TRIS RATING
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ANANDA DEVELOPMENT PLC

No. 15/2018

16 February 2018

CORPORATES

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

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 of Ananda Development PLC (ANAN) and the ratings of ANAN's existing senior unsecured debentures at "BBB", and also affirms the ratings of ANAN's unsecured subordinated perpetual debentures (hybrid debentures) at "BB+". At the same time, TRIS Rating assigns the rating of "BBB" to ANAN's proposed issue of up to Bt3,500 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance existing debentures maturing in May 2018 and for business operation.

The ratings of ANAN and its debentures continue to reflect the company's strong market competitiveness in the condominium segment, its proven track record in the residential property market, and expected higher contribution of share profits from its investment in joint venture (JV) projects. These strengths are partially offset by ANAN's high concentration on the condominium segment and its high level of financial leverage from aggressive business expansion. The ratings also take into consideration the cyclicality and competitive environment in the residential property development business and the concern over the high level of household debt nationwide which impacts the affordability of homebuyers, especially in the middle- to low-income segment.

KEY RATING CONSIDERATIONS

Proven track record in residential property market

ANAN's business profile takes into consideration the track records and the operating performances of the company and its JVs. After being listed on the Stock Exchange of Thailand (SET) in 2012, ANAN has aggressively expanded its project portfolio through its owned and JV projects during the past five years. The company launched new projects worth Bt15,000-Bt35,000 million per year during 2013-2016. In 2017, ANAN launched new projects worth Bt41,000 million, much higher than prior years.

As of December 2017, ANAN had 31 existing condominium projects (including 19 condominium projects under JVs) and 14 housing projects, with the total project value of Bt120,000 million. Condominium projects comprised 85% of total project value across ANAN's portfolio, while housing projects accounted for the rest. At the end of December 2017, the value of the remaining unsold units (including built and un-built units) across the entire portfolio was around Bt44,000 million. The total backlog (excluding backlog under JVs worth Bt48,000 million) was valued at around Bt5,900 million and is expected to be delivered to customers during 2018 through 2020.

Strong market position in condominium segment, with expected operating margin at around 15%

ANAN's strong market position in the condominium segment is underpinned by its increasing presales and transferred values. Condominium presales (including presales from JV projects) was Bt16,000-Bt20,000 million per annum during 2013-2016, and increased to Bt25,000 million in 2017. ANAN has transferred condominium units worth Bt7,000-Bt8,000 million per annum to customers during 2013-2015 and Bt14,000 million in 2016. In addition, condominium transfers during the first nine months of 2017 increased by 8% year-on-year (y-o-y) to Bt6,300 million. However, the total transfer in 2017 is expected to be slightly lower than its target due to the delayed transfers in some of its own and JV condominium projects.

ANAN's operating margin decreased to 14%-15% during 2016 through the first nine months of 2017 from 16%-19% during 2013-2015. The drop was due to the lower profit margin from some residential projects, especially the Board of Investment (BOI) condominium and housing projects. Going forwards, the operating margin may be threatened by intense competition among large property developers. However, TRIS Rating's base case scenario expects ANAN's operating margin to stay around 15% over the next three years, which is in line with the industry average. ANAN's net profit margin over the next three years is expected to be higher than the past several years as the company will realize higher portion of revenue from project management services and share profits from its investment in the JV condominium projects.

Aggressive expansion may lead to higher leverage and weaker cash flow protection

In 2017, ANAN spent Bt15,000 million to purchase land plots and launched 14 residential projects (including seven condominium projects under the JVs) worth Bt41,000 million. The budget for land acquisition will be around Bt10,000-Bt11,000 million in 2018. The company also plans to launch 16 new residential projects worth Bt35,000 million by this year since it plans to increase revenue base to Bt20,000 million by 2019. ANAN's new projects are mainly concentrated on condominium projects under JVs. However, the company expects to generate more revenues from the housing segment. ANAN opened five housing projects worth Bt5,800 million in 2017, and continues to launch 5-8 housing projects this year. In addition, the company started to add more recurring-income assets into its portfolio. Currently, ANAN has leased four land plots for 29-30 years to develop four serviced apartments. The total construction cost of these four projects during 2017 through 2020 will be around Bt4,000 million.

Despite its JV with partners will partially relieve its capital needs, ANAN's needs for capital to pursue its growth plan remain significant. Over the next three years, TRIS Rating views that ANAN's financial leverage will remain high. Its adjusted debt to capitalization ratio is expected to stay around 65%-67% (ANAN's adjusted debt includes proportionated debts from JVs, hybrid securities, and net present value of operating leases, while preferred shares of minority interest will be netted out from equity). The ratio of adjusted funds from operations (FFO) to adjusted debt is expected to drop to around 5%-10% since the debt level is expected to increase faster than earnings.

Expected higher revenue contribution from JVs

As of December 2017, ANAN had 19 existing condominium projects under JVs. The combined project value was around Bt80,000 million. The JV projects were 66% sold and 7% transferred to customers. The backlog under JVs was around Bt48,000 million, or 89% of ANAN's total backlog. ANAN started to recognize share profits from its investments in JVs in late 2016. The JV backlogs worth Bt32,000 million and Bt11,000 million will be delivered to customers in 2018 and 2019, respectively. Thus, ANAN will realize greater portion of share profits from JVs during the next two years. Over the next three years, ANAN plans to continuously launch several condominium projects under JVs. Therefore, revenue from the project management services will account for around Bt2,000 million per year, accounting for around 20% of its total revenue over the next three years.

Exposed to cyclicality 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. A recent slowdown in domestic economy, coupled with a rising level of household debt nationwide, has raised concerns over the affordability of homebuyers, especially in the middle- to low-income segment. Thus, several property developers have shifted their focus toward the higher-income segment, making competition in this segment more intense due to more supply in the market. Thus, the company has to carefully manage its new project launches to match the demand in each area. The slower absorption and transfer rates may cause its leverage to hang at the higher level for a longer period.

Acceptable liquidity profile

ANAN's liquidity is acceptable. At the end of December 2017, the company had Bt1,700 million in cash plus undrawn unconditional project loans from financial institutions of Bt1,800 million. Adjusted FFO over the next 12 months is forecast at around Bt2,500 million. Debt due over the next 12 months amounts to Bt4,300 million, comprising Bt2,000 million in debentures, Bt1,100 million in project loans, and Bt1,200 million in short-term promissory notes (P/Ns).

ANAN plans to refinance the maturing bonds with new bond issues. Project loans will be repaid with cash flow from the transfers of residential units. Short-term P/Ns will be used as bridging loans for land purchase and will be converted to long-term project loans thereafter.

The company has to maintain some financial covenants on its bank loans and bonds. Under its bank loan covenant, the company has to maintain its interest-bearing debt to total equity ratio (based on its consolidated financial statements) at lower than 2 times. The ratio at the end of September 2017 was 0.96 times. For its debentures, the company has to maintain its net interest-bearing debt to total equity ratio at lower than 2.5 times. As of September 2017, the ratio was 0.84 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 covenant over the next 12 to 18 months.

RATING OUTLOOK

The "stable" outlook reflects the expectation that ANAN will be able to sustain its operating performance at the target levels. Over the next three years, TRIS Rating expects ANAN's revenue to stay in the range of Bt10,000-Bt14,000 million per annum. Revenue from residential projects will comprise 60%-70% of total revenue. Revenue from project management services will contribute a greater portion of 15%-20% of total revenue. With its aggressive business expansion, ANAN's debt burden is expected to remain high. However, ANAN should be able to maintain its adjusted debt to capitalization ratio at around 65%-67%, or adjusted interest-bearing debt to equity ratio at around 2 times. The operating margin should hold at around 15%.

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 successfully diversify its business as planned while its financial profile does not significantly deteriorate from the current level.

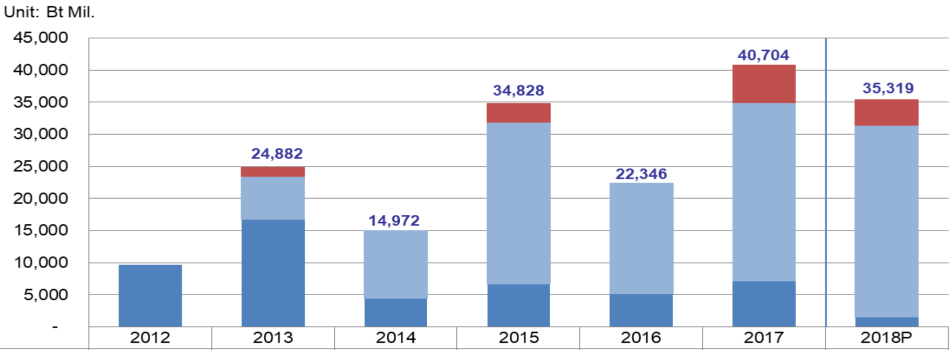
COMPANY OVERVIEW

ANAN was established in 1999 by the Ruangkritya family, and then listed on the SET in December 2012. As of October 2017, Mr. Chanond Ruangkritya was ANAN's largest shareholder, holding 50.1% of the shares. ANAN is engaged in development and sale 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 the selling prices ranging from Bt40,000 to Bt240,000 per square meter (sq.m.). ANAN's housing projects are developed under the Artale, Arden, AIRI, Atoll, and Unio Town brands. Artale and Arden target high-end housing segment, while AIRI and Atoll focus on middle-income segment. Unio Town offers middle- to low-priced townhome units.

ANAN's revenue contribution from residential sales constituted more than 90% of total revenue during 2011-2014, but it decreased to 83% in 2016 and 71% in the first nine months of 2017. Revenue contribution from project management services and commission income through JV projects increased to 10% of total revenue in 2016 and 18% in the first nine months of 2017. Revenue from construction service income, rental and service income, and food and beverage sales remained negligible.

KEY OPERATING PERFORMANCE

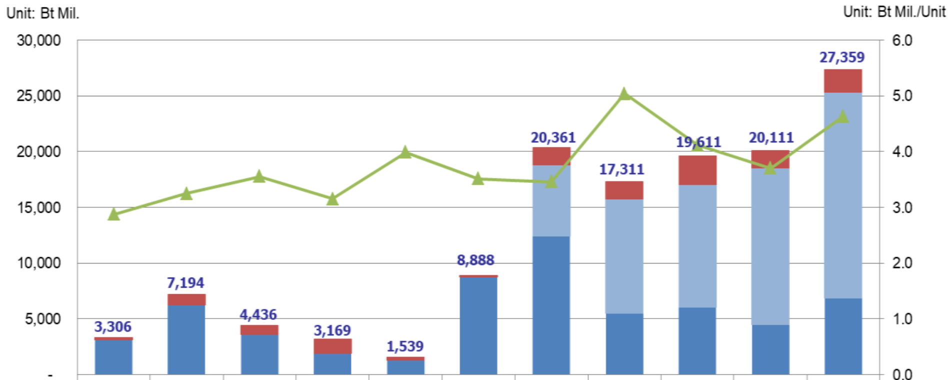
New Residential Project Launches



	2012	2013	2014	2015	2016	2017	2018P
Housing		1,422		2,921		5,840	3,916
Condominium - JV		6,773	10,519	25,251	17,158	27,756	29,902
Condominium - ANAN	9,646	16,687	4,453	6,656	5,188	7,107	1,500

Source: ANAN

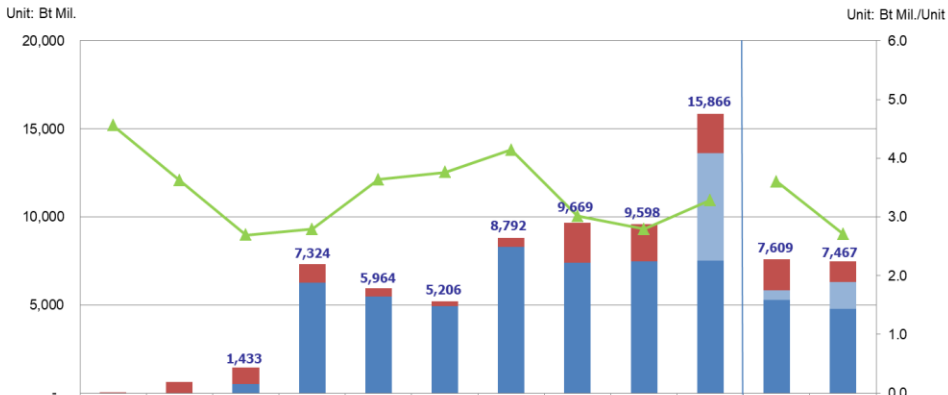
Presales



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Housing	148	939	814	1,234	211	148	1,545	1,551	2,551	1,598	2,031
Condominium - JV							6,359	10,221	11,041	14,031	18,432
Condominium - ANAN	3,158	6,255	3,621	1,935	1,328	8,740	12,457	5,539	6,018	4,482	6,895
Avg. Price	2.9	3.2	3.6	3.2	4.0	3.5	3.5	5.0	4.1	3.7	4.6

Source: ANAN

Transfer



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	9M16	9M17
Housing	14	649	912	1,043	501	274	513	2,286	2,104	2,264	1,771	1,147
Condominium - JV										6,086	544	1,536
Condominium - ANAN			522	6,281	5,463	4,932	8,279	7,383	7,494	7,516	5,293	4,783
Avg. Price	4.6	3.6	2.7	2.8	3.6	3.8	4.1	3.0	2.8	3.3	3.6	2.7

Source: ANAN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2017	---------- Year Ended 31 December ---------- 2016	2015	2014	2013
Revenue	8,407	11,730	10,752	10,328	9,173
Gross interest expense	684	780	592	377	223
Net income from operations	489	1,501	1,207	1,301	812
Funds from operations (FFO)	982	1,623	2,021	1,957	1,136
Inventory investment	(3,228)	(139)	(2,070)	(2,882)	(1,751)
Total assets	27,019	25,366	20,471	17,088	12,464
Total debts	19,639	15,154	12,393	8,674	4,206
Shareholders' equity	10,186	9,754	8,227	6,913	5,879
Operating income before depreciation and amortization as % of sales	15.05	14.08	19.29	18.68	16.15
Pretax return on permanent capital (%)	7.71**	9.26	9.95	14.20	13.14
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	1.88	3.34	4.36	5.72	7.54
FFO/total debt (%)	8.83**	10.71	16.24	22.56	27.01
Total debt/capitalization (%)	65.85	60.84	60.10	55.65	41.71

Note: All figures have been adjusted by proportionated debt from JVs, subordinated capital debentures (50% of the outstanding are treated as debts and the rest is treated as equity), and operating lease, excluding preferred shares from equity.

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

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+
ANAN19OA: Bt500 million senior unsecured debentures due 2019	BBB
ANAN20OA: Bt2,000 million senior unsecured debentures due 2020	BBB
Up to Bt3,500 million senior unsecured debentures due within 4 years	BBB
Rating Outlook:	Stable

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