

ANANDA DEVELOPMENT PLC

No. 31/2019

15 March 2019

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Hybrid	BB+
Outlook:	Stable

Last Review Date: 04/09/18

Company Rating History:

Date	Rating	Outlook/Alert
19/02/16	BBB	Stable
18/02/15	BBB-	Positive
29/05/13	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Ananda Development PLC (ANAN) and the ratings on ANAN's existing senior unsecured debentures at "BBB", and also affirms the ratings on ANAN's unsecured subordinated perpetual debentures (hybrid debentures) at "BB+". At the same time, TRIS Rating assigns the rating to ANAN's proposed issue of up to Bt1,000 million in unsecured subordinated perpetual debentures at "BB+". The proceeds from the new hybrid debentures will be used for business operation.

The ratings on ANAN and its debentures reflect the company's strong market position in the condominium segment, larger backlog, and expected higher contribution of project management service income and share profit from its investment in joint venture (JV) projects. The ratings also take into consideration ANAN's high level of financial leverage from aggressive business expansion and concern over the impact from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) which may affect demand for condominiums. The ratings continue to reflect the cyclicity and competitive environment in the residential property development business and the lingering high household debt which could impact housing demand in the short to medium term.

KEY RATING CONSIDERATIONS

Strong market position in condominium segment

TRIS Rating expects ANAN could maintain its strong competitive position in the condominium segment over the next three years. ANAN's market position in condominiums is underscored by its presales and rising transferred value. Condominium presales was Bt25,327 million in 2017, up from Bt18,513 million in 2016 and Bt17,059 million in 2015. Presales dropped by 26% year-on-year (y-o-y) to Bt18,666 million in 2018 since the company launched fewer projects than in 2017. However, its transferred value of condominiums sharply increased to Bt30,914 million in 2018, from Bt13,441 million in 2017 and Bt13,602 million in 2016.

As of December 2018, ANAN had 34 existing condominium projects (including 24 condominium projects under JVs) and 17 landed property projects, with total unsold value of Bt51,000 million. Condominium projects comprised 80% of the total remaining value, while landed property projects accounted for the rest. ANAN's backlog was worth Bt41,000 million, comprising Bt4,000 million in its own backlog and Bt37,000 million in backlog under JVs. ANAN will deliver its own project backlog to customers, worth Bt3,100 million in 2019 and Bt900 million in 2021. The JV backlog will be delivered to customers during 2019-2021. The large amount of backlog partly secures its future income.

Higher contribution of project management service income and share profit from JVs

ANAN's earnings before interest, taxes, depreciation, and amortization (EBITDA) increased to Bt4,134 million in 2018, from Bt2,200-Bt2,700 million per annum during 2014-2017. The strong growth in EBITDA was driven by the realization of share profit from its JVs and the larger contribution from project management service income.

As of December 2018, ANAN had 24 existing condominium projects under JVs, with total remaining unsold value of Bt32,000 million. The JV projects were

69% sold and 32% transferred to customers. The backlog under JVs was Bt37,000 million, or 90% of the total backlog in ANAN's portfolio. Thus, ANAN will continue to realize share profit from JVs during the next three years. Also, ANAN plans to continuously launch several condominium projects under JVs. The more JV projects ANAN manages, the more revenue from project management services the company receives.

Under TRIS Rating's base case forecast, ANAN's EBITDA is expected to stay at Bt3,500-Bt4,500 million per annum during 2019-2021. ANAN's total operating revenue will stay at Bt8,000-Bt12,000 million per annum while revenue from project management services will increase to Bt2,000-Bt2,600 million per annum during 2019-2021. Share profit from investments in JVs is forecast to be Bt2,000-Bt2,400 million per year and will be the major income source over the next three years. Due to its rapid expansion and the lower profitability of some residential projects, ANAN's pretax return on permanent capital ratio decreased to below 10% during 2017-2018 from 11% in 2016 and 14% in 2015. Going forwards, ANAN's profitability may be pressured by the intense competition among large property developers and rising land costs. Nonetheless, TRIS Rating expects the company to keep its pretax return on permanent capital ratio at 7%-8%.

Implementation of macro-prudential measures may cause a slowdown in presales

TRIS Rating expects that the implementation of new LTV rules by the BOT should impact the sales of condominium units in the short term. The BOT will implement a new macro prudential policy in April 2019. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100% of the collateral value, for their second and subsequent mortgage loans. Therefore, the company may have to lengthen the down payment period for some homebuyers. The delay in transfer may impact the company's revenue recognition in the second half of 2019.

However, we expect the lower LTV ratio for the second and subsequent mortgage loans should benefit developers in the long run. The new measures will reduce speculative demand and help strengthen the property market. In the meantime, the company will take a wait-and-see approach. The company may delay its new project launches should the new measures significantly slow down the demand and cause its accumulated inventory to rise.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers. The slow growth in the domestic market has driven the company to expand its foreign customer base. ANAN's presales to foreign buyers increased substantially in the past few years. Sales to foreign buyers increased from Bt3,100 million in 2016 to Bt10,000 million in 2018 or from 12% of total gross presales in 2016 to 32% in 2018. Around one out of third of foreign buyers are Chinese. However, slower growth in the Chinese economy and concerns over the global trade tension may negatively affect demand from foreign buyers. Thus, ANAN has to carefully manage new project launches to match the demand in each segment.

Leverage is on the rise, but adjusted debt to equity ratio should stay around 2 times

TRIS Rating views that ANAN's debt burden may increase during the next three years. Under TRIS Rating's base case, ANAN's adjusted debt to capitalization ratio may rise to 66%, or adjusted debt to equity ratio at 2 times, during 2019-2021. The company is expected to launch new projects worth Bt43,772 million in 2019 and around Bt34,000 million per annum during 2020-2021. Nearly 90% of its projects will be condominium projects under JVs. TRIS Rating expects ANAN's capital injection in the JV condominium projects to be Bt3,500-Bt4,500 million per annum over the next three years. We assume that the company will open landed property projects worth Bt1,000-Bt2,000 million per annum during 2019-2021. The land acquisition budget for its own projects is forecast at Bt900-Bt1,300 million per year.

In addition, the company is investing in five serviced apartments under the 51:49 joint ventures with the Mitsui Fudosan Group. Construction costs for these projects will be Bt500-Bt2,000 million per annum during 2019-2021. Despite its JV structure with the partner to partially alleviate its capital needs, ANAN's needs for funding to pursue its growth plan remains significant. However, we expect the company to keep its adjusted debt to equity ratio at around 2 times in order to maintain its ratings at this level.

Acceptable liquidity profile

ANAN's liquidity is acceptable. At the end of December 2018, the company had Bt5,183 million in cash and cash equivalents plus undrawn unconditional committed credit facilities from financial institutions of around Bt12,000 million. Funds from operations (FFO) over the next 12 months is forecast at around Bt2,500 million. Debt due over the next 12 months amounts to Bt7,585 million, comprising mainly Bt5,672 million in short-term promissory notes (P/Ns) and short-term loans, Bt1,498 million in debentures, and Bt412 million in project loans.

Most short-term P/Ns and short-term loans are used as bridging loans for land purchase. ANAN plans to convert them to

long-term project loans thereafter. The company will refinance the maturing bonds with new bond issues. Project loans will be repaid with cash flow from the transfers of residential units.

ANAN has to maintain some financial covenants on its bank loans and bonds. Under its bank loan covenant, the company has to maintain its reported interest-bearing debt to equity ratio (based on its consolidated financial statements) at lower than 2 times. The ratio at the end of December 2018 was 1.02 times. For its debentures, the company has to maintain its net interest-bearing debt to equity ratio at lower than 2.5 times. As of December 2018, the ratio was 0.74 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that the company should have no problem complying with its financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- ANAN will launch condominium under its own and JV projects as well as landed property projects worth Bt43,772 million in 2019 and around Bt34,000 million per annum during 2020-2021. Nearly 90% of its projects will be launched under JVs
- Land acquisition for its own projects is budgeted at Bt900-Bt1,300 million per year
- Capital injection in JV projects (including condominium and serviced apartment projects) will be Bt4,000-Bt5,000 million per annum during 2019-2021
- EBITDA will stay at Bt3,500-Bt4,500 million per annum during 2019-2021, and pretax return on permanent capital ratio is forecast at 7%-8%

RATING OUTLOOK

The "stable" outlook reflects the expectation that ANAN will be able to sustain its operating performance at the target levels. TRIS Rating expects ANAN's EBITDA during 2019-2021 will be Bt3,500-Bt4,500 million per annum. With its aggressive business expansion, ANAN's debt burden is expected to remain high. However, we expect ANAN to maintain its adjusted debt to equity ratio at around 2 times. The pretax return on permanent capital ratio should be held at 7%-8%.

RATING SENSITIVITIES

ANAN's ratings and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the target levels. On the contrary, the ratings and/or outlook could be revised upward should the company's operating performance be better than the target levels while its adjusted debt to equity ratio is kept below 1.5 times for certain periods.

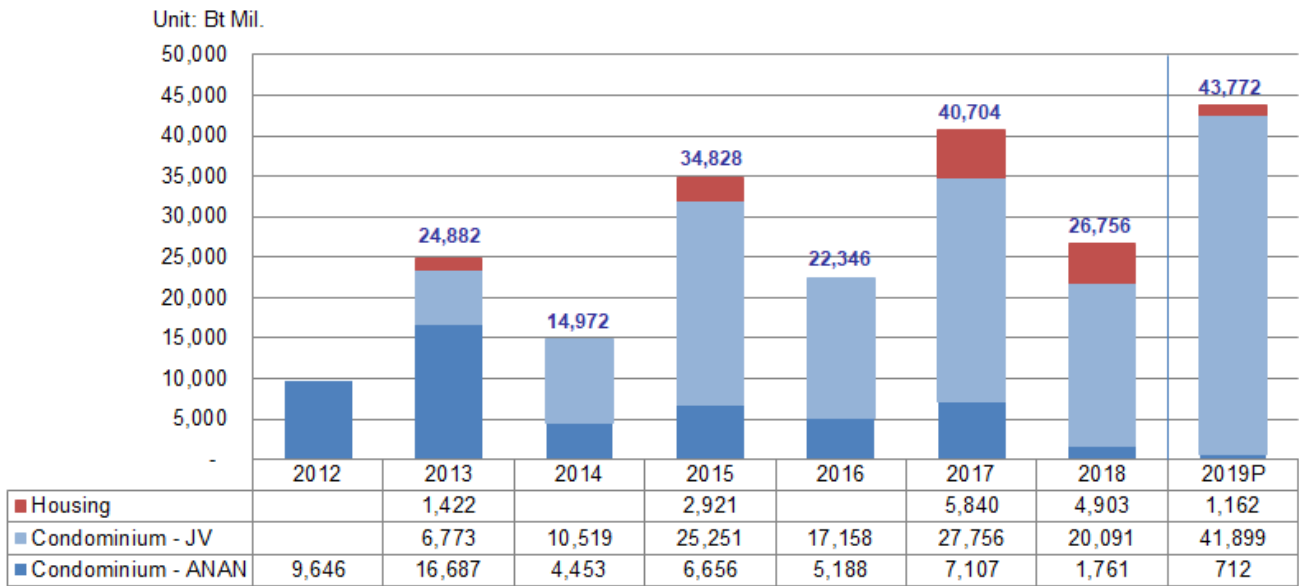
COMPANY OVERVIEW

ANAN was established in 1999 by the Ruangkritya family and listed on the Stock Exchange of Thailand (SET) in December 2012. As of December 2018, Mr. Chanond Ruangkritya was ANAN's largest shareholder, holding 50.4% of the shares. ANAN is engaged in the development of residential properties, particularly condominium projects, located near mass transit train stations in Bangkok. ANAN's condominium projects are developed under the Ashton, Q, Ideo Mobi, Venio, Ideo, Elio, and Unio brands. Its condominium products cover the low- to high-end segment, with selling prices ranging from Bt40,000 to Bt240,000 per square meter (sq.m.). ANAN's landed property projects are developed under the Artale, Arden, AIRI, Atoll, and Unio Town brands. Artale and Arden target the high-end landed property segment, while AIRI and Atoll focus on the middle-income segment. Unio Town offers middle- to low-priced townhouse units.

ANAN's revenue contribution from residential sales constituted more than 80% of total operating revenue during 2011-2016, but its contribution decreased to 70% in 2017 and 60% in 2018. Revenue contribution from project management services and commission income through JV projects increased to 16% of total operating revenue in 2017 and 20% in 2018, from less than 10% in several past years. Revenue contribution from construction service income, rental and service income, and food and beverage sales remained negligible.

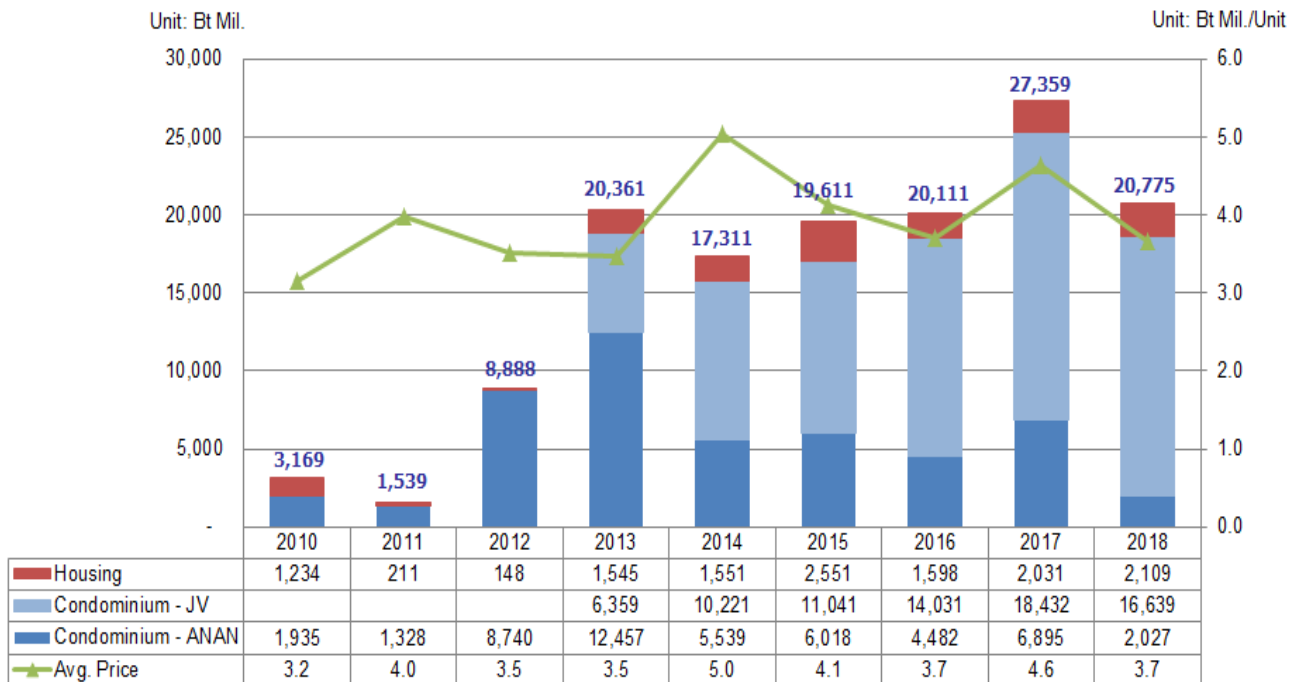
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



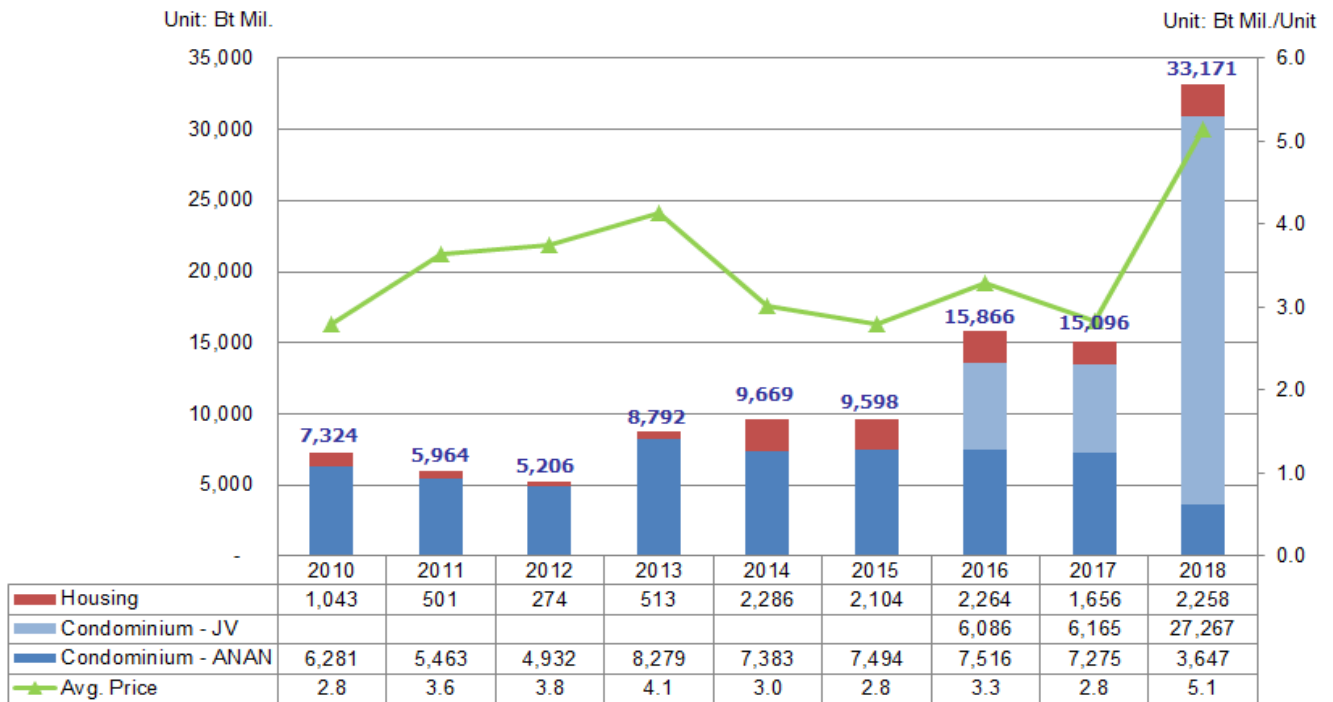
Source: ANAN

Chart 2: Presales Performance



Source: ANAN

Chart 3: Transfer Performance



Source: ANAN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total operating revenues	10,226	12,655	12,072	10,960	10,439
Operating income	1,015	2,477	2,033	2,342	2,103
Earnings before interest and taxes (EBIT)	3,561	2,370	2,573	2,530	2,107
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,134	2,618	2,668	2,651	2,225
Funds from operations (FFO)	2,922	1,419	1,680	1,762	1,504
Adjusted interest expense	1,117	826	682	548	427
Real estate development investments	10,210	6,065	139	2,070	2,882
Total assets	41,573	29,904	25,366	20,471	17,088
Adjusted debt	20,598	20,030	12,625	8,979	5,507
Adjusted equity	14,425	10,896	9,754	8,227	6,913
Adjusted Ratios					
Operating income as % of total operating revenues (%)	9.93	19.58	16.84	21.37	20.14
Pretax return on permanent capital (%)	9.70	8.10	11.39	14.35	16.49
EBITDA interest coverage (times)	3.70	3.17	3.91	4.84	5.22
Debt to EBITDA (times)	4.98	7.65	4.73	3.39	2.47
FFO to debt (%)	14.19	7.09	13.31	19.62	27.31
Debt to capitalization (%)	58.81	64.77	56.41	52.19	44.34

* Consolidated financial statements

RELATED CRITERIA

- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Ananda Development PLC (ANAN)

Company Rating:	BBB
Issue Ratings:	
ANAN15PA: Bt1,000 million subordinated capital debentures	BB+
ANAN16PA: Bt1,000 million subordinated capital debentures	BB+
ANAN17PA: Bt770 million subordinated capital debentures	BB+
ANAN17PB: Bt230 million subordinated capital debentures	BB+
ANAN18PA: Bt1,500 million subordinated capital debentures	BB+
ANAN18PB: Bt500 million subordinated capital debentures	BB+
ANAN19OA: Bt500 million senior unsecured debentures due 2019	BBB
ANAN19OB: Bt1,000 million senior unsecured debentures due 2019	BBB
ANAN20OA: Bt2,000 million senior unsecured debentures due 2020	BBB
ANAN222A: Bt2,500 million senior unsecured debentures due 2022	BBB
Up to Bt1,000 million subordinated capital debentures	BB+
Rating Outlook:	Stable

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