

QUALITY HOUSES PLC

No. 69/2017

27 June 2017

Company Rating: A-

Issue Ratings:

Senior unsecured A-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
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	-

Contacts:

 Auyporn Vachirakanjanaporn
auyporn@trisrating.com

 Jutamas Bunyawanchkul
jutamas@trisrating.com

 Rapeepol Mahapant
rapeepol@trisrating.com

 Suchada Pantu, Ph. D.
suchada@trisrating.com
WWW.TRISRATING.COM
Rating Rationale

TRIS Rating affirms the company rating and the ratings of senior unsecured debentures of Quality Houses PLC (QH) at "A-". The ratings reflect QH's established track record in the property development industry, strong position in the middle-to high-income segment of the housing market, and the financial flexibility gained from its investments in marketable securities. The strengths are partially offset by QH's relatively high level of financial leverage, the high household debts nationwide, as well as the cyclical and competitive nature of the residential property industry.

QH was founded in 1983 and was listed on the Stock Exchange of Thailand (SET) in 1991. As of March 2017, QH's major shareholders were Land and Houses PLC (LH, owning a 25% stake) and the Government of Singapore Investment Corporation Pte. Ltd. (11%). QH's business profile is satisfactory. The company is one of the leading property developers in Thailand. QH's market position is quite strong in the single-detached houses (SDH) segment priced over Bt5 million per unit. Its market position in the lower-priced housing segment, with a price range between Bt1-Bt3 million per unit, is also acceptable. The company's housing brands are well-known and accepted by buyers.

QH's revenue in the first quarter of 2017 dropped by 33.8% year-on-year (y-o-y) to Bt3,450 million due to the lack of government incentives. QH's revenue from the housing segment comprised 80% while the rest comprised revenues from the condominium segment and rental income. Presales of QH in the first quarter of 2017 stood at Bt3,615 million, down 20% from the same period a year ago, since the company did not launch any new condominium projects. As a result, presales from condominium projects was only Bt1,151 million in 2016 and Bt325 million in the first quarter of 2017, decreasing from around Bt4,500 million per year during 2014-2015. The gross profit margin of the condominium segment in 2016 through the first quarter of 2017 was 26%-27%, declining from 33%-35% in the past three years, as the company accelerated the sales of the finished units in the stock. The operating margin (operating income before depreciation and amortization as a percentage of revenue) in 2016 through the first quarter of 2017 was constant at around 12%, decreasing from the levels between 13%-16% during 2013-2015. The total debt to capitalization ratio at the end of March 2017 was 51.9%, decreasing from 52.6% at the end of 2016.

At the end of March 2017, QH's backlog of condominium units was worth around Bt5,400 million. The value of condominium units in the backlog will be transferred to its customers at around Bt1,800 million during the remainder of 2017 and Bt3,600 million in 2018. Due to its relatively small amount of backlog on hand, its future revenue is not expected to grow much from the current level.

During 2017-2019, TRIS Rating's base-case scenario expects QH to generate revenues of Bt19-Bt22 billion per annum. Revenues from housing projects should account for 70%-80% of total revenues. The operating margin is expected to hold at 12%-14%. The total debt to capitalization ratio is expected to stay below 55%, taking into account the company's plan to launch new real estate development projects worth approximately Bt10-Bt15 billion per annum. Funds from operations (FFO) are expected to hold above Bt2.2 billion per annum.

QH's liquidity profile remains acceptable. At the end of March 2017, QH had debts due over the next 12 months of Bt10,500 million, all of them are debenture redemptions. Most of the debts are expected to be refinanced with new debentures. QH's liquidity sources included Bt3,489 million in cash and Bt1,303 million in undrawn long-term credit facilities as of March 2017. The company's liquidity position is enhanced by its sizeable portfolio of marketable securities. QH holds stakes in two SET-listed companies and two property funds: Home Product Center PLC (HMPRO) (a 19.9% stake), LH Financial Group PLC (LHFG) (21.3%), Quality Houses Leasehold Property Fund (QHPF) (25.7%), and Quality Houses Hotel and Residence Freehold and Leasehold Property Fund (QHHR) (31.3%). These four firms provide dividends of around Bt800-Bt1,000 million per year to QH on a recurring basis. As of March 2017, the portfolio carried a fair value of Bt33.7 billion, or about 1.32 times the company's total debt. During 2017-2019, the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 4 times. The FFO to total debt ratio is expected to range from 10%-12%.

Rating Outlook

The "stable" outlook reflects the expectation that QH's business profile will remain strong in the medium term. The company's debt to capitalization ratio is expected to stay at around 55% over the next three years. QH's ratings and/or outlook could be revised downward should its financial profile deteriorate dramatically. For example, a prolonged market slump, leading to lower sales, would raise the debt to capitalization ratio above 60% on a sustainable basis. In contrast, the ratings could be revised upward if the company can improve its operating performance significantly from the current levels while keeping its debt to capitalization ratio lower than 50% on a sustainable basis.

Quality Houses PLC (QH)

Company Rating:	A-
Issue Ratings:	
QH177A: Bt530 million senior unsecured debentures due 2017	A-
QH178A: Bt2,000 million senior unsecured debentures due 2017	A-
QH178B: Bt1,970 million senior unsecured debentures due 2017	A-
QH182A: Bt4,000 million senior unsecured debentures due 2018	A-
QH185A: Bt2,500 million senior unsecured debentures due 2018	A-
QH186A: Bt1,800 million senior unsecured debentures due 2018	A-
QH194A: Bt3,400 million senior unsecured debentures due 2019	A-
QH196A: Bt1,200 million senior unsecured debentures due 2019	A-
QH198A: Bt2,000 million senior unsecured debentures due 2019	A-
QH19NA: Bt2,500 million senior unsecured debentures due 2019	A-
QH205A: Bt4,000 million senior unsecured debentures due 2020	A-
QH214A: Bt600 million senior unsecured debentures due 2021	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2017	----- Year Ended 31 December -----				
		2016	2015	2014	2013	2012
Revenues	3,450	19,125	20,358	21,220	19,699	13,077
Finance cost	188	955	1,049	964	832	926
Net income from operations	653	3,085	3,106	3,329	3,307	2,450
Funds from operations (FFO)	391	2,876	2,731	2,662	2,681	2,822
Inventory investment (-increase/+decrease)	765	741	(1,475)	(4,161)	1,192	(2,379)
Total assets	53,245	53,014	52,998	48,634	41,652	41,871
Total debt	25,489	25,487	26,796	25,192	20,320	22,364
Total liabilities	29,661	30,075	31,452	29,485	24,374	26,076
Shareholders' equity	23,584	22,940	21,545	19,149	17,277	15,795
Depreciation & amortization	44	190	191	179	176	221
Dividends	0	1,714	706	1,469	1,745	78
Operating income before depreciation and amortization as % of sales	11.8	11.9	13.3	15.1	16.1	12.5
Pretax return on permanent capital (%)	7.6 **	8.0	8.5	10.3	11.0	9.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.5	4.2	4.0	4.6	5.2	4.0
FFO/total debt (%)	10.0 **	11.3	10.2	10.6	13.2	12.6
Total debt/capitalization (%)	51.9	52.6	55.4	56.8	54.1	58.7

* Consolidated financial statements

** Annualized with trailing 12 months

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

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