

QUALITY HOUSES PLC

No. 127/2025
31 July 2025

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Negative

Last Review Date: 23/04/25

Company Rating History:

Date	Rating	Outlook/Alert
31/07/23	A-	Stable
26/07/22	A-	Negative
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 revises the rating outlook on Quality Houses PLC (QH) to “negative” from “stable”. At the same time, we affirm the company rating on QH and the ratings on its senior unsecured debentures at “A-”.

The “negative” outlook reflects QH’s weaker-than-expected operating performance, caused by sluggish real estate sales and softening profitability. Amid unfavorable market sentiment, QH is likely to encounter challenges in achieving its future performance as targeted.

The ratings continue to reflect QH’s diversified residential product portfolio, significant dividend income and financial flexibility stemming from its investments in affiliates, and moderate financial leverage. In addition, the ratings also consider persistently high household debt levels and elevated mortgage rejection rates, both of which continue to dampen housing demand. However, the downward trend in interest rates, the easing of loan-to-value (LTV) regulations, and reductions in transaction-related fees are expected to provide some support for demand in the low- to mid-priced housing segment over the next 12 months.

KEY RATING CONSIDERATIONS

Weaker-than-expected performance in residential property

QH’s operating performance has lagged behind our expectations, primarily due to ongoing economic headwinds and subdued demand in the residential property market. In 2024, QH’s total operating revenue, EBITDA, and funds from operations (FFO) were 10%-20% below our expectations. The decline in residential sales, coupled with the price reduction to stimulate demand, led to an erosion of earnings.

This downtrend persisted into the first quarter of 2025 (1Q25), with total operating revenue contracting by 20% year-on-year (y-o-y) and reaching only 15% of our full-year projection. QH’s aggressive pricing strategy further weighed on profitability, as gross profit margin narrowed to 29% in 1Q25 from 33%-35% over the past three years. As a result, EBITDA significantly deviated from our projections, resulting in negative FFO for the quarter.

Although QH maintained a steady debt level, lower-than-expected EBITDA elevated the debt to EBITDA ratio to 4.4-4.6 times in 2024-1Q25 from 3.6 times in 2022-2023. The FFO to debt ratio also weakened to 17%-18%, falling short of our expectations.

Future revenue and earnings to face challenges

We view the ongoing slowdown in the domestic economy and persistently high household debt will continue to dampen demand in the residential property market. With a limited backlog, QH will continue to face significant operational challenges from 2025 through 2027. The company’s revenue and earnings during this period will largely depend on its ability to drive new sales from both new and existing landed property projects as well as from its ready-to-move-in condominium projects.

To address these pressures, QH may need to continue offering competitive prices to stimulate sales of completed inventory. However, this strategy is likely to compress margins further, particularly in an intensely competitive and unfavorable market environment.

Looking ahead, we have revised our forecast for QH's total operating revenue down to THB7-THB8.5 billion annually for 2025-2027, or 20%-30% below our previous forecast. Residential sales are expected to remain a key revenue driver, contributing around 80% of total income. Revenue from hotel operations is projected to drop by 5%-10% in 2025 due to lower-than-expected tourist arrivals. However, a gradual recovery is expected, with an annual growth projected at 5% for 2026 and 2027. We project QH's overall gross profit margin to soften to 29%-30% throughout the forecast period. EBITDA is likely to reach its lowest point this year but should gradually improve, approaching THB2.5 billion in 2026-2027. The EBITDA margin is expected to remain in the 29%-30% range.

Diversified residential product portfolio

QH offers a diverse range of residential products, including single-detached houses (SDH), semi-detached houses (semi-DH), townhouses, and condominiums, catering to nearly all segments of the residential property market. Its portfolio spans from the high-end SDH segment, with units priced above THB20 million under the "Pruekpirom" brand, to the mid- to high-end SDH segment priced between THB10-THB20 million under the "Laddarom" brand. The company also offers the middle-income segment with SDH and semi-DH units priced from THB5-THB12 million under the "Vararom" and "Casa Ville" brands. More affordably priced semi-DHs and townhouses, ranging from THB2.5-THB6 million per unit, are marketed under the "Q District" brand.

As of March 2025, QH had a total of 55 landed property projects and 12 condominium projects, with a combined remaining project value of THB40.8 billion, including both built and unbuilt units. Approximately 80% of the unsold value comprised landed property projects, with the remainder primarily from condominium projects, mainly Q Sukhumvit project. Around one-third of the unsold inventory comprised ready-to-move-in units, which can be recognized as revenue upon sale.

Moderate financial leverage

QH has maintained a conservative financial profile, supported by its focus on landed property development, which is less capital intensive than condominium projects, along with its cautious project expansion. As a result, the company sustained moderate financial leverage, with the debt to capitalization ratio below 35% and the debt to EBITDA ratio of under 5 times in 2021-1Q25.

Under our base-case forecast, we expect QH to launch new landed property projects totaling THB7 billion in 2025. We expect the company may not launch new projects in 2026-2027 and focus on accelerating sales of existing landed property projects and reducing its inventory of completed condominium units. However, the company may need to acquire land in new locations to support future projects if market conditions improve. We project annual land acquisition spending of THB1.4-THB1.8 billion. Our forecast also includes a lease renewal for hotel operations, valued at approximately THB600 million in 2027.

As a result, we expect QH's debt to capitalization ratio to remain relatively low at 24%-28% throughout the forecast period. However, due to a projected decline in EBITDA in 2025, the debt to EBITDA ratio is expected to rise above 5 times. Although we anticipate a gradual recovery in revenue and earnings during 2026-2027, which is expected to reduce the debt to EBITDA ratio to below 5 times, any further deterioration in operating performance resulting in the ratio exceeding 5 times could trigger a rating downgrade.

Adequate liquidity

We assess QH to have adequate liquidity to cover its debt obligations over the next 12 months. As of March 2025, the company's liquidity sources included THB1.4 billion cash and cash equivalents and THB4.3 billion available short-term credit facilities. We project QH's FFO over the next 12 months to be approximately THB2 billion. In addition, QH holds unencumbered land with a book value of around THB4 billion and remaining completed units in debt-free projects with a total selling price of THB14.2 billion, which could be pledged as collateral to secure additional funding if required.

QH has total debt maturities of THB5.4 billion over the next 12 months, including THB3.3 billion debentures, THB1 billion bills of exchange (B/Es), and the remainder in long-term loans and lease liabilities. The company has already repaid the THB1 billion debentures due on 5 May 2025 through new debenture issuance and plans to repay the debentures maturing in the fourth quarter of 2025 by new debenture issuance and/or term loans. The THB1 billion B/Es have been settled by internal cash.

The financial covenant on QH's debentures and bank loans require the company to maintain its net interest-bearing debt to equity ratio below 2 times. The ratio at the end of March 2025 was 0.4 times. We believe the company should have no problems complying with the financial covenant over the next 12 months.

Sizable investment portfolio to enhance financial flexibility

We view QH's substantial portfolio of marketable securities as a key enhancement to its liquidity and financial flexibility over the foreseeable future. QH holds equity stakes in four listed affiliates: Home Product Center PLC (HMPRO, 19.9%), LH

Financial Group PLC (LHFG, 13.7%), Quality Houses Hotel and Residence Freehold and Leasehold Real Estate Investment Trust (QHHRREIT, 31.3%), and Quality Houses Business Complex Leasehold Real Estate Investment Trust (QHBREIT, 25.7%). These investments provide QH with recurring dividend income.

Over the past five years, QH received annual dividends in the THB1.1-THB1.3 billion range and recognized a share of profits from these affiliates of THB1.4-THB1.8 billion per year. For 2025-2027, we expect QH to continue receiving annual dividends of approximately THB1.2-THB1.3 billion from these investments.

As of March 2025, the fair market value of QH's holdings in these listed entities stood at THB26.2 billion, equivalent to about two times the company's outstanding debts. While the market value of these securities may fluctuate with market sentiment, we consider them a meaningful source of financial flexibility and a strong liquidity buffer, if needed.

Debt structure

As of March 2025, QH had total consolidated debts of THB11 billion, comprising THB8.1 billion debentures, THB1.9 billion long-term loans, and THB1 billion bill of exchange (B/Es). All debts were unsecured debts at the parent company, thus there was no priority debt.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for QH's operations in 2025-2027:

- New landed property projects worth THB7 billion in 2025, with no additional project launches planned for 2026-2027
- Annual budget for land acquisition of THB1.4-THB1.8 billion
- Lease renewal for hotel operations of around THB600 million in 2027
- Revenue base to scale down to the THB7 billion in 2025 and recover to around THB8-THB8.5 billion during 2026-2027
- EBITDA margin to hover around 29%-30%

RATING OUTLOOK

The "negative" outlook reflects QH's weaker-than-expected operating performance. Amid ongoing economic headwinds, the company continues to face increasingly challenging industry conditions, which may hinder its ability to generate revenue and earnings in line with our expectations for its current rating.

RATING SENSITIVITIES

A rating downgrade could be triggered if QH's operating results and/or financial profile significantly deteriorate from our expectations, particularly in the absence of an imminent recovery. Conversely, the outlook could be revised to "stable" if QH demonstrates improved operating performance, with EBITDA consistently exceeding THB2.5 billion and maintaining its debt to EBITDA ratio not exceeding 5 times on a sustained basis.

COMPANY OVERVIEW

QH was established in 1983 by Land & Houses PLC (LH), the Gaysorn Group, and Dhana Siam Finance and Securities PLC. The company was listed on the Stock Exchange of Thailand (SET) in 1991. As of April 2025, LH was the largest shareholder of QH, holding a 25% stake.

QH's business profile is satisfactory. The company is one of the leading property developers in Thailand. The company offers a wide range of residential property products, including SDHs, semi-DHs, townhouses, and condominiums. QH's market position is quite strong in the landed property product with the unit prices of above THB5 million segment. Its market position in the lower-priced landed property of the THB2.5-THB4.5 million segment is also acceptable. QH's landed property brands are well-known and accepted by buyers.

In 1992, QH entered the residential property development market, initially focusing on high-end single detached houses (SDHs) under three brand names: "Pruekpirom", "Laddarom", and "Vararom". In 2006, the company expanded into the middle-income segment with the launch of the "Casa" brand. By 2009, QH began developing semi-prebuilt condominium projects under the "Q" and "Q House Condominium" brands.

In 2010, QH introduced "The Trust" brand, targeting units priced between THB1-THB3 million. This was followed by the launch of "Gusto" in 2012, offering townhouses in the THB2-THB4 million range. In 2020, QH entered the premium townhouse segment with the "Q Prime" brand, priced between THB6-THB7 million per unit.

In 2022, QH restructured and streamlined its product portfolio, consolidating its residential property business under five core brands:

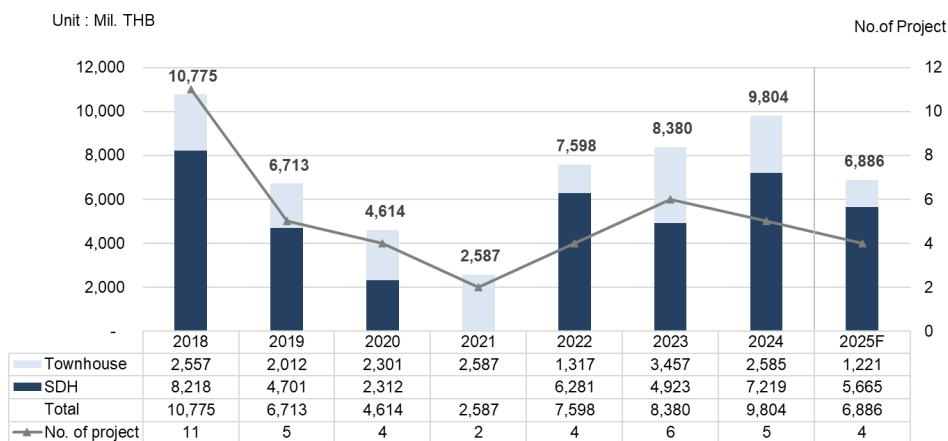
- "Pruekpirom" for high-end SDHs priced above THB20 million

- “Laddarom” for middle- to high-end SDHs priced between THB10-THB20 million
- “Vararom” and “Casa Ville” for mid-range SDHs and semi-detached houses priced between THB5-THB12 million
- “Q District” for affordable semi-detached houses and townhouses priced between THB2.5-THB6 million

This strategic brand alignment reflects QH’s efforts to clearly segment its offerings and better serve a diverse customer base.

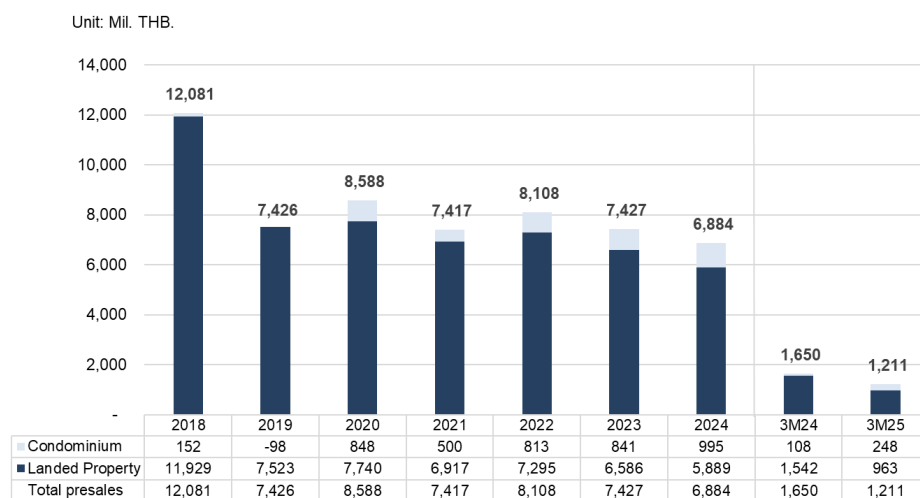
KEY OPERATING PERFORMANCE

Chart 1: New Project Launches

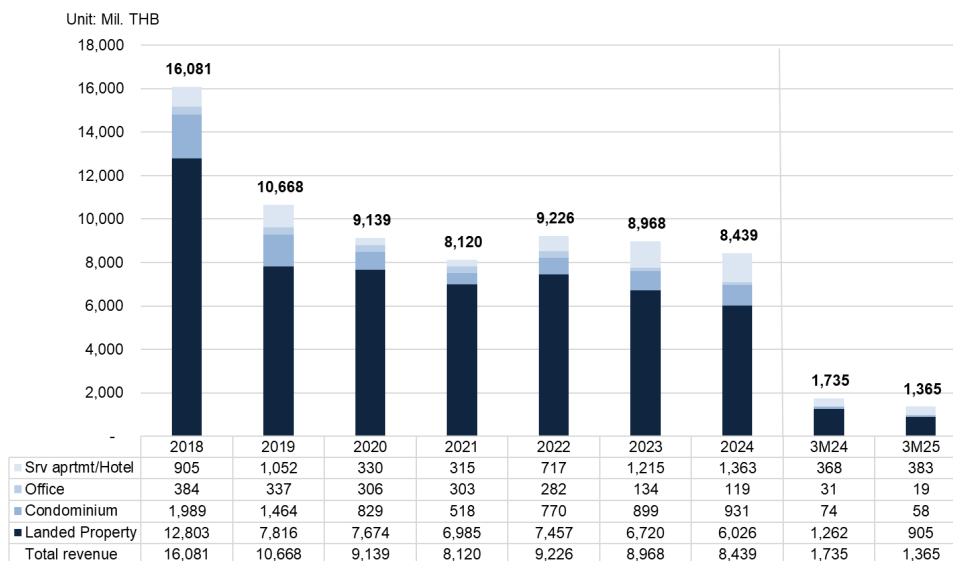


Source: QH

Chart 2: Presales Performance



Source: QH

Chart 3: Revenue from Sales and Services Breakdown


Source: QH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2025	-----Year Ended 31 December -----			
		2024	2023	2022	2021
Total operating revenues	1,419	8,660	9,204	9,419	8,319
Earnings before interest and taxes (EBIT)	483	2,786	3,134	3,157	2,432
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	88	2,599	2,966	3,084	2,634
Funds from operations (FFO)	(24)	2,038	2,316	2,339	1,922
Adjusted interest expense	99	408	383	402	478
Real estate development investments	26,599	26,865	26,698	26,677	27,461
Total assets	45,066	44,821	43,442	43,626	46,236
Adjusted debt	11,228	11,448	10,687	11,115	13,246
Adjusted equity	29,788	29,305	28,373	27,833	26,985
Adjusted Ratios					
EBITDA margin (%)	6.2	30.0	32.2	32.7	31.7
Pretax return on permanent capital (%)	6.4 **	6.7	7.7	7.5	5.5
EBITDA interest coverage (times)	0.9	6.4	7.7	7.7	5.5
Debt to EBITDA (times)	4.6 **	4.4	3.6	3.6	5.0
FFO to debt (%)	16.7 **	17.8	21.7	21.0	14.5
Debt to capitalization (%)	27.4	28.1	27.4	28.5	32.9

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 26 December 2024
- 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

Quality Houses PLC (QH)

Company Rating:	A-
Issue Ratings:	
QH25NA: THB720 million senior unsecured debentures due 2025	A-
QH25DA: THB550 million senior unsecured debentures due 2025	A-
QH25DB: THB1,000 million senior unsecured debentures due 2025	A-
QH272A: THB2,500 million senior unsecured debentures due 2027	A-
QH27DA: THB1,500million senior unsecured debentures due 2027	A-
QH285A: THB2,000 million senior unsecured debentures due 2028	A-
Rating Outlook:	Negative

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