

ANANDA DEVELOPMENT PLC

No. 23/2020

11 March 2020

CORPORATES

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

Last Review Date: 15/03/19

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 existing 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 Bt4,000 million in senior unsecured debentures at "BBB". The proceeds from the new debentures will be used to refinance maturing debentures in April and May 2020.

However, TRIS Rating revises the rating outlook on ANAN to "negative" from "stable". The "negative" outlook reflects ANAN's lower-than-expected operating performance resulting from stagnant demand in the residential property market and a delay in transfers of joint venture (JV) condominium projects. In addition, ANAN's financial leverage was also higher than TRIS Rating's prior expectations.

The ratings continue to reflect ANAN's acceptable market position in the condominium segment as well as the relatively high income contribution from the JV projects. The ratings also take into consideration concerns over the unprecedented risk from the coronavirus (COVID-19) outbreak which will put more pressure on the demand for residential properties.

KEY RATING CONSIDERATIONS

Lower-than-expected presales and transfers

TRIS Rating assesses that ANAN's operating performance to drop below our previous base-case forecast. ANAN's total operating revenues decreased by 13% year-on-year (y-o-y) to Bt8.9 billion in 2019. We have revised down projections of ANAN's total operating revenues to Bt6-Bt9 billion per annum during 2020-2023, lower than our previous forecast of Bt8-Bt12 billion per annum. Revenue from the company's own condominium projects may also decline during 2020-2021 since there are no new projects completed and transferred over the next two years. Thus, ANAN will have to focus on the sales of its existing completed projects.

We have also revised down ANAN's share profit from investments in JVs during the next four years to Bt1.2-Bt1.6 billion per annum from Bt2-Bt2.4 billion per annum. ANAN slashed new JV project launches in 2019 by almost 70% to Bt12.4 billion amid concerns over the slowdown in demand for condominiums. Presales of its JV projects also dropped by 49% y-o-y to Bt8.4 billion. The sharp drop in presales will result in fewer transfers over the next 2-3 years.

In 2019, ANAN was able to deliver four owned condominium projects and four JV condominium projects, but the company postponed the transfer of two JV condominium projects to 2020. The delay in transfer caused the share profit recognition from investments in JVs to be only Bt1.1 billion in 2019, much lower than our previous forecast of Bt2 billion. We expect ANAN to have ability to manage and deliver each project as scheduled.

Lower revenue recognition led to lower profitability

ANAN's earnings before interest, taxes, depreciation, and amortization (EBITDA) shrank to Bt2.7 billion in 2019 from Bt4.1 billion in 2018. EBITDA margin dropped to 31% in 2019 from 41% in 2018. We expect ANAN's EBITDA margin to fall in the 27%-30% range during 2020-2023. ANAN's net profit deviated significantly

from our prior forecast. Its net profit fell to Bt0.7 billion in 2019 from Bt2.4 billion in 2018, well below our previous expectation of Bt2.6 billion. Net profit margin in 2019 was only 8% of total operating revenues, short of our prior forecast of above 20%. The pretax return on permanent capital (ROPC) ratio decreased to 4% in 2019 from 8%-10% during 2017-2018. The drop was mainly due to the lower share profit from investments in JVs. We expect ANAN to keep the ROPC ratio at 4%-6% over the next four years.

Income contribution from JVs projects remain high

At the end of December 2019, ANAN had 26 existing condominium projects under JVs, with total remaining value of Bt35.3 billion. The JV projects were 67% sold and 39% transferred to customers. The backlog under JVs was worth Bt29.7 billion, representing 95% of ANAN's total backlog. Thus, ANAN will continue to realize share profit from the JVs over 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.

In TRIS Rating's base case scenario, we expect ANAN's revenue from project management services through JVs to be Bt1.1-Bt1.8 billion per annum, or 17%-20% of total operating revenues during 2020-2023. We have revised down ANAN's share profit from investments in JVs to Bt1.2-Bt1.6 billion per annum over the next four years. We expect ANAN's EBITDA to stay at Bt1.7-Bt2.7 billion per annum.

Acceptable market position

ANAN's market position in the condominium segment has been rather strong. Condominium presales have hovered in the Bt15-Bt25 billion range throughout 2013-2018. However, presales in 2019 dropped sharply to Bt8.8 billion due to the slowdown in the domestic and global economy and the negative impacts from the implementation of new loan-to-value (LTV) ratio by the Bank of Thailand (BOT) in April 2019. The drop was quite in line with the market. However, we expect ANAN's condominium presales may decline further in 2020 amid concerns over the unprecedented risk from the outbreak of COVID-19. As the drop in new launches affects presales and transfers, thus, we forecast the company's transferred condominium value to be Bt14-Bt20 billion per annum during 2020-2023.

As of December 2019, ANAN had 35 existing condominium projects (consisting of 26 JV condominium projects and 9 owned condominium projects) and 14 landed property projects, with total unsold value of Bt55.6 billion. Condominium projects comprised 80% of the total remaining value, while landed property projects accounted for the rest. ANAN's backlog was worth Bt31.1 billion, comprising Bt29.7 billion in backlog under JVs and Bt1.4 billion in its own projects. The JV backlog will be delivered to customers during 2020-2022. The company expects to deliver Bt0.9 billion of its own backlog to customers in 2020 and Bt0.5 billion in 2022.

High leverage

ANAN's debt to capitalization ratio increased to 65% as of December 2019 from 59% as of December 2018. Previously, we forecast the debt to capitalization ratio at the end of 2019 to be 62% since we assumed that the company would be able to transfer its completed condominium projects as planned. Its funds from operations (FFO) to total debt ratio also dropped to 5% in 2019 from 14% in 2018. In our revised projection, we expect that ANAN's debt to capitalization ratio will remain high despite ANAN's plans to launch only one JV condominium project worth Bt8.5 billion in 2020. However, the company holds several land plots ready for the launch of new projects if the market recovers. ANAN plans to launch projects worth Bt20-Bt30 billion per annum during 2021-2023. We also expect ANAN to launch new landed property projects worth Bt5 billion in total during 2020-2021. TRIS Rating forecasts the budget for land acquisition for ANAN's own projects to be less than Bt1 billion per annum.

This year the company will focus more on sales of existing inventory and on cost savings in order to lower its leverage. However, the company is set to invest in two new JV serviced apartments per year in order to build its recurring-income portfolio. Thus, we do not expect its leverage to drop much from the current level. The FFO to total debt ratio at below 5% per annum and/or its debt to capitalization ratio at above 65% could lead a rating downgrade.

Concerns over softening demand and impacts of the COVID-19 outbreak

The residential property market closely follows trends in the domestic economy. However, volatility in this market is much more pronounced than in the overall economy. The slowdown of the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of local homebuyers. The negative impact from global trade war and the appreciation of Thai baht have also caused a drop in demand from foreign homebuyers, especially Chinese buyers, since 2019.

This year, the unprecedented risk from the outbreak of the coronavirus may further disrupt market demand. Most developers tend to take a wait-and-see approach as demand from local and foreign buyers may come to a halt during the first half of 2020. Some developers, ANAN included, have postponed transfers of foreign-buyer residential units for a few

months due to the coronavirus outbreak. ANAN's condominium units sold to foreign buyers accounted around 20% of total backlog as of December 2019. The delay in transfers from foreign buyers will impact the company's income recognition.

Liquidity should be manageable

We assess ANAN's liquidity to be manageable over the next 12 months. As of December 2019, ANAN's sources of funds consisted of Bt4 billion in cash on hand plus short-term investments in mutual funds of Bt2.3 billion, unencumbered land at cost value of Bt0.6 billion, and remaining units in debt-free projects with a selling price of Bt10.3 million. ANAN's FFO over the next 12 months are expected to be Bt0.5 billion. Debts due over the next 12 months will amount to Bt13 billion, comprising Bt6.3 billion in short-term obligations, Bt6 billion in debentures, and Bt0.7 billion in project loans. Most of the short-term loans are being used as bridging loans for land purchases. ANAN plans to convert them to long-term project loans thereafter. The company will refinance maturing bonds with new bond issues. Project loans will be repaid with cash from the transfers of residential units. The company also could sell some land plots to help enhance its liquidity.

ANAN has to maintain a reported net interest-bearing debt to equity ratio at a level lower than 2.5 times, in order to comply with the financial covenants on its bank loans and bonds. As of December 2019, ANAN's reported net interest-bearing debt to equity ratio was 1.08 times. TRIS Rating believes that ANAN should have no problems complying with the financial covenants over the next 12 to 18 months.

ANAN has the call option to redeem its outstanding hybrid debentures worth Bt1 billion in August 2020. The equity content of the hybrid debentures will drop from "intermediate (50% equity credit)" to "minimal (0% equity credit)" on the call option date since the remaining life of the hybrid debentures until the effective maturity date will be less than 20 years. In the case that ANAN exercises the call option, TRIS Rating expects ANAN to replace its redeemed hybrids with other funding instrument that has the same equity content in order to maintain its capital structure as targeted. A failure to replace its redeemed hybrid debentures will affect the equity credit assigned to its remaining hybrid debentures.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast during 2020-2023:

- ANAN to launch new JV and owned condominium projects worth Bt8.5 billion in 2020 and worth Bt20-Bt30 billion per annum during 2021-2023
- ANAN to launch new landed property projects worth Bt5 billion during 2020-2021
- Annual budget for land acquisition for its own projects is forecast to be lower than Bt1 billion
- Total operating revenues to be Bt6-Bt9 billion per year
- Share profit from investments in JVs to be Bt1.2-Bt1.6 billion per year

RATING OUTLOOK

The "negative" outlook reflects our concerns over ANAN's lower-than-expected operating performance and higher financial leverage. The stagnancy in domestic demand coupled with the unprecedented risk from the coronavirus could worsen ANAN's operating performance further. Thus, its ratings could be downgraded should the company's financial profile continues to decline further.

RATING SENSITIVITIES

ANAN's ratings and/or outlook could be revised downward should its operating performance and/or financial profile does not recover from the current level. On the contrary, ANAN's outlook could be revised upward if the company is able to improve its operating performance and lower its debt burden such that its FFO to total debt ratio improves to more than 5% while its debt to capitalization ratio is kept at around 60%.

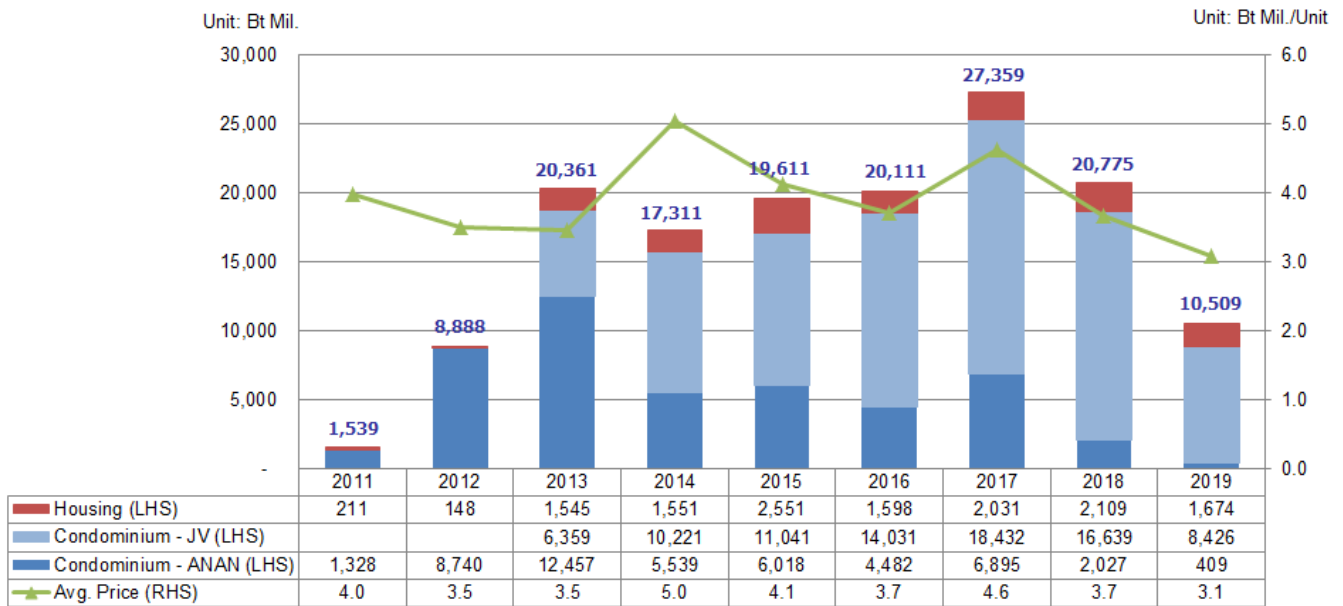
COMPANY OVERVIEW

ANAN was established in 1999 by the Ruangkritya family and listed on the Stock Exchange of Thailand (SET) in December 2012. As of August 2019, the Ruangkritya family was ANAN's largest shareholder, holding 55.5% 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, Ideo Q, Ideo Mobi, Venio, Ideo, Elio, and Unio brands. Its condominium products cover the low- to high-end segment, with selling prices ranging from Bt50,000 to Bt240,000 per square meter (sq.m.). ANAN's landed property projects are developed under the Artale, Arden, Urbanio, AIRI, Atoll, and Unio Town brands. The Artale, Arden, and Urbanio brands target the high-end landed property segment, while the AIRI and Atoll brands focus on the middle-income segment. Unio Town offers middle- to low-priced townhouse and SDH units.

ANAN's revenue contribution from residential sales constituted more than 80% of total operating revenues during 2011-2016, but this contribution decreased to 70% in 2017 and 55%-58% during 2018-2019. The revenue contribution from project management services and commission income through JV projects increased to 16% of total operating revenues in 2017 and 20% during 2018-2019, from less than 10% in several previous years. The revenue contribution from construction service income has been 16%-17% of total operating revenues during the past two years. Revenues from rental and service income as well as food and beverage sales remained negligible.

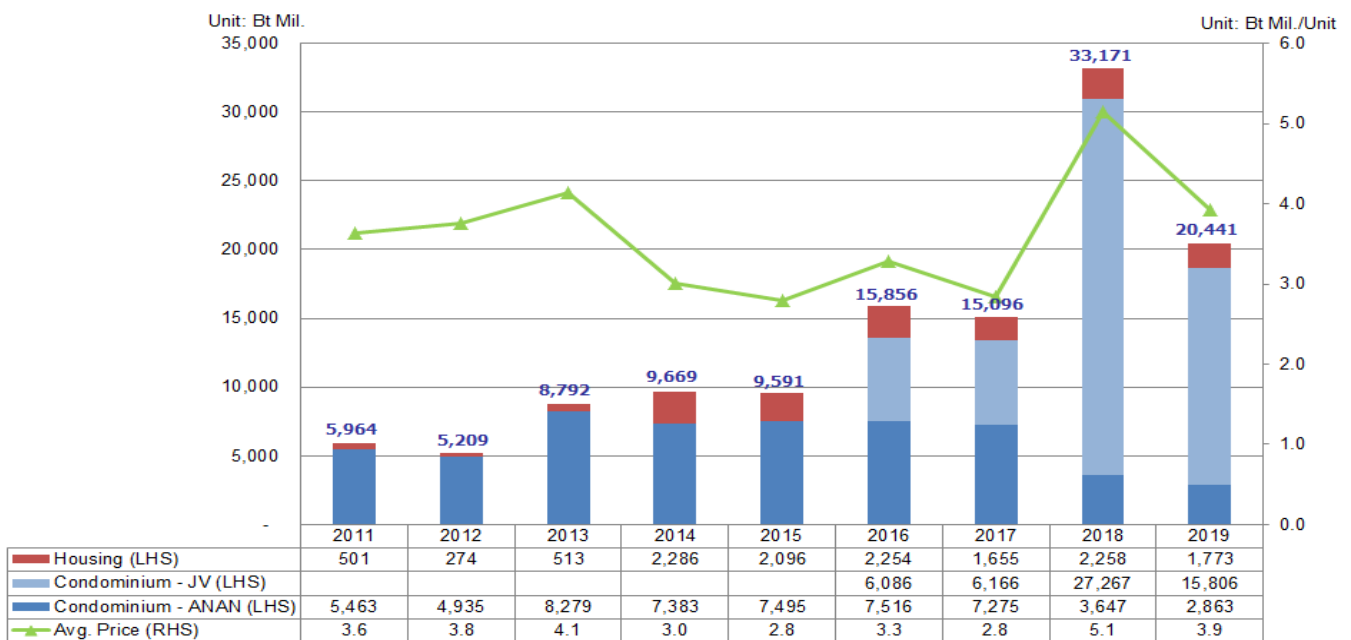
KEY OPERATING PERFORMANCE

Chart 1: Presales Performance



Source: ANAN

Chart 2: Transfer Performance



Source: ANAN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total operating revenues	8,858	10,226	12,655	12,072	10,960
Earnings before interest and taxes (EBIT)	1,901	3,572	2,370	2,573	2,530
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,729	4,144	2,618	2,668	2,651
Funds from operations (FFO)	1,293	2,933	1,419	1,680	1,762
Adjusted interest expense	1,478	1,117	826	682	548
Real estate development investments	20,411	17,504	13,201	12,470	12,119
Total assets	48,795	41,573	29,904	25,366	20,471
Adjusted debt	27,300	20,661	20,064	12,657	8,980
Adjusted equity	14,684	14,399	10,896	9,754	8,227
Adjusted Ratios					
EBITDA margin (%)	30.81	40.53	20.69	22.10	24.18
Pretax return on permanent capital (%)	4.31	9.72	8.09	11.38	14.35
EBITDA interest coverage (times)	1.85	3.71	3.17	3.91	4.84
Debt to EBITDA (times)	10.00	4.99	7.66	4.74	3.39
FFO to debt (%)	4.74	14.19	7.07	13.27	19.62
Debt to capitalization (%)	65.02	58.93	64.81	56.48	52.19

* Consolidated financial statements

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

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+
ANAN19PA: Bt1,000 million subordinated capital debentures	BB+
ANAN20OA: Bt2,000 million senior unsecured debentures due 2020	BBB
ANAN222A: Bt2,500 million senior unsecured debentures due 2022	BBB
Up to Bt4,000 million senior unsecured debentures due within 3 years 6 months	BBB
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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