GRANDE ASSET HOTELS AND PROPERTY PLC

No. 40/2024
26 March 2024

CORPORATES

Company Rating: B+
Outlook: Negative

Last Review Date: 29/03/23

Company Rating History:

Date	Rating	Outlook/Alert
24/07/20	BB-	Negative
27/03/20	BB	Alert Negative
13/05/19	BB	Stable
24/03/17	BB+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Grande Asset Hotels and Property PLC (GRAND) to "B+" from "BB-". The rating outlook remains "negative".

The rating downgrade is the result of the slow implementation of the company's debt reduction plan and weaker-than-expected operating results. The current level of debt is too high relative to the company's earnings, resulting in persistently negative funds from operations (FFO). Its operating performance is also persistently under pressure from stagnant sales of its real estate projects, high operating costs, and high finance costs.

The "negative" outlook reflects the uncertainty of the company's debt reduction plan.

KEY RATING CONSIDERATIONS

Slow implementation of debt reduction plan

Over the past few years, GRAND has contemplated disposing some of its assets to lower its debt burden. No transaction has yet been completed, however. The debt level stood high at around THB12 billion, as of December 2023, incurring total financial costs of THB1 billion, compared to earnings before interest, taxes, depreciation and amortization (EBITDA) of only THB0.6 billion for the year.

We assume in our base-case forecast that the company will go through with the target sale of the Hyatt Regency Bangkok Sukhumvit Hotel within 2024. Based on a recent appraisal, we expect the proceeds of the sale to amount to around THB5 billion.

The company aims to repay most of its debenture by the end of 2024, with proceeds from asset sales. Key potential assets include its ownership stake in Royal Orchid Hotel PLC (ROH), and its investment in Grand River Forest Co., Ltd. (GRF). The company's success in significant debt reduction would be considered a positive rating factor. Nonetheless, the progress of the sale transaction remains to be seen.

Hotel performance recovery to continue

We expect the company's hotel operations to continue to recover over the next few years in tandem with an expected recovery of Thailand's tourism industry. Based on the assumption that the Hyatt Regency Bangkok Sukhumvit Hotel would be excluded from the company's hotel portfolio from the fourth quarter of 2024 onwards, we expect the company's hotel revenue per available room (RevPAR) to increase by around 8% in 2024 and 2%-5% per annum in 2025-2026. The company's revenue from hotel operations is projected to be THB2.2-THB2.5 billion per year in 2024-2026.

The company's hotel performance improved in 2023, supported by an increase in the number of tourist arrivals to Thailand during the year. The number of arrivals increased to around 28 million in 2023, from around 11 million in 2022. In 2023, the company's revenue from hotel operations increased by 54% year-on-year (y-o-y) to THB2.4 billion. The company's overall occupancy rate (OR) improved to 63% in 2023 from 47% in 2022, with an 18% growth y-o-y in overall average room rate (ARR). As a result, the company's overall RevPar improved to around THB2,900 per room per night from around THB1,800 per room per night in 2022.

Real estate sales to show signs of improvement

We expect a modest enhancement in the company's revenue from real estate sales in 2024-2026. GRAND currently has two active real estate projects at the company level, namely "Hyde Sukhumvit 11" and a mixed-use project in Rayong province. Our base-case projection assumes sales of the two projects to be THB450 million per annum during the forecast period.

Sales of Hyde Sukhumvit 11's remaining units proved challenging in 2023 despite a recovery of demand for condominiums. The company recorded sales of THB169 million or 4% of the project value in 2023. The project has remaining units totaling THB0.9 billion or 22% of the project value. The project was completed and ready to transfer to customers in 2017.

The project in Rayong did not record any sales in 2023, the same as the year before, due to prolonged delays in construction of the project's facilities. We expect sales to be gradual over the next few years as the company's ability to market its luxury villas at the targeted price and within a reasonable timeline remains uncertain in our view. The mixed-use property includes three types of property: 61 villas for sale, a 205-key hotel, and a condominium. The company has completed construction of nine beachfront villas since early 2021 with selling prices of THB50-THB60 million per unit. The company plans to develop the hotel and condominium after the villas are completed. The hotel construction is expected to start in 2025.

In addition, GRAND has set up JVs to develop two condominium projects in Bangkok, namely "Hyde Heritage Thonglor" on Sukhumvit Road and "Hyde River Bay" on Charoen Nakorn Road by the Chao Phraya River. Hyde Heritage Thonglor was ready for transfer in August 2022. In 2023, the project realized THB1.3 billion of revenue, a decrease of approximately 10% from 2022. As of December 2023, the project's backlog was THB365 million, all of which is expected to be recognized as revenue in 2024. The project has remaining units totaling THB3.0 billion or 49% of the project value. The Hyde River Bay project remains under review and in the process of seeking Environmental Impact Assessment (EIA). Under our base case, we expect the Hyde Heritage Thonglor project to recognize around THB0.6-THB1.0 billion of revenue per annum in 2024-2026. We assume the Hyde River Bay project will remain as is over the forecast period as uncertainties remain as to the prospects of the JV, whether the project will proceed, or whether the company's investment in the JV will be sold.

Rubber glove business to remain challenging

As of December 2023, the company had three rubber glove production lines in operation. Installing of the fourth production line has been postponed to 2025 as demand has yet to catch up with supply. In 2023, the JV incurred a net loss of THB167 million as the selling price of rubber gloves remained significantly below the level anticipated at the project's inception. The lower prices were due to overbuilding of capacity in the industry in the period of extremely strong demand during the height of the Coronavirus Disease 2019 (COVID-19) pandemic. We expect the JV to continue to incur operating losses over the next few years as the selling prices are likely to remain depressed amid the oversupply situation in the rubber glove market.

In late 2020, GRAND joined hands with a business partner with experience of more than 30 years in the manufacture of rubber gloves, to set up Grand Global Gloves Co., Ltd. (GGG). The initial plan was to build two factories with a total of 16 production lines and get them all up and running in 2021. Project delays and unfavorable changes in market condition forced the company to cut back on its initial plan and the decision was made to cease further expansion after completion of the four production lines. As of December 2023, GRAND had invested around THB82 million in equity and THB375 million in shareholder loans to GGG. As the JV has incurred operating losses for three consecutive years, the book value of GRAND's equity investment in the JV has been reduced to zero.

Financial leverage likely to remain high

Assuming the company will complete the sale of Hyatt Regency Bangkok Sukhumvit Hotel within 2024, we expect the company's adjusted debt to decline to around THB8.0-THB8.7 billion in 2024-2026, from around THB12 billion in 2023. In our base case, we estimate the capital budget for the hotel segment and development costs for residential property projects will total around THB2.0 billion over the next three years. With high operating costs and modest progress of real estate sales, the company's EBITDA is expected to stay around THB0.6-THB0.7 billion per annum with an EBITDA margin of around 22%-23% in 2024-2026.

As a result, the adjusted debt to EBITDA ratio is likely to remain high at around 11-14 times over the forecast period. We expect the company's finance costs will also remain high with projected adjusted interest expenses of around THB1 billion in 2024, before declining to around THB0.7 billion per annum in 2025-2026. Therefore, the company's FFO are expected to remain in negative territory over the forecast period.

The financial covenant on GRAND's debentures requires the net interest-bearing debt to equity ratio to stay below 3.5 times. The ratio was 2.0 times at the end of December 2023. If the company incurs operating losses as projected, eroding equity could lead to declining headroom to maintain the financial covenant.

As of December 2023, GRAND had consolidated debt of THB12.2 billion, of which around THB11 billion was considered priority debt. Priority debt comprised secured loans and debentures at GRAND and the obligation to buy back the asset from the REIT. As its priority debt ratio was 92%, well above the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that GRAND's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Heightened refinancing risk with delay in debt reduction plan

We expect GRAND's liquidity to remain very tight. As of December 2023, GRAND's sources of funds comprised cash and cash equivalents of around THB1.4 billion, while the company had maturing debts over the next 12 months totaling around THB5.0 billion, including THB4.8 billion of debentures. We forecast a negative FFO of around THB0.3 billion and budgeted investments of around THB0.8 billion in 2024.

If GRAND fails to sell assets as intended to reduce its debt burden, we view that it would get increasingly challenging for the company to keep securing additional funding to cover its operational cash outflows and refinance its maturing debentures.

BASE-CASE ASSUMPTIONS

- Revenue from the hotel business to be around THB2.2-THB2.5 billion per annum in 2024-2026.
- Revenue from the real estate development business to be around THB450 million per annum in 2024-2026.
- EBITDA margin to range from 22%-23% in 2024-2026.
- Total capital spending to be around THB2.0 billion over the three-year forecast period.

RATING OUTLOOK

The "negative" outlook reflects our view that the company's weak profitability, combined with its excessive level of debt, may cause its financial profile to worsen further, should the asset disposal plan fall through.

RATING SENSITIVITIES

The "negative" rating outlook could be revised to "stable" if GRAND is able to successfully sell the Hyatt Regency Bangkok Sukhumvit Hotel at a reasonable price and if the sales of its real estate projects progress significantly better than projected, or if the company can further reduce its debt burden such that we could expect FFO to turn positive. On the contrary, the rating could be revised downward if the company's financial performance continues to fall short of our expectations.

COMPANY OVERVIEW

GRAND was incorporated in 1988, under the name "Sukhumvit Center Co., Ltd.", to develop and operate the "Grand Pacific Hotel". The hotel was later renamed "The Westin Grande Sukhumvit, Bangkok". The company added the "Sheraton Hua Hin Resort and Spa" to its hotel portfolio in 2009 and the "Sheraton Hua Hin Pranburi Villas" in 2013. The company added another two hotels in 2018, including the "Royal Orchid Sheraton Hotel", located on the Chao Phraya River, and the "Hyatt Regency" on Sukhumvit Road near Nana BTS station. As of December 2022, GRAND owned hotels with a total of 1,654 rooms.

The company moved into the property development segment in 2007 with the launches of two condominium projects: "The Trendy Condominium" and "Hua Hin Blue Lagoon". The company completed "Hyde Sukhumvit 13" in 2014 and "Hyde Sukhumvit 11" in 2017. Currently, the company is developing a villa project in Rayong province. In addition, in 2017 and 2018, the company set up two JVs with its major shareholder, Property Perfect PLC (PF) and Sumitomo Forestry Co., Ltd., a Japanese housing and wood products corporation, to develop two condominium projects: Hyde Heritage Thonglor and Hyde River Bay. As of December 2023, GRAND's largest shareholders were PF and its affiliates, holding 44% of the total outstanding shares.

The hotel segment has typically contributed the largest share (over 75%) of total revenue during recent years. The balance has come from the residential property segment. However, in some years, such as 2017-2018, the property development segment accounted for around 50% of total revenue as the company completed and transferred a condominium project in those years.

KEY OPERATING PERFORMANCE

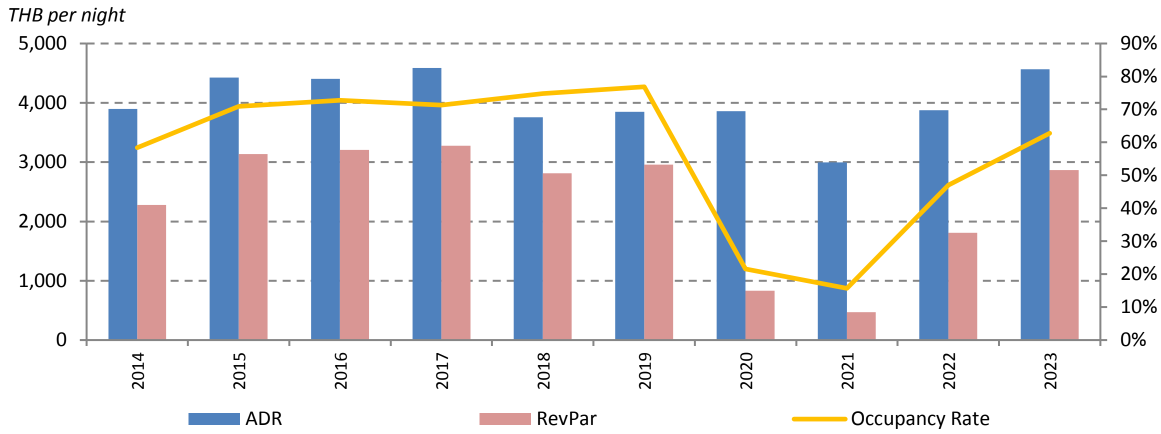
Table 1: GRAND's Revenue Breakdown by Line of Business

Unit: %

Revenue Breakdown	2016	2017	2018	2019	2020	2021	2022	2023
Hotel	76	47	52	85	79	85	90	92
Residential property	23	52	47	14	17	12	8	6
Others	1	1	1	1	4	3	2	2
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total revenue (mil. THB)	**1,417**	**2,305**	**3,343**	**2,987**	**1,000**	**515**	**1,726**	**2,621**

Source: GRAND

Chart 1: GRAND's OR, ADR, and RevPar



Source: GRAND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	--------------------Year Ended 31 December	---------------			
	2023	2022	2021	2020	2019
Total operating revenues	2,679	1,801	574	1,081	3,084
Earnings before interest and taxes (EBIT)	221	(204)	(857)	(660)	202
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	625	273	(328)	(141)	682
Funds from operations (FFO)	(506)	(691)	(1,134)	(770)	38
Adjusted interest expense	1,083	952	758	626	607
Capital expenditures	95	77	119	66	381
Total assets	18,266	18,300	17,596	13,508	14,525
Adjusted debt	11,880	11,184	11,096	9,242	8,076
Adjusted equity	3,181	3,918	4,381	3,111	4,160
Adjusted Ratios					
EBITDA margin (%)	23.3	15.2	(57.2)	(13.1)	22.1
Pretax return on permanent capital (%)	1.3	(1.2)	(5.8)	(4.9)	1.5
EBITDA interest coverage (times)	0.6	0.3	(0.4)	(0.2)	1.1
Debt to EBITDA (times)	19.0	40.9	(33.8)	(65.4)	11.8
FFO to debt (%)	(4.3)	(6.2)	(10.2)	(8.3)	0.5
Debt to capitalization (%)	78.9	74.1	71.7	74.8	66.0

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Grande Asset Hotels and Property PLC (GRAND)

Company Rating:	B+
Rating Outlook:	Negative

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