

LAND AND HOUSES PLC

No. 28/2024
28 March 2024

CORPORATES

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

Last Review Date: 23/11/23

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 existing senior unsecured debentures at "A+" with a "stable" rating outlook. At the same time, TRIS Rating assigns the "A+" rating to LH's proposed issue of up to THB8 billion senior unsecured debentures due within five years. The proceeds from the new debentures are to be used to repay some of its existing loans and/or fund business expansion.

The ratings reflect LH's strong brand position among residential property developers, robust recovery performance on rental assets, diversified sources of income, and moderately high financial leverage. The ratings also take into consideration the financial flexibility derived from its sizable holding in marketable securities as well as our concerns over the bank's stringent lending policies and elevated interest rates. These could negatively impact demand for housing and the funding costs of developers in the short to medium term.

LH's operating performance in 2023 fell short of TRIS Rating's expectations. Revenue in 2023 declined by 25% year-on-year (y-o-y) to THB27.4 billion. This decline was mainly due to a significant drop in revenue from residential property sales to THB19 billion from THB31 billion in 2022 amid higher bank rejection rates of mortgage loan applications. However, the strong recovery in the hospitality and retail businesses helped boost the company's rental and service income to THB7.8 billion from THB4.8 billion in 2022.

With strategies aimed at capital recycling and enhancing profitability, LH has successfully divested two hotels to LH Hotel Leasehold Real Estate Investment Trust (LHHOTEL) with gains from selling of THB2.5 billion in November 2023. However, LH's earnings before interest, taxes, depreciation, and amortization (EBITDA) and funds from operations (FFO) in 2023 also fell by 8%-12% y-o-y to THB10.6 billion and THB8.4 billion, respectively.

Looking forward, we expect an improvement in LH's operating performance over the next three years. This will be supported by its strategy to launch new residential property projects worth THB25-THB30 billion annually, continual growth in rental income, higher dividends from its affiliates, and the plan to sell one to two rental properties each year. Also, LH had a total backlog worth THB7.3 billion at the end of 2023, which is expected to be transferred around THB2 billion in 2024 and the remaining portion scheduled for transfer during 2026-2027. We expect LH's EBITDA margin to remain within the range of 35%-40% throughout the forecast period.

LH's financial leverage was also higher than expected. The company's debt burden increased significantly in the second half of 2023 due to the extensive launch of new projects and the acquisition of additional land for future residential developments. At the end of 2023, LH's debt to capitalization ratio stood at 56%, increasing from around 53% over the past few years. Furthermore, its debt to EBITDA ratio rose to 6.1 times, above our target of 5 times. However, we expect LH's operating performance to continue improving and its plan to sell some rental assets should help bring down its leverage over the next three years.

A key financial covenant on LH's debenture obligations requires the company to maintain its interest-bearing debt to equity ratio below 1.5 times. As of December 2023, the ratio was 1.2 times. We expect the company to carefully

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manage its financial ratios to comply with the covenants. Its priority debt to total debt ratio at the end of 2023 was 20%. The FFO to total debt ratio was 13%, while EBITDA interest coverage ratio was 7 times at the end of 2023.

LH's liquidity should be manageable over the next 12 months. Due to information as of December 2023, LH's uses of funds over the next 12 months will amount to THB23.9 billion, comprising THB16.1 billion debentures, THB6.1 billion short-term loans, THB0.3 billion project loans, and THB1.4 billion lease obligations. LH typically refinances maturing debentures with new debenture issuances. The company's liquidity sources comprised cash on hand of THB4.3 billion and unused committed credit facilities of THB8.1 billion. LH's annual FFO is projected to be around THB9-THB10 billion. In addition, LH's ability to access capital markets and its large investment portfolio help support its liquidity, if needed. At the end of 2023, the company had a sizable investment portfolio of marketable securities, with a total fair value of THB61 billion.

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 acceptable financial leverage. The debt to capitalization ratio should stay around 50% or the debt to EBITDA ratio should stay 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 significantly deviate from our target levels.

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+
Up to THB8,000 million senior unsecured debentures due within 5 years	A+
Rating Outlook:	Stable

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