

ANANDA DEVELOPMENT PLC

No. 65/2018

4 September 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 on Ananda Development PLC (ANAN) and the ratings on ANAN's senior unsecured debentures at "BBB". We 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 Bt2,000 million in hybrid debentures at "BB+". The rating on ANAN's hybrid debentures is 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 proposed hybrid debentures' characteristics, including subordination, the interest deferral at the discretion of the company, the five-year non-call period, and sufficient permanence, were qualified for receiving "intermediate" equity content under TRIS Rating's 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" (or 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 will be 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 could lower the equity content of the proposed hybrid debentures, as well as ANAN's outstanding hybrid debentures, to "minimal" from "intermediate" if we believe that the company has an intention to deviate from the replacement capital covenant (RCC).

The ratings on ANAN and its debentures 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 shared 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 cyclicity and competitive environment in the residential property development business and concern over the high level of Thailand's household debt which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

ANAN's presales in 2017 reached a record high of Bt27,359 million, driven mainly by presales from condominium under JV projects. Presales during the first six months of 2018 decreased by 12% year-on-year (y-o-y) to Bt11,702 million. ANAN's revenue had been in the range of Bt10,000-Bt12,000 million per annum during 2014-2017. Its revenue dropped by 13% y-o-y to Bt5,040 million during the first half of 2018 as most condominium projects were developed under JVs.

As of June 2018, ANAN had 33 existing condominium projects (including 21

condominium projects under JVs) and 14 landed property projects, with the total remaining value of Bt40,000 million (including built and un-built units). Condominium projects comprised 83% of total unsold value, while landed property projects accounted for the rest. ANAN's backlog was valued at around Bt5,600 million and is expected to be delivered to customers during the remainder of 2018 through 2020. The total backlog under JVs was Bt49,000 million. The JV backlog worth Bt26,000 million, Bt18,000 million, and Bt5,000 million are expected to be delivered to buyers during the remainder of 2018, 2019, and 2020, respectively. Thus, ANAN should realize a greater portion of shared profits from JVs during 2018-2020.

ANAN's operating income was 15%-20% during 2016 through the first six months of 2018. Its net profit margin increased to 14% in the first half of 2018 from 10%-12% during 2015-2017. Going forwards, ANAN's profitability may be threatened by rising land costs and more intense competition in both condominium and landed property markets. However, TRIS Rating expects ANAN's operating income to stay around 15% during 2018-2020., which is in line with the industry average. We expect that ANAN's net profit margin will be higher than the past several years as the company will realize a greater portion of revenue from project management services and shared profits from its investment in the JV condominium projects.

With its aggressive business expansion through its own and JV projects, ANAN's needs for capital to pursue the growth plan remain significant. TRIS Rating views that ANAN's financial leverage to remain high in 2018-2020. However, we expect ANAN to keep its adjusted net debt to net capitalization ratio at 65%-67%, or adjusted interest-bearing debt to equity ratio at around 2 times.

ANAN's liquidity profile is acceptable. At the end of June 2018, the company had Bt1,585 million in cash plus undrawn committed project loans from financial institutions of around Bt2,500 million. We forecast the funds from operations (FFO) over the next 12 months will be at around Bt2,500 million. Debt due over the next 12 months amounts to Bt5,333 million, comprising Bt4,631 million in short-term promissory notes (P/Ns) and Bt702 million in project loans.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ANAN will be able to sustain its operating performance at the targeted level. TRIS Rating expects ANAN's revenue in 2018-2020 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. We expect ANAN's debt burden to remain high. However, ANAN should be able to maintain its adjusted net debt to net capitalization ratio at 65%-67%, or adjusted interest-bearing debt to equity ratio at around 2 times. The operating income 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.

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
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 Bt2,000 million subordinated capital debentures	BB+
Rating Outlook:	Stable

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