

LAND AND HOUSES PLC

No. 26/2018

15 March 2018

CORPORATES

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

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 of Land & Houses PLC (LH) and the ratings of its existing senior unsecured debentures at "A+". At the same time, TRIS Rating assigns the rating of "A+" to LH's proposed issue of up to Bt6,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to finance the company's land acquisition and fund its business operation.

The ratings of LH reflect the company's leading position in the residential property development market, supported by its strong brand franchise and proven operational track record. The ratings also take into consideration the financial flexibility LH derives from its portfolio of recurring income assets and marketable securities. However, the ratings are partially constrained by a moderate level of financial leverage and an aggressive dividend policy. In addition, the high level of household debt nationwide, coupled with the slow recovery in the domestic economy, raise concerns over the demand for housing in the short to medium term.

LH's revenue was Bt29,909 million in 2016 and Bt34,922 million in 2017, ranking it one of the top three listed property developers. As of December 2017, LH had around 70 existing projects with total project value of around Bt160,000 million. Housing projects comprised 80% of total project value across LH's portfolio, while condominium projects accounted for the rest. At the end of December 2017, the value of the remaining unsold units (including built and un-built units) across the entire portfolio was around Bt70,000 million. The total backlog was valued at around Bt11,500 million and is expected to be delivered to customers during 2018 through 2019.

The operating profit margin (operating income before depreciation and amortization, as a percentage of revenue) ranged from 22%-25% during 2013-2017. Despite intense competition in residential property market and pressures from rising land costs as well as overhead expenses needed to support LH's expansion plans, its operating profit margin is expected to stay above 20% over the next three years.

LH's debt to capitalization ratio was 48% as of December 2016 and 49% as of December 2017. The ratio of interest-bearing debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ranged from 3-4 times during 2013-2017. LH's bond covenant limits net interest-bearing debt to equity ratio at 1.5 times. At the end of December 2017, the ratio stood at 0.87 times.

LH's liquidity profile is adequate. The ratio of funds from operations (FFO) to total debt ranged from 19%-22% during past three years. The EBITDA interest coverage ratio had been 8-9 times during 2013-2016 and increased to 11 times in 2017. LH holds a sizable portfolio of marketable securities. The fair value of LH's investments in listed associates was Bt67,916 million as of December 2017. Equity income from these investments was around Bt3,000 million per annum during 2016-2017.

RATING OUTLOOK

The “stable” outlook reflects the expectation that LH will maintain its strong operating performance, acceptable financial position, and competitive market position. Over the next three years, LH’s revenue is expected to be Bt30,000-Bt33,000 million per annum. The interest-bearing debt to EBITDA ratio should stay below 5 times.

RATING SENSITIVITIES

LH’s ratings and/or outlook could be revised upward should its capital structure improve significantly from the current level, so that its interest-bearing debt to EBITDA ratio should keep below 3 times on a sustainable basis, while its operating performance remains strong comparable with peers. On the contrary, the ratings and/or outlook could be revised downward should LH’s operating performance and/or financial position deviate significantly from the projections.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

| | ----- Year Ended 31 December ----- | | | | |
|--|------------------------------------|---------|---------|---------|---------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Revenue | 34,922 | 29,909 | 26,260 | 28,317 | 25,075 |
| Gross interest expense | 1,329 | 1,324 | 1,357 | 1,538 | 1,202 |
| Net income from operations | 9,626 | 8,665 | 7,908 | 8,420 | 6,478 |
| Funds from operations (FFO) | 10,635 | 8,651 | 7,923 | 8,849 | 5,588 |
| Inventory investment | 2,075 | 10 | (3,691) | (3,712) | (5,305) |
| Total assets | 109,492 | 101,506 | 98,070 | 86,888 | 75,369 |
| Total debts | 48,994 | 43,677 | 41,675 | 35,171 | 34,611 |
| Shareholders’ equity | 50,809 | 47,952 | 46,895 | 44,275 | 34,843 |
| Operating income before depreciation and amortization as % of sales | 21.59 | 22.38 | 21.91 | 23.17 | 24.56 |
| Pretax return on permanent capital (%) | 13.42 | 12.34 | 12.57 | 15.97 | 12.75 |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) | 10.74 | 9.24 | 8.53 | 8.48 | 7.87 |
| FFO/total debt (%) | 21.71 | 19.81 | 19.01 | 25.16 | 16.14 |
| Total debt/capitalization (%) | 49.09 | 47.67 | 47.05 | 44.27 | 49.83 |

* Consolidated financial statements

Land and Houses PLC (LH)

| | |
|--|--------|
| Company Rating: | A+ |
| Issue Ratings: | |
| LH184A: Bt7,000 million senior unsecured debentures due 2018 | A+ |
| LH180A: Bt4,000 million senior unsecured debentures due 2018 | A+ |
| LH194A: Bt5,000 million senior unsecured debentures due 2019 | A+ |
| LH194B: Bt1,000 million senior unsecured debentures due 2019 | A+ |
| LH190A: Bt1,000 million senior unsecured debentures due 2019 | A+ |
| LH190B: Bt7,250 million senior unsecured debentures due 2019 | A+ |
| LH204A: Bt1,000 million senior unsecured debentures due 2020 | A+ |
| LH204B: Bt6,000 million senior unsecured debentures due 2020 | A+ |
| LH200A: Bt1,000 million senior unsecured debentures due 2020 | A+ |
| LH200B: Bt6,000 million senior unsecured debentures due 2020 | A+ |
| Up to Bt6,000 million senior unsecured debentures due within 5 years | A+ |
| Rating Outlook: | Stable |

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