

# QUALITY HOUSES PLC

No. 79/2019  
8 November 2019

## CORPORATES

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

**Last Review Date:** 08/07/19

### 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-" on QH's proposed issue of up to Bt4 billion 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 its moderately strong position in the middle- to high-income segment of the housing market, ability to maintain operating profit margin despite a decline in revenues, relatively stable dividend income from its investments in affiliates, and moderate financial leverage. The ratings also reflect TRIS Rating's concern over the cyclical and heightened competition in the residential property development industry, and the negative impact from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT).

QH's operating revenues declined to Bt5.7 billion in the first half of 2019, down 12% from the same period last year, since the company did not launch any new residential projects in the first half of 2019. Moreover, the economic slowdown, as well as concerns over the implementation of the new LTV rules in April 2019, caused some homebuyers to postpone their purchases. Revenue from the landed-residential properties contributed 71% of total operating revenues, with the rest coming from the condominium segment and rental income. QH's backlog on hand is relatively small, its future revenues rely solely on the ability to generate new sales. During the second half of 2019, QH plans to launch six new low-rise projects, worth Bt8.5 billion. At present, QH has already launched 3 projects, worth Bt3.7 billion, in the third quarter of 2019 and re-launched the "Q Sukhumvit" project in mid-October 2019 in order to accelerate sales. Although its revenue declined, QH was able to maintain its profitability given the transfer of high margin projects and cost control. The operating margin (operating income as a percentage of total operating revenues) stood at 17% in the first half of 2019, up from 11%-14% during 2015-2017. We expect QH to keep its operating margin at least 15%.

QH's debt to capitalization ratio at the end of June 2019 was 43%, the same level as of December 2018. We expect this ratio to stay below 50%, taking into account the plans to launch new landed property projects and land purchases. QH's financial covenant limits the net interest-bearing debt to equity ratio at 2 times. As of June 2019, the company's ratio stood at 0.73 times.

QH's liquidity profile remains acceptable. As of June 2019, QH has debts due over the next 12 months of Bt9.7 billion, comprising debentures of Bt8.5 billion and the remainder as bills of exchange (B/Es). The company plans to refinance the remaining maturing debentures with new debenture issues and operating cash flow. Also, the outstanding B/Es will be partly rolled over and partly paid with cash. TRIS Rating believes QH should have no problem accessing the capital market. Moreover, QH's source of liquidity comprised cash on hand of Bt2.5 billion at the end of June 2019 and available short-term credit facilities of Bt4.1 billion. We forecast QH's funds from operations (FFO) over the next 12 months to hold above Bt3 billion. In addition, the sizeable investments in its affiliates could be another source of liquidity, if needed. QH holds stakes in two listed companies and two property funds: Home Product Center PLC (HMPRO, a

**CreditUpdate**, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

19.9% stake), LH Financial Group PLC (LHBANK, 13.7%), Quality Houses Leasehold Property Fund (QHPF, 25.7%), and Quality Houses Hotel and Residence Freehold and Leasehold Property Fund (QHHR, 31.3%). At the end of June 2019, the portfolio carried a fair value of Bt53.7 billion.

## RATING OUTLOOK

The “stable” outlook reflects our expectation that QH will be able to sustain its operating performance at the target levels. During 2019-2021, TRIS Rating expects QH to generate revenues of Bt15-Bt16 billion per annum. Despite more intense competition in the residential property market, we expect QH to keep its operating margin at least 15%. The company should maintain the debt to capitalization ratio below 50%, and the debt to EBITDA should stay at 4-5 times.

## RATING SENSITIVITIES

QH’s ratings and/or outlook could be revised downward should its operating performance and/or financial profile deteriorate significantly from the target levels, such that the debt to capitalization ratio raises above 60% and the interest-bearing debt to EBITDA ratio higher than 6 times on a sustainable basis. In contrast, the ratings and/or outlook could be revised upward if the company could improve its operating performance significantly, while its financial profile does not deteriorate from the current levels.

## RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

## Quality Houses PLC (QH)

|  |        |
|--|--------|
| <b>Company Rating:</b>   | A-     |
| <b>Issue Ratings:</b>  |        |
| 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-     |
| QH20NB: Bt2,500 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-     |
| QH225A: Bt3,500 million senior unsecured debentures due 2022         | A-     |
| Up to Bt4,000 million senior unsecured debentures due within 5 years | A-     |
| <b>Rating Outlook:</b>   | Stable |

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