LAND AND HOUSES PLC

No. 53/2017 18 August 2017

Company Rating: A+

Issue Ratings:
Senior unsecured A+

Outlook: Stable

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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Rating Rationale

TRIS Rating affirms the company rating of Land & Houses PLC (LH) and the ratings of its existing senior unsecured debentures at "A+". At the same time, TRIS Rating assigns the rating of "A+" to LH's proposed issue of up to Bt6,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance existing debentures maturing in October 2017 and to fund LH's business operation.

The ratings reflect LH's leading position in the residential property development market, supported by its strong brand franchise and proven operational track record. The ratings also take into consideration the financial flexibility LH derives from its portfolio of income-generating assets and marketable securities. However, the ratings are partially constrained by a moderate level of financial leverage and an aggressive dividend policy. In addition, the relatively high level of household debt nationwide, coupled with the current slowdown in the domestic economy, raise a concern over the demand for housing in the short to medium term.

LH is one of Thailand's leading property developers. The company's revenue was Bt29,909 million in 2016 and Bt17,093 million in the first six months of 2017, ranking it as one of the three largest listed property developers based on revenue. As of May 2017, the Asavabhokhin family held 31% of the company's shares, followed by the Government of Singapore Investment Corporation (GIC) at 16%. LH's core product is single detached houses (SDH), sales of which have comprised 65%-70% of total revenue annually over the past five years.

LH's strong business profile is underscored by its brand equity. Its products are perceived as premium residential properties in terms of product quality and after-sale service. The company offers several low-rise and high-rise housing brands, across a wide price range, in various locations. The company has a quite strong position in the SDH segment. Presales in the SDH segment grew by 10% y-o-y in 2016 and in the first six months of 2017.

As of June 2017, LH's backlog was around Bt15,000 million. Units in the backlog worth Bt8,700 million will be transferred to customers during the second half of 2017, followed by the transfers of Bt4,300 million in 2018 and Bt1,800 million in 2019. TRIS Rating's base case scenario expects LH's revenues will be approximately Bt32,000 million per annum over the next three years. LH's operating profit margin (operating income before depreciation and amortization, as a percentage of revenue) ranged from 22%-25% during 2012 through the first six months of 2017. The operating profit margin is expected to drop slightly, due to pressures from rising land costs, market competition, and overhead expenses needed to support LH's expansion plans. However, its operating profit margin is expected to stay above 20% over the next three years.

LH's debt to capitalization ratio was 48% as of December 2016 and 49% as of June 2017. LH's bond covenant limits the interest-bearing debt to equity ratio at 1.5 times. At the end of June 2017, the ratio stood at 0.97 times. Despite its plan to invest in recurring-income assets and its aggressive dividend payments, LH's debt to capitalization ratio is expected to remain below 50%, or the interest-bearing debt to equity ratio below 1 times. LH's moderate leverage level is partly offset by its holdings of sound income-generating assets and a sizable portfolio of marketable securities. The fair value of LH's investments in listed associates was Bt53,662 million as of June 2017. Equity income from investments amounted to Bt2,000-Bt2,400 million per annum during 2012-2015 and increased to Bt3,000 million in 2016.

LH's liquidity profile is adequate. The company is able to access the capital market and achieve lower funding costs than its bank loan borrowings. The ratio of funds from operations (FFO) to total debt ranged from 14%-17% during 2013 through the first six months of 2017. The EBITDA (earnings before interest, taxes, depreciation, and amortization) interest coverage ratio was 8-9 times during the past five years and increased to 13 times in the first half of 2017. Over the next three years, TRIS Rating forecasts LH's FFO to total debt ratio will stay around 15%, while the EBITDA interest coverage ratio will stay above 5 times.

Rating Outlook

The "stable" outlook reflects the expectation that LH will maintain its strong operating performance, acceptable financial position, and competitive position. Over the next three years, LH's revenue is expected to be around Bt32,000 million per annum. The interest-bearing debt to equity ratio should stay below 1 times.

LH's ratings and/or outlook could be revised upward should its capital structure improve significantly from the current level and its operating performance remains strong comparable with its listed peers. On the contrary, the ratings and/or outlook could be revised downward should its operating performance or financial position significantly deteriorate from the current levels.

Land and Houses PLC (LH)

Company Rating:	A+
Issue Ratings:	
LH17OA: Bt4,000 million senior unsecured debentures due 2017	A+
LH184A: Bt7,000 million senior unsecured debentures due 2018	A+
LH18OA: Bt4,000 million senior unsecured debentures due 2018	A+
LH194A: Bt5,000 million senior unsecured debentures due 2019	A+
LH194B: Bt1,000 million senior unsecured debentures due 2019	A+
LH19OA: Bt1,000 million senior unsecured debentures due 2019	A+
LH19OB: Bt7,250 million senior unsecured debentures due 2019	A+
LH204A: Bt1,000 million senior unsecured debentures due 2020	A+
LH204B: Bt6,000 million senior unsecured debentures due 2020	A+
LH20OA: Bt1,000 million senior unsecured debentures due 2020	A+
Up to Bt6,000 million senior unsecured debentures due within 5 years	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios *

Unit: Bt million

	Jan-Jun 2017	---------------------------- Year Ended 31 December ------------------------ 2016	2015	2014	2013	2012
Sales and service revenues	17,093	29,909	26,260	28,317	25,075	24,103
Cash interest paid	665	1,324	1,357	1,538	1,202	1,112
Net income from operations	5,549	8,665	7,908	8,420	6,478	5,682
Funds from operations (FFO)	4,411	7,412	5,646	5,703	5,588	5,452
Inventory investment (+increase/-decrease)	(2,706)	(10)	3,691	3,712	5,305	134
Total assets	107,082	101,506	98,070	86,888	75,369	65,040
Total debt	48,582	43,677	41,675	35,171	34,611	27,481
Total liabilities	57,148	53,554	51,175	42,613	40,526	32,438
Shareholders' equity	49,934	47,951	46,895	44,275	34,843	32,602
Depreciation & amortization	290	390	382	454	509	494
Dividends	3,563	8,202	7,583	4,192	3,977	5,266
Operating income before depreciation and amortization as % of sales	24.64	22.38	21.91	23.17	24.56	21.93
Pretax return on permanent capital (%)	13.56 **	12.34	12.57	15.97	12.75	12.49
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	12.78	9.24	8.53	8.48	7.87	7.67
FFO/total debt (%)	16.06 **	16.97	13.55	16.21	16.14	19.84
Total debt/capitalization (%)	49.31	47.67	47.05	44.27	49.83	45.74

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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