

QUALITY HOUSES PLC

No. 97/2024

27 November 2024

CORPORATES

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

Last Review Date: 26/07/24

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	

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RATIONALE

TRIS Rating assigns the rating of “A-” to a proposed issue of up to THB1.2 billion senior unsecured debentures due within three years of Quality Houses PLC (QH). The proceeds from the new debentures are intended to be used to refinance some of its existing debt, with the remainder allocated for working capital. At the same time, we affirm the company rating on QH and the ratings on its existing 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 take into account the negative effects of persistently high interest rates and rising household debt levels, which have adversely impacted purchasing power and elevated mortgage rejection rates for residential properties in the short to medium term.

QH’s operating revenues in the first nine months of 2024 (9M24) was THB6.6 billion, achieving around 70% of our full-year forecast. Its performance was affected by unfavorable economic conditions and sluggish demand in the residential property market. Nevertheless, QH’s profitability remained satisfactory, driven by the improving profit margin in the hospitality business and significant profit sharing from investments in affiliates. As a result, QH’s EBITDA in 9M24 amounted to THB2.4 billion, or approximately three-fourths of our full-year target.

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. In addition, we expect the company to continue receiving dividends from its investments in affiliates of THB1.2-THB1.3 billion per annum over the next 2-3 years, supporting its annual EBITDA to sustain at around THB3 billion throughout the forecast period.

As of September 2024, QH had 66 existing projects, comprising 54 landed property projects and 12 condominium projects. The total unsold value of these projects was around THB39 billion (including built and unbuilt units). Landed property projects accounted for three-fourths of the total remaining value, while ready-to-move condominium projects made up the rest. Its backlog was THB600 million.

We expect QH’s financial leverage to remain low in 2024-2026 as it continues to focus on developing landed properties and conservatively launch new projects. We forecast QH’s debt to capitalization ratio to hover between 26% and 27% and the debt to EBITDA ratio to remain below 5 times. As of September 2024, the ratios were 29% and 4.2 times, respectively.

We assess QH to have adequate liquidity to cover its debt repayments over the next 12 months. At the end of September 2024, QH’s sources of funds comprised THB1.2 billion cash on hand and THB4.3 billion available short-term credit facilities. We forecast QH’s funds from operations (FFO) to be THB2.4 billion over the next 12 months. QH also has unencumbered land at book value worth THB5.2 billion, which could be pledged as collateral for new loans, if needed. On the flip

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side, QH's debts due over the next 12 months will amount to THB4.3 billion, comprising THB1.7 billion debentures, THB1.5 billion bill of exchange (B/Es), and the rest in long-term loans and lease liability. The company normally refinances maturing debentures by new debenture issuance and/or long-term loans from financial institutions.

At the end of September 2024, QH had total consolidated debts of THB11 billion, comprising THB7.4 billion debentures, THB2.1 billion long-term loans, and THB1.5 billion B/Es. All debts were unsecured debts at the parent company, thus there was no priority debt.

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

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.

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:	
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-
Up to THB1,200 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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