

LAND AND HOUSES PLC

No. 229/2023
23 November 2023

CORPORATES

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

Last Review Date: 07/09/23

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

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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" rating outlook. The ratings reflect the company's strong brand position among residential property developers, robust recovery performance on rental assets, diversified sources of income, and LH's moderately high financial leverage. The ratings also take into consideration our concerns over the imposition of more stringent loan-to-value (LTV) rules this year and interest rate hikes, which could negatively impact demand for housing and the funding costs of developers in the short to medium term.

KEY RATING CONSIDERATIONS

Strong brand within residential property development sector

TRIS Rating views LH's market position in the residential property business, especially the landed property segment, as being relatively strong compared with its peers. Revenues from the residential property business ranged around THB25-THB30 billion over the last five years, ranking among the top-five listed property developers. In our view, LH's strong brand position is supported by its product quality and good after-sale services.

However, revenues from residential sales during the first nine months of 2023, declined by 37% year-on-year (y-o-y) to THB14.3 billion amid higher bank rejection rates of mortgage loan applications and lower numbers of new projects launched during this period. LH launched only nine projects worth around THB13.8 billion in the first nine months of 2023. The company plans to launch new residential projects worth THB30 billion in the last quarter of 2023, comprising landed property projects worth THB15 billion and a condominium project worth THB15 billion. Thus, revenues from residential unit sales are expected to improve and range around THB22-THB27 billion per annum during 2023-2025, with revenue from the landed property segment accounting for more than 90% of total residential unit sales.

As of September 2023, LH had 74 existing projects with a total remaining project value of around THB56 billion (including built and unbuilt units). Landed property projects accounted for 87% of total unsold value, while condominium projects constituted the rest. The backlog stood at THB3.6 billion at the end of September 2023 and is expected to be delivered to customers throughout the remainder of 2023.

Robust recovery performance on rental assets

The robust recovery of rental assets has helped maintain LH's operating performance this year. Revenues from rental and services strongly recovered to THB4.8 billion in 2022 and THB5.7 billion in the first nine months of 2023 from a low of THB1.8 billion in 2021. The occupancy rate (OR) and rental rate of its hotels and shopping mall have improved significantly since the third quarter of 2022. The revenue per available room (RevPAR) of hotels surged to THB3,000-THB4,500 per night, surpassing the pre-COVID level of THB2,500-THB3,000 per night. The rental income from its shopping mall stood at THB0.7 billion in 2022 and THB1.1 billion in the first nine months of 2023, with OR and rental rate returning to pre-COVID levels.

Given the increasing number of tourist arrivals, we forecast LH's revenue from rental assets to reach THB6.8 billion in 2023 and grow to THB7.3-THB7.6 billion

annually over 2024-2025. This growth is expected to be driven by the full-year operations of the “Grand Center Point Space Pattaya” hotel, operational since August 2022, and the “Terminal 21 Rama 3” shopping mall, operational since October 2022. LH also has three new hotels in the pipeline: “Grand Center Point Surawong” scheduled to open in November 2023, “Grand Center Point Lumpini” in mid-2025, and “Grand Center Point Ratchadamri 2” in 2027. Given their prime locations, we expect these new hotels to command high room rates while maintaining high occupancy levels.

Similar to its strategy for rental assets in Thailand, LH has invested in three apartments and one hotel in the United States (US). Revenues from these US assets are expected to be THB0.9-THB1.0 billion per annum, based on an OR of 80%-90%. LH’s strategy is to acquire assets, build up the ORs and sell to a real estate investment trust (REIT) or investors at a premium. This strategy facilitates capital recycling and accelerates profit realization. During 2015-2019, the company recognized gains from selling its rental assets of around THB1.3-THB2.4 billion per annum. Amid the COVID-19 pandemic, LH did not sell any assets during 2020-2022. However, the company plans to sell two hotels, namely “Grande Center Point Pattaya” and “Grande Center Point Space Pattaya” to LH Hotel Leasehold Real Estate Investment Trust (LHHOTEL) in November 2023, with an aggregate value of THB9.4 billion.

Diversified income support earnings during downturn

In our view, LH has a well-diversified income stream, stemming from residential property sales, rental and services income, and dividends received from its investments. Despite facing setbacks in hotel operations and a decrease in dividends from affiliates amid the challenges posed by the COVID-19 pandemic, LH has sustained annual earnings before interest, taxes, depreciation, and amortization (EBITDA) above THB10 billion. This resilience is due to robust growth in residential property sales which counterbalanced the slowdown in the hotel business. In the first nine months of 2023, the hotel business exhibited strong performance, compensating for temporary weakness in residential sales. On average, LH’s EBITDA composition includes 50% from residential property sales, 35% from rental income and gain from asset sales, and 15% from dividends earned on its investments.

At the end of September 2023, LH held shares in four 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 THB2.5-THB3.4 billion per annum while the dividend received was THB2.0-THB2.5 billion per year in the past five years. This caused LH’s EBITDA margins to stay above 30%, outperforming other rated property developers. Looking ahead, LH’s EBITDA margin is expected to improve further as the company plans to sell one or two rental assets per year over the next three years.

Debt to capitalization ratio expected to remain below 50% after divestments of two hotels

We view LH’s financial leverage as moderately high. The increase in land acquisitions for new residential projects, along with a delay in its plan to sell rental assets, caused its debt to capitalization ratio to increase to 58.6% at the end of September 2023, exceeding our target of around 50%. Its funds from operations (FFO) to total debt ratio also dropped from more than 20% in 2019 to 11% in the first nine months of 2023. However, we expect a gradual recovery in LH’s operating performance. Its plan to sell some rental assets should help improve its leverage over the next three years.

Under our base case, we forecast LH’s debt to capitalization ratio to decrease to around 50% by the end of 2023. The FFO to debt ratio is expected to recover and hover around 18%-20% in 2023-2025. Its debt to EBITDA ratio should stay below 5 times. Our base case assumes that the company will purchase land worth THB5 billion per annum and launch new projects totaling THB43.5 billion this year and THB25-THB30 billion per annum during 2024-2025. Capital expenditures for its rental assets are expected to be THB3.7 billion in 2023, THB5.9 billion in 2024, and THB3.5 billion in 2025.

LH is subject to a key financial covenant on its debenture obligations, requiring the company to maintain its interest-bearing debt to equity ratio below 1.5 times. As of September 2023, this ratio stood at 1.3 times. We expect the company to prudently manage its financial ratios to ensure compliance with these covenants. Its priority debt to total debt ratio at the end of September 2023 was 40%.

Adequate liquidity coupled with financial flexibility from investment portfolio

We assess LH’s liquidity as adequate for the next 12 months. At the end of September 2023, the company had THB3.2 billion in cash and current investments, plus undrawn committed credit facilities of loans from financial institutions of THB6.8 billion. We forecast LH’s FFO over the next 12 months to be THB9-THB10 billion. Debts coming due over the next 12 months will amount to THB22.8 billion, comprising mainly THB10 billion debentures, THB9.2 billion short-term loans, THB2.7 billion project loans, and THB0.9 billion lease obligations. LH typically refinances maturing debentures with new debenture issuances. LH intends to have back-up facilities to cover all repayments of short-term debts.

Also, the company’s investments in its four affiliates (HMPRO, QH, LHFG, and Q-CON) help enhance its financial flexibility. As of September 2023, the fair market value of the investments in four associated companies totaled THB61.5 billion, or 0.9 times of LH’s outstanding debts. We acknowledge that the values of the listed securities are subject to market sentiment

and volatility. However, in our view, the holdings represent a significant enhancement of LH's financial flexibility while also helping support its liquidity, if needed.

BASE-CASE ASSUMPTIONS

- LH to launch residential property projects in 2023 worth THB43.5 billion, comprising landed property projects worth THB28.5 billion and new condominium launches worth THB15 billion. Going forward, the company is expected to launch new residential projects worth THB25-THB30 billion per annum.
- Total revenue will be THB28 billion in 2023 and increase to THB34-THB35 billion annually during 2024-2025.
- Overall gross profit margin to be 31%-33% and EBITDA margin 38%-44%.
- Land acquisition budget forecast to be THB5 billion per annum over the next three years.
- Capital expenditures for rental assets will be THB3.7 billion in 2023, THB5.9 billion in 2024, and THB3.5 billion in 2025.
- Divestment of the two hotels in 2023.

RATING OUTLOOK

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

RATING SENSITIVITIES

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

COMPANY OVERVIEW

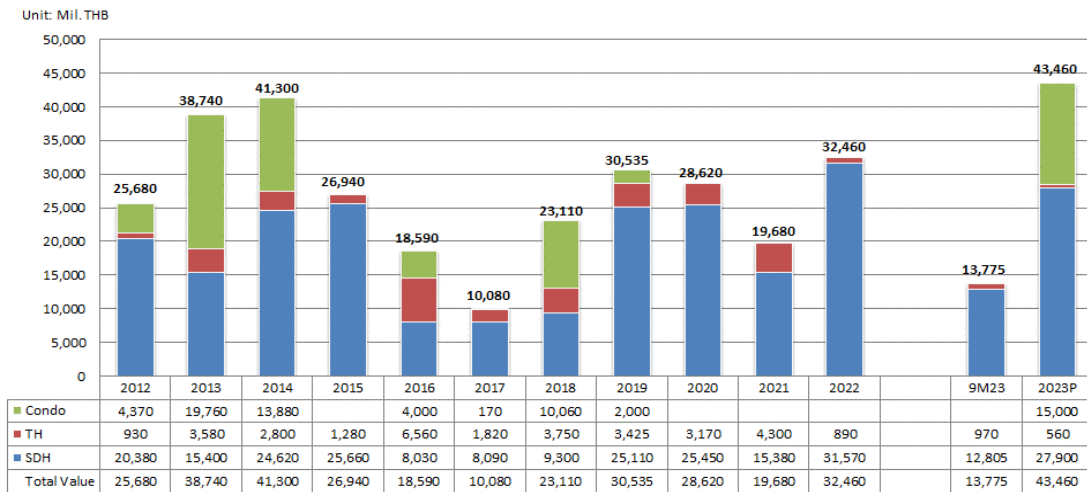
LH was founded by the Asavabhokhin family in 1983 as a real estate developer. The company was listed on the SET in 1989. As of August 2023, the Asavabhokhin family maintains its position as the largest shareholder, holding a 30% stake in LH. The company's residential product portfolio is extensive, covering a broad spectrum of prices and product categories. The company offers single detached house (SDH), townhouse, and condominium units covering the low to high-end segments. Its landed property products range in price from THB2 million to above THB25 million per unit. Condominium units are priced from THB50,000 to THB300,000 per square meter (sq.m.)

Apart from its residential property business, LH diversifies its portfolio by operating six hotels under the Grande Centre Point brand, two shopping malls, and four apartment buildings for rent in the US. Additionally, the company holds a substantial 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 accounted for 60%-70% of total revenues during 2018-2022. Revenue contributions from the condominium and the townhouse segments were 10%-20% and around 10%, respectively. Revenue from rental assets contributed around 10%. Furthermore, LH earned equity income from its investments in marketable securities in the THB2.5-THB3.5 billion per annum range and received dividends of THB2.0-THB2.5 billion per annum in the past five years.

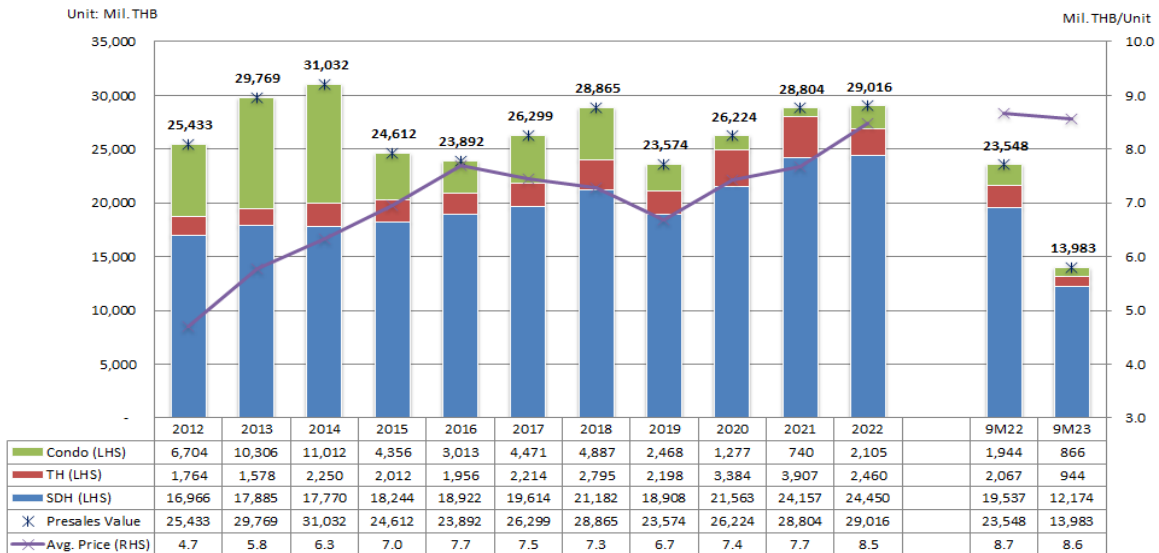
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



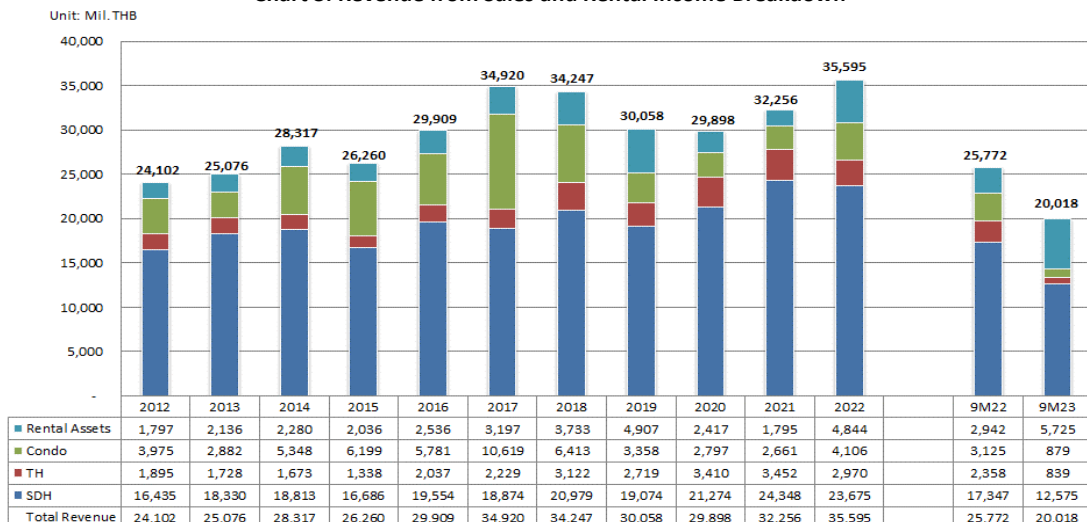
Source: LH

Chart 2: Presales Performance



Source: LH

Chart 3: Revenue from Sales and Rental Income Breakdown



Source: LH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	20,456	36,319	32,905	30,504	30,583
Earnings before interest and taxes (EBIT)	6,620	11,540	10,598	9,903	13,267
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,701	12,134	11,719	10,848	13,634
Funds from operations (FFO)	6,095	9,155	8,725	7,966	10,682
Adjusted interest expense	1,071	1,361	1,512	1,587	1,572
Real estate development investments	59,792	53,446	52,706	55,833	54,711
Total assets	129,511	123,949	125,198	122,571	113,139
Adjusted debt	68,848	58,151	57,889	57,629	48,881
Adjusted equity	48,624	52,285	50,646	50,601	53,183
Adjusted Ratios					
EBITDA margin (%)	37.65	33.41	35.61	35.56	44.58
Pretax return on permanent capital (%)	7.78 **	9.85	9.02	8.89	12.54
EBITDA interest coverage (times)	7.19	8.92	7.75	6.84	8.67
Debt to EBITDA (times)	6.91 **	4.79	4.94	5.31	3.59
FFO to debt (%)	10.94 **	15.74	15.07	13.82	21.85
Debt to capitalization (%)	58.61	52.66	53.34	53.25	47.89

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- 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
- Issue Rating Criteria, 15 June 2021

Land and Houses PLC (LH)

Company Rating:	A+
Issue Ratings:	
LH244A: THB5,000 million senior unsecured debentures due 2024	A+
LH244B: THB2,000 million senior unsecured debentures due 2024	A+
LH240A: THB8,000 million senior unsecured debentures due 2024	A+
LH240B: THB1,150 million senior unsecured debentures due 2024	A+
LH254A: THB4,700 million senior unsecured debentures due 2025	A+
LH254B: THB1,600 million senior unsecured debentures due 2025	A+
LH250A: THB4,250 million senior unsecured debentures due 2025	A+
LH250B: THB2,800 million senior unsecured debentures due 2025	A+
LH250C: THB900 million senior unsecured debentures due 2025	A+
LH264A: THB1,300 million senior unsecured debentures due 2026	A+
LH265A: THB5,200 million senior unsecured debentures due 2026	A+
LH260A: THB5,800 million senior unsecured debentures due 2026	A+
Rating Outlook:	Stable

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