GRANDE ASSET HOTELS AND PROPERTY PLC

No. 42/2023
29 March 2023

CORPORATES

Company Rating:	BB-
Outlook:	Negative

Last Review Date: 08/04/22

Company Rating History:

Date	Rating	Outlook/Alert
24/07/20	BB-	Negative
27/03/20	BB	Alert Negative
13/05/19	BB	Stable
24/03/17	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Grande Asset Hotels and Property PLC (GRAND) at "BB-" with a "negative" outlook.

The "negative" outlook reflects our concern that GRAND's financial leverage might remain elevated for an extended period despite a strong improvement in hotel operations. The continuing delays and slow sales progress of its residential property projects mean that GRAND's scarce capital is tied up for longer than necessary in non-productive assets that generate little or no returns. The delay in getting its rubber glove joint venture (JV) running also makes it difficult to generate a positive return on investment, as the oversupply situation has caused rubber glove prices to fall sharply below the level anticipated at the project's inception. Without significant improvement in the company's profitability or active balance sheet management to reduce its debt burden, a rating downgrade is likely.

The rating continues to take into consideration the good quality of the company's hotel properties and its experience as a property developer. The rating is constrained by the company's high level of debt, tight liquidity, and weak profitability.

KEY RATING CONSIDERATIONS

Recovery in hotel performance expected to continue

We anticipate the recovery of GRAND's hotels to continue in 2023, underpinned by the return of Chinese tourists later in the year. Our base-case forecast projects GRAND's revenue per available room (RevPar) to reach the 2019 level in 2023 and to surpass the 2019 level in 2024-2025 as tourism fully returns to normalcy. We expect the company's revenue from hotel operations to be around THB2.5-THB3.0 billion per year in 2023-2025.

GRAND's hotel performance started to revive in 2022, thanks to an increase in tourist arrivals especially in the second half of the year, following the gradual lifting of Coronavirus Disease 2019 (COVID-19) entry requirements for international visitors during the first half of the year. The number of tourist arrivals increased significantly, rising to 11 million in 2022 from 0.4 million in 2021. In 2022, GRAND's average hotel occupancy rate (OR) was 47% and RevPAR was 39% below the 2019 level, an improvement from an average OR of 16% and a RevPar of 84% below the 2019 level in 2021.

Residential sales projected to remain stagnant

We expect GRAND's residential sales to remain weak in 2023-2025. Our base-case projection assumes sales of the two projects at the company level to be THB350-THB450 million per annum during the forecast period.

GRAND currently has two active real estate projects at the company level, namely "Hyde Sukhumvit 11" and a mixed-use project in Rayong province.

The sales progress of Hyde Sukhumvit 11 continued to move slowly in 2022 despite an improvement in the pandemic situation. The company recorded sales of only THB136 million or 3% of the project value in 2022. The project has remaining units totaling THB1.1 billion or 26% of the project value. The project was completed and ready to transfer to customers in 2017.

The mixed-use property in Rayong includes three types of property. The project features 61 villas for sale, a 205-key hotel, and a condominium. The company has completed construction of nine beachfront villas since early 2021 and has been aiming to sell them at THB50-THB60 million per unit. Nonetheless, the project has yet to record any sales as of December 2022, due partly to the delays in construction of the project's facilities. Uncertainty remains whether the company will be able to market its luxury villas at the targeted price within a reasonable timeline. The company plans to develop a hotel and a condominium after the villas are completed. The hotel construction is expected to start in 2025.

In addition, GRAND has set up two JVs to develop two condominium projects in Bangkok, namely "Hyde Heritage Thonglor" on Sukhumvit Road and "Hyde River Bay" on Charoen Nakorn Road by the Chao Phraya River. Hyde Heritage Thonglor was ready to transfer in August 2022. The project realized THB1.5 billion of revenue in 2022 and had backlog totaling THB1.5 billion as of December 2022. The Hyde River Bay project remains under review with the launch delayed to the first quarter of 2024. Under our base-case assumptions, we expect the Hyde Heritage Thonglor project to recognize around THB2 billion of revenue in 2023, including its backlog, while the Hyde River Bay project is anticipated to start construction work in 2024.

Challenging situation with rubber glove JV

We expect the oversupply situation in the rubber glove market to continue to keep prices significantly lower than the company anticipated at the project's inception. We project the operating loss of the JV to continue over the next few years as the selling price of rubber gloves is likely to hover close to the current level, if not lower, pressuring profitability.

In late 2020, GRAND joined hands with a business partner, which has experience of more than 30 years in the manufacture of rubber gloves, to set up Grand Global Gloves Co., Ltd. (GGG). The initial plan was to build two factories with a total of 16 production lines and get them all up and running in 2021.

As of December 2022, the company had three production lines in operation and expects to finish installing the fourth line in 2023. The company has decided to cut back on its initial plan and will stop expanding after four production lines are completed. Having started generating revenue in the latter half of 2022 after experiencing delays in kickstarting the project, the company incurred a net loss of THB109 million in 2022, partly because rubber glove prices had fallen sharply from levels at the height of the pandemic. GRAND had invested around THB400 million in equity and shareholder loans in GGG as of December 2022.

Negative FFO expected over forecast period unless debt reduced

We expect the company to find ways to reduce its debt burden, potentially by selling some of its assets. The company is contemplating a sale and leaseback transaction of the Hyatt Regency Bangkok Sukhumvit Hotel in 2024. The company expects sales proceeds of around THB5 billion based on a recent appraisal. Alternatively, the company could sell its investment in Grand River Forest Co., Ltd. The company owns a 42% stake in the JV with an investment of around THB600 million. If the transaction transpires, the company will not only recoup its initial investment but will also avoid incurring more debt during the four-year construction period.

Without a debt reduction plan, we project the company's adjusted debt to keep rising, ranging from THB12-THB14 billion in 2023-2025. We estimate the capital budget for the hotel segment and development cost for residential property projects to total around THB1.9 billion over the next three years. We expect the company's earnings before interest, taxes, depreciation and amortization (EBITDA) to recover to the THB700-THB800 million range in 2023-2025. Therefore, the adjusted debt to EBITDA ratio is expected to remain high at around 17 times over the forecast period. We project the adjusted interest expense to be around THB900 million-THB1.1 billion, hence, funds from operations (FFO) will continue to be negative. The company will have to incur more debt to finance the negative cash flow unless it finds ways to reduce the debt burden, or profitability significantly outperforms our expectation.

The financial covenant on GRAND's debentures requires the net interest-bearing debt to equity to stay below 3 times. The ratio was 1.5 times at the end of December 2022. As we expect the company to incur operating losses due to high operating costs and high financial costs, the company's equity is likely to weaken, leading to declining headroom to maintain the financial covenant.

As of December 2022, GRAND had consolidated debt of THB11.9 billion, of which around THB11 billion was considered priority debt. Priority debt comprised secured loans and debentures at GRAND and the obligation to buy back the asset from the REIT. As its priority debt ratio was 93%, higher than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that GRAND's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Tight liquidity

We expect GRAND's liquidity to remain tight over the next 12 months. As of December 2022, GRAND's sources of funds comprised cash and cash equivalents of around THB1.7 billion. The company had maturing debts over the next 12 months totaling THB3.0 billion, including THB2.8 billion of debentures due. We forecast a net cash outflow from operations of around

THB200 million and budgeted investments of around THB600 million in 2023. The company plans to refinance its maturing debentures with new debenture issuances and secure additional funding to meet its financial obligations and investment plan.

BASE-CASE ASSUMPTIONS

- Revenue from the hotel business to be around THB2.5-THB3.0 billion per annum in 2023-2025.
- Revenue from the real estate development business to be around THB350-THB450 million per annum in 2023-2025.
- EBITDA margin to range from 24%-25% in 2023-2025.
- Total capital spending to be around THB1.9 billion over the three-year forecast period.

RATING OUTLOOK

The “negative” outlook reflects our view that GRAND’s financial leverage might stay elevated for an extended period despite a strong improvement in hotel operations.

RATING SENSITIVITIES

The rating outlook could be revised to “stable” if GRAND delivers financial results that significantly outperform our expectations, or if it successfully reduces its debt burden such that we could expect FFO to turn positive. On the contrary, the rating could be revised downward if the financial performance turns out to be in line with, or worse than, our projections without the company realizing any of its debt reduction plans.

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 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 December 2022, 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 JVs with its major shareholder, Property Perfect PLC (PF) and Sumitomo Forestry Co., Ltd., a Japanese housing and wood products corporation, to develop two condominium projects: Hyde Heritage Thonglor and Hyde River Bay. As of December 2022, GRAND’s largest shareholders were PF and its affiliates, holding 44% 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 those years.

KEY OPERATING PERFORMANCE

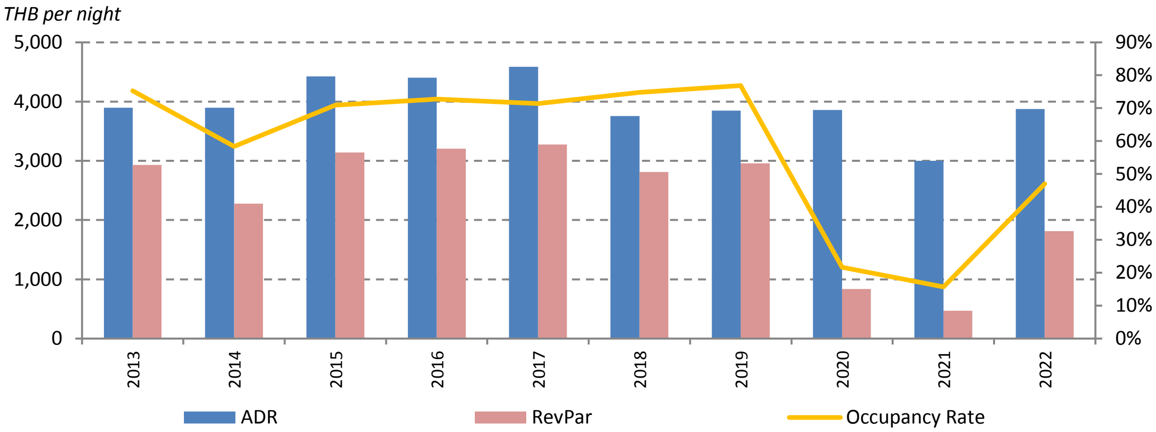
Table 1: GRAND's Revenue Breakdown by Line of Business

Unit: %

Revenue Breakdown	2015	2016	2017	2018	2019	2020	2021	2022
Hotel	77	76	47	52	85	79	85	90
Residential property	21	23	52	47	14	17	12	8
Others	2	1	1	1	1	4	3	2
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total revenue (mil. THB)	**1,361**	**1,417**	**2,305**	**3,343**	**2,987**	**1,000**	**515**	**1,726**

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	----------------			
	2022	**2021**	**2020**	**2019**	**2018**
Total operating revenues	1,801	574	1,081	3,084	3,451
Earnings before interest and taxes (EBIT)	(176)	(857)	(660)	202	459
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	245	(346)	(141)	682	798
Funds from operations (FFO)	(759)	(1,142)	(775)	69	329
Adjusted interest expense	992	748	631	576	434
Capital expenditures	77	119	66	381	706
Total assets	18,300	17,596	13,508	14,525	13,677
Adjusted debt	11,184	11,096	9,242	8,076	7,069
Adjusted equity	3,918	4,381	3,111	4,160	4,562
Adjusted Ratios					
EBITDA margin (%)	13.59	(60.31)	(13.06)	22.10	23.12
Pretax return on permanent capital (%)	(1.06)	(5.80)	(4.85)	1.48	4.07
EBITDA interest coverage (times)	0.25	(0.46)	(0.22)	1.18	1.84
Debt to EBITDA (times)	45.67	(32.06)	(65.43)	11.85	8.86
FFO to debt (%)	(6.78)	(10.29)	(8.39)	0.86	4.65
Debt to capitalization (%)	74.06	71.69	74.81	66.00	60.78

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Grande Asset Hotels and Property PLC (GRAND)

Company Rating:	BB-
Rating Outlook:	Negative

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