

HOLD (Unchanged)
Change in Numbers

TP: Bt 2.50
Upside : 9.6%

(From: Bt 2.40)

24 NOVEMBER 2021

Small Cap Research

Quality Houses Pcl (QH TB)

Limited earnings risk

Despite cutting our earnings, we maintain our HOLD call on QH with Bt2.5 SOTP TP. We see limited earnings risk from now onward as we believe property profit has bottomed out this year, while the hotel business should recover from COVID with strong equity income growth from HMPRO. Dividend yields are at 4.7-5.5% in 2021-22F.



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Maintain HOLD

Though 9M21 profit came in below our expectation on weaker-than-expected property sales revenues (-15% y-y), presales (-22% y-y) and condominium gross margin, prompting us to cut our earnings by 5-13% in 2021-23F, we raise our SOTP-based 12-month TP to Bt2.5 (from Bt2.4) on net debt falling from Bt14.5bn in 2020 to Bt12.9bn in 2021F. We maintain our HOLD rating as we believe its property business has bottomed out, while its hotel business should recover and equity income looks set to grow strongly from next year driven by HMPRO. QH offers decent dividend yields of 4.7-5.5% in 2021-22F.

Property business bottoming out

We project property revenues of Bt7.7bn in 2021F, the lowest since 2005. Hit not only by softer property demand over the past few years from a more stringent LTV since April 2019 and disappearing foreign demand caused by COVID, QH has been losing market share as it scaled back new project launches by half from an average of Bt22bn/year in 2011-15 to below Bt10bn/year since 2016. As inventory has come down, particularly low-rise houses with finished stocks of Bt2.5bn available for four months of sales, it plans to increase new launches by 32% in 2022 to Bt7bn. With a higher sales mix from new projects (31-32% GP vs. below 30% for old stocks), margins for low-rise houses should recover. Condominium gross margin stayed at 19.2% in 9M21 and we estimate 21.7%, 23.2%, 28% in 2021-23F assuming it can sell more units at Q Sukhumvit (36% GP) when foreign tourists gradually return. Total condo stocks are Bt12.6bn, with 61% from the Q Sukhumvit project.

Hotel business picking up slowly

QH makes revenue from five hotels, four in Bangkok and one in Pattaya. The hotel business had been making a profit until 2019 before the COVID pandemic. Hit by COVID, the average occupancy rate dropped from 81% in 2019 to 31% in 2020 and 9M21. Therefore, hotels are now making a loss at the gross profit level. The occupancy rate has picked up in 4QTD and we expect the hotel business to turn EBITDA breakeven next year.

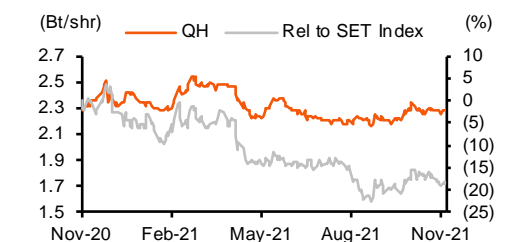
16-17% EPS growth in 2022-23F

Given weaker property and rental (offices, hotels) businesses, equity income from its four associates (HMPRO, LHFG, QHPF, QHHR) has become the major earnings contributor at 83% of 2021F profit. We project EPS growth of 17% and 16% in 2022-23F, driven by equity income growth of 15% in both years, boosted by record profit from its 20%-owned HMPRO (HMPRO TB, Bt14.6, BUY). We expect HMPRO to contribute 59% and 60% of QH's profit in 2022-23F.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	9,138	8,396	9,444	10,028
Net profit	2,123	1,897	2,220	2,583
Consensus NP	—	1,851	2,269	2,493
Diff frm cons (%)	—	2.5	(2.1)	3.6
Norm profit	2,121	1,897	2,220	2,583
Prev. Norm profit	—	2,185	2,391	2,731
Chg frm prev (%)	—	(13.2)	(7.1)	(5.4)
Norm EPS (Bt)	0.2	0.2	0.2	0.2
Norm EPS grw (%)	(25.5)	(10.6)	17.0	16.3
Norm PE (x)	11.5	12.9	11.0	9.5
EV/EBITDA (x)	27.4	47.6	47.9	41.4
P/BV (x)	0.9	0.9	0.8	0.8
Div yield (%)	5.3	4.7	5.5	6.3
ROE (%)	7.9	7.0	7.9	8.8
Net D/E (%)	54.7	46.7	56.4	57.7

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 24-Nov-21 (Bt)	2.28
Market Cap (US\$ m)	732.8
Listed Shares (m shares)	10,714.4
Free Float (%)	74.9
Avg Daily Turnover (US\$ m)	1.9
12M Price H/L (Bt)	2.54/2.16
Sector	PROP
Major Shareholder	Land & Houses 24.98%

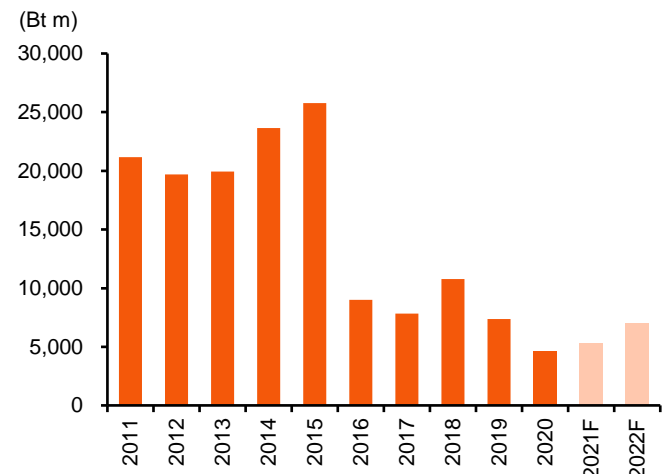
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Key Assumption Changes

	2019	2020	2021F	2022F	2023F
Presales (Bt m)					
New	7,491	8,667	7,692	8,569	8,944
Old	7,491	8,667	8,901	9,142	9,391
Change (%)	0	0	(14)	(6)	(5)
Property sales (Bt m)					
New	9,291	8,503	7,748	8,487	8,910
Old	9,291	8,503	8,868	9,108	9,355
Change (%)	0	0	(13)	(7)	(5)
Gross margin (property) (%)					
- New	33.5	32.1	29.9	30.3	31.2
- Old	33.5	32.1	30.2	30.7	31.3
Gross margin (low-rise houses) (%)					
- New	33.8	33.1	30.5	31.0	31.5
- Old	33.8	33.1	30.5	31.0	31.5
Gross margin (condominiums) (%)					
- New	31.8	22.7	21.7	23.2	28.0
- Old	31.8	22.7	28.0	28.0	30.0
Equity income (Bt m) - New					
- HMPRO	1,232	1,020	1,073	1,300	1,555
- LHFG	442	311	296	302	308
- QHPF	192	167	175	181	186
- QHHR	61	32	33	34	35
Equity income (Bt m) - Old					
- HMPRO	1,232	1,020	1,162	1,347	1,593
- LHFG	442	311	296	302	308
- QHPF	192	167	175	181	186
- QHHR	61	32	33	34	35
Equity income - Change (%)	0	0	(5)	(3)	(2)
Normalized profit (Bt m)					
New	2,847	2,121	1,897	2,220	2,583
Old	2,847	2,121	2,185	2,391	2,731
Change (%)	0	0	(13)	(7)	(5)

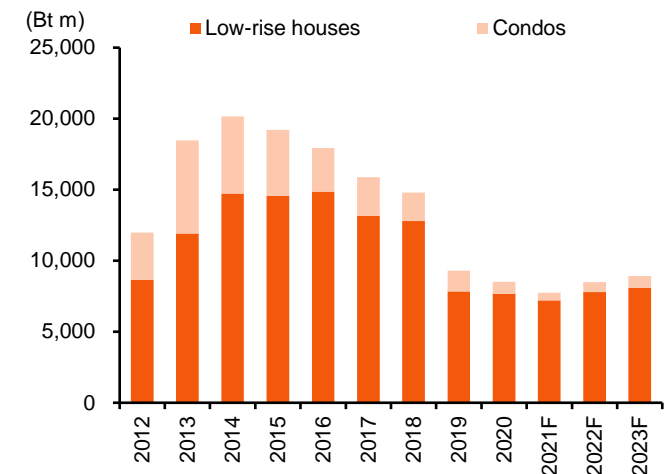
Source: Thanachart estimates

Ex 2: New Launches



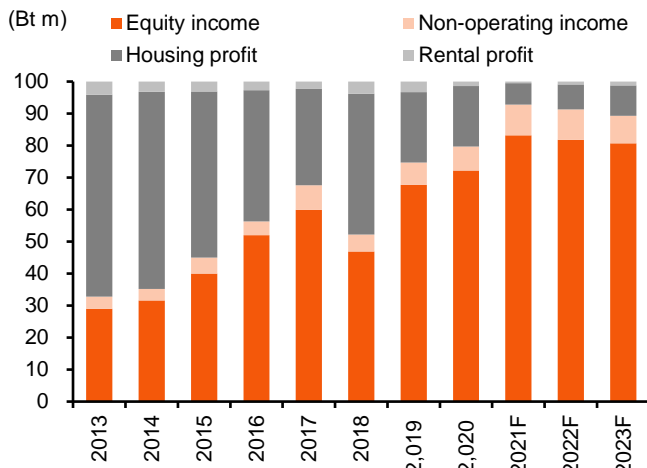
Sources: Company data, Thanachart estimates

Ex 3: Property Sales



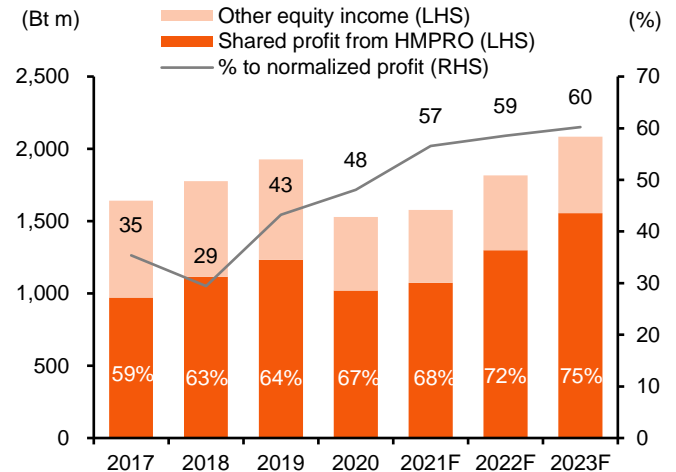
Sources: Company data, Thanachart estimates

Ex 4: Profit Breakdown



Sources: Company data, Thanachart estimates

Ex 5: HMPRO's Profit Contribution To QH



Sources: Company data, Thanachart estimates

Ex 6: Our DCF Calculation For QH's Property Development Business

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	786	946	1,022	1,058	1,095	1,133	1,172	1,212	1,254	1,296	1,340	
Free cash flow	(4,029)	(1,836)	799	3,912	4,136	4,370	211	1,360	280	1,017	343	4,603
PV of free cash flow	(4,018)	(1,551)	620	2,793	2,663	2,576	114	672	127	421	125	1,678
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.1											
WACC (%)	8.8											
Terminal growth (%)	2.0											
Enterprise value - property development business	6,219											
SOTP Calculation												(Bt m)
Enterprise value - property development business (net of rental business)												5,597
Commercial property												2,290
<u>Office Buildings</u>												
- Q.House Asoke												704
- Q.House Sathorn												502
<u>Hotels</u>												
- Centre Point Silom												538
- Centre Point Pattaya												546
Investment in associates - less 30% discount												31,801
- Quality Houses Leasehold Property Fund (QHPF)												1,517
- LH Financial Group Plc (LHFG)												2,803
- Home Product Center Plc (HMPRO)												27,065
- QH Hotel and Residence Freehold and Leasehold Property Fund (QHHR)												416
Total enterprise value												39,689
<u>Less</u> Net debt (end-2021F)												12,952
Equity value												26,737
# of shares (m)												10,714
Equity value/share (Bt)												2.50

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		Div yield	
			21F	22F	21F	22F	21F	22F	21F	22F	21F	22F
			(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)
Poly Real Estate Group	600048 CH	China	(0.2)	7.7	5.7	5.3	0.9	0.8	9.1	8.6	5.1	5.5
Agile Property Holdings	3383 HK	China	3.1	4.3	2.4	2.3	0.3	0.3	4.7	4.4	15.8	16.7
Country Garden Holdings	2007 HK	China	(12.1)	9.4	4.4	4.0	0.8	0.7	4.6	4.3	6.8	7.4
China Overseas Land & Invest	688 HK	Hong Kong	5.9	7.8	5.1	4.8	0.6	0.6	5.1	4.7	5.9	6.3
China Resources Land	1109 HK	Hong Kong	10.3	14.4	9.2	8.1	1.1	1.0	6.6	5.9	3.9	4.4
Hang Lung Properties	101 HK	Hong Kong	13.5	13.1	15.1	13.3	0.5	0.5	16.7	15.0	4.8	4.9
Henderson Land Development	12 HK	Hong Kong	(1.6)	1.9	11.5	11.3	0.5	0.5	21.1	20.2	5.3	5.4
Shimao Property Holdings	813 HK	Hong Kong	5.5	6.4	2.6	2.4	0.3	0.3	5.8	5.4	14.0	15.5
Sun Hung Kai Properties	16 HK	Hong Kong	0.0	5.8	9.5	9.0	0.5	0.5	9.7	9.0	5.0	5.0
Sino Land	83 HK	Hong Kong	105.8	(25.1)	7.4	9.9	0.5	0.4	3.5	4.7	6.5	5.7
CapitaLand	CAPL SP	Singapore	30.5	11.2	na	na	na	na	na	na	na	na
City Developments	CIT SP	Singapore	34.7	113.5	31.2	14.6	0.8	0.7	27.1	19.4	1.8	2.2
Guocoland	GUOL SP	Singapore	na	na	na	na	na	na	na	na	na	na
Asian Property Devt *	AP TB	Thailand	(10.3)	3.6	7.7	7.4	0.9	0.8	12.8	12.6	4.6	4.7
Land and Houses *	LH TB	Thailand	6.9	19.9	14.9	12.4	2.1	2.0	21.3	19.0	5.7	6.8
LPN Development *	LPN TB	Thailand	(11.9)	15.2	11.5	9.9	0.7	0.7	14.4	12.3	5.2	6.0
Pruksa Holding *	PSH TB	Thailand	0.4	13.0	10.4	9.2	0.7	0.6	11.4	10.1	5.8	6.5
Quality Houses *	QH TB	Thailand	(10.6)	17.0	12.9	11.0	0.9	0.8	47.6	47.9	4.7	5.5
Sansiri *	SIRI TB	Thailand	(11.6)	12.3	15.0	13.3	0.6	0.5	22.7	22.5	2.7	3.0
Supalai *	SPALI TB	Thailand	36.2	13.3	8.4	7.4	1.2	1.1	10.1	8.8	4.8	5.4
Average			10.2	13.9	10.3	8.6	0.8	0.7	14.1	13.0	6.0	6.5

Sources: Bloomberg consensus, *Thanachart estimates

Based on 24 November 2021 closing prices

COMPANY DESCRIPTION

Quality Houses Pcl (QH) and its subsidiaries run three core businesses: developing land, houses and residential condominiums for sale, hotels, and office buildings for rent. QH plans to boost investments in land and houses for sale and residential buildings for sale in the price range of Bt2m-3m to expand its business opportunities and to boost its growth rate.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Leader in super high-end and high-end SDH.
- Very good housing quality.
- Diversified products.

O — Opportunity

- Penetrating more into the mid-to-low end segment.
- More upcountry projects in tourist and industrial estate provinces.

W — Weakness

- In the process of building brand awareness for QH's mid-end and low-end housing products.

T — Threat

- Slow market growth in the high-end segment.
- Fierce competition in the low-end segment.
- Land and building tax.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	2.37	2.50	6%
Net profit 21F (Bt m)	1,851	1,897	2%
Net profit 22F (Bt m)	2,269	2,220	-2%
Consensus REC	BUY: 5	HOLD: 10	SELL: 5

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F net profits are in line with consensus.
- However, our SOTP-based TP is 6% above the consensus figure, which we ascribe to us factoring in HMPRO's value in QH using the market price.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Weaker-than-expected economic growth would impact housing demand and therefore future growth prospects.
- There would be downside risk to our earnings projections if its mid-to-low-end houses are not as successful as we currently expect.
- There could be upside risk if property demand turns around faster than we presently expect.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	10,680	9,138	8,396	9,444	10,028
Cost of sales	7,083	6,318	5,983	6,748	7,052
Gross profit	3,596	2,820	2,413	2,696	2,976
% gross margin	33.7%	30.9%	28.7%	28.6%	29.7%
Selling & administration expenses	2,255	1,790	1,847	2,078	2,206
Operating profit	1,341	1,030	565	619	770
% operating margin	12.6%	11.3%	6.7%	6.6%	7.7%
Depreciation & amortization	223	390	221	230	239
EBITDA	1,564	1,420	786	849	1,009
% EBITDA margin	14.6%	15.5%	9.4%	9.0%	10.1%
Non-operating income	263	237	243	273	290
Non-operating expenses	0	0	0	0	0
Interest expense	(390)	(392)	(382)	(386)	(431)
Pre-tax profit	1,214	875	427	505	629
Income tax	294	284	107	101	130
After-tax profit	920	591	320	404	499
% net margin	8.6%	6.5%	3.8%	4.3%	5.0%
Shares in affiliates' Earnings	1,927	1,530	1,577	1,816	2,084
Minority interests	0	0	0	0	0
Extraordinary items	7	2	0	0	0
NET PROFIT	2,854	2,123	1,897	2,220	2,583
Normalized profit	2,847	2,121	1,897	2,220	2,583
EPS (Bt)	0.3	0.2	0.2	0.2	0.2
Normalized EPS (Bt)	0.3	0.2	0.2	0.2	0.2

Equity income growth
resumes next year driven
by HMPRO...

...to drive a 14% three-year
EPS CAGR

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	27,507	25,227	24,531	28,972	31,358
Cash & cash equivalent	2,212	2,510	2,734	2,913	3,156
Account receivables	98	37	34	38	40
Inventories	25,040	22,545	21,639	25,881	28,013
Others	157	136	125	140	149
Investments & loans	11,652	11,430	11,430	11,430	11,430
Net fixed assets	9,065	8,805	9,146	9,479	9,803
Other assets	2,679	2,205	2,061	2,159	2,186
Total assets	50,902	47,667	47,168	52,039	54,776
LIABILITIES:					
Current liabilities:	10,860	8,663	8,090	9,658	10,284
Account payables	630	502	574	647	676
Bank overdraft & ST loans	500	998	784	958	1,026
Current LT debt	8,027	5,400	5,216	6,368	6,820
Others current liabilities	1,703	1,762	1,516	1,685	1,762
Total LT debt	12,088	10,639	9,686	11,827	12,666
Others LT liabilities	1,090	1,797	1,656	1,735	1,757
Total liabilities	24,038	21,099	19,432	23,221	24,706
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	10,714	10,714	10,714	10,714	10,714
Share premium	379	379	379	379	379
Warrants	0	0	0	0	0
Surplus	(87)	(556)	0	0	0
Retained earnings	15,856	16,031	16,643	17,725	18,976
Shareholders' equity	26,863	26,568	27,736	28,818	30,069
Liabilities & equity	50,902	47,667	47,168	52,039	54,776

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	1,214	875	427	505	629
Tax paid	(525)	(253)	(135)	(80)	(129)
Depreciation & amortization	223	390	221	230	239
Chg In working capital	175	2,428	981	(4,173)	(2,105)
Chg In other CA & CL / minorities	87	1,219	1,019	1,593	1,754
Cash flow from operations	1,173	4,659	2,512	(1,925)	388
Capex	2,499	65	(500)	(500)	(500)
Right of use	0	(1,011)	(30)	(1)	(1)
ST loans & investments	0	0	0	0	0
LT loans & investments	(341)	222	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(978)	2,360	323	276	331
Cash flow from investments	1,181	1,636	(207)	(225)	(170)
Debt financing	(1,686)	(3,578)	(1,351)	3,467	1,358
Capital increase	0	0	0	0	0
Dividends paid	(2,250)	(1,821)	(1,286)	(1,138)	(1,332)
Warrants & other surplus	(26)	(597)	556	0	0
Cash flow from financing	(3,963)	(5,997)	(2,081)	2,329	25
Free cash flow	3,672	4,724	2,012	(2,425)	(112)

QH has consistently paid dividends at no lower than a 60% payout ratio

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	8.6	11.5	12.9	11.0	9.5
Normalized PE - at target price (x)	9.4	12.6	14.1	12.1	10.4
PE (x)	8.6	11.5	12.9	11.0	9.5
PE - at target price (x)	9.4	12.6	14.1	12.1	10.4
EV/EBITDA (x)	27.4	27.4	47.6	47.9	41.4
EV/EBITDA - at target price (x)	28.9	29.1	50.6	50.7	43.8
P/BV (x)	0.9	0.9	0.9	0.8	0.8
P/BV - at target price (x)	1.0	1.0	1.0	0.9	0.9
P/CFO (x)	20.8	5.2	9.7	(12.7)	63.0
Price/sales (x)	2.3	2.7	2.9	2.6	2.4
Dividend yield (%)	8.8	5.3	4.7	5.5	6.3
FCF Yield (%)	15.0	19.3	8.2	(9.9)	(0.5)
(Bt)					
Normalized EPS	0.3	0.2	0.2	0.2	0.2
EPS	0.3	0.2	0.2	0.2	0.2
DPS	0.2	0.1	0.1	0.1	0.1
BV/share	2.5	2.5	2.6	2.7	2.8
CFO/share	0.1	0.4	0.2	(0.2)	0.0
FCF/share	0.3	0.4	0.2	(0.2)	(0.0)

Sources: Company data, Thanachart estimates

We believe the current price reflects no value for its housing and rental businesses

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(32.8)	(14.4)	(8.1)	12.5	6.2
Net profit (%)	(24.9)	(25.6)	(10.7)	17.0	16.3
EPS (%)	(24.9)	(25.6)	(10.7)	17.0	16.3
Normalized profit (%)	(24.9)	(25.5)	(10.6)	17.0	16.3
Normalized EPS (%)	(24.9)	(25.5)	(10.6)	17.0	16.3
Dividend payout ratio (%)	75.1	60.5	60.0	60.0	60.0
Operating performance					
Gross margin (%)	33.7	30.9	28.7	28.6	29.7
Operating margin (%)	12.6	11.3	6.7	6.6	7.7
EBITDA margin (%)	14.6	15.5	9.4	9.0	10.1
Net margin (%)	8.6	6.5	3.8	4.3	5.0
D/E (incl. minor) (x)	0.8	0.6	0.6	0.7	0.7
Net D/E (incl. minor) (x)	0.7	0.5	0.5	0.6	0.6
Interest coverage - EBIT (x)	3.4	2.6	1.5	1.6	1.8
Interest coverage - EBITDA (x)	4.0	3.6	2.1	2.2	2.3
ROA - using norm profit (%)	5.4	4.3	4.0	4.5	4.8
ROE - using norm profit (%)	10.7	7.9	7.0	7.9	8.8
DuPont					
ROE - using after tax profit (%)	3.5	2.2	1.2	1.4	1.7
- asset turnover (x)	0.2	0.2	0.2	0.2	0.2
- operating margin (%)	15.0	13.9	9.6	9.4	10.6
- leverage (x)	2.0	1.8	1.7	1.8	1.8
- interest burden (%)	75.7	69.1	52.8	56.7	59.3
- tax burden (%)	75.8	67.6	75.0	80.0	79.4
WACC (%)	8.8	8.8	8.8	8.8	8.8
ROIC (%)	2.3	1.5	1.0	1.2	1.3
NOPAT (Bt m)	1,016	696	424	476	593
invested capital (Bt m)	45,267	41,096	40,688	45,059	47,424

Sources: Company data, Thanachart estimates

General Disclaimers And Disclosures:

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