LAND AND HOUSES PLC

No. 157/2019
2 October 2019

CORPORATES

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

Last Review Date: 19/07/19

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:

Tulyawat Chatkam
tulyawat@trisrating.com

Jutamas Bunyawanichkul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

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

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Land and Houses PLC (LH) and the ratings on LH's senior unsecured debentures at "A+" with a "stable" outlook. The ratings reflect the company's leading position among residential developers in Thailand, strong brand position in diversified residential product types, reliable stream of income from rental assets, and moderate level of financial leverage. The ratings take into consideration the financial flexibility derived from its portfolio of marketable securities, the cyclical and highly competitive nature in the residential property development business, and the impact from the implementation of new loan-to-value (LTV) rules by the Bank of Thailand (BOT).

KEY RATING CONSIDERATIONS

Leading position in the property development market

LH has established a strong position in the residential property development market as one of the nation's top three developers by revenue. The company recorded Bt34.68 billion in operating revenue in 2018. Its profitability compared favorably with peers as operating income as a percentage of operating revenue (operating margin) ranged from 23% to 26% in the past five years while the industry average operating margin ranged between 15%-25% over the same period.

LH's proven track record is underpinned by its strong operating performance. Presales in 2018 came in at Bt28.86 billion, an increase of 10% year-on-year (y-o-y). Presales during the first six months of 2019, however, decreased by 5% y-o-y to Bt13.30 billion due to a sluggish economy and lukewarm customer sentiment. LH's mainstay single detached house (SDH) segment contributed solid presales and revenue of around Bt18-Bt21 billion per annum. The townhouse segment contributed around Bt2-Bt3 billion per annum in presales and revenue while condominium presales and revenue vary by new project launch and transfer schedule. In the first half of 2019, operating revenue dropped by 16% y-o-y to Bt14.86 billion due mainly to fewer condominium units transferred.

TRIS rating forecasts LH's operating revenue will be around Bt33 billion per annum during 2019-2020. Operating revenue is expected to increase to around Bt37 billion in 2021 then drop to around Bt35 billion in 2022 as many condominium projects will be ready for transfer in late 2020 and early 2021. We expect LH's profitability to soften from intense competition and rising costs. However, we believe that LH should be able to control selling and administrative costs and sustain operating margin at around 22%-24% during 2019-2022.

Broad range of product types offered with favorable brand recognition

LH's product portfolio consists of a broad range of residential products. The company offers SDH, townhouse, and condominium units in various price ranges. Its strong business profile is underscored by its competitive position and brand equity, especially in the SDH segment. The company's products are well perceived by customers in terms of product quality and after-sale service.

LH's core product is SDH, comprising 75%-80% of total presales during 2015 through the first half of 2019. LH's SDH products cover the low- to high-end segments, with selling prices per unit ranging from Bt3 million to above Bt25 million. The "Mantana", "Nantawan", and "Ladawan" brands, with prices above Bt10 million per unit, have been the core contribution to LH's SDH presales during the past years. LH's townhouse products also cover the full range of customer segments. However, the main focus is the segment with units priced between Bt2-Bt4 million, sold under the "Indy" and "Villaggio" brands. Condominium products cover the low- to high-end segments, with selling prices ranging from Bt50,000 to Bt300,000 per square meter (sq.m.). LH's condominium projects target the high-end segment of above Bt8 million per unit under "The Room" and "The Bangkok" brands.

As of June 2019, LH had around 73 existing projects with total remaining project value of Bt59 billion (including built and un-built units). Landed property projects accounted for 80% of total unsold value, while condominium projects made up the rest. The backlog is valued at Bt11 billion and is expected to be delivered to customers during the remainder of 2019 through 2021.

Stable income stream from rental assets

In late 2018, LH opened a new "Grand Center Point Hotel Pattaya" and a shopping mall, "Terminal 21 Pattaya". As a result, LH's rental property portfolio now comprises five hotels under the "Grand Center Point" brand, one shopping mall, and four apartment buildings for rent in the United States (US).

As of June 2019, the occupancy rate (OR) of each hotel was above 80%, with revenue per available room (RevPAR) of Bt2,600-Bt3,300 per night. The recently opened Terminal 21 Pattaya shopping mall showed decent performance as it leased out 98% of total leasable area as of June 2019 while achieving a favorable rental rate. For apartment buildings in the US, the operating performance of three apartment buildings for rent remained sound, but OR at one apartment building was still low in the first half of 2019. The company is working to lease up that apartment building after the renovation was completed in late 2018. LH's existing rental assets generated rental and service income of Bt3.73 billion in 2018 and Bt2.41 billion in the first half of 2019.

Apart from its existing rental properties, the company is developing a shopping mall, Terminal 21, on Rama 3 road. The company plans that the project will be completed and generate rental income in late 2021. TRIS Rating forecasts LH's revenue from rental assets will be Bt4.8-Bt5.0 billion per annum during 2019-2021 and Bt5.8 billion in 2022 after Terminal 21 Rama 3 starts to operate.

LH has a policy to develop or acquire assets which generate recurring income, then sell the assets to a real estate investment trust (REIT) or non-related parties once the assets perform at an acceptable level. This strategy helps the company recycle its capital, realize profits faster, and lower debt burden.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows the trends in the overall economy. However, the volatility in this market is much more pronounced than in the general economy. A sluggish domestic economy and a high level of household debt nationwide have raised concerns over the affordability of the middle- to low-income homebuyers. In addition, the implementation of the new LTV rules by the BOT should impact the sales of residential properties in the short term. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans. Thus, LH has to carefully manage its new project launches to match the demand in each area.

This year, LH plans to launch only landed property projects which tend to serve real demand rather than speculative demand. Also, the slower absorption rate and higher post-financing rejection rate may cause its leverage to hang at a high level for a longer period.

Moderate financial leverage

TRIS Rating expects LH's financial leverage to edge up slightly in the next three years from its usual huge dividend payouts, expansion in its residential property development business, and capital spending in its rental property business. In 2018, LH spent around Bt5.1 billion to replenish land reserves and launched 16 residential projects worth Bt23 billion. LH's land acquisition budget increased to Bt7 billion in 2019 and the company plans to launch 19 new projects, comprising only landed property projects, worth approximately Bt30 billion, a record high since 2015. LH also set aside a budget for investment in rental properties of Bt3 billion per annum during 2019-2022.

TRIS Rating expects the company's debt to capitalization ratio to range upward to 49% during 2019-2022 from 47%. The ratio of funds from operations (FFO) to total debt is expected to remain at 23% in 2019 as the company will realize gains from the sale of Grand Center Point Hotel Sukhumvit 55 in late 2019. The FFO ratio to total debt during 2020-2022 is expected to drop to 17%-19% since the debt level will increase faster than earnings. The debt to earnings before interest, tax, depreciation, and amortization (EBITDA) ratio is expected to rise but should stay below 5 times. LH's leverage might be lower than projected if the company divests some of its rental properties or delays its investments.

Adequate liquidity with additional financial flexibility from investment portfolio

TRIS Rating assesses LH's liquidity as adequate. At the end of June 2018, the company had Bt4.8 billion in cash and cash equivalents, plus undrawn committed credit facilities of loans from financial institutions of Bt4.4 billion. TRIS Rating forecasts LH's FFO over the next 12 months will be Bt9-Bt10 billion. Debts coming due over the next 12 months will amount to Bt17 billion, comprising mainly Bt15 billion in debentures and Bt2 billion in project loans. Generally, LH will refinance bonds coming due by new bond issuances. However, LH intends to have back-up facilities and cash flow from operations to cover all repayments of short-term debts. Its ability to access the capital market and its large investment portfolio also help support its liquidity, if needed.

At the end of June 2019, LH held shares in four Stock Exchange of Thailand (SET)-listed companies: Home Products PLC (HMPRO), Quality Houses PLC (QH), LH Financial Group PLC (LHFG), and Quality Construction PLC (Q-CON). Equity income from LH's investments amounted to Bt3.4 billion per annum in 2018. As of June 2019, the fair market value of the investments in these associated companies was Bt85.3 billion, or 1.7 times LH's outstanding debts. TRIS Rating acknowledges that the values of the listed securities are subject to market sentiment and volatility. However, in TRIS Rating's view, the holdings still provide a considerable cushion for LH's ability to service its debts.

TRIS Rating expects that the company should have no problem complying with its financial covenant over the next 12 to 18 months. According to the key financial covenant on its debentures, LH has to maintain its net interest-bearing debt to equity ratio at lower than 1.5 times. The ratio as of June 2019 was 0.89 times, in compliance with its financial covenant.

BASE-CASE ASSUMPTIONS

- Operating revenue to range around Bt32-Bt37 billion per annum during 2019-2022.
- Gross profit margin to stay around 32%-34% and operating margin will be around 22%-24%.
- Land acquisition budget is forecast to be Bt7 billion in 2019 and Bt6 billion per annum during 2020-2022.
- Capital expenditures are expected to be Bt1.1 billion in 2019, Bt2.3 billion in 2020, Bt4.4 billion in 2021, and Bt2.3 billion in 2022.
- Divestment of Grand Center Point Sukhumvit 55 is projected in late 2019 and divestment of an apartment building in the US is scheduled in 2020.

RATING OUTLOOK

The "stable" outlook on LH's ratings reflects our expectation that the company will maintain it strong market position, achieve steady presales performance and decent operating performance, and maintain acceptable financial leverage. The debt to capitalization ratio should stay below 50% or the debt to EBITDA ratio should stay below 5 times.

RATING SENSITIVITIES

LH's ratings and/or outlook could be revised upward should its capital structure improve significantly from the current level, so that its interest-bearing debt to EBITDA ratio should stay below 3 times on a sustainable basis while its operating performance remains strong comparable with peers. On the contrary, the ratings and/or outlook could be revised downward should LH's operating performance and/or financial position deviate significantly from the projections.

COMPANY OVERVIEW

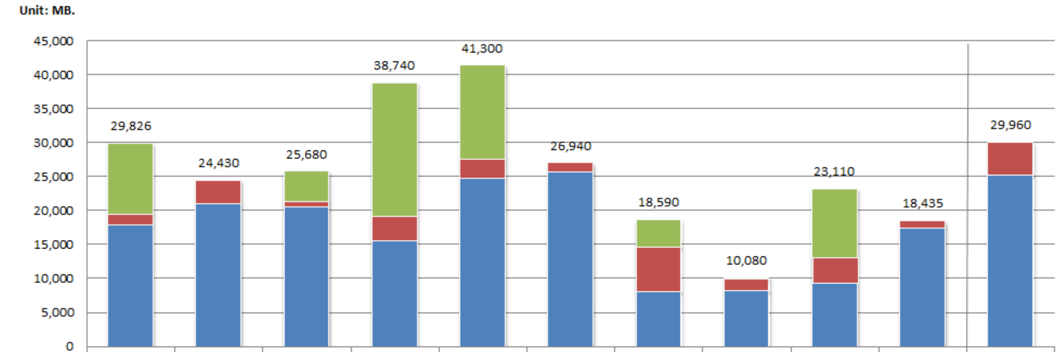
LH was founded by the Asavabhokhin family in 1983 as a real estate developer. The company was listed on the SET in 1989. As of August 2019, the Asavabhokhin family remained LH's largest shareholder with a 31% stake. LH's residential product portfolio is comprehensive, spanning a wide range of prices and product categories. The company offers SDH, townhouse, and condominium units covering the low-end to high-end segments. Its landed property products range in price from Bt2 million to above Bt25 million per unit. Condominium units are priced from Bt50,000 to Bt300,000 per sq.m.

Apart from its residential property business, LH operates five hotels under the Grand Center Point brand, one shopping mall, and four apartment buildings for rent in the US. Also, the company has a sizable 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 constituted 55%-65% of revenue from sales and rental income during 2016-2018. Revenue contributions from the condominium and the townhouse segments were 20%-30% and 6%-9%, respectively. Revenue from rental assets contributed 8%-11%. In addition, LH earned equity income from its investments in marketable securities of around Bt3.4 billion per annum and received dividends of Bt2.3 billion per annum in 2018.

KEY OPERATING PERFORMANCE

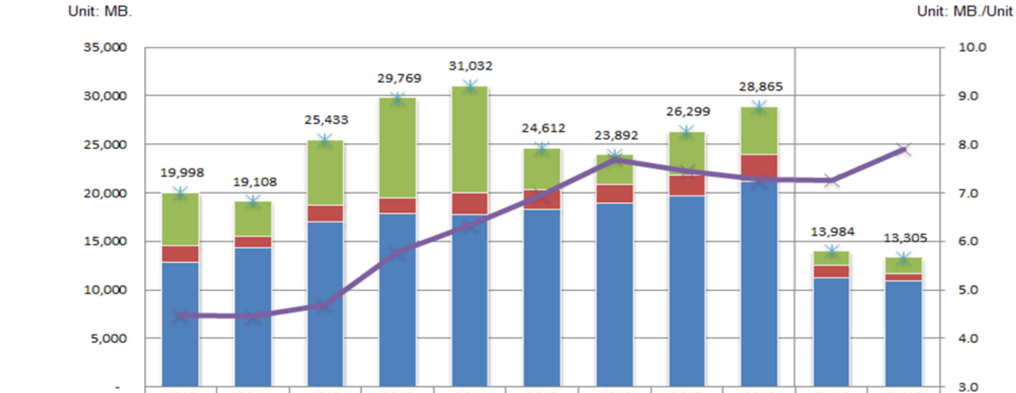
Chart 1: New Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	6M19	2019P
Condo	10,426	0	4,370	19,760	13,880	0	4,000	170	10,060	0	0
TH	1,615	3,450	930	3,580	2,800	1,280	6,560	1,820	3,750	1,035	4,850
SDH	17,785	20,980	20,380	15,400	24,620	25,660	8,030	8,090	9,300	17,400	25,110
Total Value	29,826	24,430	25,680	38,740	41,300	26,940	18,590	10,080	23,110	18,435	29,960

Source: LH

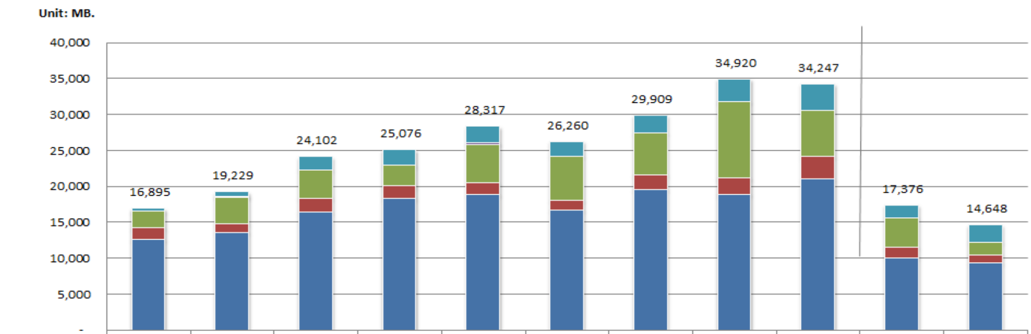
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	6M18	6M19
Condo (LHS)	5,476	3,578	6,704	10,306	11,012	4,356	3,013	4,471	4,887	1,475	1,620
TH (LHS)	1,672	1,229	1,764	1,578	2,250	2,012	1,956	2,214	2,835	1,252	838
SDH (LHS)	12,849	14,301	16,966	17,885	17,770	18,244	18,922	19,614	21,143	11,258	10,846
Presales Value	19,998	19,108	25,433	29,769	31,032	24,612	23,892	26,299	28,865	13,984	13,305
Avg. Price (RHS)	4.5	4.5	4.7	5.8	6.3	7.0	7.7	7.5	7.3	7.3	7.9

Source: LH

Chart 3: Revenue from Sales and Rental Income Breakdown



	2010	2011	2012	2013	2014	2015	2016	2017	2018	6M18	6M19
Rental Assets	350	649	1,797	2,136	2,280	2,036	2,536	3,197	3,733	1,721	2,412
Land		91			203						
Condo	2,292	3,695	3,975	2,882	5,348	6,199	5,781	10,619	6,413	4,151	1,811
TH	1,686	1,183	1,895	1,728	1,673	1,338	2,037	2,229	3,122	1,428	1,099
SDH	12,567	13,611	16,435	18,330	18,813	16,686	19,554	18,874	20,979	10,076	9,327
Total Revenue	16,895	19,229	24,102	25,076	28,317	26,260	29,909	34,920	34,247	17,376	14,648

Source: LH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

		----------------Year Ended 31 December -----------			
	Jan-Jun 2019	2018	2017	2016	2015
Total operating revenues	14,862	34,683	35,265	30,340	26,571
Operating income	3,620	9,100	8,298	7,532	6,193
Earnings before interest and taxes (EBIT)	5,157	14,057	13,558	12,061	11,280
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,578	14,057	13,213	11,485	10,135
Funds from operations (FFO)	4,254	10,850	9,852	8,455	7,081
Adjusted interest expense	758	1,499	1,471	1,458	1,452
Capital expenditures	494	4,381	5,815	10,081	3,320
Total assets	111,192	111,481	109,492	101,506	98,070
Adjusted debt	48,932	46,403	46,284	42,679	34,077
Adjusted equity	51,325	50,752	50,809	47,952	46,895
Adjusted Ratios					
Operating income as % of total operating revenues (%)	24.36	26.24	23.53	24.83	23.31
Pretax return on permanent capital (%)	11.07 *	13.58	13.85	13.08	13.19
EBITDA interest coverage (times)	7.36	9.38	8.98	7.88	6.98
Debt to EBITDA (times)	4.19 *	3.30	3.50	3.72	3.36
FFO to debt (%)	17.95 *	23.38	21.29	19.81	20.78
Debt to capitalization (%)	48.81	47.76	47.67	47.09	42.08

* *Annualized with trailing 12 months*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Land and Houses PLC (LH)

Company Rating:	A+
Issue Ratings:	
LH19OA: Bt1,000 million senior unsecured debentures due 2019	A+
LH19OB: Bt7,250 million senior unsecured debentures due 2019	A+
LH204A: Bt1,000 million senior unsecured debentures due 2020	A+
LH204B: Bt6,000 million senior unsecured debentures due 2020	A+
LH20OA: Bt1,000 million senior unsecured debentures due 2020	A+
LH20OB: Bt6,000 million senior unsecured debentures due 2020	A+
LH215A: Bt6,000 million senior unsecured debentures due 2021	A+
LH21OA: Bt5,000 million senior unsecured debentures due 2021	A+
LH224A: Bt6,000 million senior unsecured debentures due 2022	A+
LH22OA: Bt7,000 million senior unsecured debentures due 2022	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000