TRIS RATING

CreditUpdate เครดิตวาระ

News for Investors

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# Quality Houses Public Company Limited

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| --- | --- |
| **Company Rating:** | A- |
| **Issue Ratings:** | |
| QH113A: Bt1,400 million senior debentures due 2011 | A- |
| QH11OA: Bt1,200 million senior debentures due 2011 | A- |
| QH123A: Bt600 million senior debentures due 2012 | A- |
| QH123B: Bt1,300 million senior debentures due 2012 | A- |
| QH127A: Bt1,500 million senior debentures due 2012 | A- |
| QH127B: Bt1,000 million senior debentures due 2012 | A- |
| QH135A: Bt1,000 million senior debentures due 2013 | A- |
| QH136A: Bt1,000 million senior debentures due 2013 | A- |
| QH144A: Bt2,000 million senior debentures due 2014 | A- |
| Up to Bt2,000 million senior debentures due within 2014 | A- |
| **Rating Outlook:** | Stable |

| **Rating History:** | **Company Rating** | **Issue Rating** | |
| --- | --- | --- | --- |
| | | **Secured** | **Unsecured** |
| 10 May 2010 | A-/Stable | - | A- |
| 2 Jul 2009 | A-/Negative | - | A- |
| 21 Jul 2008 | A-/Stable | - | A- |
| 24 Jun 2005 | BBB+/Stable | - | BBB+ |
| 12 Jul 2004 | BBB+/Stable | - | BBB |
| 24 Mar 2004 | BBB+ | - | BBB |
| 23 Jul 2003 | BBB | - | BBB |

## Rating Rational

TRIS Rating affirms the company and current issue ratings of Quality Houses PLC (QH) at “A-”. At the same time, TRIS Rating assigns the rating of “A-” to QH’s proposed issue of up to Bt2,000 million in senior debentures. The proposed debentures replace QH’s existing senior debentures worth up to Bt1,000 million announced the rating on 10 May 2010. The ratings reflect the company’s long track record in the property development industry, strong position in the middle- to high-income housing market and diverse revenue sources with recurring income from commercial properties. The ratings also take into consideration the company’s financial flexibility from strategic investments in associated companies. The strengths are partially offset by political instability, the cyclical nature of the property development industry, and the relatively high level of financial leverage compared with industry peers.

Established in 1983 by Land & Houses PLC (LH), QH is one of the leading property developers in Thailand and has well-established brands in the medium- to high-income segments. At the end of 2010, QH’s major shareholders were LH (25%) and the Government of Singapore Investment Corporation Pte. Ltd. (11%). QH’s competitive edge stems from a strong position in the high-end housing market, stable sources of recurring income from a portfolio of rental properties including Centrepoint serviced apartment and Q-House office buildings, and a growing market presence in the mid-priced housing segment under the Casa Ville and Casa City brands.

Housing and condominium sales accounted for 93% of QH's total revenues for the first nine months of 2010, while rental income from office buildings and serviced apartments accounted for the remaining 7%. In 2010, the average unit price across QH's housing portfolio should stay in the range of Bt7-Bt8 million, steadily declining from over Bt10 million in 2006. The drop in the average unit price reflects a strategy to expand customer base in the middle-income segment. At the end of September 2010, QH had inventory residential units worth approximately Bt20,524 million.

Compared with peers, QH's asset composition differs since around a quarter of total assets are commercial rental properties and strategic investments in associated companies. The rental assets not only provide recurring income and cash flows, but also enhance financial flexibility as the properties can be sold to a property fund. The strategic investments in three associated companies, of which two are traded on the Stock Exchange of Thailand (SET) while another is to be listed on the SET, generate cash dividends of around Bt300-Bt400 million per annum. The dividend receipts are an additional source of funding and serve as a long-term financial cushion.

QH's revenue for the first nine months of 2010 was Bt10,039 million, up 20% from the same period last year. Operating margin before depreciation and amortization for the first nine months of 2010 was 17.7%, down from 20.3% in 2009 due partly to the expiration of government tax incentives. Total debt at the end of September 2010 stood at Bt15,216 million, up from Bt12,936 million by year end 2009. During the same period, the debt to capitalization ratio was at 54.2%, up from 51.1%. Leverage was driven up by an increase in land purchases. The leverage is expected to rise slightly further as a result of land purchases during late 2010 to early 2011 and an investment of Bt1.1 billion in LH Financial Group PLC, a holding company of Land and Houses Retail Bank PLC. QH's liquidity and financial flexibility are supported by cash on hand of Bt1,452 million, unused long-term credit lines of Bt3,814 million at the end of September 2010 and the ability to access the capital market.

The residential property market recovered in the second half of 2009; the momentum was sustained throughout 2010. However, the market in 2010 was partly affected by the local political turmoil during the second quarter of 2010 and the expiration of the government tax incentives in June 2010. Major developers continue to increase market share at the expense of smaller developers. Almost all large developers have set aggressive expansion plans for the next few years. The prices of land at appropriate locations will likely be more expensive. After the government tax incentives expired, demand for residential property will depend heavily on consumer confidence and the pace of economic recovery. The changes in loan-to-value policy (LTV ratio) announced by the Bank of Thailand and upward trend of interest rates are expected to reduce speculative demand and promote a healthier growth for residential property from 2011 onwards.

**Rating Outlook**

The "stable" outlook reflects QH's improved operating performance due to a recovery in housing demand. TRIS Rating expects the company to sustain its leading market share in the high-end segment and balance its product mix to capture changes in the demand for housing. QH's leverage level remains a concern. The resumption of project expansion plans should not jeopardize efforts to strengthen its balance sheet.

**Financial Statistics and Key Financial Ratios***

*Unit: Bt million*

| | Jan-Sep 2010 | | ---------- Year Ended 31 December --------- 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| Sales | 10,039 | | 11,355 | 10,620 | 10,246 | 9,493 |
| Gross interest expense | 462 | | 671 | 683 | 565 | 666 |
| Net income from operations | 1,494 | | 1,770 | 1,547 | 1,063 | 987 |
| Funds from operations (FFO) | 1,368 | | 1,861 | 1,571 | 1,360 | 1,510 |
| Inventory investment | (1,833) | | 724 | (4,848) | (3,334) | (1,338) |
| Total assets | 30,622 | | 28,258 | 28,811 | 23,858 | 20,305 |
| Total debt | 15,216 | | 12,936 | 14,974 | 12,638 | 8,901 |
| Shareholders' equity | 12,966 | | 12,504 | 11,497 | 9,044 | 8,560 |
| Operating income before depreciation and amortization as % of sales | 17.7 | | 20.3 | 21.3 | 16.4 | 11.8 |
| Pretax return on permanent capital (%) | 7.8 | ** | 10.0 | 9.6 | 8.2 | 12.2 |
| Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times) | 5.1 | | 4.4 | 3.9 | 3.7 | 3.9 |
| FFO/total debt (%) | 9.0 | ** | 14.3 | 10.4 | 10.7 | 16.8 |
| Total debt/capitalization (%)*** | 54.2 | | 51.1 | 56.8 | 58.6 | 51.5 |

* *Consolidated financial statements*
** *Non-annualized*
*** *Including contingent liabilities of providing guarantees to related companies*

## Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

*AAA* The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.

*AA* The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.

*A* The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

*BBB* The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

*BB* The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.

*B* The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.

*C* The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.

*D* The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year.The symbols and definitions for short-term ratings are as follows:

*T1* Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.
*T2* Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.
*T3* Issuer has acceptable capacity for meeting its short-term obligations.
*T4* Issuer has weak capacity for meeting its short-term obligations.
*D* The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a **"Rating Outlook"** that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for *"Rating Outlook"* are as follows:

*Positive* The rating may be raised.
*Stable* The rating is not likely to change.
*Negative* The rating may be lowered.
*Developing* The rating may be raised, lowered or remain unchanged.

TRIS Rating may announce a **"CreditAlert"** as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing.*

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