TRIS RATING
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CreditUpdate เครดิตวาระ
New Issue Report

QUALITY HOUSES PLC

No. 72/2018
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CORPORATES

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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RATIONALE

TRIS Rating affirms the company rating and the senior unsecured debenture ratings on Quality Houses PLC (QH) at "A-". At the same time, TRIS Rating assigns the rating of "A-" to QH's proposed issue of up to Bt4,000 million in senior unsecured debentures due within three years. The company will use the proceeds from the new debentures to repay some of its existing loans and fund business expansion.

The ratings on QH 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 ratings also reflect our concern over QH's declining presales and revenues over the past few years, its moderate financial leverage, relatively high level of household debt nationwide, as well as the cyclical and competitive nature of the residential property industry.

QH's operating performance has dropped gradually in the past three years. Presales in the first half of 2018 stood at Bt5.6 billion, down 27% from the same period a year ago, since the company has not launched any new condominium projects recently. At the end of June 2018, QH's backlog of condominium units was worth Bt2.9 billion; mostly from the "Q Sukhumvit" project. The company expects that the value of condominium units in the backlog transferred to customers will be around Bt1.9 billion during the remainder of 2018 and Bt1.0 billion in 2019.

QH's revenues also declined to Bt6.7 billion in the first half of 2018, dropping by 15.5% from the same period last year. Revenue from the housing segment comprised 83% of total revenues, while the rest came from the condominium segment and rental income. Due to QH's relatively small backlog on hand, we do not expect its future revenue to grow much from the current level. The operating margin (operating income before depreciation and amortization as a percentage of revenue) was 20.7% in the first half of 2018, up from 12.5%-14.5% in the past three years. This ratio improved from the gross profit margin of the housing segment in the first half of 2018 gaining at 35%, up from 30% on average over the past three years.

QH's debt to capitalization ratio at the end of June 2018 was 45.4%, increasing from 44.6% at the end of 2017. We expect this ratio to stay in a range of 50%-55%, or a net debt to equity ratio of around 1-1.2 times over the next three years, taking into account the company's plans to launch new real estate development projects worth approximately Bt10-Bt15 billion per annum. QH's bond covenant limits net interest-bearing debt to equity ratio at 2.0 times. At the end of June 2018, the company's ratio stood at 0.83 times.

QH's liquidity profile remains acceptable. QH has debts due over the next 12 months of Bt9.1 billion, half of which are debentures and the rest are short-term loans. We expect QH to refinance most of the debts with new debentures. QH's liquidity source was cash on hand at the end of June 2018, standing at Bt3.0 billion, and undrawn committed credit facilities at Bt3.0 billion. We forecast QH's funds from operations (FFO) over the next 12 months to hold above Bt3 billion. We estimate the FFO to debt ratio to range between 10%-12%. In addition, the company's sizeable investments in the two companies listed on the Stock Exchange of Thailand (SET) and two property funds enhance its liquidity profile. At the end of June 2018, the portfolio carried a fair value of Bt42.5 billion.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectations that QH's business profile will remain strong in the medium term. During 2018-2021, TRIS Rating's base-case scenario expects QH to generate revenues of Bt18-Bt20 billion per annum. Revenues from housing projects should account for 75%-80% of total revenues. We expect QH's operating margin to hold at 12%-14%. The debt to capitalization ratio should stay below 55%, taking into account the company's plan to launch new real estate development projects worth approximately Bt10-Bt15 billion per annum.

RATING SENSITIVITIES

TRIS Rating would revise QH's ratings and/or outlook downward should its financial profile deteriorate dramatically. For example, a prolonged market slump, leading to lower sales, would raise the debt to capitalization ratio above 60% on a sustainable basis. In contrast, we would revise the ratings upward if the company could 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)

Company Rating:	A-
Issue Ratings:	
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-
QH20NA: Bt1,500 million senior unsecured debentures due 2020	A-
QH213A: Bt3,000 million senior unsecured debentures due 2021	A-
QH214A: Bt600 million senior unsecured debentures due 2021	A-
Up to Bt4,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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