

QUALITY HOUSES PLC

No. 16/2018

19 February 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
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 affirms the company rating and the current senior unsecured debenture ratings of Quality Houses PLC (QH) at "A-". At the same time, TRIS Rating assigns a rating of "A-" to QH's proposed issue of up to Bt3,000 million in senior unsecured debentures due within three years. The company will use the proceeds from the new debentures to repay some of its existing loans and fund business expansion.

The ratings reflect QH's established track record in the property development industry, strong position in the middle- to high-income segment of the housing market, and financial flexibility gained from its investments in marketable securities. The strengths are partially offset by QH's relatively high level of financial leverage, high household debts nationwide, as well as the cyclical and competitive nature of the residential property industry.

QH's revenue in the first nine months of 2017 dropped by 14.6% year-on-year (y-o-y) to Bt12,980 million due to the lack of government incentives. The housing segment comprised 79% of QH's total revenue with the remaining revenue coming from the condominium segment and rental income. Presales in 2017 stood at Bt13,781 million, down 10% y-o-y, since the company did not launch any new condominium projects. Presales of housing projects ranged between Bt13,000-Bt15,000 million per year in the past three years. The gross profit margin of the condominium segment in 2016 through the first nine months of 2017 was 26%-27%, declining from 33%-35% in the past three years, as the company accelerated the sales of finished units in stock. The operating margin (operating income before depreciation and amortization as a percentage of revenue) was 11.86% in 2016 and 8.07% in the first nine months of 2017, decreasing from 13%-16% during 2013-2015.

The total debt to capitalization ratio at the end of September 2017 was 50.13%, decreasing from 52.6% at the end of 2016. This ratio is expected to stay in a range of 50%-55%, taking into account the company's plan to launch new real estate development projects worth approximately Bt10,000-Bt15,000 million per annum during 2018-2020.

RATING OUTLOOK

The "stable" outlook reflects the expectation that QH's business profile will remain strong in the medium term. The company's debt to capitalization ratio is expected to stay below 55% over the next three years.

RATING SENSITIVITIES

QH's ratings and/or outlook could be revised downward should its operating performance deteriorate significantly from TRIS Rating's base-case forecast or if the debt to capitalization ratio stays above 60% on a sustainable basis. In contrast, the ratings could be revised upward if the company can improve its operating performance significantly from the current levels while keeping its debt to capitalization ratio lower than 50% on a sustainable basis.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Sep 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Revenue	12,980	19,125	20,358	21,220	19,699
Gross interest expense	599	955	1,049	964	832
Net income from operations	1,844	3,085	3,106	3,329	3,307
Funds from operations (FFO)	2,396	2,876	2,731	2,662	2,681
Inventory investment (-increase/+decrease)	2,077	741	(1,475)	(4,161)	1,192
Total assets	52,496	53,014	52,998	48,634	41,652
Total debts	23,986	25,487	26,796	25,192	20,320
Total liabilities	28,633	30,075	31,452	29,485	24,374
Shareholders' equity	23,864	22,940	21,545	19,149	17,277
Depreciation & amortization	141	190	191	179	176
Dividends	1,607	1,714	706	1,469	1,745
Operating income before depreciation and amortization as % of sales	8.1	11.9	13.3	15.1	16.1
Pretax return on permanent capital (%)	6.6 **	8.0	8.5	10.3	11.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.1	4.2	4.0	4.6	5.2
FFO/total debt (%)	11.5 **	11.3	10.2	10.6	13.2
Total debt/capitalization (%)	50.1	52.6	55.4	56.8	54.1

* Consolidated financial statements

** Annualized with trailing 12 months

Quality Houses PLC (QH)

Company Rating:	A-
Issue Ratings:	
QH182A: Bt4,000 million senior unsecured debentures due 2018	A-
QH185A: Bt2,500 million senior unsecured debentures due 2018	A-
QH186A: Bt1,800 million senior unsecured debentures due 2018	A-
QH194A: Bt3,400 million senior unsecured debentures due 2019	A-
QH196A: Bt1,200 million senior unsecured debentures due 2019	A-
QH198A: Bt2,000 million senior unsecured debentures due 2019	A-
QH19NA: Bt2,500 million senior unsecured debentures due 2019	A-
QH205A: Bt4,000 million senior unsecured debentures due 2020	A-
QH20NA: Bt1,500 million senior unsecured debentures due 2020	A-
QH214A: Bt600 million senior unsecured debentures due 2021	A-
Up to Bt3,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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