

# QUALITY HOUSES PLC

No. 70/2017

24 October 2017

**Company Rating:** A-**Issue Ratings:**

Senior unsecured A-

**Outlook:** Stable**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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[suchada@trisrating.com](mailto:suchada@trisrating.com)**WWW.TRISRATING.COM****Rating Rationale**

TRIS Rating affirms the company rating and the current senior unsecured debenture ratings of Quality Houses PLC (QH) at "A-". At the same time, TRIS Rating assigns a rating of "A-" to QH's proposed issue of up to Bt2,000 million in senior unsecured debentures due within 3 years. The company will use the proceeds from the new debentures to repay some of its existing loans and fund business expansion. QH's ratings reflect the company's established track record in the property development industry, strong position in the middle- to high-income segment of the housing market, and the financial flexibility gained from its investments in marketable securities. The strengths are partially offset by QH's relatively high level of financial leverage, the high household debts nationwide, as well as the cyclical and competitive nature of the residential property industry.

QH was founded in 1983 and was listed on the Stock Exchange of Thailand (SET) in 1991. As of August 2017, QH's major shareholders were Land and Houses PLC (LH, owning a 25% stake) and the Government of Singapore Investment Corporation Pte. Ltd. (11%). QH's business profile is satisfactory. The company is one of the leading property developers in Thailand. QH's market position is quite strong in the single-detached houses (SDH) segment priced over Bt5 million per unit. Its market position in the lower-priced housing segment, with a price range between Bt1-Bt3 million per unit, is also acceptable. The company's housing brands are well-known and accepted by buyers.

QH's revenue in the first half of 2017 dropped by 26.5% year-on-year (y-o-y) to Bt7,861 million due to the lack of government incentives. QH's revenue from the housing segment comprised 80% while the rest comprised revenues from the condominium segment and rental income. Presales of QH in the first half of 2017 stood at Bt7,617 million, down 9% from the same period a year ago, since the company did not launch any new condominium projects. The gross profit margin of the condominium segment in 2016 through the first half of 2017 was 26%-27%, declining from 33%-35% in the past three years, as the company accelerated the sales of the finished units in the stock. The operating margin (operating income before depreciation and amortization as a percentage of revenue) in 2016 through the first half of 2017 was constant at around 12%, decreasing from the levels between 13%-16% during 2013-2015. The total debt to capitalization ratio at the end of June 2017 was 53%, increasing slightly from 52.6% at the end of 2016.

At the end of June 2017, QH's backlog of condominium units was worth around Bt5,300 million. The value of condominium units in the backlog will be transferred to its customers at around Bt1,650 million during the remainder of 2017 and Bt3,650 million in 2018. Due to its relatively small amount of backlog on hand, its future revenue is not expected to grow much from the current level.

During 2017-2020, TRIS Rating's base-case scenario expects QH to generate revenues of Bt19-Bt22 billion per annum. Revenues from housing projects should account for 70%-80% of total revenues. The operating margin is expected to hold at 12%-14%. The total debt to capitalization ratio is expected to stay below 55%, taking into account the company's plan to launch new real estate development

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projects worth approximately Bt10-Bt15 billion per annum. Funds from operations (FFO) are expected to hold above Bt2.2 billion per annum.

QH's liquidity profile remains acceptable. At the end of June 2017, QH had debts due over the next 12 months of Bt12,800 million, all of them are debenture redemptions. Most of the debts are expected to be refinanced with new debentures. QH's liquidity sources included Bt5,307 million in cash and Bt1,303 million in undrawn long-term credit facilities as of June 2017. The company's liquidity position is enhanced by its sizeable portfolio of marketable securities. QH holds stakes in two SET-listed companies and two property funds: Home Product Center PLC (HMPRO) (a 19.9% stake), LH Financial Group PLC (LHFG) (21.3%), Quality Houses Leasehold Property Fund (QHFP) (25.7%), and Quality Houses Hotel and Residence Freehold and Leasehold Property Fund (QHHR) (31.3%). These four firms provide dividends of around Bt800-Bt1,000 million per year to QH on a recurring basis. As of June 2017, the portfolio carried a fair value of Bt33,489 million, or about 1.26 times the company's total debt. During 2017-2020, the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 4 times. The FFO to total debt ratio is expected to range from 10%-12%.

### Rating Outlook

The "stable" outlook reflects the expectation that QH's business profile will remain strong in the medium term. The company's debt to capitalization ratio is expected to stay at around 55% over the next three years. QH's ratings and/or outlook could be revised downward should its operating performance deteriorate significantly from TRIS Rating's base-case forecast or the debt to capitalization ratio above 60% on a sustainable basis. In contrast, the ratings could be revised upward if the company can improve its operating performance significantly from the current levels while keeping its debt to capitalization ratio lower than 50% on a sustainable basis.

### Quality Houses PLC (QH)

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
QH182A: Bt4,000 million senior unsecured debentures due 2018	A-
QH185A: Bt2,500 million senior unsecured debentures due 2018	A-
QH186A: Bt1,800 million senior unsecured debentures due 2018	A-
QH194A: Bt3,400 million senior unsecured debentures due 2019	A-
QH196A: Bt1,200 million senior unsecured debentures due 2019	A-
QH198A: Bt2,000 million senior unsecured debentures due 2019	A-
QH19NA: Bt2,500 million senior unsecured debentures due 2019	A-
QH205A: Bt4,000 million senior unsecured debentures due 2020	A-
QH214A: Bt600 million senior unsecured debentures due 2021	A-
Up to Bt2,000 million senior unsecured debentures due within 3 years	A-
<b>Rating Outlook:</b>	Stable

### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2017	2016	2015	2014	2013	2012
Revenues	7,861	19,125	20,358	21,220	19,699	13,077
Finance cost	412	955	1,049	964	832	926
Net income from operations	1,429	3,085	3,106	3,329	3,307	2,450
Funds from operations (FFO)	1,352	2,876	2,731	2,662	2,681	2,822
Inventory investment (-increase/+decrease)	1,646	741	(1,475)	(4,161)	1,192	(2,379)
Total assets	54,054	53,014	52,998	48,634	41,652	41,871
Total debt	26,488	25,487	26,796	25,192	20,320	22,364
Total liabilities	30,583	30,075	31,452	29,485	24,374	26,076
Shareholders' equity	23,471	22,940	21,545	19,149	17,277	15,795
Depreciation & amortization	95	190	191	179	176	221
Dividends	857	1,714	706	1,469	1,745	78
Operating income before depreciation and amortization as % of sales	12.0	11.9	13.3	15.1	16.1	12.5
Pretax return on permanent capital (%)	7.3 **	8.0	8.5	10.3	11.0	9.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.5	4.2	4.0	4.6	5.2	4.0
FFO/total debt (%)	9.4 **	11.3	10.2	10.6	13.2	12.6
Total debt/capitalization (%)	53.0	52.6	55.4	56.8	54.1	58.7

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

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