

## Press Release

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### **TRIS Rating Assigns "A-/Stable" Rating to Senior Unsecured Debt Worth Up to Bt4,000 Million of "QH"**

TRIS Rating has assigned a rating of "A-" to the proposed issue of up to Bt4,000 million in senior unsecured debentures due within 5 years of Quality Houses PLC (QH). At the same time, TRIS Rating has affirmed the company rating and the current senior unsecured debenture ratings of QH at "A-". The outlook remains "stable". The company will use the proceeds from the new debentures to repay some of its existing loans and fund business expansion. QH's ratings 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 the financial flexibility gained from its investments in marketable securities. The strengths are partially offset by QH's relatively high level of financial leverage, the relatively high level of household debts nationwide, and the cyclical and competitive nature of the residential property industry.

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% for the next three years. QH's ratings and/or outlook could be revised downward should its financial profile deteriorate dramatically. For example, a prolonged market slump, leading to lower sales, would raise the debt to capitalization ratio 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.

QH was founded in 1983 and was listed on the Stock Exchange of Thailand (SET) in 1991. As of 15 March 2017, QH's major shareholders were Land and Houses PLC (LH, owning a 25% stake) and the Government of Singapore Investment Corporation Pte. Ltd. (11%). QH's business profile is strong and the company is one of the leading property developers in Thailand. QH has a strong market position, particularly in the segment of single-detached houses (SDH) priced over Bt5 million per unit. Since 2010, the company has delivered an acceptable performance in the lower-priced housing segment, with a price range between Bt1-Bt3 million per unit. The company's housing brands are well-known and accepted by buyers.

QH's financial profile in 2016 was slightly lower than TRIS Rating's expectation. Revenue in 2016 stood at Bt19,125 million, down 6% compared with 2015. Revenue from the housing segment was constant while revenue from the condominium segment fell 34%, due to few condominium projects transferred to customers. Presales of QH in 2016 stood at Bt15,361 million, down 24% from 2015, since the company did not launch any new condominium projects. As a result, presales from condominium projects was only Bt1,151 million in 2016, decreasing from around Bt4,500 million per year during 2014-2015. The gross profit margin of the condominium segment in 2016 was 27%, declining from 33%-35% in the past three years, as the company accelerated the sales of the finished units in the stock. The operating margin (operating income before depreciation and amortization as a percentage of revenue) in 2016 was 11.9%, decreasing from 13.3% in 2015. The total debt to capitalization ratio at the end of 2016 was 52.6%, down from 55.4% at the end of 2015.

At the end of 2016, QH's backlog of condominium units was worth only Bt5,435 million. The value of condominium units in the backlog which will be transferred to customers during 2017-2018 will be around Bt2,700 million per year. QH's relatively small amount of backlog has caused some concerns over its future revenue.

During 2017-2019, TRIS Rating's base-case scenario expects QH to generate revenues of Bt20-Bt25 billion per annum. Revenues from housing projects should account for 65%-75% of total revenues. The operating margin is expected to hold at 12%-14%. The total debt to capitalization ratio is expected to stay below 55%, taking into account the company's plan to launch new real estate development projects worth approximately Bt20 billion per annum. Funds from operations (FFO) is expected to hold above Bt2 billion per annum.

QH's liquidity profile remains acceptable. At the end of 2016, QH had debts due over the next 12 months of Bt6,500 million, all of them are debenture redemptions. Most of the debts are expected to be refinanced with new debentures. QH's liquidity sources included Bt2,888 million in cash and Bt1,432 million in undrawn long-term credit facilities as of the end of 2016. The company's liquidity position is enhanced by its sizeable portfolio of marketable securities. QH holds stakes in two SET-listed companies

(Continue on page 2)

and two property funds: Home Product Center PLC (HMPRO) (a 19.9% stake), LH Financial Group PLC (LHBANK) (21.3%), Quality Houses Leasehold Property Fund (QHPF) (25.7%), and Quality Houses Hotel and Residence Freehold and Leasehold Property Fund (QHHR) (31.3%). These four firms provide dividends to QH on a recurring basis. At the end of 2016, the portfolio carried a fair value of Bt34.9 billion, or about 1.37 times of the company's total debt. During 2017-2019, the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 4 times. The FFO to total debt ratio is expected to range from 10%-12%.

**Quality Houses PLC (QH)**

**Company Rating:**

A-

**Issue Ratings:**

QH177A: Bt530 million senior unsecured debentures due 2017	A-
QH178A: Bt2,000 million senior unsecured debentures due 2017	A-
QH178B: Bt1,970 million senior unsecured debentures due 2017	A-
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-
QH214A: Bt600 million senior unsecured debentures due 2021	A-
Up to Bt4,000 million senior unsecured debentures due within 5 years	A-
<b>Rating Outlook:</b>	Stable

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