales performance and decent operating performance, and maintain acceptable levels of financial leverage. We also expect the debt to capitalization ratio to remain around 50% or the debt to EBITDA ratio below 5 times.

RATING SENSITIVITIES

The ratings and/or outlook on LH could be revised upward should its capital structure improve significantly from the current level, so that its interest-bearing debt to EBITDA ratio stays below 3 times on a sustainable basis while its operating performance remains strong compared to peers. Conversely, the ratings and/or outlook could be revised downward should LH's operating performance and/or financial position deteriorate materially further from the current level.

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

Land and Houses PLC (LH)

Company Rating:	A+
Issue Ratings:	
LH230A: THB3,000 million senior unsecured debentures due 2023	A+
LH244A: THB5,000 million senior unsecured debentures due 2024	A+
LH244B: THB2,000 million senior unsecured debentures due 2024	A+
LH240A: THB8,000 million senior unsecured debentures due 2024	A+
LH240B: THB1,150 million senior unsecured debentures due 2024	A+
LH254A: THB4,700 million senior unsecured debentures due 2025	A+
LH254B: THB1,600 million senior unsecured debentures due 2025	A+
LH250A: THB4,250 million senior unsecured debentures due 2025	A+
LH250B: THB2,800 million senior unsecured debentures due 2025	A+
LH265A: THB5,200 million senior unsecured debentures due 2026	A+
Up to THB8,000 million senior unsecured debentures due within 5 years	A+
Rating Outlook:	Stable

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