LAND AND HOUSES PLC

No. 158/2024
16 September 2024

CORPORATES

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

Last Review Date: 28/03/24

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

Contacts:

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Bundit Pommata
bundit@trisrating.com

Jutamas Bunyawanichkul
jutamas_b@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on Land and Houses PLC (LH) and the ratings on its outstanding senior unsecured debentures to "A" from "A+" with a "stable" rating outlook. At the same time, TRIS Rating assigns a rating of "A" to LH's proposed issue of up to THB10 billion in senior unsecured debentures due within five years. Proceeds from the new debentures will be used to repay some of its existing loans and/or fund business expansion.

The ratings downgrade reflects LH's weaker-than-expected operating performance and sharp rise in its debt levels. The ratings also factor in the negative impacts of persistently high interest rates and rising household debt levels, which have resulted in higher mortgage rejection rates and reduced purchasing power. The ratings continue to reflect LH's strong position in the landed property segment, its diversified income sources, and the financial flexibility provided by its substantial holding in marketable securities.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance

LH's operating performance in 2023 and the first half of 2024 (1H24) fell short of our previous forecast. This underperformance was mainly due to delays in launching and transferring housing projects, combined with increasing bank rejection rates for mortgage loan applications, particularly among middle- to low-income segments. Despite strong recovery in revenue from rental and services helping offset some of the decline in housing income, LH's revenue in 2023 still declined by 25% year-on-year (y-o-y) to THB27.4 billion. In 1H24, revenue further declined by 2% y-o-y to THB13.6 billion, achieving only 40% of our prior full-year forecast for 2024.

In 2023 through 1H24, LH's gross profit margin from residential sales also declined to 27%-28%, down from over 32% in the past several years. The gross profit margin from rental and services remained in line with our projection of around 30%-33%. However, selling and administrative expenses kept rising, resulting in its selling, general, and administrative expenses (SG&A) to sales rising to 17%-18% from 12%-13% in prior years. As a result, LH reported EBITDA of THB10.9 billion in 2023 and THB5.6 billion in 1H24. This fell short of our prior target of THB12.5-THB13.2 billion.

Looking ahead, LH's operating performance is expected to continue facing challenges due to unfavorable housing market sentiment and intense competition, which are likely to pressure its margins. We project LH's revenue to remain subdued in 2024, followed by a gradual recovery from THB29 billion in 2024 to around THB30-THB33 billion over the next one to two years, with an EBITDA margin around 37%-39% during this period.

Sharp rising in debt levels

LH's financial leverage increased significantly in 2023 and continued to rise through June 2024. This increase was driven by higher land acquisitions for new residential projects, substantial investments in the construction of three new hotels in the pipeline, and the acquisition of a hotel in the USA in March 2024 for THB2.4 billion. Consequently, LH's debt to capitalization ratio rose to 61% at the end of June 2024, significantly higher than our target of around 50%. Also, given the stagnant growth in its earnings since 2023, LH's debt to

EBITDA ratio further increased to more than 6 times while the funds from operations (FFO) to debt ratio dropped to nearly 10% in 1H24.

Looking ahead, we forecast LH’s debt to capitalization ratio will gradually decrease, given its plan to sell recurring-income assets in the pipeline. However, we expect its debt to capitalization ratio to remain above 50% over the next two to three years. The FFO to debt ratio is expected to recover from 11% in 2024 to 12%-15% while its debt to EBITDA ratio should gradually decline but remain higher than 5 times in the next two to three years. Our base case assumes that the company will purchase land worth THB6.5 billion and launch new projects totaling THB30.2 billion this year and THB25-THB30 billion per annum during 2025-2026. Capital expenditures for its rental assets are expected to be THB6.2 billion in 2024, THB4.2 billion in 2025, and THB4.3 billion in 2026.

LH is subject to a key financial covenant on its debenture obligations, requiring the company to maintain its interest-bearing debt to equity ratio below 1.5 times. As of June 2024, this ratio stood at 1.4 times. We expect the company to prudently manage its financial ratios to ensure compliance with these covenants.

Strong position in landed property segment

TRIS Rating views LH’s market position in the residential property business, especially the landed property segment, as remaining relatively strong compared with peers. Revenues from the residential property business ranged around THB25-THB30 billion over the last five years, ranking among the top-five listed property developers. More than 90% of residential property sales are expected to come from the landed property segment. In our view, LH’s strong brand position is underpinned by its product quality and good after-sale services.

However, given the slowdown in the domestic economy and higher bank rejection rates for mortgage loan applications, LH’s revenues from residential unit sales are expected to range around THB19-THB24 billion per annum during 2024-2026. This is down from more than THB30 billion during 2021-2022.

As of June 2024, LH had 75 existing projects with a total remaining project value of around THB76 billion, including built and unbuilt units. Landed property projects accounted for 80% of total unsold value, while condominium projects comprised the remainder. The backlog stood at THB8.1 billion at the end of June 2024, with around THB2 billion expected to be transferred in the latter half of 2024, THB0.7 billion in 2026, and THB5.4 billion in 2027.

Diversified income sources provide earnings stability during downturns

In our view, LH benefits from a well-diversified income portfolio, encompassing residential property sales, rental and services income, gains from asset sales and dividends from its investments. Despite economic cycle fluctuations, the company has consistently maintained EBITDA of over THB10 billion annually over the past decade. Currently, LH’s EBITDA composition consists of 50% from residential property sales, 35% from rental income and gain from asset sales, and 15% from dividends earned from its stakes in four SET-listed companies: Home Products PLC (HMPRO), Quality Houses PLC (QH), LH Financial Group PLC (LHFG), and Quality Construction PLC (Q-CON).

Due to the slowdown in residential sales, LH is focusing more on expanding its rental assets, particularly hotels and shopping malls. LH’s strategy is to build or acquire new assets, build up occupancy rates, and eventually sell them to real estate investment trusts (REITs) or investors at a premium. This approach enables capital recycling and accelerates profit realization.

Currently, LH’s rental assets include Terminal 21 Pattaya Shopping Center, Terminal 21 Rama 3 Shopping Center, Grand Center Point Surawong, as well as three apartments and two hotels in the USA. Also, the company is developing three new hotels: Grand Center Point Lumpini, scheduled to open in mid-2025, Grand Center Point Ratchadamri 2, in the first quarter of 2026, and Grand Center Point Pattaya 3, in 2027. Given their prime locations, these properties are expected to achieve high room rates and maintain strong occupancy levels. Looking ahead, the company plans to sell one or two rental assets per year over the next three years. This year, the company intends to sell Terminal 21 Pattaya Shopping Center to LH Shopping Centers Leasehold Real Estate Investment Trust (LHSC) for THB5.4 billion.

Manageable liquidity

We assess LH’s liquidity should be manageable over the next 12 months. As of June 2024, LH’s debts coming due over the next 12 months totaled THB33 billion, comprising mainly THB16.6 billion debentures, THB13 billion bills of exchange (B/E), THB1.6 billion promissory notes (P/N), THB0.4 billion project loans, and THB1.4 billion lease obligations. The company’s sources of funding included THB4.1 billion cash on hand plus undrawn committed credit facilities of loans from financial institutions of THB12.8 billion. We forecast LH’s FFO over the next 12 months to be THB8.0-THB8.2 billion. LH typically refinances maturing debentures with new debenture issuances. The company plans to convert its B/E into long-term loans or debentures once interest rates decline to appropriate levels.

Also, the company's investments in its four affiliates (HMPRO, QH, LHFG, and Q-CON) help enhance its financial flexibility. As of June 2024, the fair market value of the investments in four associated companies totaled THB50 billion, or 0.6 times of LH's outstanding debts. We acknowledge that the values of the listed securities are subject to market sentiment and volatility. However, in our view, the holdings represent a significant enhancement of LH's financial flexibility while also helping support its liquidity, if needed.

Debt structure

As of June 2024, LH's consolidated debt, excluding lease liabilities, amounted to THB73 billion. Of this, THB15 billion was priority debt, comprising secured debt held by LH and all borrowings undertaken by its subsidiaries. The priority debt to total debt ratio was 20%.

BASE-CASE ASSUMPTIONS

- LH to launch landed property projects in 2024 worth THB30.2 billion. Going forward, the company is expected to launch new residential projects worth THB25-THB30 billion per annum.
- Total revenue will be THB29 billion in 2024 and increase to THB30-THB33 billion annually during 2025-2026.
- Overall gross profit margin to be 30%-31% and EBITDA margin 36%-38%.
- Land acquisition budget forecast to be THB6.5 billion in 2024 and THB4-THB5 billion per annum over the next two years.
- Capital expenditures for rental assets will be THB6.2 billion in 2024, THB4.2 billion in 2025, and THB4.3 billion in 2026.
- Divestment of the Terminal 21 Pattaya Shopping Center in 2024.

RATING OUTLOOK

The "stable" outlook on LH's ratings reflects our expectation that the company will maintain its strong market position and achieve operating performance in line with our forecast. We anticipate the debt to capitalization ratio will remain around 50%-55%, while the FFO to debt ratio is expected to stay within 11%-15% over the next three years.

RATING SENSITIVITIES

The ratings and/or outlook on LH could be revised upward should the company's operating performance and financial profile improve significantly, such that its debt to capitalization ratio stays below 50% and the FFO to debt ratio above 20% on a sustained basis. Conversely, the ratings and/or outlook could be revised downward should LH's operating performance and/or financial position deteriorate from the current level, causing its debt to capitalization ratio to stay above 60% and/or FFO to debt ratio drop below 10% on a sustained basis.

COMPANY OVERVIEW

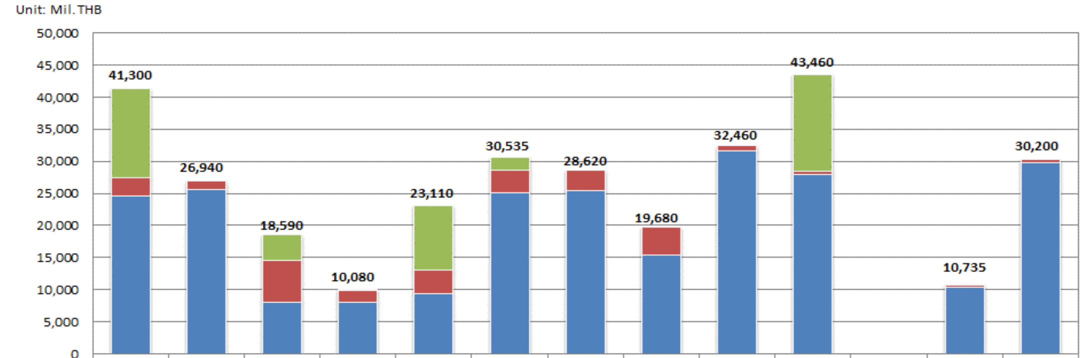
LH was founded by the Asavabhokhin family in 1983 as a real estate developer. The company was listed on the SET in 1989. As of May 2024, the Asavabhokhin family maintains its position as the largest shareholder, holding a 30% stake in LH. The company's residential product portfolio is extensive, covering a broad spectrum of prices and product categories. The company offers single detached house (SDH), townhouse, and condominium units covering the low to high-end segments. Its landed property products range in price from THB2 million to above THB25 million per unit. Condominium units are priced from THB50,000 to THB300,000 per square meter (sq.m.)

Apart from its residential property business, LH diversifies its portfolio by operating seven hotels under the Grande Centre Point brand, and two shopping malls in Thailand, three apartment buildings for rent and two hotels in the USA. Also, the company holds a substantial portfolio of investments in SET-listed real estate and related businesses. These recurring-income assets and investments in marketable securities provide financial flexibility for the company once the sentiment in the residential property market adversely changes.

LH's revenue contribution from the SDH segment accounted for 60%-75% of total revenues during 2019-2023. Revenue contributions from the condominium and the townhouse segments were 10%-20%. Revenue from rental assets contributed around 10%-15% during 2019-2022 and strong growth 29% in 2023. Furthermore, LH earned equity income from its investments in marketable securities in the THB2.5-THB3.3 billion per annum range and received dividends of THB1.8-THB2.5 billion per annum in the past five years.

KEY OPERATING PERFORMANCE

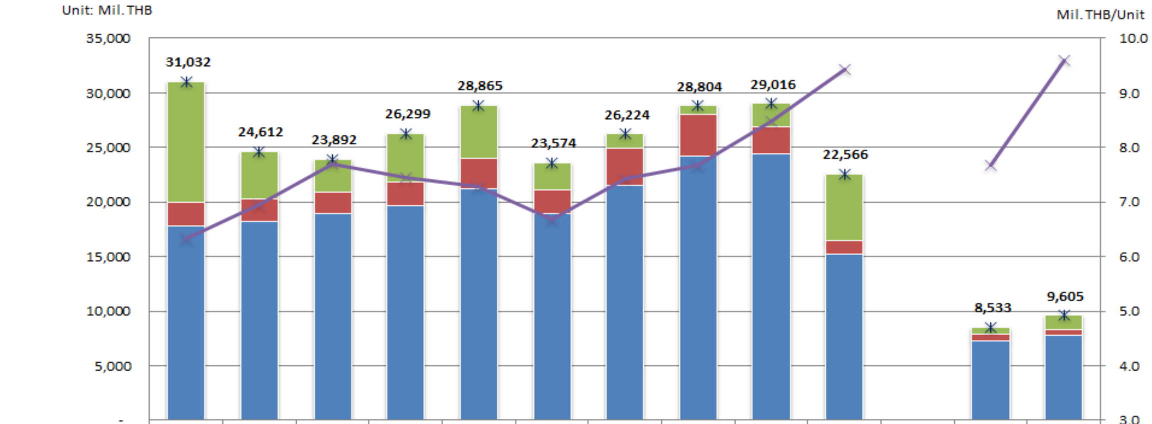
Chart 1: New Residential Project Launches



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		6M24	2024P
Condo	13,880		4,000	170	10,060	2,000				15,000			
TH	2,800	1,280	6,560	1,820	3,750	3,425	3,170	4,300	890	560		420	420
SDH	24,620	25,660	8,030	8,090	9,300	25,110	25,450	15,380	31,570	27,900		10,315	29,780
Total Value	41,300	26,940	18,590	10,080	23,110	30,535	28,620	19,680	32,460	43,460		10,735	30,200

Source: LH

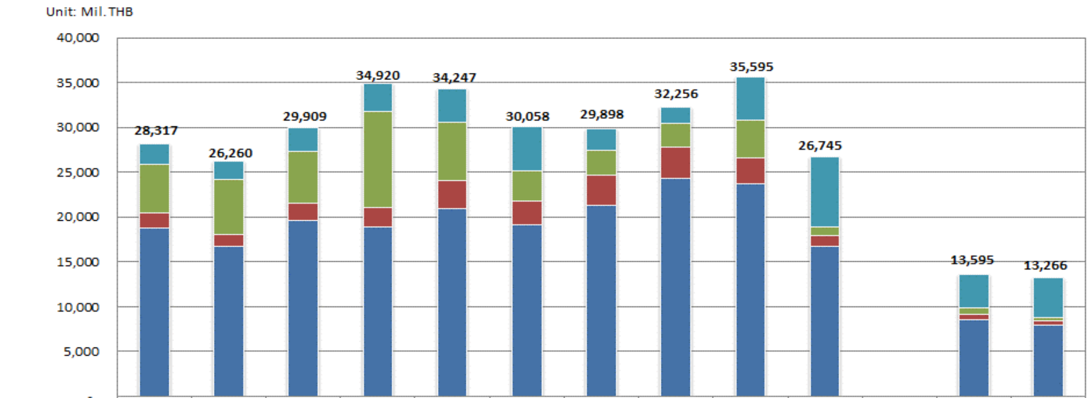
Chart 2: Presales Performance



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		6M23	6M24
Condo (LHS)	11,012	4,356	3,013	4,471	4,887	2,468	1,277	740	2,105	6,149		692	1,256
TH (LHS)	2,250	2,012	1,956	2,214	2,795	2,198	3,384	3,907	2,460	1,198		542	619
SDH (LHS)	17,770	18,244	18,922	19,614	21,182	18,908	21,563	24,157	24,450	15,219		7,299	7,730
Presales Value	31,032	24,612	23,892	26,299	28,865	23,574	26,224	28,804	29,016	22,566		8,533	9,605
Avg. Price (RHS)	6.3	7.0	7.7	7.5	7.3	6.7	7.4	7.7	8.5	9.4		7.7	9.6

Source: LH

Chart 3: Revenue from Sales and Rental Income Breakdown



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		6M23	6M24
Rental Assets	2,280	2,036	2,536	3,197	3,733	4,907	2,417	1,795	4,844	7,779		3,753	4,474
Condo	5,348	6,199	5,781	10,619	6,413	3,358	2,797	2,661	4,106	1,041		707	367
TH	1,673	1,338	2,037	2,229	3,122	2,719	3,410	3,452	2,970	1,225		547	534
SDH	18,813	16,686	19,554	18,874	20,979	19,074	21,274	24,348	23,675	16,672		8,588	7,891
Total Revenue	28,317	26,260	29,909	34,920	34,247	30,058	29,898	32,256	35,595	26,745		13,595	13,266

Source: LH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-----------Year Ended 31 December ---------			
	Jan-Jun 2024	2023	2022	2021	2020
Total operating revenues	13,600	27,380	36,319	32,905	30,504
Earnings before interest and taxes (EBIT)	4,666	10,228	11,540	10,598	9,903
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,599	10,950	12,134	11,719	10,848
Funds from operations (FFO)	4,259	8,743	9,155	8,725	7,966
Adjusted interest expense	987	1,558	1,361	1,512	1,587
Real estate development investments	67,842	61,119	53,446	52,706	55,833
Total assets	142,672	131,920	123,949	125,198	122,571
Adjusted debt	78,378	67,134	58,151	57,889	57,629
Adjusted equity	50,706	52,233	52,285	50,646	50,601
Adjusted Ratios					
EBITDA margin (%)	41.2	40.0	33.4	35.6	35.6
Pretax return on permanent capital (%)	8.2 **	8.6	9.9	9.0	8.9
EBITDA interest coverage (times)	5.7	7.0	8.9	7.8	6.8
Debt to EBITDA (times)	6.8 **	6.1	4.8	4.9	5.3
FFO to debt (%)	11.6 **	13.0	15.7	15.1	13.8
Debt to capitalization (%)	60.7	56.2	52.7	53.3	53.2

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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:	
LH24OA: THB8,000 million senior unsecured debentures due 2024	A
LH24OB: 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
LH25OA: THB4,250 million senior unsecured debentures due 2025	A
LH25OB: THB2,800 million senior unsecured debentures due 2025	A
LH25OC: THB900 million senior unsecured debentures due 2025	A
LH264A: THB1,300 million senior unsecured debentures due 2026	A
LH264B: THB3,000 million senior unsecured debentures due 2026	A
LH265A: THB5,200 million senior unsecured debentures due 2026	A
LH26OA: THB5,800 million senior unsecured debentures due 2026	A
LH274A: THB4,000 million senior unsecured debentures due 2027	A
LH275A: THB1,000 million senior unsecured debentures due 2027	A
Up to THB10,000 million senior unsecured debentures due within 5 years	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000