

ANANDA DEVELOPMENT PLC

No. 85/2020

12 November 2020

CORPORATES

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

Last Review Date: 22/06/20

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 unsecured subordinated perpetual debentures (hybrid debentures) at "BB+". At the same time, we assign the rating of "BBB" to ANAN's proposed issue of up to THB2.5 billion in senior unsecured debentures. The proceeds from the new debentures will be used to repay outstanding debt.

The ratings on ANAN and its debentures 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 impact of the Coronavirus Disease 2019 (COVID-19) on the demand for residential property and the profitability of developers in the short to medium term.

ANAN's total operating revenues decreased by 38% year-on-year (y-o-y) to THB3.9 billion in the first nine months of 2020. Its total operating revenues are likely to be at 70%-80% of our previous forecast of THB6-THB7 billion per annum due to the lower demand for condominiums from both Thai and foreign buyers. We expect ANAN's revenue from project management services through JVs to be THB1.1-THB1.8 billion per annum, or 17%-20% of total operating revenues during 2020-2023.

ANAN's earnings before interest, taxes, depreciation, and amortization (EBITDA) shrank by 59% y-o-y to THB0.9 billion in the first nine months of 2020. Its EBITDA margin continued to drop to 23% in the first nine months 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 recover to 27%-30% during 2021-2023. The pretax return on permanent capital (ROPC) ratio decreased to 2% in the first nine months of 2020 due mainly 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 reported a net loss of THB0.1 billion in the first nine months of 2020. This was mainly due to the one-time loss recognition of THB0.8 billion from construction management service. However, we expect that ANAN's profitability to turn positive in the last quarter of 2020 as the company schedules to deliver backlog units worth THB7 billion in five condominium projects under JVs. The transfers started in late September 2020. We expect share profits from these JVs to lift ANAN's bottom line in the fourth quarter of 2020.

ANAN's debt to capitalization ratio increased to 66% as of September 2020 from 59% as of December 2018, slightly higher than our target of 65%. In our base-case scenario, we expect that ANAN's debt to capitalization ratio to improve to around 60% by the end of 2021. However, ANAN's debt to capitalization ratio is expected to hover around 60% as the company plans to launch more new projects if the market recovers.

ANAN's liquidity is relatively tight but should be manageable. As of September 2020, ANAN's sources of funds consisted of THB5 billion in cash on hand and

short-term investments in mutual funds plus unencumbered land at cost value of THB0.8 billion, and remaining units in debt-free projects with a selling price of THB5.3 billion. ANAN's funds from operations (FFO) over the next 12 months are expected to be THB0.5 billion. Debts due over the next 12 months will amount to THB11.8 billion, comprising THB6.1 billion in short-term loans, THB3.4 billion in debentures, THB2.2 billion in project loans, and THB0.1 billion in financial lease. 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 plans to refinance maturing bonds with new bond issues. Project loans are planned to be repaid with cash from the transfers of residential units.

As of September 2020, ANAN had 33 existing condominium projects (consisting of 24 JV condominium projects and 9 owned condominium projects) and 14 landed property projects, with total unsold value of THB50.6 billion. Condominium projects comprised 80% of the total remaining value, while landed property projects accounted for the rest. The company's backlog was worth THB24.5 billion, comprising THB23.3 billion in the backlog under JVs and THB1.2 billion in its own projects. The JV backlog are expected to be delivered to customers during the remainder of 2020 through 2023. The company expects to deliver THB0.8 billion of its own backlog to customers in the fourth quarter of 2020 and THB0.4 billion in 2022.

RATING OUTLOOK

The "negative" outlook reflects our concerns over ANAN's lower-than-expected operating performance and the rise in financial leverage. The stagnant domestic and foreign demand coupled with the prolonged COVID-19 pandemic 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 back to stable 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:	
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
ANAN230A: THB746.6 million senior unsecured debentures due 2023	BBB
Up to THB2,500 million senior unsecured debentures due within 3 years	BBB
Rating Outlook:	Negative

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