

# QUALITY HOUSES PLC

No. 31/2019  
23 April 2019

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

**Last Review Date:** 24/10/18

### 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 on Quality Houses PLC (QH) and the issue ratings on QH's outstanding senior unsecured debenture at "A-". At the same time, TRIS Rating assigns the rating of "A-" to QH's proposed issue of up to Bt3,500 million in senior unsecured debentures due within five years. The proceeds from the new debentures will be used to repay some of the existing debentures.

The ratings on QH reflect the company'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 ratings also reflect our concern over QH's declining presales and revenues over the past few years, its moderate financial leverage, the relatively high level of household debt nationwide, as well as the cyclical and competitive nature of the residential property industry.

QH's operating revenues slightly declined to Bt16.1 billion in 2018, dropping by 6% from 2017. Revenue from the housing segment comprised 80% of total operating revenues, with the rest coming from the condominium segment and rental income. As of December 2018, QH's backlog of condominium units was worth Bt1.6 billion, mostly from the "Q Sukhumvit" project. Total backlog will be transferred to customers in 2019.

However, its profitability improved mainly due to efforts to enhance project efficiency. The operating margin (operating income before depreciation and amortization as a percentage of revenue) was 18.4% in 2018, up from 11.1%-13.9% in the past three years. This ratio improved from the gross profit margin of the housing segment in 2018 rising to 36%, up from 30% on average over the past three years.

QH's debt to capitalization ratio at the end of 2018 was 42.9%, declining from 44.6% at the end of 2017. We expect this ratio to stay below 50%, or a net debt to equity ratio below 1 times, over the next three years, taking into account the company's plans to launch new real estate development projects worth approximately Bt10-Bt15 billion per annum. QH's bond covenant limits net interest-bearing debt to equity ratio at 2.0 times. At the end of 2018, the company's ratio stood at 0.73 times.

QH's liquidity profile remains acceptable. As of December 2018, QH has debts due over the next 12 months of Bt10.4 billion, comprising debentures of Bt9.1 billion and the rest as bills of exchange (B/Es). The company plans to refinance the remaining maturing debentures with a new debenture issue and internal cash. Similarly, the outstanding B/Es will be partly rolled over and partly paid with cash. At the end of December 2018, QH's liquidity source was cash on hand of Bt3.8 billion, and undrawn committed credit facilities of Bt3.9 billion. We forecast QH's funds from operations (FFO) over the next 12 months to hold above Bt3 billion. We estimate the FFO to debt ratio to range between 13%-15%. In addition, we view the company's sizeable investments in two companies listed on the Stock Exchange of Thailand (SET) and two property funds as a source of financial flexibility that enhances its liquidity profile. At the end of 2018, the portfolio carried a fair value of Bt47.2 billion.

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**RATING OUTLOOK**

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The “stable” outlook reflects TRIS Rating’s expectation that QH’s business profile will not change much in the medium term. Over the next three years, TRIS Rating’s base-case scenario expects QH to generate revenues of Bt18-Bt20 billion per annum. Revenues from housing projects should account for 75%-80% of total revenues. We expect QH’s operating margin to hold at 12%-14%. The debt to capitalization ratio should stay below 55%, taking into account the company’s plan to launch new residential projects worth approximately Bt10-Bt15 billion per annum.

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**RATING SENSITIVITIES**

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TRIS Rating would revise QH’s ratings and/or outlook downward should its financial profile deteriorate dramatically. For instance, a scenario of prolonged market slump, leading to lower sales, and a rise in the debt to capitalization ratio above 60% on a sustainable basis. In contrast, we would revise the ratings upward if the company could improve its operating performance significantly from the current level while keeping its debt to capitalization ratio lower than 50% on a sustainable basis.

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**RELATED CRITERIA**

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- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

## Quality Houses PLC (QH)

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
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-
QH213A: Bt3,000 million senior unsecured debentures due 2021	A-
QH214A: Bt600 million senior unsecured debentures due 2021	A-
QH20NB: Bt2,500 million senior unsecured debentures due 2020	A-
Up to Bt3,500 million senior unsecured debentures due within 5 years	A-
<b>Rating Outlook:</b>	Stable

### TRIS Rating Co., Ltd.

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