

ANANDA DEVELOPMENT PLC

No. 50/2023
31 March 2023

CORPORATES

Company Rating: BBB-

Issue Ratings:

Senior unsecured BBB-

Hybrid BB

Outlook: Negative

Last Review Date: 27/01/23

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

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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 subordinated capital debentures (hybrid debentures) at “BB”. At the same time, we assign a “BB” rating to ANAN’s proposed issue of up to THB1.5 billion hybrid debentures. The proceeds from the new debentures are intended to partially refinance debentures (ANAN237A and ANAN230A) maturing in July and October 2023.

However, we revise the rating outlook on ANAN to “negative” from “stable”. The “negative” outlook reflects our concerns that a recovery of ANAN’s operations might take longer than expected. Despite improving presales and transfer in 2022, ANAN’s profit margin and funds from operations (FFO), without taking into consideration a one-time gain on a land sale, were much lower than our previous targets. Besides, the company’s financial leverage remained at a high level in 2022. These factors reflect a degree of uncertainty in the company’s ability to deliver sound operating results and an improved financial position in line with our latest projections.

The ratings continue to reflect ANAN’s acceptable market position in the condominium segment, consistent income contribution from the joint venture (JV) projects, and its high financial leverage. The ratings also incorporate our concerns over Thailand’s persistently high household debt levels and rising inflation which could impact the purchasing power of homebuyers in the short to medium term while pushing up development and funding costs for developers.

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.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance in 2022

In our view, ANAN’s operations have not fully recovered from stagnant demand in the condominium market caused by the Covid-19 pandemic. In an attempt to boost revenue and trim ready-to-move (RTM) inventory, ANAN incurred deeper-than-expected deterioration in its profitability. Its gross profit margin plunged to 22% in 2022, significantly deviating from our previous forecast of 32%. In the absence of a one-time gain on a land sale in late 2022, ANAN’s FFO went into deeper negative territory than our previous projection. The company also reported a net loss of around THB300 million in 2022.

Given that the condominium market gradually recovered in 2022, we expect ANAN to be in a position to benefit from positive market momentum as the company had a high level of RTM condominium stock worth THB23.4 billion at the end of 2022. The company’s ability to liquidate the stock with a satisfactory profit margin and reduce its debt burden fell short of our targets.

Slow recovery anticipated

Although revenue and earnings are expected to improve in 2023-2025, doubts remain over ANAN’s ability to deliver results and financial performance as targeted. Any further deviation from our expectation could lead to the rating downgrade.

Our base-case scenario projects a turnaround in ANAN's operating and financial results from 2023 onwards. We expect ANAN's operating revenue to gradually improve to around THB5.0-THB5.5 billion per annum in 2023-2024 and further revive to THB9.4 billion in 2025, from THB3.1 billion in 2022. We anticipate a stronger gross profit margin of 30%-31% in 2023-2025, driven by improved margins from newly transferred projects, RTM stocks, and project management services through JVs. Its net shared profit from investments in JVs should reach THB500-THB550 million in 2023-2025 as we assume annual transfers of THB7-THB9 billion from residential projects and profitable operation from serviced apartments. We expect ANAN's earnings before interest, taxes, depreciation, and amortization (EBITDA) from normal operations, excluding any one-time gains, to reach the THB1 billion level and its FFO should become positive from 2023 onwards. ANAN's bottom line is likely to remain in negative territory in 2023, before turning positive in 2024-2025.

Acceptable market position

We consider ANAN's brand to have been somewhat negatively affected by the lawsuits related to its large project "Ashton Asoke". Despite pending issues from the project, we assess ANAN's market position to be holding up well compared with peers with similar ratings. ANAN's presales and transfer in recent year have ranked in the top-tier of our rated property developers. The ongoing lawsuits are expected to be finalized within 2023. A positive outcome should help restore ANAN's brand image and reputation in the market.

We will closely monitor the progress of ongoing litigation and potential impact on the ratings assigned to ANAN. A further decline in sales and/or transfers resulting from weakening confidence in the company's brands or other potential lawsuits, which cause the company's financial profile to significantly deviate from our targets, could prompt a negative rating action.

High financial leverage but improvement anticipated from 2023 onwards

Our base-case scenario projects a recovery in ANAN's financial results from 2023 onwards. The deterioration in ANAN's operating performance during the pandemic years caused its debt to hang at a high level. ANAN's debt to capitalization has remained in the 65%-68% range throughout the past three years. The company reported three consecutive years of net loss and negative FFO in 2020-2022. Looking forward, we expect ANAN's debt to capitalization ratio to improve to 63%-65% and its net debt to EBITDA ratio to decline markedly to 8-15 times in 2023-2025. Its FFO is expected to turn positive in 2023, with the FFO to total debt staying in the 1%-7% range.

Our base-case assumes that ANAN will launch new residential projects worth THB15-THB22 billion per annum in 2023-2025. We expect more than half of the new project value will be developed under JVs. Thus, ANAN needs to inject equity and provide shareholder loans totaling THB1.3-THB1.8 billion per annum to the JVs in the next three years. We also assume ANAN's budget for land acquisition for its own projects will be THB0.5 billion in 2024 and around THB2.0 billion in 2025.

The financial covenants on ANAN's bank loans and debentures require the company's reported net interest-bearing debt to equity ratio to remain below 2.0 times and 2.5 times, respectively. As of December 2022, the ratios were 1.01 times for the bank loans covenants and 1.31 times for the debenture covenants (noting the discrepancy in calculation method). We expect ANAN to prudently manage its capital structure to comply with the financial covenants.

Tight but manageable liquidity

We assess ANAN's liquidity to be tight but manageable over the next 12 months. As of 31 December 2022, ANAN's sources funds included cash on hand of THB6.9 billion (including excess cash from a bond issuance of THB3.5 billion in late 2022) and unused committed unconditional loan facilities of THB2.1 billion. In addition, ANAN had unsold finished residential units in its own debt-free projects with a total selling price of around THB3.4 billion, which could be pledged as collateral for new loans, if needed.

On the flip side, ANAN's debts maturing within the next 12 months amount to THB10.4 billion, comprising THB3.9 billion in short-term loans, THB0.9 billion in long-term loans, and THB5.6 billion in senior unsecured debentures. ANAN issued THB4 billion in senior unsecured debentures in early March 2023 to partially refinance senior unsecured bonds coming due in 2023 and repaid its hybrid debentures (ANAN18PB). The company aims to issue new hybrid debentures of THB1.5 billion to partially replace the remaining senior unsecured debentures maturing this year. Most of the short-term promissory notes (P/Ns) are used as bridging loans for land purchases. ANAN plans to convert them to long-term project loans thereafter. Project loans are normally repaid with the proceeds from the underlying projects' unit transfers.

As of 31 December 2022, ANAN had total debt of THB27.9 billion (per priority debt consideration). ANAN's priority debt, including secured debt of the parent company and total debt of its operating subsidiaries, was THB6.2 billion. These translate to a priority debt to total consolidated debt ratio of 22%.

BASE-CASE ASSUMPTIONS

These are the key assumptions for ANAN's operations in TRIS Rating's base-case forecast during 2023-2025:

- ANAN to launch new residential projects worth THB15-THB22 billion per annum.
- Annual budget for land acquisition for its own projects to be THB0.5-THB2.0 billion.
- Total operating revenue of around THB5.0-THB5.5 billion per annum in 2023-2024, reviving to THB9.4 billion in 2025.
- Net shared profit from investments in all JVs to be THB500-THB550 million.

RATING OUTLOOK

The "negative" outlook reflects our view of signs of uncertainty in the recovery of ANAN's operations which could lead to a deeper-than-anticipated deterioration in the company's credit profile.

RATING SENSITIVITIES

ANAN's ratings could be revised downward should its operating performance and/or financial profile turn out to be worse than our expectations. On the contrary, the company's outlook could be revised to "stable" if it delivers operating results as targeted and successfully improves its financial position such that we could expect FFO to turn positive in 2023. We also expect the FFO to total debt ratio to improve to the 2%-5% range and the debt to capitalization ratio to remain below 65% over the forecast period.

COMPANY OVERVIEW

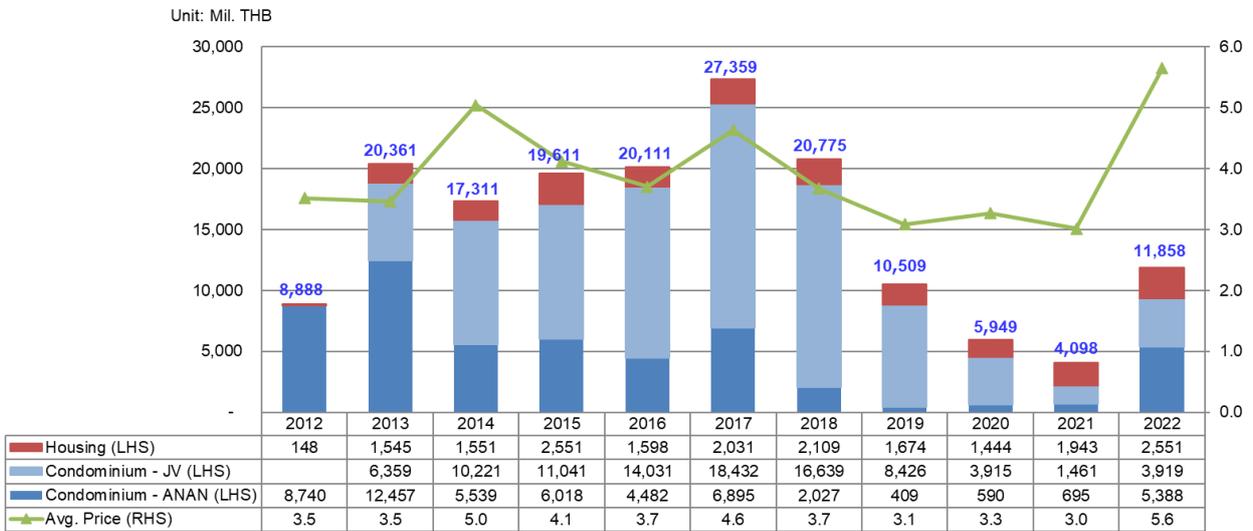
ANAN was established in 1999 by the Ruangkritya family and listed on the Stock Exchange of Thailand (SET) in December 2012. As of 7 March 2023, the Ruangkritya family was ANAN's largest shareholder, holding 48.27% of the shares. ANAN is engaged in the development of residential properties, particularly condominium projects, located near mass transit train stations in Bangkok. ANAN's condominium projects are developed under the CoCo Parc, Ashton, Culture, Ideo Q, Ideo Mobi, Venio, Ideo, Elio, and Unio brands. Its condominium products cover the low-to-luxury 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.

As of 31 December 2022, ANAN's portfolio consisted of 23 condominium projects (including 14 JV project) and 13 housing projects, with total remaining value of THB42.3 billion (including built and un-built units). Across the entire portfolio value, the projects were 58% sold and 46% transferred. Backlog on hand amounted to THB12.2 billion, which will partly secure future revenues and earnings.

The revenue contribution from residential sales constituted more than 80% of ANAN's total operating revenues during 2011-2016, but this contribution decreased to 60%-70% during 2017-2022. The revenue contribution from project management services and commission income through JV projects has continuously increased, rising to 15%-30% of total revenue during the past five years, from less than 10% before 2016. Revenues from rental and service income remained negligible.

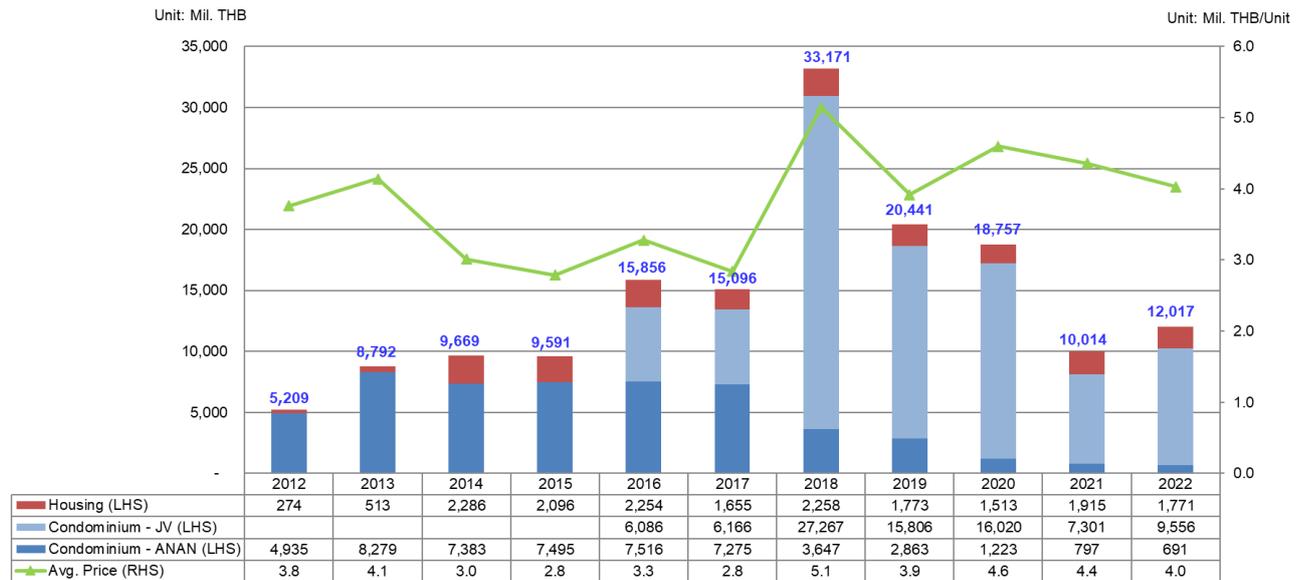
KEY OPERATING PERFORMANCE

Chart 1: Net Presales



Source: ANAN

Chart 2: Transfers



Source: ANAN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	3,112	3,710	4,199	7,302	10,226
Earnings before interest and taxes (EBIT)	860	480	423	1,830	3,572
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,202	844	1,003	2,685	4,144
Funds from operations (FFO)	(118)	(592)	(578)	1,275	2,879
Adjusted interest expense	1,233	1,332	1,453	1,451	1,117
Real estate development investments	17,703	20,087	19,829	20,411	17,504
Total assets	41,976	39,382	43,298	48,795	41,573
Adjusted debt	23,842	26,256	25,683	27,300	20,661
Adjusted equity	11,983	12,441	13,564	14,684	14,399
Adjusted Ratios					
EBITDA margin (%)	38.61	22.76	23.89	36.76	40.53
Pretax return on permanent capital (%)	2.04	1.14	0.94	4.15	9.72
EBITDA interest coverage (times)	0.97	0.63	0.69	1.85	3.71
Debt to EBITDA (times)	19.84	31.10	25.61	10.17	4.99
FFO to debt (%)	(0.50)	(2.26)	(2.25)	4.67	13.94
Debt to capitalization (%)	66.55	67.85	65.44	65.02	58.93

* Consolidated financial statements

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

Ananda Development PLC (ANAN)

Company Rating:	BBB-
Issue Ratings:	
ANAN237A: THB1,768.80 million senior unsecured debentures due 2023	BBB-
ANAN230A: THB746.60 million senior unsecured debentures due 2023	BBB-
ANAN241A: THB1,412.80 million senior unsecured debentures due 2024	BBB-
ANAN241B: THB1,188.30 million senior unsecured debentures due 2024	BBB-
ANAN241C: THB1,224.20 million senior unsecured debentures due 2024	BBB-
ANAN247A: THB3,231.20 million senior unsecured debentures due 2024	BBB-
ANAN251A: THB1,811.70 million senior unsecured debentures due 2025	BBB-
ANAN251B: THB1,176.60 million senior unsecured debentures due 2025	BBB-
ANAN256A: THB2,275.80 million senior unsecured debentures due 2025	BBB-
ANAN261A: THB2,823.40 million senior unsecured debentures due 2026	BBB-
ANAN19PA: THB1,000 million subordinated capital debentures	BB
ANAN20PA: THB1,000 million subordinated capital debentures	BB
ANAN21PA: THB1,000 million subordinated capital debentures	BB
Up to THB1,500 million subordinated capital debentures	BB
Rating Outlook:	Negative

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