

ANANDA DEVELOPMENT PLC

No. 17/2022
2 March 2022

CORPORATES

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

Last Review Date: 16/12/21

Company Rating History:

Date	Rating	Outlook/Alert
25/03/21	BBB-	Stable
11/03/20	BBB	Negative
19/02/16	BBB	Stable
18/02/15	BBB-	Positive
29/05/13	BBB-	Stable

Contacts:

Jutamas Bunyawanichkul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Ananda Development PLC (ANAN) and the ratings on ANAN's senior unsecured debentures at "BBB-", with a "stable" rating outlook. We also affirm the ratings on ANAN's subordinated capital debentures (hybrid debentures) at "BB".

The ratings reflect ANAN's acceptable market position in the condominium segment, the significant income contributions from its joint venture (JV) projects, and its high financial leverage. The ratings also incorporate our concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which is likely to continue to pressure the demand for condominiums and ANAN's operating performance for an extended period.

The ratings on ANAN's hybrid debentures are two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis. As of November 2021, ANAN raised THB1.3 billion of equity to replace the equity portion of three tranches of hybrid debentures (ANAN17PA, ANAN17PB, and ANAN18PA) worth THB2.5 billion in total, to which we assigned 50% equity content. Thus, the equity content of these replaced hybrid debentures will drop to "minimal" (0% equity credit) from "intermediate" (50% equity credit). The equity credit of other outstanding hybrid debentures will remain 50%.

KEY RATING CONSIDERATIONS

Weakening, but still has acceptable market position

We view that ANAN's brand has been somewhat negatively affected by the lawsuits related to its large project "Ashton Asoke". Although ANAN was not a party directly involved in the lawsuits, the company's reputation has been unavoidably damaged by the lawsuits against the government agency. However, we assess that ANAN's market position is still holding up well compared with rated peers in the "BBB-" rating category. The company was able to generate net presales from its own and JV projects of THB2 billion in the last quarter of 2021, higher than net presales generated in prior quarters. However, we will closely monitor the progress of ongoing litigation and its potential impact on the ratings assigned to ANAN. A further decline in the company's sales and/or transfers resulting from a lack of confidence in its brands or from other potential lawsuits which cause the financial profile of the company to significantly deviate from our target could prompt a negative rating action.

Expected recovery in operations in 2023

The prolonged COVID-19 pandemic significantly affected ANAN's operating results during 2020-2021. We view that ANAN's operations bottomed out in 2021. ANAN reported net presales of THB4.1 billion in 2021, down from THB5.9 billion in 2020 and THB10.5 billion in 2019. Transferred value from its own and JV projects was only THB10 billion in 2021, 80% from condominium projects and 20% from landed property projects. ANAN's earnings before interest, taxes, depreciation, and amortization (EBITDA) deteriorated to THB0.8 billion in 2021, with a net loss of THB0.5 billion.

With the likelihood of ongoing weak demand in the condominium market in 2022, we project ANAN's total operating revenue and EBITDA to reach THB4.2

billion and THB1 billion, respectively, this year. We assume the company will post another net loss in 2022. However, we expect to see a recovery in condominium demand from 2023 onwards. We anticipate that demand for condominiums from local buyers will revive faster than from foreign buyers, whose demand is subject to the easing of travel restrictions. Our base-case scenario forecasts ANAN's total operating revenue will revert to THB5.0-THB5.5 billion per annum during 2023-2024. ANAN's EBITDA should range from THB1.5-THB2.0 billion annually and its bottom line should turn positive from 2023 onwards. This is based on our assumption of transfers worth THB11-THB15 billion per annum during 2023-2024.

At the end of 2021, ANAN's backlog stood at THB12.3 billion, down from its peak of around THB53 billion in 2017. More than 90% of its total backlog was under JV projects. Backlog worth THB4.7 billion is expected to be transferred to customers in 2022, THB5.2 billion in 2023, and THB2.4 billion in 2024. As a result, ANAN's future revenue and earnings will depend largely on its ability to generate new sales from unsold finished stock and unsold newly completed condominium units. As of December 2021, ANAN's portfolio included unsold finished stock units worth THB22.9 billion in condominium projects, which can be recognized as revenue immediately after sale.

High income contribution from JVs

At the end of December 2021, ANAN had 24 existing condominium projects, including 17 JV projects and seven owned projects, and 13 landed property projects, with total remaining value of THB44.2 billion. Two-thirds of the remaining value was in JV projects. Going forward, ANAN plans to continuously launch new condominium projects under JVs. Accordingly, we view that ANAN will continue to earn a significant amount of income from project management services and commission fees from JVs. We project ANAN's revenue from project management services and commission income to stand at THB0.8-THB1.1 billion annually, or around 20% of total operating revenue during 2022-2024.

Net profit margins of condominium projects under JVs are expected to be around 10%-12%. Nevertheless, ANAN's shared profit from investments in JVs is likely to be hurt by the losses carried from newly launched condominium projects and newly operated serviced apartments. We estimate the net shared profit from investments in all JVs will be THB250 million in 2022 and will recover to THB600-THB700 million per annum during 2023-2024.

High financial leverage, but improvement anticipated from 2023 onwards

Our base-case scenario projects ANAN's financial performance will remain weak in 2022 but should recover from 2023 onwards. The deterioration in ANAN's operations during 2019-2021 caused its debt to hang at a high level. ANAN's debt to capitalization ratio ranged from 65%-68% during the past three years. The company reported a net loss and negative funds from operations (FFO) during 2020-2021. Looking forward, we expect ANAN's debt to capitalization ratio to contract slightly to around 60%-65%. Its FFO is expected to turn positive in 2023, causing its FFO to total debt ratio to improve to around 2%-5% from 2023 onwards. Its pretax return on permanent capital (ROPC) ratio should remain in the 2%-5% range over the forecast period.

Our base-case assumes that ANAN will launch new residential projects worth THB13-THB15 billion per annum during 2022-2024. However, ANAN plans to launch new projects worth THB28 billion in total in 2022, with lower amounts in the following years. We expect around three-fourths of the new project value will be condominium projects developed under JVs. Our projection assumes that ANAN will sell around THB4 billion of its own land plots to the JVs in 2022 and THB5 billion in 2023. ANAN's budget for land acquisition for its landed property projects will be THB1-THB2 billion annually during 2022-2024. We project that ANAN will inject equity and provide shareholder loans totaling THB1.5-THB2.0 billion per annum to JVs during 2022-2023.

The financial covenants on ANAN's bank loans and bonds require the company's reported net interest-bearing debt to equity ratio to remain below 2.5 times. As of December 2021, the ratio was 0.95 times. We expect ANAN to prudently manage its capital structure to comply with the financial covenants at all times.

Tight liquidity but should remain manageable

We assess ANAN's liquidity to be tight but manageable over the next 12 months. ANAN's sources of funds as of December 2021 consisted of THB2.4 billion in cash plus undrawn committed short-term and project loan credit facilities from banks of around THB750 million. In addition, ANAN had unsold finished residential units in its own debt-free projects with a total selling price of around THB500 million, which can be pledged as collateral for new loans, if needed. Debts maturing over the next 12 months will amount to THB12.2 billion, comprising THB5.4 billion in senior unsecured debentures, THB6 billion in short-term promissory notes (P/Ns), and THB0.8 billion in long-term loans. ANAN will refinance senior unsecured debentures worth THB3.5 billion maturing in the first half of 2022 with new debentures worth THB5 billion issued in January 2022. The THB1.9 billion senior unsecured debentures coming due in the second half of 2022 will be replaced by new debentures planned to be issued during that period. Most of the short-term P/Ns are used as bridging loans for land purchases. ANAN plans to convert them to long-term project loans thereafter. Project loans are expected to be repaid with cash from the transfers of residential units.

As of December 2021, ANAN had total debt of THB25.1 billion (per priority debt consideration), including priority debt of THB8.4 billion. ANAN's priority debt included secured debt of the parent company and total debt of its operating subsidiaries. As the ratio of its priority debt to total debt was 33%, below the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that ANAN's unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

These are the key assumptions for ANAN's operations in TRIS Rating's base-case forecast during 2022-2024:

- ANAN to launch new residential projects worth THB13-THB15 billion per annum.
- Annual budget for land acquisition for landed property projects to be THB1-THB2 billion
- Total operating revenue of THB4.2 billion in 2022, reviving to THB5.0-THB5.5 billion per annum during 2023-2024.
- Net shared profit from investments in all JVs to be THB250 million in 2022, before recovering to THB600-THB700 million per annum during 2023-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ANAN's financial profile will not deteriorate further from its current level. We expect the company's operating performance to gradually recover while its debt level should decline. ANAN's debt to capitalization ratio should stay below 65% while its ROPC should sustain in the 2%-5% range over the forecast period.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward should the drawn-out COVID-19 pandemic and/or the adverse consequences of pending lawsuits related to the company's property projects lead to a deeper-than-expected deterioration in ANAN's operating performance and/or financial profile. On the contrary, an upward revision could occur if the company is able to deliver significantly stronger operating results than the target levels and improve its financial profile such that its FFO to total debt ratio stays above 5% while its debt to capitalization ratio declines below 60% on a sustained basis.

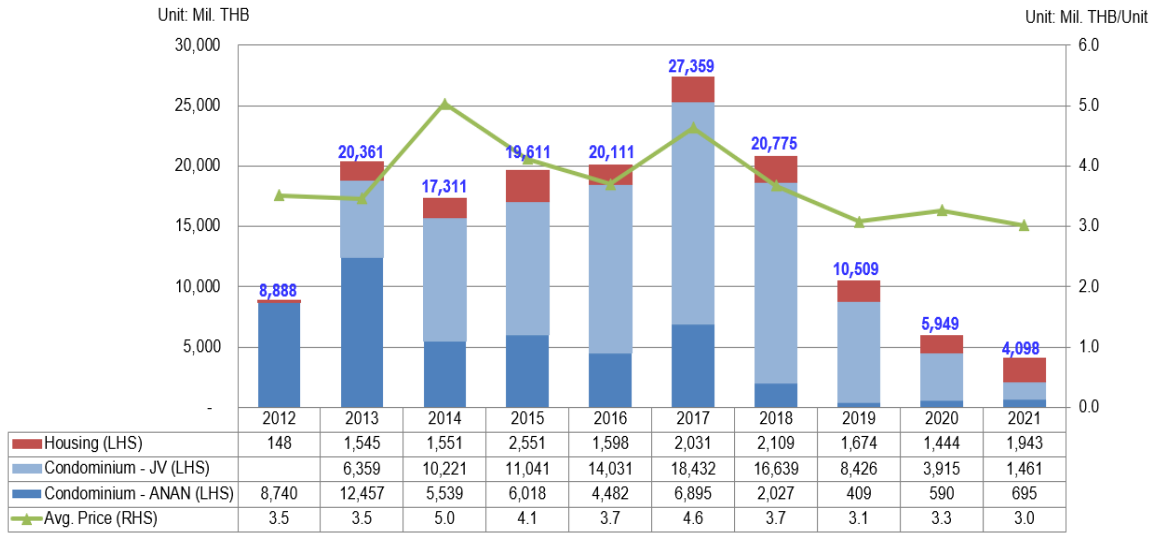
COMPANY OVERVIEW

ANAN was established in 1999 by the Ruangkritya family and listed on the Stock Exchange of Thailand (SET) in December 2012. As of 8 February 2022, the Ruangkritya family was ANAN's largest shareholder, holding 48.27% 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. ANAN plans to launch new brands, CoCo Parc and Culture, in 2022. Its condominium products cover the low- to high-end segments, with selling prices ranging from THB50,000 to THB250,000 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 60%-70% during 2017-2021. The revenue contribution from project management services and commission income through JV projects continuously increased to 15%-30% during the past five years, from less than 10% before 2016. Revenues from rental and service income remained negligible.

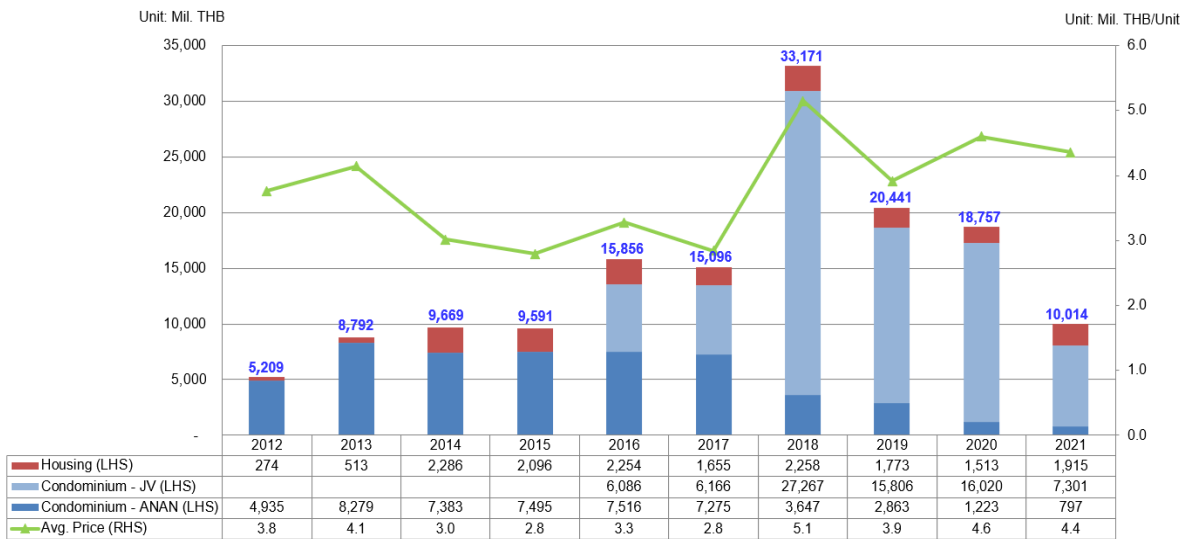
KEY OPERATING PERFORMANCE

Chart 1: Presales Performance



Source: ANAN

Chart 2: Transfer Performance



Source: ANAN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	3,710	4,199	7,302	10,226	12,655
Earnings before interest and taxes (EBIT)	480	423	1,830	3,572	2,370
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	844	1,003	2,685	4,144	2,618
Funds from operations (FFO)	(592)	(578)	1,275	2,879	1,422
Adjusted interest expense	1,332	1,453	1,451	1,117	826
Real estate development investments	20,087	19,829	20,411	17,504	13,201
Total assets	39,382	43,298	48,795	41,573	29,904
Adjusted debt	26,256	25,683	27,300	20,661	20,064
Adjusted equity	12,441	13,564	14,684	14,399	10,896
Adjusted Ratios					
EBITDA margin (%)	22.76	23.89	36.76	40.53	20.69
Pretax return on permanent capital (%)	1.14	0.94	4.15	9.72	8.09
EBITDA interest coverage (times)	0.63	0.69	1.85	3.71	3.17
Debt to EBITDA (times)	31.10	25.61	10.17	4.99	7.66
FFO to debt (%)	(2.26)	(2.25)	4.67	13.94	7.09
Debt to capitalization (%)	67.85	65.44	65.02	58.93	64.81

* Consolidated financial statements

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Ananda Development PLC (ANAN)

Company Rating:	BBB-
Issue Ratings:	
ANAN17PB: THB230 million subordinated capital debentures	BB
ANAN18PA: THB1,500 million subordinated capital debentures	BB
ANAN18PB: THB500 million subordinated capital debentures	BB
ANAN19PA: THB1,000 million subordinated capital debentures	BB
ANAN20PA: THB1,000 million subordinated capital debentures	BB
ANAN21PA: THB1,000 million subordinated capital debentures	BB
ANAN22OA: THB423.3 million senior unsecured debentures due 2022	BBB-
ANAN22OB: THB915.6 million senior unsecured debentures due 2022	BBB-
ANAN237A: THB1,768.8 million senior unsecured debentures due 2023	BBB-
ANAN23OA: THB746.6 million senior unsecured debentures due 2023	BBB-
ANAN241A: THB1,412.8 million senior unsecured debentures due 2024	BBB-
ANAN247A: THB3,231.2 million senior unsecured debentures due 2024	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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