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GRANDE ASSET HOTELS AND PROPERTY PLC

No. 72/2019
13 May 2019

CORPORATES

Company Rating:	BB
Outlook:	Stable

Last Review Date: 02/04/18

Company Rating History:

Date	Rating	Outlook/Alert
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 "BB" from "BB+". The downgrade reflects the continued and expected rise in financial leverage, the result of an aggressive investment plan, and the fact that sales of completed condominium units has been slower than expected.

The rating continues to reflect the good quality of the company's hotel properties and its experience as a property developer. The rating is constrained by high administrative expenses and an ongoing rise in leverage as several large real estate projects are being developed at the same time. The rating also takes into consideration the nature of the hotel industry, which is characterized by intense competition and high sensitivity to uncontrollable external factors, and the cyclicality of the property market.

KEY RATING CONSIDERATIONS

Sizable investment ahead

The company has a number of large investments ahead. It is launching three large real-estate projects at the same time: two jointly-invested condominium projects in Bangkok and a mixed-use property project in Rayong. The hotel segment also requires significant investments in the coming years such as a major renovation of the newly-acquired Royal Orchid Sheraton and lease renewal of the Westin Grande Sukhumvit.

The company set up two joint ventures to develop the two condominium projects in Bangkok. The joint ventures are with Property Perfect PLC (PF), its major shareholder, and Sumitomo Forestry Singapore, Japan's leading timber and homebuilding firm.

Both joint venture projects are large. The Hyde Heritage Thonglor project, on Sukhumvit Road near Soi Sukhumvit 59, is worth around Bt6,000 million. The Hyde River Bay project, located on Charoen Nakorn Road, on the bank of the Chao Praya River, is worth Bt11,000 million. The company holds a 40% stake in the Hyde Heritage Thonglor project and a 42% stake in the Hyde River Bay project. The total investment required for the two projects, at the JV level, is around Bt13,000 million. GRAND will not realize a return on either project until the finished units are ready to transfer to customers. The Hyde Heritage Thonglor is slated for completion in 2022 while the Hyde River Bay project is expected to finish in 2023.

The mixed-use property project in Rayong includes three types of property. The project features 61 villas for sale, a 205-key hotel, and a condominium. Total estimated development costs are Bt1,500 million for the villas and Bt2,100 million for the hotel. These investments will span 2019 to 2021. Under the current plan, the condominium portion of the project will begin after the villas and the hotel are completed. If villa sell as well as planned, some cash from the sales could help fund the construction of the hotel. However, if sales are slower than expected, the funds needed to construct the villas will add to the debt burden of the company.

GRAND has other investments planned. The company is planning to spend around Bt1,000 million to renovate the Royal Orchid Hotel during 2019-2020. The renovation will take about 12 months to complete. The hotel will be partially closed during the renovation. In addition, the lease for the Westin Grande Sukhumvit will expire in 2022. The company is in the process of negotiating a new lease. A possibly significant initial cash outlay is expected for the Westin Grande's lease renewal.

Highly leveraged balance sheet

Financial leverage has risen sharply during the recent years. In 2018, the company acquired the Royal Orchid Hotel (Thailand) PLC (ROH) for around Bt3,500 million on top of spending Bt700 million in capital expenditures in the hotel segment. Although the secondary equity offering in 2018 raised around Bt600 million, the company's adjusted debt increased to Bt7,700 million from Bt4,400 million and the company's debt to capitalization ratio rose to 63% in 2018 from 55% in 2017. The funds from operations (FFO) to total debt ratio weakened to 4.7% in 2018 from 18.9% in 2017.

TRIS Rating expects leverage will rise further. Capital spending in the hotel segment and development costs of new residential property projects will need to be funded. These investments will not fully yield a return until 2022. Adjusted debt will soar to Bt12,000 million and the debt to capitalization ratio is expected to climb to 70% in 2021. The FFO to total debt ratio will decline to below 3% during 2019-2021, as lingering high administrative costs and financial costs will squeeze funds from operations.

GRAND's bank loan requires the net debt to equity ratio to stay below 2.50 times. As of December 2018, the company complied with the covenant with the net debt to equity ratio of 1.26 times. During the next three years, the net debt to equity ratio is expected to stay below 1.6 times.

Property sales fall short of expectations

Revenue in the property segment was Bt1,586 million in 2018, an increase of 33% from the previous year, derived mainly from the transfer of Hyde Sukhumvit 11 backlog. Despite the rise in revenue, the sale progress at Hyde Sukhumvit 11 was slow in 2018 as just 4% of the total project value was sold in 2018. As of December 2018, the remaining units in Hyde Sukhumvit 11 were worth around Bt1,800 million or about 40% of the project value. The company's backlog was small at Bt257 million as of December 2018. Since sales have been slow, TRIS Rating expects it will take more time to sell the remaining units. In addition to the completed condominium project, villas in the mixed-use project in Rayong Province will be built gradually and transferred during 2019-2021.

TRIS Rating forecasts revenue from property segment to range from Bt900-Bt1,300 million per annum during 2019-2021. Revenue will come from the transfers of units in Hyde Sukhumvit 11 project and villas in Rayong while the two joint venture condominium projects are still under construction.

Good quality hotel properties

GRAND's hotels are in good locations: Bangkok's central business district areas and popular tourist destinations. In 2018, GRAND added two new hotels, bringing the total number of properties in its portfolio to five. The new hotels are the Royal Orchid Sheraton and the Hyatt Regency Bangkok Sukhumvit. Both are located in prime areas in Bangkok.

The company's strategy is to invest in hotels in prime locations and appoint highly experienced international hotel chains to manage the properties. International hotel chains provide strong brand names, good hotel management systems, and strong sales channels. As a result, operations are smooth and the operating results are satisfactory. As of December 2018, Marriott International manages four hotels while Hyatt International Corporation manages one.

The hotel segment delivered acceptable operating results. Revenue in this segment was Bt1,739 million in 2018, up by 59% from the previous year. The jump stems from the consolidation of ROH in May 2018. The Hyatt Regency Bangkok Sukhumvit held a soft opening in November 2018 and thus contributed a small amount of revenue. In addition, the performance of the Westin Grande Sukhumvit improved. Revenue per available room increased by 4% in 2018. However, Sheraton Huahin and Sheraton Huahin Pranburi showed weaken results in 2018 as competition was intense in those areas.

Revenue in the hotel segment is expected to fluctuate over the next two years. Revenue will rise to Bt2,400 million in 2019, then decline to Bt2,100 million in 2020 as the Royal Orchid Hotel undergoes renovation, then surge to Bt3,000 million in 2021 when all five hotels are in full operation. The hotel in the Rayong project will not contribute to hotel revenue until it starts to operate in 2022.

Liquidity tightens

GRAND's liquidity remains tight. Sources of liquidity include Bt1,538 million in cash and cash equivalents as of December 2018, plus FFO forecast at Bt165 million in the next 12 months. The company has bills of exchange, bank loans, and debentures of Bt1,884 million coming due in 2019. On top of that, capital expenditures are forecast at approximately Bt1,700 million in 2019. Therefore, GRAND will need funds, either from new borrowing, new equity, or the sale of one or more hotel properties.

BASE-CASE ASSUMPTIONS

- The overall hotel occupancy rate will range from 71-74% in 2019 and 2021. The rate will drop below 60% in 2020 when the Royal Orchid Hotel renovation will take place.
- The average room rate will grow by around 8% per annum during 2019-2020 as higher room rate at the Hyatt Regency Bangkok Sukhumvit will push up the average room rate. The rate will rise by 15% in 2021 after the Royal Orchid Sheraton renovation is complete.
- Revenue from property segment will range between Bt900-Bt1,300 million per annum.
- The gross profit margin will stay around 39%-41% and the operating margin is forecast at 17%-22%.
- Total capital spending will be around Bt4,500 million during 2019 -2021.
- We assume that GRAND will sell a 40% stake in ROH in 2019. The proceeds from the sale will be around Bt1,500 million.

RATING OUTLOOK

The “stable” outlook is based on our expectation that the performance of the hotel segment will remain satisfactory. In property segment, the completed condominium units and villas in Rayong will be gradually transferred to customers during the next three years. Revenue will grow to around Bt4,200 million in 2021. The operating margin should stay around 20% and the FFO to total debt ratio is expected to range below 3% during 2019-2021.

RATING SENSITIVITIES

GRAND’s credit upside is limited in the near term due to the high level of financial leverage and aggressive investment plan. However, a rating upgrade would materialize if the company’s business prospects improve significantly. In contrast, a rating downgrade would occur if the company’s financial performance deteriorates substantially or if financial leverage climbs significantly, perhaps from more-than-expected debt-funded investments.

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 hotel. The company added to its portfolio the Sheraton Hua Hin Resort and Spa in 2009 and the Sheraton Hua Hin Pranburi Villas in 2013. The company added two new hotels in 2018, including the Royal Orchid Sheraton hotel located on the Chao Praya Riverside and the Hyatt Regency located on Sukhumvit Road near BTS Nana. As of December 2018, GRAND owned hotels with a grand total of 1,654 rooms.

The company started the property development segment in 2007 with the launches of two condominium projects: the Trendy Condominium and Hua Hin Blue Lagoon. In 2014, the company finished The Hyde Sukhumvit 13 in 2014 and The 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 joint ventures with its major shareholder PF and Sumitomo Forestry, a Japanese housing and wood products corporation, to develop two condominium projects: Hyde Heritage Thonglor and Hyde River Bay. As of December 2018, GRAND’s largest shareholders were PF and its affiliates, holding 49% of the total outstanding shares.

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

KEY OPERATING PERFORMANCE

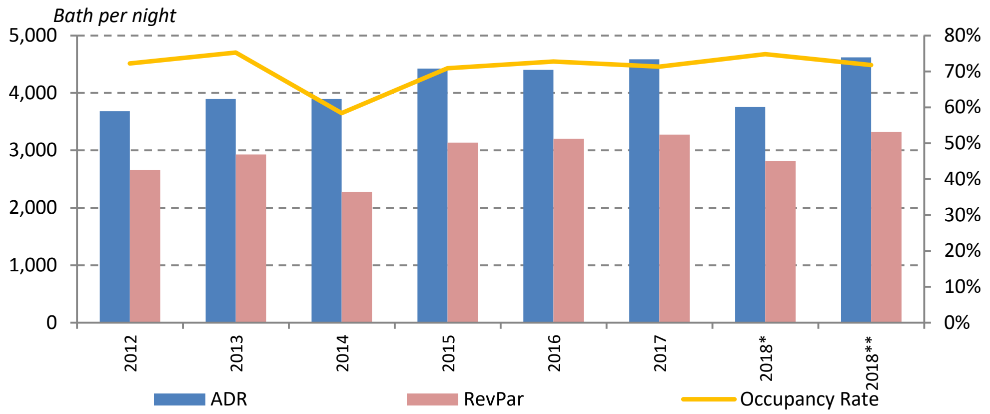
Table 1: GRAND's Revenue Breakdown by Line of Business

Unit: %

Revenue Breakdown	2012	2013	2014	2015	2016	2017	2018
Hotel	95	81	17	77	76	47	52
Residential property	3	17	83	21	23	52	47
Others	2	2	0	2	1	1	1
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Total revenue (Bt million)	**957**	**1,226**	**4,886**	**1,361**	**1,417**	**2,305**	**3,343**

Source: GRAND

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



Source: GRAND
** incl. 2 new hotels: Royal Orchid Sheraton Hotel and Hyatt Regency Hotel*
*** excl. new hotels*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2019	---------------Year Ended 31 December ------------ 2018	2017	2016	2015
Total operating revenues	849	3,459	2,339	1,451	1,381
Operating income	195	698	582	378	206
Earnings before interest and taxes (EBIT)	93	481	1,000	135	(14)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	195	798	1,233	396	226
Funds from operations (FFO)	55	361	835	226	100
Adjusted interest expense	131	442	306	142	123
Capital expenditures	155	706	647	751	295
Total assets	14,480	13,677	9,285	7,689	5,883
Adjusted debt	7,354	7,707	4,422	3,472	2,010
Adjusted equity	4,509	4,562	3,623	2,902	2,896
Adjusted Ratios					
Operating income as % of total operating revenues (%)	22.98	20.18	24.89	26.06	14.92
Pretax return on permanent capital (%)	3.33	4.15	12.26	2.22	(0.26)
EBITDA interest coverage (times)	1.49	1.81	4.02	2.78	1.84
Debt to EBITDA (times)	9.62	9.66	3.59	8.77	8.88
FFO to debt (%)	4.40	4.68	18.87	6.52	4.99
Debt to capitalization (%)	61.99	62.82	54.97	54.47	40.97

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Grande Asset Hotels and Property PLC (GRAND)

Company Rating:	BB
Rating Outlook:	Stable

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