

# LH HOTEL LEASEHOLD REAL ESTATE INVESTMENT TRUST

No. 88/2021  
9 June 2021

## CORPORATES

**Issuer Rating:** BBB-  
**Outlook:** Negative

**Last Review Date:** 25/05/20

### Company Rating History:

Date	Rating	Outlook/Alert
25/05/20	BBB+	Negative

### Contacts:

Jutamas Bunyanichkul

jutamas@trisrating.com

Chanaporn Pinphithak

chanaporn@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Thiti Karoonyanont, Ph.D., CFA

thiti@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating downgrades the issuer rating on LH Hotel Leasehold Real Estate Investment Trust (LHHOTEL or “trust”) to “BBB-” from “BBB+”, while maintaining the “negative” rating outlook. The downgrade reflects the slower-than-expected recovery of the hotel operating performance from the prolonged Coronavirus Disease 2019 (COVID-19) pandemic and the delay in the trust’s capital increase plan. The adverse operating environment has triggered the force majeure clause under the rental agreement between LHHOTEL and its sublessee, L&H Hotel Management Co., Ltd. (LHH), allowing LHH to waive most of the rental payments since March 2020, with the situation expected to continue well into 2021 and possibly the beginning of 2022. In addition, the weak sentiment in the capital market has made it difficult for LHHOTEL to raise equity as originally planned, causing the trust’s debt level to remain elevated from the debt-funded acquisition of “Grande Centre Point Sukhumvit 55” (S55) in November 2019.

The “negative” outlook reflects the uncertainty surrounding the recovery prospects of the tourism industry and our expectation that LHHOTEL’s credit metrics will continue to be under pressure over the next 12-18 months.

The rating reflects the trust’s high-quality assets located in prime areas of Bangkok and the future growth opportunities of the trust, supported by potential sourcing of assets from its sponsor, Land and Houses PLC (LH), rated “A+” with a “stable” outlook by TRIS Rating. However, the rating is constrained by the cyclical nature of the hotel industry and the trust’s small size of portfolio concentrated only in Bangkok.

## KEY RATING CONSIDERATIONS

### Severe impact from COVID-19 to continue for extended periods

We view the hospitality industry in Thailand as continuing to be severely affected by the COVID-19 pandemic for the remainder of 2021, as waves of outbreak and slow vaccine rollout hinder the plan to ease travel restrictions and reopen the country to foreign travelers. We expect the demand for hotels to remain inert in 2021. A sign of recovery for hotels situated in some tourist destinations outside Bangkok might begin sooner as their customers rely on both local and foreign travelers. However, we foresee demand for hotels located in Bangkok, largely depending on foreign customers, to revive at a slower pace.

Our base-case forecast projects the occupancy rate (OR) at the trust’s three hotels to remain weak throughout the whole year of 2021 until the first quarter of 2022. We project the revenue per available room (RevPar) in 2021 to be 80% below 2019 level, before rebounding to around 50% below the 2019 level in 2022 and gradually approaching pre-COVID-19 level in 2024.

LHHOTEL currently owns three hotels, “Grande Centre Point Terminal 21” (TM21), “Grande Centre Point Ratchadamri” (RD), and S55, with a total of 1,401 rooms. All hotels are well-maintained and are in the prime areas of Bangkok. The main customers are Japanese and Chinese. During the pandemic situation, all hotels have been served as Alternative State Quarantine (ASQ) hotels to earn some income. Hotel RevPar in 2020 shrank by 70% year-on-year (y-o-y) for TM21 and RD and 60% for S55. RevPar for the three hotels in the first quarter of 2021 continued to slide by 10%-15% from 2020.

### **Expected absence of rental income throughout 2021 until beginning of 2022**

The adverse operating results of hotels caused by the prolonged COVID-19 situation have triggered a force majeure clause under the rental agreement between the trust and the sublessee. This allowed the sublessee to waive the rental fee payment to the trust for 9-10 months in 2020. The situation continued to trigger the rental fee waiver in the first quarter of 2021. We consider there will be a high degree of possibility that the pandemic may not be contained by end of 2021. We assume the trust's rental income to be waived for the entire year of 2021 through the first quarter of 2022. The trust is likely to earn only fixed rental income during the second through the fourth quarter of 2022 as we expect the hotel operation will remain weak. This will affect the variable portion of rental fee. We forecast hotel operation in 2023 will secure the full-year amount of fixed rental income and add some variable portion to the trust.

The trust's rental income depends largely on the performance of its hotels operated by the sublessee under the current structure of rental fees. The laws governing real estate investment trusts (REIT) prohibit a REIT from operating a hotel. Because of this, LHHOTEL subleases the hotels to LHH, a subsidiary of LH. LHH pays LHHOTEL a fixed rental fee and a variable rental fee. The fixed portion is reset each year depending on the actual operating results of each hotel, subject to a floor amount that was set when the sublease was first signed. The variable portion is 85% of what the sublessee makes after deducting hotel operating expenses and the fixed portion of the rent. In the case of a force majeure event, the agreement permits the sublessee to postpone or waive the fixed and variable rental payment to the trust. If room revenues in the affected months drop sharply by 20%-50% y-o-y, the rental payment for those months could be postponed. If the event causes room revenues to drop by more than 50% y-o-y and meets other conditions specified in the sublease agreement, the sublessee could waive the rental payment to the trust for the months affected.

### **Small property portfolio with concentration risk**

LHHOTEL's credit profile takes into consideration its small-scale asset portfolio. Its rental income depends on only three hotels, all of which are situated in central Bangkok. Operating cash flow is susceptible to event risks, which might affect the performance of either or all hotels in a certain period, and the cyclical nature of the hotel industry. If the trust expands in the future with a larger base of income-generating assets, these risks could be mitigated to some extent.

### **Elevated level of leverage as capital increase plan has been postponed**

We previously viewed the trust's financial policy to be conservative as it aimed to keep its loan-to-fair value of total assets (LTV) ratio below 25%. However, the debt-funded acquisition of S55 pushed the trust's debt to capitalization ratio to 45% as of December 2019. We did not take a rating action earlier as we saw the concrete forthcoming capital increase plan. Nevertheless, unfavorable sentiment in the capital market driven by the COVID-19 pandemic has forced the trust to postpone its capital increase, originally planned in mid-2020. Therefore, the trust's debt to capitalization ratio stayed at 48% as of March 2021.

Without capital increase, we project the trust's debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio to remain elevated at over 11 times in 2022 and 7 times in 2023, compared with around 2 times in 2018 prior to the S55 debt-funded acquisition. For the time being, the capital increase plan has been postponed until the market situation significantly improves, possibly around the end of 2022 or 2023.

### **Tight liquidity position**

Although we forecast the rental fee waiver for the entire year of 2021 through the first quarter of 2022, we expect the trust will be able to manage its liquidity sufficiently during this difficult period. As of March 2021, LHHOTEL's sources of liquidity included investments in the Bank of Thailand's (BOT) bonds worth THB154 million in fair value and the undrawn revolving facility for working capital of THB150 million.

LHHOTEL has managed to get approval from all lenders to reschedule loan repayments during 2020-2021 and postpone interest payments from the second quarter until the fourth quarter of 2021. Operating expenses at the REIT level are minimal. We believe the trust will not pay dividend for the quarter in which the rental income is waived.

In 2022, the trust will be obliged to repay loan principal of THB52 million and refinance the bridging loan of THB3.1 billion with a committed long-term loan facility. The trust is obliged to repay total interest of around THB320 million, comprising interest in 2022 of THB180 million and accrued interest in 2021 of THB140 million. The uncertainty of pandemic situation poses significant risk of the trust's ability to handle the rescheduled obligations in 2022. However, the trust plans to negotiate with all lenders once again in the last quarter of 2021.

The financial covenants on LHHOTEL's bank loans require the trust's interest-bearing debt to equity ratio to remain below 1 times and the debt service coverage ratio (DSCR) to stay above 1.2 times. As of March 2021, the interest-bearing debt to equity ratio of the trust was 0.95 times. We expect the trust should have no problem keeping the interest-bearing debt to equity ratio and DSCR in compliance with the bank loan covenants.

## BASE-CASE ASSUMPTIONS

- RevPar in 2021 to be 80% below the 2019 level but to revive to around 50% below the 2019 level in 2022. It will come near the pre-COVID-19 level in 2024.
- The lengthy pandemic continues to trigger a force majeure event for rental fee waiver during the whole year of 2021 through the first quarter of 2022. We expect the trust to earn only fixed rental income during the second through the fourth quarter of 2022.

## RATING OUTLOOK

The “negative” outlook reflects our view that LHHOTEL’s hotel operation and credit profile will continue to be under pressure over the next 12-18 months.

## RATING SENSITIVITIES

LHHOTEL’s rating could be further revised downward should the prolonged COVID-19 situation lead to a deeper-than-expected deterioration in hotel operating performance and/or the trust’s financial profile. A rating downgrade could also occur if the trust’s liquidity risk is found to have heightened significantly.

On the contrary, a rating upward revision could occur if there are clear signs of recovery in the hotel industry and the trust’s operation or the contemplated capital increase and deleverage plans materialize, such that the LTV ratio stays below 30% and the debt to EBITDA ratio stays below 5 times. The trust’s ability to properly manage financial flexibility is also a key consideration for an upward revision.

## COMPANY OVERVIEW

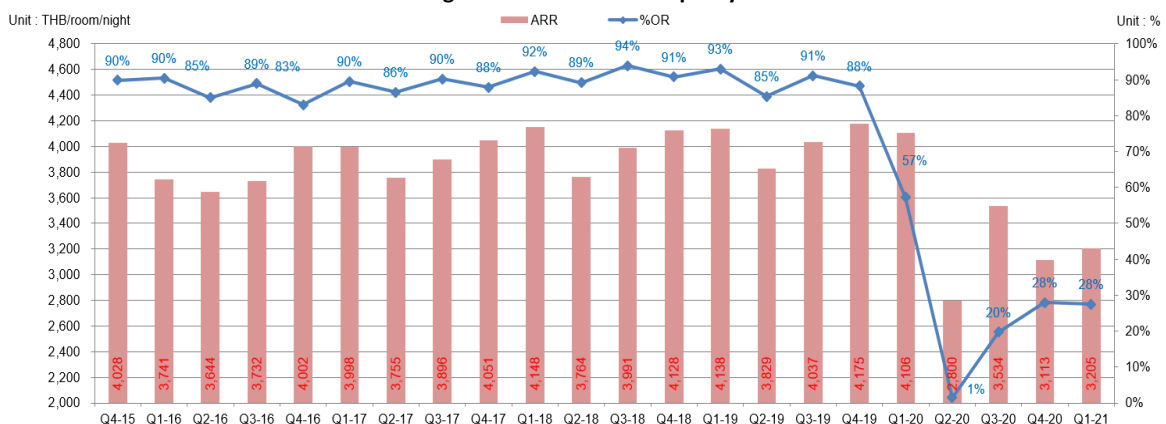
LHHOTEL is a non-redeemable and indefinite REIT. The trust was established in December 2015. As of April 2021, the major shareholders of the trust consisted of LH Mall and Hotel Co., Ltd. (LHMH), a subsidiary of LH, and LH Financial Group PLC, an associate of LH, with stakes of 14.73% and 4.82%, respectively. Companies affiliated with LH own 24.65% of the trust. The REIT manager is Land and Houses Fund Management Co., Ltd. The trust leases TM21 and RD from L&H Property Co., Ltd. (LHP) as well as S55 from LHMH. The trust subleases the hotels to LHH as a special purpose vehicle (SPV). LHMH acts as a hotel operator to manage the assets. LHP, LHH, and LHMH are subsidiaries of LH.

The property portfolio of the trust currently comprises three hotels, TM21, RD, and S55, with 1,401 rooms. All hotels are located in prime areas of Bangkok. TM21 is located on the corner of Asoke junction and connected with the BTS Asoke skytrain station and the MRT Sukhumvit subway station. RD is located near the Ratchaprasong junction and the BTS Ratchadamri skytrain station. S55 is located in Soi Thonglor, which is well-known for its trendy nightlife, and is accessible to the BTS Thonglor skytrain station. As of March 2021, the fair value of LHHOTEL’s properties was THB1.8 billion.

Under the trust structure, the fixed and variable rental income depends on the operating performance of hotels operated by the sublessee. In normal circumstances, the fixed rental fee is beneficial to the trust as it sets the floor to the trust’s rental income each year. However, the COVID-19 pandemic has significantly affected hotel operation since beginning of 2020. The situation has triggered a clause whereby the sublessee can waive the fixed rent payment.

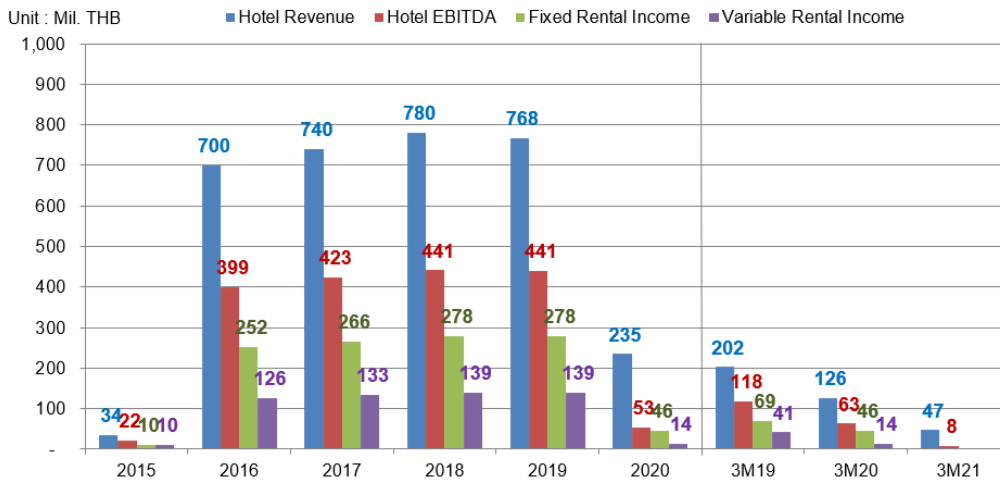
## KEY OPERATING PERFORMANCE

**Chart 1: Average Room Rate and Occupancy Rate of TM21**



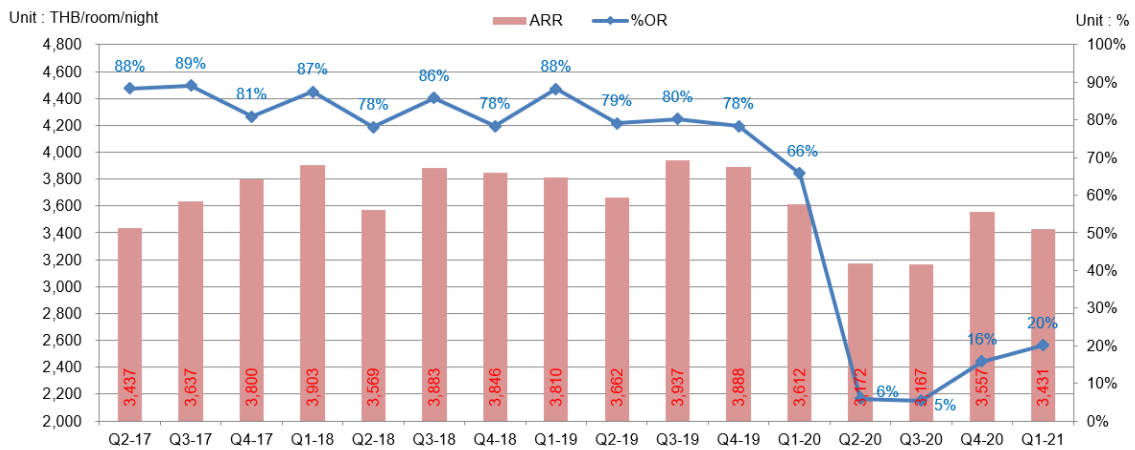
Source: LHHOTEL

**Chart 2: Performance of TM21**



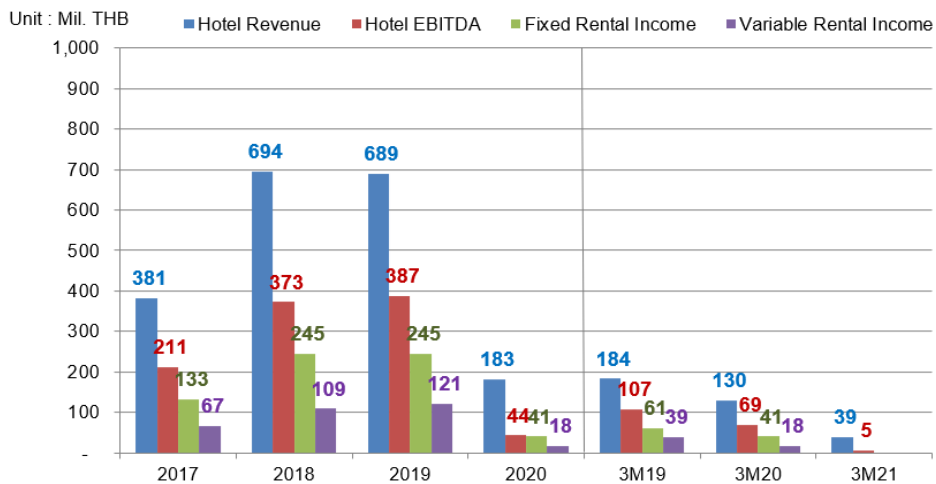
Source: LHHOTEL

**Chart 3: Average Room Rate and Occupancy Rate of RD**



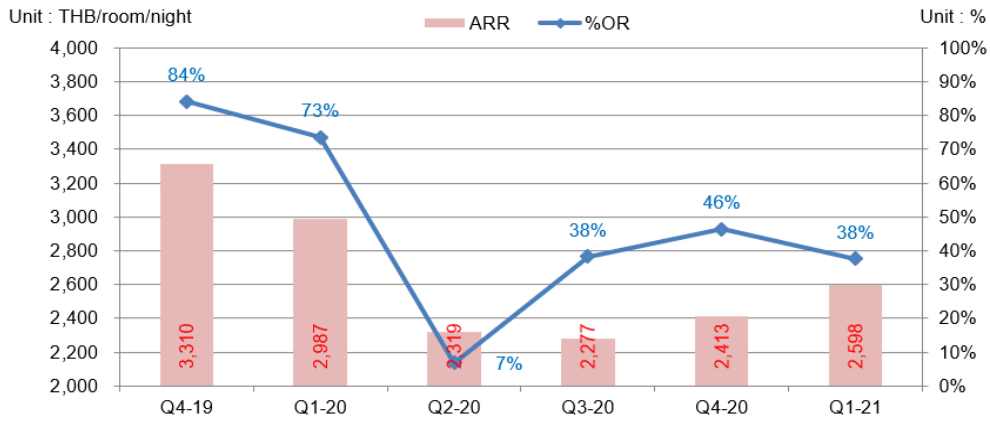
Source: LHHOTEL

**Chart 4: Performance of RD**



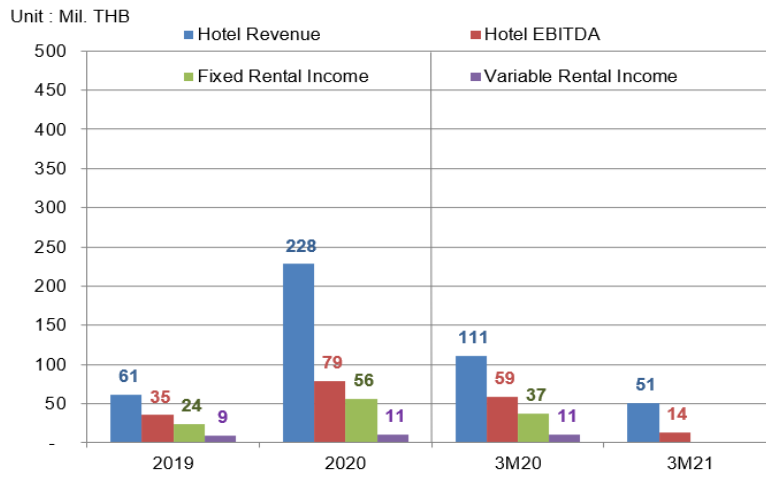
Source: LHHOTEL

**Chart 5: Average Room Rate and Occupancy Rate of S55**



Source: LHHOTEL

**Chart 6: Performance of S55**



Source: LHHOTEL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Rental and service income	-	185	813	770	599
Earnings before interest and taxes (EBIT)	(6)	154	724	718	564
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(6)	154	761	740	581
Funds from operations (FFO)	(51)	(29)	683	679	537
Adjusted interest expense	45	183	78	61	44
Total assets	11,919	11,970	12,669	8,386	8,251
Adjusted debt	5,669	5,630	5,617	1,454	1,545
Adjusted equity	6,115	6,167	6,862	6,768	6,638
<b>Adjusted Ratios</b>					
EBITDA margin (%)	(9,558.46)	83.11	93.62	96.09	96.88
Pretax return on permanent capital (%)	(0.09) **	1.25	6.89	8.64	9.21
EBITDA interest coverage (times)	(0.14)	0.84	9.79	12.12	13.34
Debt to EBITDA (times)	(516.47) **	36.52	7.38	1.96	2.66
FFO to debt (%)	(3.42) **	(0.51)	12.16	46.71	34.76
Debt to capitalization (%)	48.11	47.72	45.01	17.69	18.88
Loan to fair value of total assets (%)	48.56	48.35	45.68	19.18	19.50

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Real Estate Investment Trust, 12 October 2016

---

**LH Hotel Leasehold Real Estate Investment Trust (LHHOTEL)**

---

<b>Issuer Rating:</b>	BBB-
<b>Rating Outlook:</b>	Negative

---

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2021, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)