TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

LAND AND HOUSES PLC

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CORPORATES

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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RATIONALE

TRIS Rating affirms the company rating on Land & Houses PLC (LH) and the ratings on LH's existing and proposed senior unsecured debentures at "A+". The ratings reflect the company's leading position in the residential property development market, strong brand position in several product types, reliable stream of income from rental assets, and a moderate level of financial leverage. The ratings also take into consideration the financial flexibility LH derives from its portfolio of recurring income assets and marketable securities, the cyclicality and competitive environment in the residential property development business, and concern over the high level of Thailand's household debt which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

KEY RATING CONSIDERATIONS

Leading property developer with a proven track record

LH is one of the top residential property developers in terms of revenues and profitability. It has ranked among the top three listed property developers by operating revenue in Thailand over the past several years. LH's operating revenue reached a record high of Bt35,265 million in 2017. Its operating income as a percentage of operating revenue (operating margin) ranged from 23%-26% during 2014 through the first six months of 2018. The industry average operating margin ranged between 15%-25% over the same period.

LH's proven track record is underpinned by its strong operating performance. Presales increased by 10% year-on-year (y-o-y) to Bt26,299 million in 2017. Presales during the first six months of 2018 totaled Bt13,984 million, a 5% y-o-y growth. Revenue from condominium projects drove the growth. Revenue from landed property projects has been stable at around Bt20,000 million per annum for the single detached house (SDH) segment and around Bt2,000 million per annum for the townhouse segment during 2016-2017. Its operating revenue during the first half of 2018 was Bt17,590 million.

TRIS Rating forecasts LH's operating revenue for the whole 2018 will be Bt36,000 million. Its operating revenue may drop in 2019 to around Bt32,000 million because fewer condominium units will be transferred to buyers next year. LH's operating revenue during 2020-2021 will range from Bt37,000-Bt40,000 million per annum, driven by transfers of condominium units from various projects. Under TRIS Rating's base case scenario, LH's profitability may be threatened by rising land costs and more intense competition in both landed property and condominium markets. However, we forecast LH's operating margin to stay above 20% during 2018-2021.

Diversified product portfolio, with well-established brand names

LH's product portfolio is well-diversified. The company offers SDH, townhouse, and condominium units in various price ranges. Its strong business profile is underscored by its competitive position and brand equity, especially in the SDH segment. The company's products are well perceived by customers in terms of product quality and after-sale service.

LH's core product is SDH, comprising 75%-80% of total presales during 2015 through the first half of 2018. SDH products cover the low- to high-end segments, with selling prices per unit ranging from Bt2 million to above Bt25 million. The *Mantana, Nantawan*, and *Ladawan* brands, with the prices above

Bt10 million per unit, have been the core contribution of SDH presales during the past three years. LH's townhouse products also cover the full range of customer segments. However, the main focus is the segment with units priced between Bt2-Bt4 million, sold under the *Indy* and *Villaggio* brands. Condominium products cover the low- to high-end segments, with selling prices ranging from Bt50,000 to Bt300,000 per square meter (sq.m.). LH's condominium projects target the high-end segment of above Bt8 million per unit under *The Room* and *The Bangkok* brands.

As of June 2018, LH had around 70 existing projects with total remaining project value of Bt57,000 million (including built and un-built units). Landed property projects comprised nearly 80% of total unsold value, while condominium projects accounted for the rest. The backlog is valued at Bt9,900 million and is expected to be delivered to customers during the remainder of 2018 through 2021.

Reliable income stream from rental property

LH's rental property portfolio comprises four hotels under the *Grand Center Point* brand and four apartments for rent in the United States (US). As of June 2018, the occupancy rate (OR) of each hotel was 80%-90%, with revenue per available room per night (RevPAR) of Bt2,500-Bt3,100. The operating performance of three apartments for rent in the US remained sound with an OR above 85%. The OR of one apartment under renovation was very low. LH's existing rental assets generated recurring income of Bt2,536 million in 2016 and Bt3,197 million in 2017.

Apart from its existing rental properties, LH plans to launch a hotel and a shopping mall at Terminal 21 in Pattaya in October 2018. In addition, the company is developing a shopping mall at Terminal 21 on Rama 3 road. The company expects that this project will be completed and generate rental income in 2021. Thus, TRIS Rating forecasts LH's revenue from rental assets will be Bt3,500-Bt4,500 million per annum during 2018-2021.

LH has a policy to develop or acquire assets which generate recurring income, then sell the assets to a real estate investment trust (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.

Moderate financial leverage

We expect LH's financial leverage to increase slightly from the current level. However, the company is expected to maintain its debt-to-capitalization ratio at below 50% despite an aggressive business expansion plan. In 2017, LH spent around Bt6,200 million to acquire land plots and launched 10 residential projects worth Bt10,000 million. LH's budget for land acquisition will increase to Bt7,000 million per annum during 2018-2019. LH plans to launch 18 new projects worth Bt36,000 million this year, higher than the value of new projects launched during 2015-2017. In addition, LH set a budget for investment in rental properties of Bt4,000 million per annum during 2019-2022.

Despite its huge dividend payment each year, LH was able to maintain its leverage ratio at an acceptable level. Under TRIS Rating's base case, LH's debt-to-capitalization ratio during 2019-2021 will stay below 50%. However, the ratio of funds from operations (FFO) to total debt during 2019-2021 may drop to 16%-17% since the debt level will increase faster than earnings. Its ratio of interest-bearing debt to earnings before interest, tax, depreciation, and amortization (EBITDA) will rise but should stay below 5 times. LH's leverage might be lower than projected if the company divests some of its rental properties or delays its investments.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows trends in the overall economy. However, the volatility in this market is much more pronounced than in the general economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of the middle- to low-income homebuyers. Thus, several property developers have shifted their focus towards the higher-income segment, intensifying competition in this segment due to increased supply. LH has to carefully manage its new project launches to match the demand in each area. The slower absorption rate and higher post-financing rejection rate may cause its leverage to hang at a high level for a longer period.

Investment portfolio enhances financial flexibility

LH's financial flexibility is enhanced by its significant holdings of marketable securities, through its strategic investments in associated companies. At the end of June 2018, LH held shares in four Stock Exchange of Thailand (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 around Bt3,000 million per annum during 2016-2017. As of June 2018, the fair market value of the investments in these associated companies was Bt68,679 million, or 1.6 times LH's outstanding debts. TRIS Rating acknowledges that the values of the listed securities are subject to market sentiment and volatility. However, in TRIS Rating's view, the holdings still provide a considerable cushion for LH's ability to service its debts.

Adequate liquidity

LH's liquidity is adequate. At the end of June 2018, the company had Bt9,221 million in cash and cash equivalents, plus undrawn committed credit facilities of loans from financial institutions of Bt5,381 million. TRIS Rating forecasts LH's FFO over the next 12 months will be Bt9,000-Bt10,000 million. Debts coming due over the next 12 months will amount to Bt11,709 million, comprising mainly Bt11,000 million in debentures and Bt609 million in short-term promissory notes (P/Ns). Sources of fund are sufficient to cover uses of fund over the next 12 months.

Generally, LH will refinance bonds coming due by new bond issuances. However, LH intends to have back-up facilities and cash flow from operations 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.

According to the key financial covenant on its debentures, LH has to maintain net interest-bearing debt to equity ratio at lower than 1.5 times. The ratio as of June 2018 was 0.86 times. Thus, the company was in compliance with its financial covenant. TRIS Rating believes that LH should have no problem complying with its financial covenant over the next 12 to 18 months.

RATING OUTLOOK

The "stable" outlook reflects our expectation that LH will sustain its strong operating performance, acceptable financial position, and competitive market position. TRIS Rating expects LH's operating revenue to be above Bt32,000 million per annum during 2018-2021. The debt to capitalization ratio should stay below 50% or the interest-bearing 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 should keep below 3 times on a sustainable basis, while its operating performance remains strong comparable with peers. On the contrary, the ratings and/or outlook could be revised downward should LH's operating performance and/or financial position deviate significantly from the projections.

COMPANY OVERVIEW

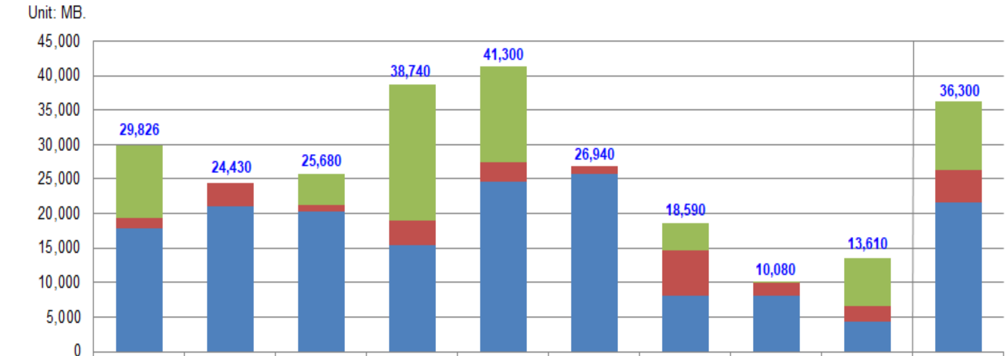
LH was founded by the Asavabhokhin family in 1983 as a real estate developer. The company was listed on SET in 1989. As of August 2018, the Asavabhokhin family remained LH's largest shareholder with a 31% stake, while GIC Private Ltd. held an 8% stake. LH's residential product portfolio is comprehensive, 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 Bt2 million to above Bt25 million per unit. Condominium units are priced from Bt50,000 to Bt300,000 per sq.m.

Apart from residential property business, LH operates four hotels under the *Grand Center Point* brand and four apartments 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 residential property market adversely changes.

LH's revenue contribution from the SDH segment constituted 55%-65% of revenue from sales and rental income during 2015 through the first six months of 2018. Revenue contribution from the condominium and the townhouse segments were 20%-30% and 5%-8%, respectively. Revenue from rental assets contributed 8%-10%. In addition, LH earned equity income from its investments in marketable securities of around Bt3,000 million per annum and dividend received of Bt1,700-Bt2,000 million per annum during 2016-2017.

KEY OPERATING PERFORMANCES

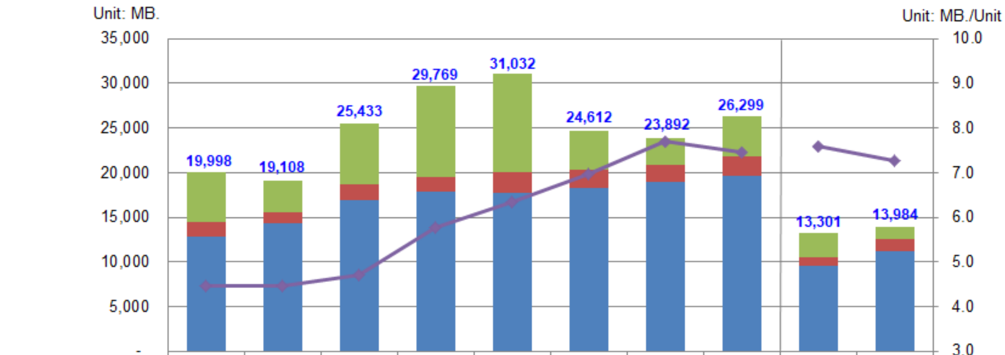
Chart 1: New Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	6M18	2018P
Condo	10,426		4,370	19,760	13,880		4,000	170	7,100	10,060
TH	1,615	3,450	930	3,580	2,800	1,280	6,560	1,820	2,170	4,590
SDH	17,785	20,980	20,380	15,400	24,620	25,660	8,030	8,090	4,340	21,650

Source: LH

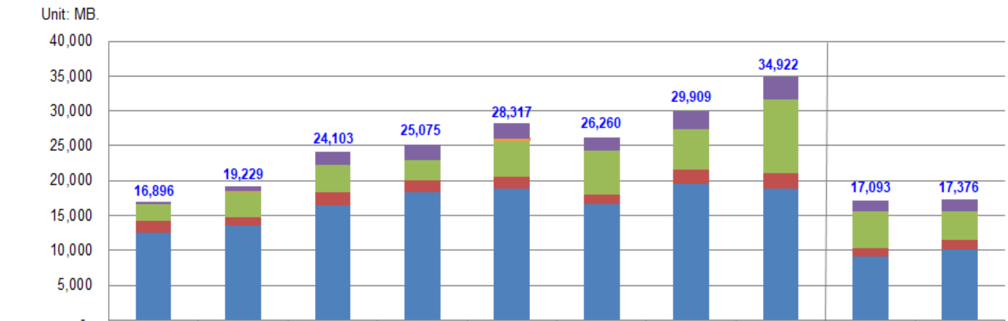
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	6M17	6M18
Condo (LHS)	5,476	3,578	6,704	10,306	11,012	4,356	3,013	4,471	2,828	1,475
TH (LHS)	1,672	1,229	1,764	1,578	2,250	2,012	1,956	2,214	973	1,252
SDH (LHS)	12,849	14,301	16,966	17,885	17,770	18,244	18,922	19,614	9,500	11,258
Avg. Price (RHS)	4.5	4.5	4.7	5.8	6.3	7.0	7.7	7.5	7.6	7.3

Source: LH

Chart 3: Revenue from Sales and Rental Income Breakdown



	2010	2011	2012	2013	2014	2015	2016	2017	6M17	6M18
Rental Assets	350	649	1,797	2,136	2,280	2,036	2,536	3,197	1,522	1,721
Land		91			203					
Condo	2,292	3,695	3,975	2,882	5,348	6,199	5,781	10,619	5,243	4,151
TH	1,686	1,183	1,895	1,728	1,673	1,338	2,037	2,229	1,175	1,428
SDH	12,567	13,611	16,435	18,330	18,813	16,686	19,554	18,874	9,152	10,076

Source: LH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		--------------Year Ended 31 December ------------			
	Jan-Jun 2018	2017	2016	2015	2014
Total operating revenues	17,590	35,265	30,340	26,571	28,640
Adjusted interest expense	740	1,472	1,458	1,452	1,572
Operating income	4,629	8,298	7,532	6,193	6,906
Earnings before interest and taxes (EBIT)	7,719	13,558	12,061	11,280	12,626
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,955	13,213	11,485	10,135	11,520
Funds from operations (FFO)	6,319	9,852	8,455	7,081	8,084
Real estate development investment (+increase/-decrease)	(2,559)	(2,075)	(10)	3,691	3,712
Total assets	110,015	109,492	101,506	98,070	86,888
Adjusted debt	43,231	46,290	42,679	34,077	29,267
Adjusted equity	51,533	50,809	47,952	46,895	44,275
Adjusted Ratios					
Operating income as % of total operating revenues (%)	26.32	23.53	24.83	23.31	24.11
Pretax return on permanent capital (%)	12.95 **	13.85	13.08	13.19	16.82
EBITDA interest coverage (times)	10.75	8.98	7.88	6.98	7.33
Debt to EBITDA (times)	3.33 **	3.50	3.72	3.36	2.54
FFO to debt (%)	23.10 **	21.28	19.81	20.78	27.62
Debt to capitalization (%)	45.62	47.67	47.09	42.08	39.80

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

Land and Houses PLC (LH)

Company Rating:	A+
Issue Ratings:	
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+
LH20OB: Bt6,000 million senior unsecured debentures due 2020	A+
LH215A: Bt6,000 million senior unsecured debentures due 2021	A+
Up to Bt5,000 million senior unsecured debentures due within 3 years	A+
Rating Outlook:	Stable

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