GRANDE ASSET HOTELS AND PROPERTY PLC

No. 35/2018
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CORPORATES

Company Rating:	BB+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
24/03/17	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating of Grande Asset Hotels and Property PLC (GRAND) at "BB+". The rating reflects GRAND's experience as a property developer, its relationships with successful hotel brands, and the good locations of its hotel properties. The rating is, however, constrained by GRAND's reliance on the income from a few properties, high administrative expenses, and aggressive investment plan. The rating also takes into consideration the nature of the hotel industry, which is characterized by intense competition and a high sensitivity to uncontrollable external factors, and the cyclicality of the property market. Property Perfect PLC (PF) and its affiliates are currently GRAND's major shareholders and direct GRAND's business decision. As a result, the rating of PF and GRAND are closely linked. Currently, PF is rated "BB+" with a "stable" outlook by TRIS Rating.

KEY RATING CONSIDERATIONS

Properties are in good locations, managed by international hotel chains

The company's hotel properties are in good locations, such as the central business district (CBD) of Bangkok and popular tourist destinations. GRAND's strategy is to build hotels and appoint international hotel chains to manage and operate the properties. GRAND's hotel properties have acceptable financial results and smooth operations as international hotel chains provide strong brand names, proven hotel management systems, and strong marketing channels. In exchange, GRAND has to pay management fees to the international hotel chains.

Growing tourism industry drives operating results

In 2017, foreign tourist arrivals to Thailand continued to increase, climbing by 8.5% to 35.38 million persons. The hotel industry benefits directly from the strong growth. As a result, GRAND's hotel segment posted good operating results. For example, revenue per available room (RevPar) increased from Bt3,204 per night in 2016 to Bt3,260 per night in 2017.

As Thailand is one of the world's top destinations for leisure, recreation, and holidays, TRIS Rating expects prospects for the Thai tourism industry to remain good. Foreign tourist arrivals are expected to grow at a rate in the high single digit percentages in 2018.

Reliance on income from a few properties

The majority of GRAND's cash flow is derived from its hotel operations. In the past, nearly all (90%) of the company's earnings before interest, tax, depreciation and amortization (EBITDA) for the hotel segment came from only two properties: The Westin Grande Sukhumvit and the Sheraton Hua Hin Resort and Spa. This situation changed in 2017 when GRAND set up a real estate investment trust, Grande Hospitality Real Estate Investment Trust (GAHREIT). GRAND sold the Sheraton Hua Hin Resort and Spa to GAHREIT in late 2017. However, the company continues to operate the hotel. GRAND leased back the hotel from GAHREIT, paying a fixed annual lease payment to the REIT. The lease payment consumes nearly all the operating cash flow expected from the hotel.

GRAND has plans to add three more hotels to its portfolio of properties. The

Hyatt Regency Sukhumvit, located on Sukhumwit road, is under development. The hotel is slated to open in the second half of 2018. GRAND is also in the process of acquiring Royal Orchid Hotel (Thailand) PLC (ROH), which operates the Royal Orchid Sheraton Hotel & Towers, an upscale hotel with 726-keys. The transaction value is around Bt3,600 million. The acquisition is expected to close in the second half of 2018. Lastly, a mixed-use project is under development in Rayong province. The project consists of an upscale hotel with 205-keys, a 282-room condominium, and 61 villas. The hotel is expected to open in late 2020.

GRAND's diversification plans will make it less vulnerable to a downturn in the tourism industry. With many hotels in many different locations, the impact from specific event risks on the overall performance of the company can be mitigated.

Condominium project improves performance of property development segment

In 2017, revenue in property development segment increased by 274% to Bt1,196 million. The sharp rise reflected the completion of a condominium project, the Hyde Sukhumvit 11, and the transfers of some units to clients. The company plans to sell and transfer the remaining units over the next two years in order to smooth the revenue stream. Revenue from property development segment is quite volatile because of the infrequent launches of new property development projects. The administrative expenses associated with the property development squeeze profitability especially when there are no projects with finished units ready for transfer.

Going forward, the company's strategy is to focus on developing high-end condominiums in prime areas of Bangkok. The company has joined with its partners, Sumitomo Forestry and its major shareholder, PF, to develop a new condominium on Sukhumvit road. The project value is approximately Bt5,800 million and the construction will finish in late 2020. GRAND also benefits from a synergy with PF in terms of cost-saving through combined procurement of raw materials and joint marketing exhibitions.

Leverage is expected to rise

GRAND's total debt continued to increase, climbing to Bt4,565 million in 2017, compared with Bt3,813 million in 2016. The amount of debt outstanding rose due mainly to the investments in the Hyatt Regency Sukhumvit hotel and The Hyde Sukhumvit 11 condominium. The debt to capitalization ratio rose from 57.3% in 2016 to 61.5% in 2017. During 2018-2020, GRAND plans investments totaling Bt9,500 million, mainly for three projects: the acquisition of ROH, the renovation of The Westin Grande Sukhumvit, and the investment in a mixed-use project in Rayong province. As a result, the debt to capitalization ratio is expected to gradually rise to 70% in 2020.

Enough cash and credit facilities on hand to meet financial obligations, but more is needed to fund expansion plan

GRAND's liquidity is soft. Sources of funds comprised cash on hand of Bt1,412 million and undrawn uncommitted credit facilities of Bt950 million at the end of 2017. The funds from operations (FFO) over the next 12 months is forecast at around Bt300 million. Added together, these three sources should be sufficient to cover the debt service needs over the next 12 months. GRAND has scheduled principal repayments of Bt1,204 million and repayments of outstanding short-term obligations of Bt399 million coming due in the next 12 months.

While the sources of cash can cover the debt service commitments over the next 12 months, GRAND plans to invest approximately Bt5,000 million. The company will need to borrow more to fund these new investments. GRAND also has two other options to secure the funds it needs: to issue new shares to the existing shareholders, or to sell one or more hotel properties to GAHREIT.

According to a key financial covenant in GRAND's bank loans, the debt to equity ratio must stay below 2.5 times. The debt to equity ratio at the end of 2017 was 1.6 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that the company will stay in compliance for the next 12 to 18 months.

RATING OUTLOOK

The "stable" outlook is based on the expectation that the operating performance of the hotel segment will remain satisfactory. In addition, the company is expected to complete the property projects on schedule, and transfer the finished units to customers as planned. Under TRIS Rating's base case scenario, we assume that GRAND's revenues will gradually grow to around Bt4,500 million in 2020. During 2018-2020, the operating profit margins will stay above 20%. The FFO to total debt ratio is expected to stay around 6% and the EBITDA interest coverage ratio should be approximately 2 times.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term based on the company's sizable investment expansion plans. In contrast, the downside risk scenario will materialize if GRAND's financial performance deteriorates substantially or if financial leverage climbs significantly above the projected level. In addition, any change in the credit rating or outlook of PF might have an impact on GRAND's credit rating or outlook accordingly.

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 hotel. Later, the company added two properties to its hotel portfolio. The Sheraton Hua Hin Resort and Spa was added in 2009 and the Sheraton Hua Hin Pranburi Villas was added in 2013. At present, GRAND operates three hotels with a total of 655 rooms.

The property development segment started in 2007 with the launches of two condominium projects: The Trendy Condominium and Hua Hin Blue Lagoon. Two more condominium projects, The Hyde Sukhumvit 13 and The Hyde Sukhumvit 11, were finished in 2014 and 2017, respectively. As of December 2017, GRAND's largest shareholders were PF and its affiliates, holding 42% of the shares.

The hotel segment has typically constituted the largest share (over 75%) of total revenue during each of the past five years. The balance came from the residential property segment. However, in some years, such as 2014 and 2017, the property development segment accounted for more. For example, in 2014, this segment made up 83% of revenue and 52% of revenue in 2017. GRAND completed and transferred a condominium project in both of these years.

KEY OPERTING PERFORMANCE

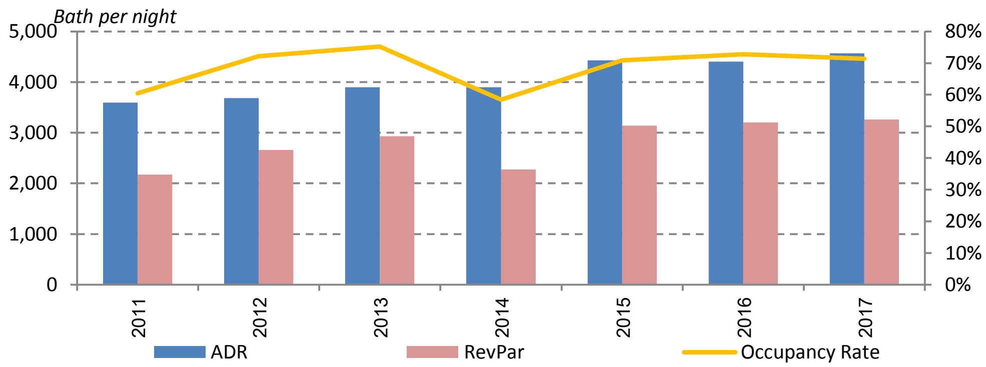
Table 1: GRAND's Revenue Breakdown by Line of Business

Unit: %

Revenue Breakdown	2012	2013	2014	2015	2016	2017
Hotel	95	81	17	77	76	47
Residential property	3	17	83	21	23	52
Others	2	2	0	2	1	1
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**
Total revenue (Bt million)	**957**	**1,226**	**4,886**	**1,361**	**1,417**	**2,305**

Source: GRAND

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



Source: GRAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----------------------- Year Ended 31 December --------------------				
	2017	**2016**	**2015**	**2014**	**2013**
Sales	2,305	1,417	1,361	4,886	1,226
Gross interest expense	253	135	115	162	264
Net income from operations	714	6	(120)	602	(162)
Funds from operations (FFO)	831	177	33	980	(246)
Capital expenditures	646	867	349	394	390
Total assets	9,285	7,689	5,883	5,529	7,889
Total debt	4,565	3,813	2,250	1,911	3,490
Total debt (operating lease adjusted)	5,787	3,900	2,339	2,006	3,593
Shareholders' equity	3,623	2,902	2,896	3,032	2,430
Operating income before depreciation and amortization as % of sales	22.2	24.2	13.5	23.4	2.4
Pretax return on permanent capital (%)	11.5	2.0	(0.5)	19.5	(1.2)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.4	2.7	1.8	7.6	0.4
FFO/total debt (%)	14.4	4.8	1.8	49.2	(6.7)
Total debt/capitalization (%)	61.5	57.3	44.7	39.8	59.7

Note: All ratios have been adjusted by operating leases.

Grande Asset Hotels and Property PLC (GRAND)

Company Rating:	BB+
Rating Outlook:	Stable

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