GRANDE ASSET HOTELS AND PROPERTY PLC

No. 112/2020
24 July 2020

CORPORATES

Company Rating: BB-
Outlook: Negative

Last Review Date: 27/03/20

Company Rating History:

Date	Rating	Outlook/Alert
27/03/20	BB	Alert Negative
13/05/19	BB	Stable
24/03/17	BB+	Stable

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RATIONALE

TRIS Rating removes the “CreditAlert” with “negative” implication on Grande Asset Hotels and Property PLC (GRAND) and downgrades the company rating on GRAND to “BB-” from “BB”. At the same time, TRIS Rating assigns a “negative” outlook to the rating.

The downgrade reflects our concerns over GRAND’s persistently high operating expenses, its high level of financial leverage, and the impact of the Coronavirus Disease 2020 (COVID-19) pandemic on its future earnings. The lingering weak sales of the company’s residential property projects add to our concerns.

The “negative” outlook reflects our view that GRAND’s credit metrics will continue under pressure over the next 12-18 months. The revival of its operating results remains uncertain since fears of a resurgence in virus infections could continue to hamper the recovery of the tourism industry, and the global economic recession could weaken demand among international travelers for a longer period than anticipated.

The rating takes into consideration our expectation that the company will be able to sell Royal Orchid Hotel (Thailand) PLC (ROH) as planned, which would help mitigate the negative impact on the balance sheet from the expected operating losses in coming years to some extent. The rating continues to reflect the good quality of the company’s hotel properties and its experience as a property developer. The nature of the hotel industry, which is characterized by intense competition and sensitivity to uncontrollable external factors, as well as the cyclicality of the property market, also weigh on the rating.

KEY RATING CONSIDERATIONS

Hotel revenues expected to drop sharply in 2020

TRIS Rating projects the operating performance of GRAND’s hotel properties will be hurt badly in 2020, but then gradually recover in 2021-2022. Thailand’s tourism industry has been severely affected by the fallout from the COVID-19 pandemic. Travel restrictions and lockdown measures have caused a severe weakening of the performance of GRAND’s hotels, particularly in the second quarter of 2020. After bringing the outbreak under control by July 2020, the government has eased its domestic lockdown measures and plans to launch a stimulus package to boost domestic tourism. This could benefit GRAND’s hotel properties, especially those outside Bangkok. However, the pace of recovery remains uncertain as any revival of foreign tourist arrivals is some way off. The number of infections is still on the rise globally, which means travel restrictions will likely continue for an extended period of time. In addition, the global economic recession could continue to hamper travel demand even after the pandemic has been largely contained.

Under our base-case scenario, we project GRAND’s hotel revenue per available room (RevPAR) for each hotel to drop by around 60% in 2020, before improving in 2021 to around 30% below the 2019 level, and in 2022 to around 5%-8% below the 2019 level.

GRAND’s hotel properties are well maintained and situated in good locations. The company’s strategy is to invest in hotels in prime locations and appoint highly experienced international hotel chains to manage the properties.

International hotel chains provide strong brand names, good hotel management systems, and effective sales channels.

Weak sales for residential property projects

GRAND is currently working on two real estate projects, at the company level, namely Hyde Sukhumvit 11 and a mixed-use project in Rayong.

The sales progress at Hyde Sukhumvit 11 has been slow. The project was completed and ready to transfer to customers in 2017. As of March 2020, the remaining units were worth around THB1.42 billion or about 32.5% of the project value. The company recorded sales of only THB413 million in 2019, and THB87 million in the first quarter of 2020. Despite aggressive promotion campaigns, it will take time to sell the remaining units given the sluggish demand among domestic consumers. The prospect of selling to foreign buyers will be hampered by the COVID-19 induced travel restrictions.

The mixed-use property project in Rayong includes three types of property. The project features 61 villas for sale, a 205-key hotel, and a condominium. Total estimated development costs are THB1.5 billion for the villas and THB2.1 billion for the hotel. These investments will span from 2019 to 2023. Under the current plan, construction of the condominium will begin after the villas and the hotel are completed.

Our base-case projection assumes sales of Hyde Sukhumvit 11 and the villas in Rayong to be around THB200 million in 2020 and approximately THB800 million annually during 2021-2022.

In addition, GRAND set up two joint ventures to develop two condominium projects in Bangkok. The joint ventures are with Property Perfect PLC (PF), its major shareholder, and Sumitomo Forestry, Japan's leading timber and homebuilding firm. The Hyde Heritage Thonglor project, on Sukhumvit Road near Soi Sukhumvit 59, is worth around THB6 billion. The Hyde River Bay project, located on Charoen Nakorn Road by the Chao Phraya River, is worth THB11 billion. The company holds a 40% stake in the Hyde Heritage Thonglor project and a 42% stake in the Hyde River Bay project. The total investment required for the two projects, at the JV level, is around THB10 billion. Originally, The Hyde Heritage Thonglor was slated for completion in 2022 while the Hyde River Bay project was expected to finish in 2023.

Presently, presales of The Hyde Heritage Thonglor project are somewhat slower than expected due to the impact of the COVID-19 pandemic. Our base-case projection assumes that the Hyde River Bay project will be delayed until the market sentiment improves.

High leverage and large operating losses expected in 2020

Our base-case scenario projects GRAND's performance to be severely affected by the fallout from the pandemic. The company's financial leverage, as measured by the adjusted debt to earnings before interest, tax, depreciation and amortization (EBITDA) ratio, was already very high at 11.5 times in 2019. EBITDA, under our base-case projection, is likely to turn negative in 2020, and would be about half the 2019 level in 2021. At the same time, the debt level is likely to rise from the cash outflows from operations. We, however, assume under our base-case scenario that GRAND will be able to sell ROH as planned. As a result, the adjusted debt to EBITDA ratio is projected at around 18 times in 2021 and 10 times in 2022. The projected capital budget for the hotel segment and development costs for new residential property total around THB3 billion for the next three years.

GRAND's bank loan requires the net debt to equity ratio to stay below 2.50 times. As of December 2019, the company was in compliance with the covenant with a net debt to equity ratio of 1.58 times. However, if the financial results turn out to be as weak as we expected, the net debt to equity ratio could rise closer or above the 2.50 times covenant unless it is able to sell ROH as planned.

Liquidity tightens

GRAND's liquidity remains tight. As of March 2020, GRAND's sources of funds comprised cash and cash equivalents of THB1.17 billion and marketable securities worth THB480 million. In addition, the company has undrawn credit facilities available from commercial banks of THB1.74 billion. These sources of cash are sufficient for its uses of funds in the next 12 months. The debt repayment schedule over the next 12 months consists of THB1.55 billion in long-term obligations and THB290 million in short-term obligations. In 2020, we forecast the company will record a net cash outflow from operations of around THB1.0 billion with budgeted investments of around THB383 million. In 2021, its primary uses of funds will include debt repayments of approximately THB2.9 billion and capital expenditures of THB700 million.

BASE-CASE ASSUMPTIONS

- Revenue from the hotel business to drop to around THB1.0 billion during 2020-2021 then increase to THB1.5 billion in 2022.
- Revenue from the property business to drop to around THB200 million in 2020, and then improve to THB800 million

annually during 2021-2022.

- The EBITDA margin to weaken to 25% in 2020, then improve to 20% in 2021 and 33% in 2022.
- Total capital spending to be around THB3 billion over the three-year forecast period.
- GRAND to manage to sell its entire stake in ROH over the next six to nine months.

RATING OUTLOOK

The "negative" outlook reflects our view that GRAND's credit metrics will continue to be under pressure over the next 12-18 months. The revival of its operating results remains uncertain since fears of a resurgence in virus infections could continue to hamper the recovery of the tourism industry, and the global economic recession could weaken demand of international travelers for a longer period than anticipated.

RATING SENSITIVITIES

The outlook could be revised to "stable" if we begin to see a clear recovery in GRAND's operating performance after the pandemic has been largely contained and cross-border travel restrictions eased. On the other hand, the rating could be revised downward if the impacts of COVID-19 turn out to be more severe than expected, or if GRAND's liquidity is depleted faster than we expected.

COMPANY OVERVIEW

GRAND was incorporated in 1988, under the name "Sukhumvit Center Co., Ltd.", to develop and operate the GRAND Pacific Hotel. The hotel was later renamed The Westin Grande Sukhumvit, Bangkok. The company added the Sheraton Hua Hin Resort and Spa to its portfolio in 2009 and the Sheraton Hua Hin Pranburi Villas in 2013. The company added another two new hotels in 2018, including the Royal Orchid Sheraton Hotel, located on the Chao Phraya River, and the Hyatt Regency on Sukhumvit Road near Nana BTS station. As of March 2020, GRAND owned hotels with a total of 1,654 rooms.

The company moved into the property development segment in 2007 with the launches of two condominium projects: The Trendy Condominium and Hua Hin Blue Lagoon. The company completed Hyde Sukhumvit 13 in 2014 and Hyde Sukhumvit 11 in 2017. Currently, the company is developing a villa project in Rayong province. In addition, in 2017 and 2018, the company set up two joint ventures with its major shareholder PF and Sumitomo Forestry, a Japanese housing and wood products corporation, to develop two condominium projects: Hyde Heritage Thonglor and Hyde River Bay. As of March 2019, GRAND's largest shareholders were PF and its affiliates, holding 49% of the total outstanding shares.

The hotel segment has typically contributed the largest share (over 75%) of total revenue during recent years. The balance has come from the residential property segment. However, in some years, such as 2017-2018, the property development segment accounted for around 50% of total revenue as the company completed and transferred a condominium project in these years.

KEY OPERATING PERFORMANCE

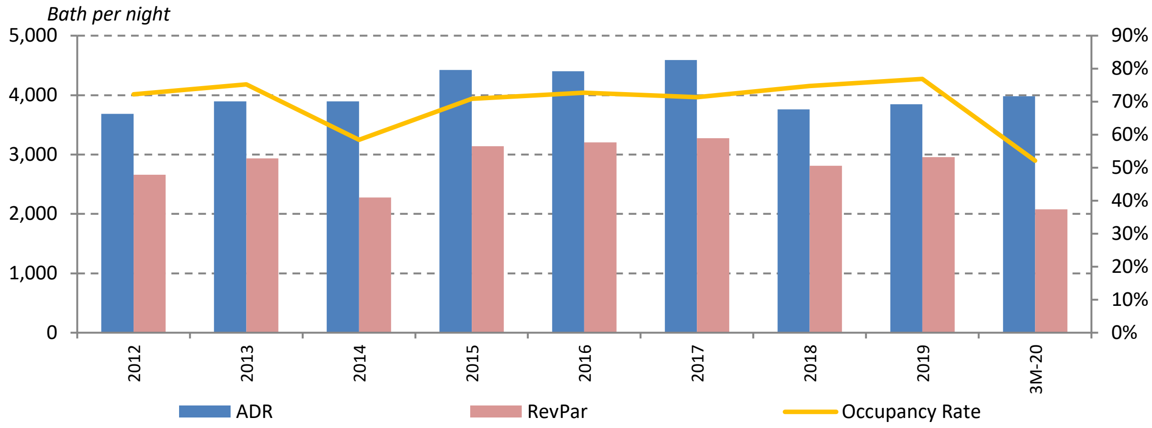
Table 1: GRAND's Revenue Breakdown by Line of Business

Unit: %

Revenue Breakdown	2013	2014	2015	2016	2017	2018	2019	3M-20
Hotel	81	17	77	76	47	52	85	82
Residential property	17	83	21	23	52	47	14	16
Others	2	0	2	1	1	1	1	2
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total revenue (Bt million)	**1,226**	**4,886**	**1,361**	**1,417**	**2,305**	**3,343**	**2,987**	**540**

Source: GRAND

Chart 1: GRAND's OR, ADR, and RevPar



Source: GRAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		--------------Year Ended 31 December -----------			
	Jan-Mar 2020	2019	2018	2017	2016
Total operating revenues	581	3,084	3,451	2,339	1,451
Earnings before interest and taxes (EBIT)	(65)	220	459	1,000	135
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	100	700	798	1,233	396
Funds from operations (FFO)	1	179	368	835	226
Adjusted interest expense	145	576	434	306	142
Capital expenditures	45	381	706	647	751
Total assets	14,597	14,525	13,677	9,285	7,689
Adjusted debt	7,744	8,076	7,069	4,422	3,472
Adjusted equity	3,972	4,160	4,562	3,623	2,902
Adjusted Ratios					
EBITDA margin (%)	17.14	22.69	23.12	52.70	27.29
Pretax return on permanent capital (%)	0.50	1.62	4.07	12.26	2.22
EBITDA interest coverage (times)	0.69	1.22	1.84	4.02	2.78
Debt to EBITDA (times)	12.81	11.54	8.86	3.59	8.77
FFO to debt (%)	1.54	2.22	5.21	18.87	6.52
Debt to capitalization (%)	66.10	66.00	60.78	54.97	54.47

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Grande Asset Hotels and Property PLC (GRAND)

Company Rating:	BB-
Rating Outlook:	Negative

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