

ANANDA DEVELOPMENT PLC

No. 49/2020

22 June 2020

CORPORATES

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

Last Review Date: 11/03/20

Company Rating History:

Date	Rating	Outlook/Alert
11/03/20	BBB	Negative
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", with a "negative" rating outlook. We also affirm 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 Bt1 billion in unsecured subordinated perpetual debentures at "BB+". The proceeds from the new hybrid debentures will be used to refinance the hybrid debentures (ANAN15PA), which ANAN intends to redeem in August 2020.

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.

The ratings on ANAN and its debentures continue to reflect ANAN's acceptable market position in the condominium segment as well as the relatively high income contribution from the joint venture (JV) projects. The ratings also take into consideration ANAN's high financial leverage and concerns over the impacts of the COVID-19 pandemic on the domestic economy and the demand in the residential property market.

Hybrid securities

The characteristics of the proposed hybrid debentures, including subordination, interest deferral at the discretion of the company, a five-year non-call period, and sufficient permanence, qualify for the classification of "intermediate" equity content under TRIS Rating's rating criteria. Thus, TRIS Rating treats 50% of the principal amount of the debentures as equity and the other 50% as debt when calculating ANAN's financial ratios. The "intermediate" equity content will fall to "minimal" (0% of equity treatment for this issue) at the end of the fifth year from the issuance date. This is because, after five years of issuance, the remaining effective tenor of the issue will be less than 20 years. According to TRIS Rating's criteria, the effective maturity date of the issue is defined as the date when there is a material step-up (equal to or more than 100 basis points (bps)) of the coupon rate. In this case, the interest spread of the hybrid debentures will step up by 100 bps at the end of the 25th year.

Except for certain events as specified in the terms and conditions (e.g., changes in the tax and accounting treatments of hybrid securities or a change in the rating agency's criteria used to assess the equity content of the issue), ANAN intends (but is not obliged) to replace, redeem, or repurchase the hybrid debentures with an instrument that has similar or higher equity content. TRIS Rating expects ANAN to replace most of its redeemed hybrids in a timely manner with securities that have the same equity content. A failure to replace its redeemed hybrid debentures will affect the equity credit assigned to its remaining hybrid debentures.

Performance update

ANAN's total operating revenues decreased by 13% year-on-year (y-o-y) to Bt8.9 billion in 2019. Its total operating revenues continued to drop by 18% y-o-y to Bt1.4 billion during the first three months of 2020. We forecast ANAN's total operating revenues to stay in the Bt6-Bt9 billion per annum range during 2020-2022. Revenue from ANAN's own condominium projects may also decline during 2020-2021 since no new projects are being completed and transferred

during these years. 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 2020-2022. We forecast ANAN's share profit from investments in JVs during the next three years to be Bt1.2-Bt1.4 billion per annum.

ANAN's earnings before interest, taxes, depreciation, and amortization (EBITDA) shrank to Bt2.7 billion in 2019 from Bt4.1 billion in 2018. Its EBITDA fell by 70% y-o-y to Bt0.2 billion in the first quarter of 2020. EBITDA margin continued to drop to 17% in the first quarter of 2020 from 31% in 2019 and 41% in 2018 as the company gave discounts and spent more on promotions to release its inventories amid stagnant demand in the residential property market. We expect ANAN's EBITDA margin to stay in the 27%-30% range during 2020-2022. The pretax return on permanent capital (ROPC) ratio decreased to 3%-4% during 2019 through the first three months of 2020 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 three years.

ANAN's debt to capitalization ratio increased to 65% as of March 2020 from 59% as of December 2018. Its funds from operations (FFO) to total debt ratio also dropped to 5% in 2019 and 3% in the first quarter of 2020 from 14% in 2018. In our 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 (both owned and JV projects) worth Bt20-Bt30 billion per annum during 2021-2022. 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.

We assess ANAN's liquidity to be manageable over the next 12 months. As of March 2020, ANAN's sources of funds consisted of Bt6.4 billion in cash on hand and short-term investments in mutual funds plus unencumbered land at cost value of Bt0.6 billion, and remaining units in debt-free projects with a selling price of Bt8.1 billion. 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 Bt13.3 billion, comprising Bt6.5 billion in short-term loans, Bt6 billion in debentures, and Bt0.8 billion in project loans. Most of the short-term loans are being used as bridging loans for land purchases, which will be converted 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 could also sell some land plots to help enhance its liquidity.

As of May 2020, 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 Bt51.5 billion. Condominium projects comprised 80% of the total remaining value, while landed property projects accounted for the rest. ANAN's backlog was worth Bt29.4 billion, comprising Bt28 billion in the backlog under JVs and Bt1.4 billion in its own projects. The JV backlog will be delivered to customers during the remainder of 2020 through 2022. The company expects to deliver Bt0.9 billion of its own backlog to customers during the remainder of 2020 and Bt0.5 billion in 2022.

RATING OUTLOOK

The "negative" outlook reflects our concerns over ANAN's lower-than-expected operating performance and higher financial leverage. The stagnant domestic and foreign demand coupled with the impact of the COVID-19 economic fallout could cause further deterioration in ANAN's operating performance. Thus, its ratings could be downgraded should the company's financial profile continue weakening significantly.

RATING SENSITIVITIES

ANAN's ratings and/or outlook could be revised downward should its operating performance and/or financial profile fail to 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%.

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
ANAN22OA: Bt423.3 million senior unsecured debentures due 2022	BBB
ANAN23OA: Bt746.6 million senior unsecured debentures due 2023	BBB
Up to Bt2,830.1 million senior unsecured debentures due within 3 years 6 months	BBB
Up to Bt1,000 million subordinated capital debentures	BB+
Rating Outlook:	Negative

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