

ANANDA DEVELOPMENT PLC

No. 39/2021

25 March 2021

CORPORATES

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

Last Review Date:12/11/20

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 downgrades the company rating on Ananda Development PLC (ANAN) and the ratings on ANAN's senior unsecured debentures to "BBB-" from "BBB", and also downgrades the ratings on ANAN's existing subordinated capital debentures (hybrid debentures) to "BB" from "BB+". At the same time, TRIS Rating assigns the rating of "BB" to ANAN's proposed issue of up to THB1 billion in subordinated capital debentures. The rating outlook is "stable". The proceeds from the new hybrid debentures will be used to refinance the hybrid debentures (ANAN16PA), which ANAN intends to redeem in May 2021. 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 downgrades reflect ANAN's rising financial leverage and its lower-than-expected operating performance amid sluggish demand and intense competition in the residential property market.

The ratings continue to reflect ANAN's acceptable market position in the condominium segment as well as the high income contribution from the joint venture (JV) projects. The ratings also take into consideration our concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19) pandemic, which could put more pressure on the demand for residential property and the profitability of developers in the short to medium term.

KEY RATING CONSIDERATIONS

Softened operating performance

ANAN's operating performance dropped sharply in the past two years. ANAN's presales dropped from THB20.8 billion in 2018 to THB10.5 billion in 2019 and THB5.9 billion in 2020. ANAN's earnings before interest, taxes, depreciation, and amortization (EBITDA) also dropped from a peak of THB4.1 billion in 2018 to THB2.7 billion in 2019 and THB1 billion in 2020. The company also reported a net loss of THB0.2 billion in 2020, well below our prior forecast of THB0.8 billion net profit. This was mainly due to lower operating revenue, a higher percentage of selling and promotions expenses, and the one-time loss recognition of THB1 billion from construction management services.

Looking forward, we have revised down our forecast for ANAN's total operating revenue to THB4.5-THB6.5 billion per annum during 2021-2023, lower than our previous forecast of THB6-THB9 billion per annum. ANAN's EBITDA is expected to remain THB1 billion this year since there will be no condominium projects to be completed and transferred this year. However, we expect ANAN's EBITDA to recover to around THB1.5-THB2 billion per annum during 2022-2023.

We forecast condominium presales from its own and JV projects to be THB11-THB14 billion annually during 2021-2023. The value of condominium transfers is projected to stay in the range of THB13-THB16 billion per annum over the forecast period. ANAN's backlog at the end of 2020 stood at THB18.3 billion, comprising THB17.5 billion in backlog under JVs and THB0.8 billion of its own projects. The backlog worth THB7.7 billion is expected to be transferred this year, THB9.2 billion in 2022, and THB1.4 billion in 2023. Due to its lower backlog, ANAN's revenues and earnings will depend largely on its ability to

generate sales from remaining unsold finished condominium units. At the end of 2020, the company's portfolio consisted of unsold completed condominium units worth THB25.3 billion.

Income contribution from JVs remains high, but profit sharing may be hurt by new investments

As of December 2020, ANAN had 28 existing condominium projects, consisting of 20 JV condominium projects and eight owned condominium projects, and 13 landed property projects, with total unsold value of THB49.1 billion. ANAN will continue to realize shared profits from these JVs over the next three years. Going forward, ANAN plans to continuously launch several condominium projects under JVs. Thus, we expect the company will continue to receive a significant amount of revenue from project management services for its JVs. We expect ANAN's revenue from project management services for JV assets to be around THB1 billion per annum, or 15%-20% of total operating revenue during 2021-2023.

ANAN will also earn a shared profit from JV condominium projects to be transferred. However, we foresee that its shared profit in the next couple of years may be hurt by the loss from investments in newly launched condominium projects and operations in newly completed serviced apartments. Two out of five serviced apartments were completed in 2020, while the others will be completed this year. All serviced apartments are set to start operation during a severe downturn in the tourism industry. Thus, we foresee they will carry losses during the next couple of years. We project a net shared loss from investments in all JVs to stay below THB0.1 billion this year. It should turn to a positive figure of THB0.1 billion in 2022 and THB1 billion in 2023. Overall, we expect ANAN's profitability to remain under pressure for the next few years.

Elevated financial leverage

ANAN's debt to capitalization ratio jumped to 65% as of December 2019 and December 2020 from 59% as of December 2018, much higher than our previous target of 60%. In addition, weaker-than-expected operating performance caused its funds from operations (FFO) to total debt ratio to decline further to a negative figure in 2020, from 5% in 2019 and 14% in 2018.

In our base-case forecast, we project ANAN's financial leverage to remain high over the next three years as the company plans to expand its residential project portfolio. We expect ANAN's debt to capitalization ratio will elevate to 65%-68%. Its FFO to total debt ratio may stay below 2% during the next few years. This is based on our assumptions that ANAN will launch new JV condominium projects worth THB24 billion this year. The value of new project launches is projected to be THB8 billion in 2022 and THB5 billion in 2023. ANAN holds several land plots ready for launches of new projects if the market recovers. We forecast ANAN's budget for land acquisition for its own projects to be THB0.5-THB0.7 billion per annum during 2021-2023.

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 2020, ANAN's reported net interest-bearing debt to equity ratio was 1.07 times. We expect ANAN to prudently manage its capital structure in order to comply with the financial covenants at all times.

Liquidity should be manageable

We assess ANAN's liquidity to be manageable over the next 12 months. As of December 2020, ANAN's sources of funds consisted of THB3.2 billion in cash on hand plus undrawn committed short-term loan facilities of THB4.8 billion and undrawn committed long-term loan facilities of THB2.2 billion. Also, ANAN had remaining units in debt-free projects with a selling price of THB5.6 billion. Debts due over the next 12 months will amount to THB12.8 billion, comprising THB5.9 billion in short-term promissory notes (P/Ns), THB5.4 billion in debentures, and THB1.5 billion in long-term loans. Most of the short-term P/Ns 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 debentures with new debentures issuance. Project loans will be repaid with cash from the transfers of residential units.

ANAN has a call option to redeem its outstanding hybrid debentures worth THB1 billion in May 2021. 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 instruments that have 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 outstanding hybrid debentures.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast during 2021-2023:

- ANAN to launch new residential projects worth THB24 billion in 2021, THB8 billion in 2022, and THB5 billion in 2023
- Annual budget for land acquisition for its own projects to be THB0.5-THB0.7 billion
- Total operating revenue to stay in the THB4.5-THB6.5 billion per annum range
- Investments in all JVs to generate net shared loss of below THB0.1 billion in 2021, turning to net shared profit of THB0.1 billion in 2022 and THB1 billion in 2023

RATING OUTLOOK

The "stable" outlook reflects our expectation that ANAN will be able to deliver its operating performance as targeted. We project ANAN's EBITDA during 2021-2023 to be THB1-THB2 billion per annum, with its debt burden to remain high. We expect its debt to capitalization ratio to stay in the 65%-68% range over the forecast period, and pretax return on permanent capital (ROPC) to hold at 2%-5%.

RATING SENSITIVITIES

ANAN's ratings and/or outlook could be revised further 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 if the company is able to deliver stronger operating performance than the target levels and improve its financial profile such that its FFO to total debt ratio improves to more than 5% while its debt to capitalization ratio is kept at around 60%.

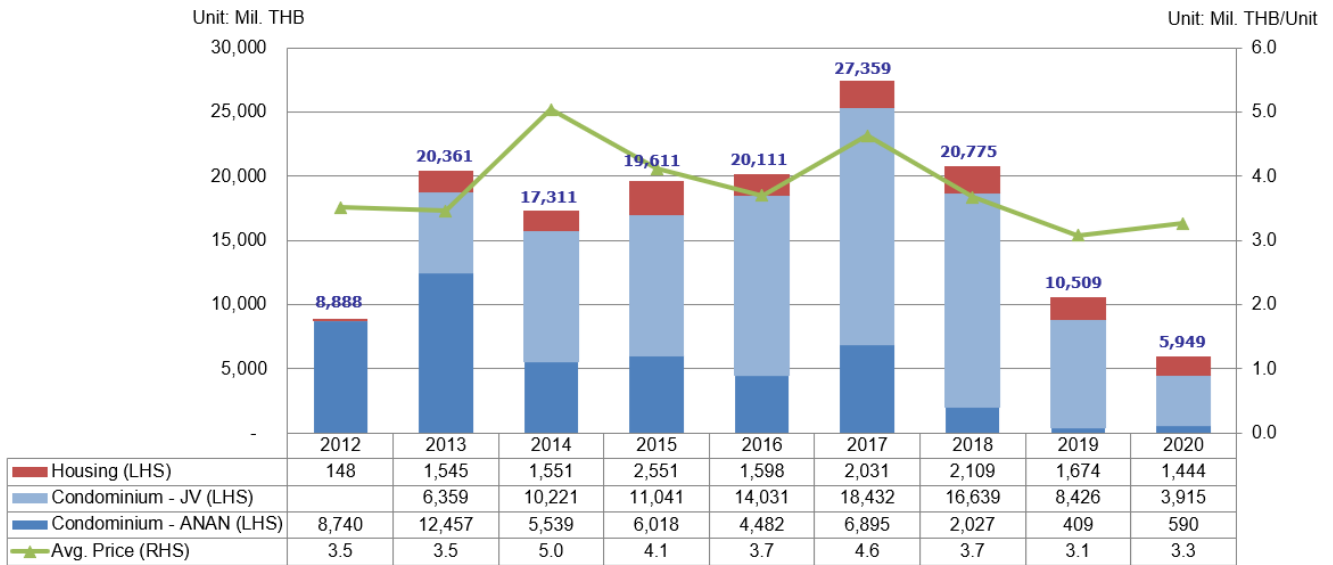
COMPANY OVERVIEW

ANAN was established in 1999 by the Ruangkritya family and listed on the Stock Exchange of Thailand (SET) in December 2012. As of 10 March 2021, the Ruangkritya family was ANAN's largest shareholder, holding 46.32% 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 THB50,000 to THB240,000 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 2017-2020. The revenue contribution from project management services and commission income through JV projects continuously increased to 16% in 2017 and 29% in 2020, from less than 10% in several previous years. Revenues from rental and service income remained negligible.

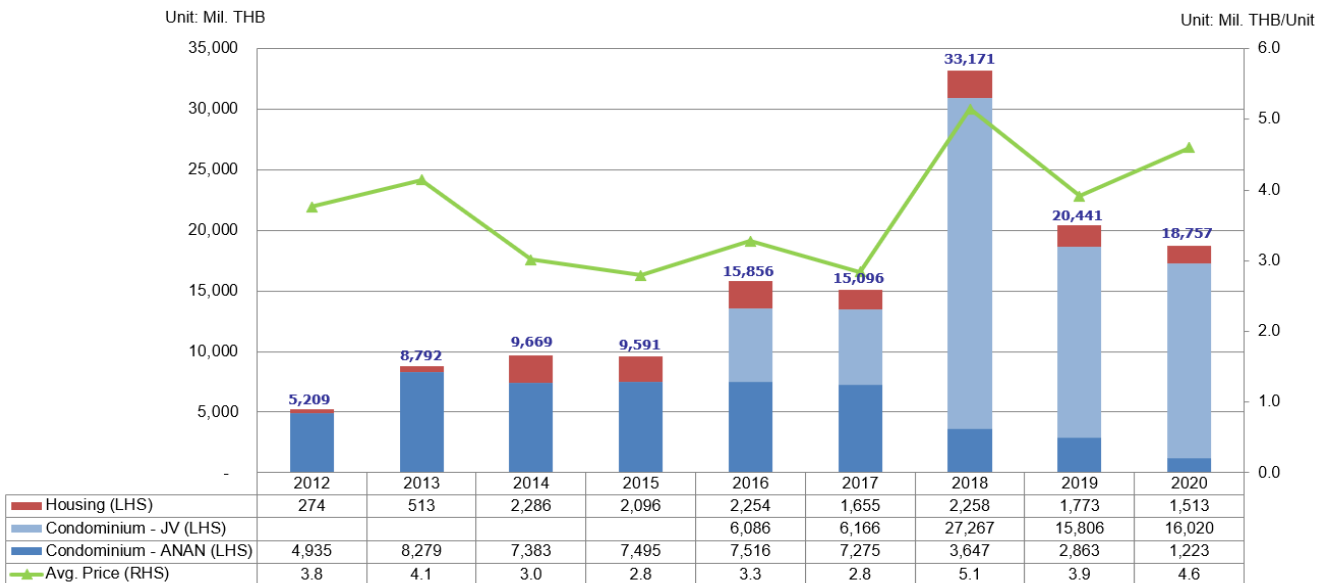
KEY OPERATING PERFORMANCE

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 -----				
	2020	2019	2018	2017	2016
Total operating revenues	4,199	7,302	10,226	12,655	12,072
Earnings before interest and taxes (EBIT)	423	1,830	3,572	2,370	2,573
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,003	2,685	4,144	2,618	2,668
Funds from operations (FFO)	(522)	1,275	2,933	1,419	1,680
Adjusted interest expense	1,453	1,451	1,117	826	682
Real estate development investments	19,829	20,411	17,504	13,201	12,470
Total assets	43,298	48,795	41,573	29,904	25,366
Adjusted debt	25,582	27,300	20,661	20,064	12,657
Adjusted equity	13,564	14,684	14,399	10,896	9,754
Adjusted Ratios					
EBITDA margin (%)	23.89	36.76	40.53	20.69	22.10
Pretax return on permanent capital (%)	0.94	4.15	9.72	8.09	11.38
EBITDA interest coverage (times)	0.69	1.85	3.71	3.17	3.91
Debt to EBITDA (times)	25.51	10.17	4.99	7.66	4.74
FFO to debt (%)	(2.04)	4.67	14.19	7.07	13.27
Debt to capitalization (%)	65.35	65.02	58.93	64.81	56.48

* 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:	
ANAN16PA: THB1,000 million subordinated capital debentures	BB
ANAN17PA: THB770 million subordinated capital debentures	BB
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
ANAN222A: THB2,500 million senior unsecured debentures due 2022	BBB-
ANAN220A: THB423.3 million senior unsecured debentures due 2022	BBB-
ANAN220B: THB915.6 million senior unsecured debentures due 2022	BBB-
ANAN230A: THB746.6 million senior unsecured debentures due 2023	BBB-
ANAN241A: THB1,412.8 million senior unsecured debentures due 2024	BBB-
Up to THB1,000 million subordinated capital debentures	BB
Rating Outlook:	Stable

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