

QUALITY HOUSES PLC

No. 126/2024
26 July 2024

CORPORATES

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

Last Review Date: 15/02/24

Company Rating History:

Date	Rating	Outlook/Alert
31/07/23	A-	Stable
26/07/22	A-	Negative
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:

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Bundit Pommata
bundit@trisrating.com

Jutamas Bunyawanichkul
jutamas_b@trisrating.com

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



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Quality Houses PLC (QH) and the ratings on QH’s senior unsecured debentures at “A-”, with a “stable” rating outlook. The ratings reflect QH’s moderate revenue growth, diversified product portfolio, significant dividend income and financial flexibility derived from its investments in affiliates, and low financial leverage. The ratings also consider the weakened homebuyer purchasing power following interest rates hikes, elevated household debt levels, and the reimposition of stringent loan-to-value (LTV) rules since 2023.

KEY RATING CONSIDERATIONS

Expected modest revenue growth, with satisfactory profit margin

QH’s reported total revenue of THB9.2 billion in 2023, in line with our target. However, its performance in the first quarter of 2024 (1Q24) was affected by unfavorable economic conditions and sluggish demand in the residential property market. Its revenue in 1Q24 dropped by 9% year-on-year (y-o-y) to THB1.8 billion, achieving 17% of our prior full-year target. Although revenue from residential sales softened in 2023-1Q24, rental and service income improved, thanks to the recovery of both occupancy rate (OR) and average room rate (ARR) in its hotel portfolio since 2023.

Looking ahead, we view that QH’s operating performance will continue to face challenges due to inert demand in the residential property market and intense competition from top-tier developers. However, we expect QH’s total revenue to be maintained around THB9-THB10 billion per annum in 2024-2026, supported by new launches of landed property projects and the revival of hotel operations. We expect revenue from hotel operation to be THB1.4-THB1.5 billion per annum. QH’s overall gross profit margin is expected to maintain at around 35%-36%, the same level as in 2022-1Q24, with gross profit margin from residential projects remains in the industry average of 31%-33%, while gross profit margin from hotel operations to stay at around 40%. Selling and administrative expenses are expected to maintain at 22%-23% of total revenue.

Diversified residential product portfolio

QH offers various product types comprising single-detached houses (SDH), semi-detached houses (semi-DHs), townhouses, and condominiums, covering almost all of the segments in the residential property market. Its products cover the high-end SDH segment with selling prices above THB20 million per unit under the “Pruekpirom” brand, the middle- to high-end SDH segment with unit prices of THB10-THB20 million under the “Laddarom” brand, middle-end SDH and semi-DH with units priced between THB5-THB12 million under the “Vararom” and “Casa Ville” brands, and affordably priced semi-DH and townhouses with selling prices between THB2.5-THB6 million per unit under the “Q District” brand.

As of March 2024, QH had 55 landed property projects and 12 condominium projects, with total remaining project value of THB38.7 billion (including built and un-built units). Of the unsold value, 74% was landed property projects while condominium projects, mainly Q Sukhumvit project, made up the rest. Around one third of the unsold value was ready-to-move units, which could be recognized as revenue after sales immediately.

Substantial dividend income from investments in affiliates

We view that QH's sizeable portfolio of marketable securities will continue enhancing its liquidity and financial flexibility in the foreseeable future. QH holds stakes in two listed entities: Home Product Center PLC (HMPCO, a 19.9% stake), LH Financial Group PLC (LHFG, 13.7%), Quality Houses Hotel and Residence Freehold and Leasehold Real Estate Investment Trust (QHHRREIT, 31.3%), and Quality Houses Leasehold Property Fund (QHLPF, 25.7%). These four entities grant dividends to QH on a recurring basis. QH received dividends of THB1.1-THB1.5 billion per annum and recognized shared profits from these investments of THB1.4-THB1.9 billion annually in the past five years. We expect QH to receive dividends from its investments of THB1.2-THB1.3 billion per annum over the next 2-3 years, supporting its annual EBITDA to sustain at around THB3 billion.

In addition, the market value of these investments is sizable. At the end of March 2024, the portfolio carried a fair value of THB32.2 billion. The investment in these affiliates reinforces the financial flexibility of the company, as a potential source of liquidity if needed.

Financial leverage to remain low

QH's business strategy focuses on developing landed properties, which are less capital-intensive than condominium projects. Furthermore, the company plans to conservatively launch new projects with values slightly exceeding the annual residential unit transfers. Consequently, we expect the company's financial leverage to remain low in 2024-2026.

Our base case projects QH's debt to capitalization ratio to hover between 26% and 27% and the debt to EBITDA ratio to remain around 3.5 times throughout the forecast period. This is based on our assumption that QH will launch new landed property projects worth THB9-THB10 billion annually. We anticipate an annual budget for land acquisition of THB2.5-THB3 billion and construction expenditures of THB3-THB3.5 billion. We do not expect any investment in new recurring-income assets over the next 2-3 years.

Adequate liquidity

We assess QH to have adequate liquidity to cover its debt repayments over the next 12 months. As of March 2024, QH's sources of liquidity consisted of cash on hand of THB1.4 billion and available short-term credit facilities of THB3.3 billion. We forecast QH's funds from operations (FFO) over the next 12 months to be around THB2.5 billion. In addition, QH has unencumbered land at book value worth THB5.5 billion and remaining finished units in debt-free projects with an aggregate selling price of THB14 billion, which can be pledged as collateral for new credit facilities, if needed.

QH had debts of THB4.3 billion coming due in the next 12 months, comprising THB2.2 billion debentures, THB1 billion short-term promissory notes (P/Ns), THB0.5 billion bill of exchange (B/Es), as well as the rest in long-term loans and lease liability. QH normally refinances maturing debentures by new debenture issuance and/or long-term loans from financial institutions.

The financial covenant on QH's bonds and bank loans require the company to maintain its net interest-bearing debt to equity ratio below 2 times. The ratio at the end of March 2024 was 0.4 times. We believe the company should have no problems complying with the financial covenant over the next 12 months.

Debt structure

As of March 2024, QH had total consolidated debts of THB11.1 billion, comprising THB8.9 billion debentures, THB0.7 billion long-term loans, THB1 billion short-term P/Ns, and THB0.5 billion B/Es. All debts were unsecured debts at the parent company, thus there was no priority debt.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for QH's operations in 2024-2026:

- New launch for landed property projects worth THB9-THB10 billion annually
- Annual budget for land acquisition of THB2.5-THB3 billion
- Total operating revenue to hover around THB9-THB10 billion per annum
- EBITDA margin to range around 30%

RATING OUTLOOK

The "stable" outlook reflects our expectation of QH's operating results aligning with our target and its financial profile remaining at the current level. We expect QH to continue its prudent financial discipline with the debt to capitalization ratio below 50% and the debt to EBITDA ratio below 5 times throughout the forecast period.

RATING SENSITIVITIES

A downward revision of the ratings could occur if QH's operating performance is weaker-than-expected and/or its financial profile deviates significantly from our expectations, resulting in the debt to capitalization ratio increasing above 50% and/or the debt to EBITDA ratio exceeding 5 times on a sustained basis.

A credit upside would be limited in the near term. However, an upward scenario could emerge if QH's operating performance improves significantly, with annual EBITDA reaching approximately THB5 billion and EBITDA from its own normal operation consistently exceeding THB3 billion, provided that its financial profile does not significantly deteriorate from the current level.

COMPANY OVERVIEW

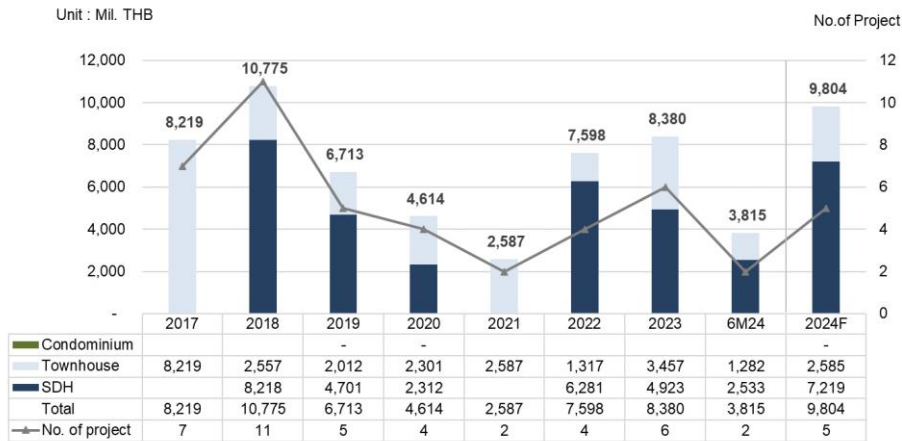
QH was established in 1983 by Land & Houses PLC (LH), the Gaysorn Group, and Dhana Siam Finance and Securities PLC. The company was listed on the Stock Exchange of Thailand (SET) in 1991. As of April 2024, LH was the largest shareholder of QH, holding a 25% stake.

QH's business profile is satisfactory. The company is one of the leading property developers in Thailand. The company offers a wide range of residential property products, including SDHs, semi-DHs, townhouses, and condominiums. QH's market position is quite strong in the landed property product with the unit prices of above THB5 million segment. Its market position in the lower-priced landed property of the THB2.5-THB4.5 million segment is also acceptable. QH's landed property brands are well-known and accepted by buyers.

In 1992, the company entered the residential property development segment, with a focus on high-end SDHs, under three brand names: "Pruekpirom", "Laddarom", and "Vararom". In 2006, the company introduced the Casa brand to capture the middle-income segment. In 2009, QH developed semi-prebuilt condominium projects under the "Q" and "Q House Condominium" brands. In 2010, QH introduced "The Trust" brand, which offers residential property units priced between THB1-THB3 million per unit. QH introduced the "Gusto" brand in 2012, for its townhouses priced at THB2-THB4 million per unit. In 2020, QH introduced the "Q Prime" brand for townhouses in the premium segment priced at THB6-THB7 million per unit. In 2022, QH redesigned and reshaped its product portfolio. The company intends to run its residential property business with five brand names, comprising high-end SDHs with selling prices above THB20 million per unit under the "Pruekpirom" brand, the middle- to high-end SDHs with unit prices of THB10-THB20 million under the "Laddarom" brand, middle SDHs and semi-DHs with unit prices between THB5-THB12 million under the "Vararom" and "Casa Ville" brands, and affordably priced semi-DHs and townhouses with selling prices between THB2.5-THB6 million per unit under the "Q District" brand.

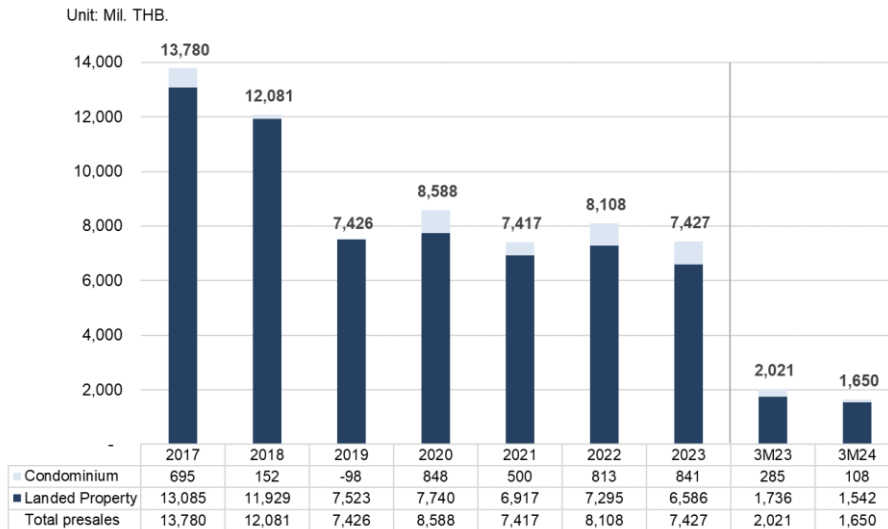
KEY OPERATING PERFORMANCE

Chart 1: New Project Launches



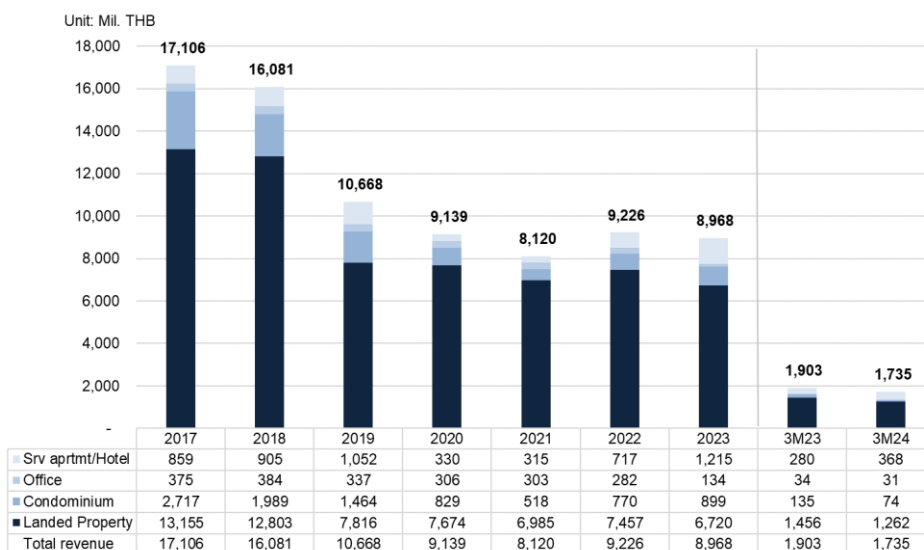
Source: QH

Chart 2: Presales Performance



Source: QH

Chart 3: Revenue from Sales and Services Breakdown



Source: QH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	1,784	9,204	9,419	8,319	9,352
Earnings before interest and taxes (EBIT)	606	3,134	3,157	2,432	3,059
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	266	2,966	3,084	2,634	3,081
Funds from operations (FFO)	145	2,316	2,339	1,922	2,181
Adjusted interest expense	91	383	402	478	562
Real estate development investments	26,864	26,698	26,677	27,461	29,706
Total assets	44,095	43,442	43,626	46,236	47,667
Adjusted debt	10,726	10,687	11,115	13,246	15,757
Adjusted equity	28,894	28,373	27,833	26,985	26,568
Adjusted Ratios					
EBITDA margin (%)	14.9	32.2	32.7	31.7	32.9
Pretax return on permanent capital (%)	7.4 **	7.7	7.5	5.5	6.6
EBITDA interest coverage (times)	2.9	7.7	7.7	5.5	5.5
Debt to EBITDA (times)	3.8 **	3.6	3.6	5.0	5.1
FFO to debt (%)	20.5 **	21.7	21.0	14.5	13.8
Debt to capitalization (%)	27.1	27.4	28.5	32.9	37.2

* 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

Quality Houses PLC (QH)

Company Rating:	A-
Issue Ratings:	
QH24NA: THB730 million senior unsecured debentures due 2024	A-
QH255A: THB1,000 million senior unsecured debentures due 2025	A-
QH25NA: THB720 million senior unsecured debentures due 2025	A-
QH25DA: THB550 million senior unsecured debentures due 2025	A-
QH25DB: THB1,000 million senior unsecured debentures due 2025	A-
QH272A: THB2,500 million senior unsecured debentures due 2027	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2024, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria