

LAND AND HOUSES PLC

No. 180/2020
29 October 2020

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Outlook:	Stable

Last Review Date: 01/10/20

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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RATIONALE

TRIS Rating affirms the company rating on Land and Houses PLC (LH) and the ratings on LH's senior unsecured debentures at "A+" with a "stable" outlook. The ratings reflect the company's leading position among property developers in Thailand, strong brand position in diversified residential product types, reliable stream of income from rental assets, and moderate level of financial leverage. The ratings take into consideration the financial flexibility derived from its portfolio of marketable securities, and our concerns regarding the adverse effects of the Coronavirus Disease 2019 (COVID-19), which have severely impacted its hospitality and retail businesses and also put more pressure on the domestic economy and demand for residential properties in the short to medium term.

KEY RATING CONSIDERATIONS

Leading position in the property development market

LH has established a strong position in the residential property development market as one of the nation's top three developers by revenue. The company also diversified its business toward hotels, apartments, and retail businesses. However, revenue contribution from the residential sales business still accounted around 80%-90% of its total operating revenues. The company also has a sizable portfolio of investments in Stock Exchange of Thailand (SET)-listed real estate and related businesses.

The company's revenue base has ranged between THB30-THB35 billion since 2016. However, its profitability compared favorably with peers that mostly focus on the residential property business. Its earnings before interest, tax, depreciation, and amortization (EBITDA) ranged between THB13-THB14 billion per annum in the last three years. More than 40% of its EBITDA came from the share of profit from its investments and also gain from the sale of its rental assets to a Real Estate Investment Trust (REIT) or third parties. Its EBITDA margin stayed at around 37%-44% in the past five years, compared with other residential property developers that have an average EBITDA margin of around 20%-25% over the same period.

Due to the impact from the COVID-19 pandemic, we forecast LH's revenue will be around THB28 billion in 2020 and improve to THB32-THB34 billion per annum during 2021-2022. We expect LH's profitability to soften from a lower revenue base and intense competition in the property market. However, we believe that LH should be able to control selling and administrative costs and sustain the EBITDA margin at around 36%-39% during 2020-2022.

Broad range of residential product types with favorable brand recognition

LH's proven track record in the residential property market is underpinned by its strong operating performance. The company generated steady presales at THB24-THB28 billion yearly in the past five years. Presales during the first six months of 2020, constant with the same period last year, stood at THB13.4 billion amid a sluggish economy and the COVID-19 pandemic. LH's mainstay single detached house (SDH) segment contributed solid presales and revenue of around THB18-THB21 billion per annum. The townhouse segment contributed around THB2-THB3 billion per annum while condominium presales and revenue vary by new project launch and transfer schedule. The company's products are well perceived by customers in terms of product

quality and after-sale service.

LH's SDH products cover the low- to high-end segments, with selling prices per unit ranging from THB3 million to above THB25 million. The "Mantana", "Nantawan", and "Ladawan" brands, with prices above THB10 million per unit, have constituted the core contribution to LH's SDH presales during the past years. LH's townhouse products also cover the full range of customer segments. However, the main focus is the segment with units priced between THB2-THB4 million, sold under the "Indy" and "Villaggio" brands. Condominium products cover the low- to high-end segments, with selling prices ranging from THB50,000 to THB300,000 per square meter (sq.m.). LH's condominium projects target the high-end segment of above THB8 million per unit under "The Room" and "The Bangkok" brands.

As of June 2020, LH had around 77 existing projects with total remaining project value of THB57 billion (including built and unbuilt units). Landed property projects accounted for 80% of total unsold value, while condominium projects made up the rest. The backlog is valued at THB9.3 billion and is expected to be delivered to customers during the remainder of 2020 through 2022.

Significant impact from COVID-19 on rental assets

LH's existing rental property portfolio comprises five hotels under the "Grand Center Point" brand, one shopping mall, and four apartment buildings for rent in the United States (US). During 2018-2019, the occupancy rate (OR) of each hotel was above 80%, with revenue per available room (RevPAR) of THB2,600-THB3,300 per night. For apartment buildings in the US, the operating performance of the four apartment buildings for rent remained sound, OR and gross margin were improved from last year after renovation was completed. In the first half of 2020, the OR and ARR of hotels have been severely affected by the COVID-19 particularly in the second quarter of 2020. LH's rental assets generated rental and service income of THB1.3 billion in the first half of 2020, a drop of 46% from the same period last year.

Apart from its existing rental properties, the company is developing a shopping mall, Terminal 21, on Rama 3 road. The company plans that the project will be completed and generate rental income in late 2021. As a result of the COVID-19 pandemic, we forecast LH's revenue from rental assets will be only THB1.8 billion in 2020, down by 62% from last year. Rental assets should recover to generate revenue of around THB4 billion in 2021 and THB5 billion in 2022 after Terminal 21 Rama 3 commences operation.

LH has a policy to develop or acquire assets which generate recurring income, then sell the assets to a REIT or non-related parties once the assets perform at an acceptable level. This strategy helps the company recycle its capital, realize profits faster, and lower debt burden. The company also recognized gains from selling its rental assets of around THB1.3-THB2.4 billion per annum in the last five years.

Moderate financial leverage

We expect LH's financial leverage to edge up slightly in the next three years from its usual huge dividend payouts, the expansion in its residential property development business, and capital spending in its rental property business. LH spent around THB4-THB6 billion per annum to replenish land reserves and plans to launch new residential projects worth THB28-THB30 billion yearly. This year, LH's land acquisition budget stands at THB7 billion and the company plans to launch 17 new projects, comprising only landed property projects, worth approximately THB28.4 billion, compared with THB30.5 billion last year. LH also set aside a budget for investment in rental properties of THB10 billion in the next three years.

We expect the company's debt to capitalization ratio to range between 47%-49% during 2020-2022 up from 47% in the past three years. The ratio of funds from operations (FFO) to debt is expected to recover from 16% in 2020 to stay around 19%-24% in 2021-2022. The debt to EBITDA ratio is expected to rise but should stay below 5 times. However, LH's leverage might be lower than projected if the company divests some of its rental properties or delays its investments.

Adequate liquidity plus financial flexibility from investment portfolio

We assess LH's liquidity as adequate over the next 12 months. At the end of June 2020, the company had THB4.3 billion in cash and current investments, plus undrawn committed credit facilities of loans from financial institutions of THB17.6 billion. We forecast LH's FFO over the next 12 months to be THB8-THB9 billion. Debts coming due over the next 12 months will amount to THB19.3 billion, comprising mainly THB13 billion in debentures, THB5.2 billion in short-term loans, and THB1.1 billion in project loans. Generally, LH will refinance bonds coming due by new bond issuances. However, LH intends to have back-up facilities to cover all repayments of short-term debts. Its ability to access the capital market and its large investment portfolio also help support its liquidity, if needed.

At the end of June 2020, LH held shares in four SET-listed companies: Home Products PLC (HMPRO), Quality Houses PLC (QH), LH Financial Group PLC (LHFG), and Quality Construction PLC (Q-CON). Equity income from LH's investments amounted to THB3.4 billion per annum in 2019 while the dividend received was around THB2.5 billion. As of June 2020, the fair market value of the investments in these associated companies was THB72 billion, or 1.2 times LH's outstanding

debts. We acknowledge that the values of the listed securities are subject to market sentiment and volatility. However, in our view, the holdings still provide a considerable cushion for LH's ability to service its debts.

We expect that the company should have no problems complying with the financial covenant on its debt obligations over the next 12-18 months. According to the key financial covenant on its debentures, LH has to maintain its net interest-bearing debt to equity ratio below 1.5 times. The ratio as of June 2020 was 1.05 times.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for 2020-2022:

- Operating revenue to range THB28-THB34 billion per annum.
- Gross profit margin to be 31%-32% and EBITDA margin 36%-39%.
- Land acquisition budget is forecast to be THB3-THB5 billion per annum in the next three years.
- Capital expenditures are expected to be THB1.5 billion in 2020, THB5.5 billion in 2021, and THB2.4 billion in 2022.
- Divestment of an apartment building in the US is scheduled in 2020.

RATING OUTLOOK

The "stable" outlook on LH's ratings reflects our expectation that the company will maintain its strong market position, achieve steady presales performance and decent operating performance, and maintain acceptable financial leverage. The debt to capitalization ratio should stay below 50% or the debt to EBITDA ratio should stay below 5 times.

RATING SENSITIVITIES

LH's ratings and/or outlook could be revised upward should its capital structure improve significantly from the current level, so that its interest-bearing debt to EBITDA ratio stays below 3 times on a sustainable basis while its operating performance remains strongly comparable with peers. Conversely, the ratings and/or outlook could be revised downward should LH's operating performance and/or financial position decline further from its current level.

COMPANY OVERVIEW

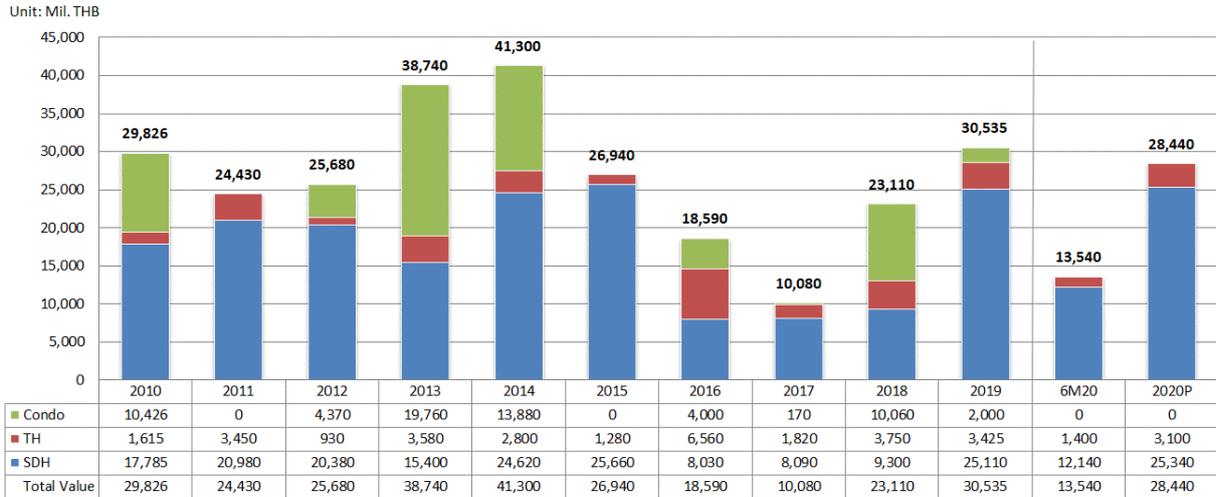
LH was founded by the Asavabhokhin family in 1983 as a real estate developer. The company was listed on the SET in 1989. As of August 2020, the Asavabhokhin family remained LH's largest shareholder with a 31% stake. LH's residential product portfolio is comprehensive, spanning a wide range of prices and product categories. The company offers SDH, townhouse, and condominium units covering the low-end to high-end segments. Its landed property products range in price from THB2 million to above THB25 million per unit. Condominium units are priced from THB50,000 to THB300,000 per sq.m.

Apart from its residential property business, LH operates five hotels under the Grand Center Point brand, one shopping mall, and four apartment buildings for rent in the US. Also, the company has a sizable portfolio of investments in SET-listed real estate and related businesses. These recurring-income assets and investments in marketable securities provide financial flexibility for the company once the sentiment in the residential property market adversely changes.

LH's revenue contribution from the SDH segment constituted 55%-65% of revenue from sales and rental income during 2016-2019. Revenue contributions from the condominium and the townhouse segments were 20%-30% and 6%-9%, respectively. Revenue from rental assets contributed 8%-11%. In addition, LH earned equity income from its investments in marketable securities of around THB3-THB3.4 billion per annum and received dividends of THB1.7-THB2.5 billion per annum in the past four years.

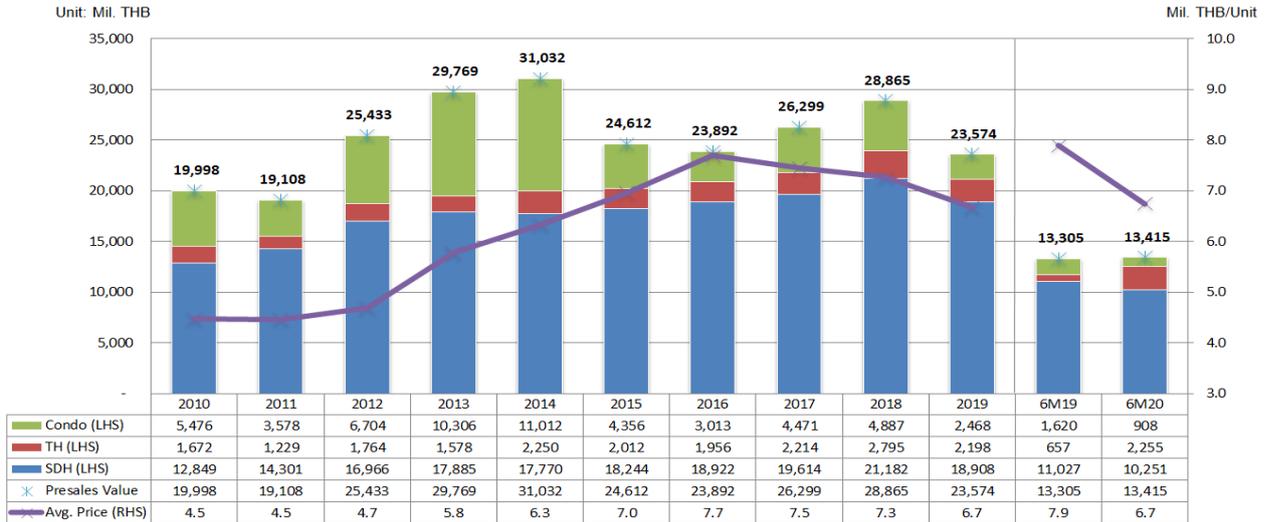
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



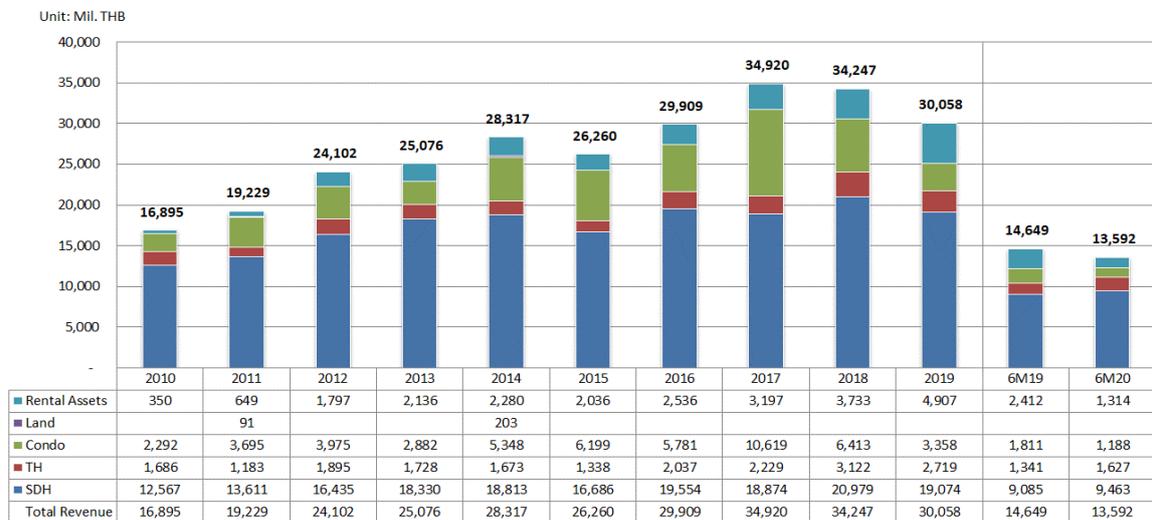
Source: LH

Chart 2: Presales Performance



Source: LH

Chart 3: Revenue from Sales and Rental Income Breakdown



Source: LH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	13,855	30,583	34,694	35,265	30,340
Earnings before interest and taxes (EBIT)	4,271	13,267	13,788	13,558	12,061
Earnings before interest, tax, depreciation, and amortization (EBITDA)	5,338	13,634	13,788	13,213	11,485
Funds from operations (FFO)	4,232	10,343	10,581	9,852	8,455
Adjusted interest expense	754	1,572	1,499	1,471	1,458
Real estate development investments	56,828	54,711	49,580	50,706	52,142
Total assets	119,361	113,139	111,481	109,492	101,506
Adjusted debt	57,741	48,881	46,403	46,284	42,679
Adjusted equity	48,953	53,183	50,752	50,809	47,952
Adjusted Ratios					
EBITDA margin (%)	38.53	44.58	39.74	37.47	37.85
Pretax return on permanent capital (%)	11.47 **	12.54	13.32	13.85	13.08
EBITDA interest coverage (times)	7.08	8.67	9.20	8.98	7.88
Debt to EBITDA (times)	4.31 **	3.59	3.37	3.50	3.72
FFO to debt (%)	17.87 **	21.16	22.80	21.29	19.81
Debt to capitalization (%)	54.12	47.89	47.76	47.67	47.09

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Land and Houses PLC (LH)

Company Rating:	A+
Issue Ratings:	
LH215A: THB6,000 million senior unsecured debentures due 2021	A+
LH210A: THB5,000 million senior unsecured debentures due 2021	A+
LH224A: THB6,000 million senior unsecured debentures due 2022	A+
LH225A: THB3,000 million senior unsecured debentures due 2022	A+
LH220A: THB7,000 million senior unsecured debentures due 2022	A+
LH235A: THB2,400 million senior unsecured debentures due 2023	A+
LH230A: THB3,000 million senior unsecured debentures due 2023	A+
Rating Outlook:	Stable

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