

## Press Release

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### **TRIS Rating Affirms Company & Senior Unsecured Debt Ratings of "ANAN" at "BBB", Unsecured Subordinated Perpetual Debt Ratings at "BB+", and Assigns "BB+" Rating to Hybrid Debt Worth Up to Bt1,000 Million, with "Stable" Outlook**

TRIS Rating has affirmed the company rating and the ratings of existing senior unsecured debentures of Ananda Development PLC (ANAN) at "BBB" as well as the ratings of ANAN's unsecured subordinated perpetual debentures (hybrid debentures) at "BB+". At the same time, TRIS Rating has assigned the rating of "BB+" to ANAN's proposed issue of up to Bt1,000 million in hybrid debentures. The outlook remains "stable". The rating of 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% equity treatment for this issue) at the end of the fifth year from the issuance date. This is because, five years after 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) 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 25<sup>th</sup> 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 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 of ANAN and its debentures continue to reflect the company's strong market competitiveness in the condominium segment, its proven track record in the residential property market, larger revenue base, and expected higher contribution of share 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 rating also takes into consideration concerns over the high level of household debts nationwide, coupled with the current slowdown in the domestic economy, which may impact the demand in the residential property market in the short to medium term.

The "stable" outlook reflects the expectation that ANAN will be able to sustain its operating performance at the target levels. Over the next three years, ANAN's revenue is expected to stay around Bt12,000-Bt14,000 million per annum. The company is expected to keep funds from operations (FFO) at Bt1,500-Bt2,000 million per year while maintaining adjusted debt to capitalization ratio at no more than 66%, or the interest-bearing debt to equity ratio below 2 times. Also, the FFO to total debt ratio should be in the range of 10%-13%.

ANAN's ratings and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the target levels. Also, the adjusted debt to capitalization ratio at above 66% for certain periods will lead to the downward revision. The ratings and/or outlook could be revised upward should the company successfully diversify portfolio or should its financial profile improve significantly from the current level.

ANAN was established in 1999 by the Ruangkritya family, and then listed on the Stock Exchange of Thailand (SET) in December 2012. As of August 2016, Mr. Chanond Ruangkritya was ANAN's largest shareholder, holding 50.1% of the shares. ANAN is engaged in development and sale of residential property, concentrated mainly in condominium projects located near mass transit train stations in

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Bangkok. Revenue contribution from the condominium unit sale accounts for more than 80% of total revenue. The company plans to invest in rental properties. The first project will be a 450-key serviced apartment on the Ratchadapisek road. Total project cost is around Bt3,000 million, and the project is expected to complete in late 2019.

ANAN's operating performances have been relatively strong over the past three years. Revenue from its own projects improved from around Bt5,000 million per year during 2011-2012 to around Bt10,000 million per year during 2013-2015, while its JV condominium projects started to realize profits in late 2016 and onwards. As of December 2016, the combined project values under JVs were Bt60,000 million. The JVs not only enhance ANAN's capacity to expand the project portfolio but also help mitigate the business and financial risks of ANAN.

ANAN's total revenue during 2013-2015 was around Bt10,000 million per annum. Its revenue during the first nine months of 2016 sharply increased to Bt8,199 million. Over the next three years, ANAN's total revenue is expected to stay around Bt12,000-Bt14,000 million per annum. Additionally, income from project management services and commission fees through the JV projects will contribute a greater portion of total revenue from 2016 onwards.

ANAN's operating margin, as measured by operating income before depreciation and amortization as a percentage of revenue, decreased to 14% during the first nine months of 2016 from 16%-19% during 2012-2015. The drop was due mainly to low profit margin from housing projects. Going forward, ANAN's operating margin is expected to stay at around 15% over the next three years. The net profit margin during the next three years is expected to improve as ANAN will start recognizing share profits from its JV projects from late 2016.

The debt to capitalization ratio (including the adjustments with proportionate debt from JVs and the subordinated capital debentures) was 62% as of September 2016 and 60% as of December 2015. TRIS Rating's base case scenario assumes ANAN's financial leverage over the next three years will remain high from its business expansion through its own and JV projects. However, the debt to capitalization ratio should not exceed 66%, or the interest-bearing debt to equity ratio should be less than 2 times in order to maintain its ratings at this level. ANAN's liquidity profile is acceptable. Its senior unsecured debentures worth Bt5,000 million, Bt2,000 million, and Bt500 million will mature in 2017, 2018, and 2019, respectively. ANAN's liquidity sources include Bt3,500 million in cash, Bt4,500 million in undrawn unconditional credit facilities as of December 2016, and expected FFO of around Bt1,500-Bt2,000 million per annum.

## **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+

ANAN175A: Bt4,000 million senior unsecured debentures due 2017

BBB

ANAN19OA: Bt500 million senior unsecured debentures due 2019

BBB

Up to Bt1,000 million subordinated capital debentures

BB+

### **Rating Outlook:**

Stable

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