

ANANDA DEVELOPMENT PLC

No. 43/2024
29 March 2024

CORPORATES

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

Last Review Date: 02/08/23

Company Rating History:

Date	Rating	Outlook/Alert
02/08/23	BB+	Alert Negative
31/03/23	BBB-	Negative
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 senior unsecured debentures at “BB+”, and also affirms the ratings on ANAN’s subordinated capital debentures (hybrid debentures) at “B+”. At the same time, we remove the CreditAlert with a “negative” implication and replace with a “negative” outlook.

The “negative” outlook reflects ANAN’s weaker-than-expected financial performance due to low profitability and high financial leverage. ANAN has incurred net losses and negative funds from operations (FFO) for four consecutive years. Its deteriorating financial position has raised our concerns over the company’s competitiveness in this business.

The ratings also take into consideration ANAN’s tight but manageable liquidity, together with unfavorable market sentiment in the residential property market caused by the reimposition of stringent loan-to-value (LTV) rules in 2023, lingering high interest rates, and high household debts.

The ratings on the hybrid debentures were notched down by three notches from ANAN’s company rating, reflecting the deep subordination and heightened interest payment deferral risks for hybrid debentures issued by a non-investment grade issuer. Currently, one tranche of its outstanding hybrid debentures (ANAN19PA) receives 0% equity content as the remaining time to the effective maturity date is less than 20 years while the remaining hybrids still receive 50% equity content.

KEY RATING CONSIDERATIONS

Weaker-than-expected financial results

Even though ANAN's net presales and transfers from its own and joint venture (JV) projects in 2023 were in line with our targets at THB13.2 billion, the overall financial profile of the company was affected by a significant contraction in profit margin, high operating expenses, and a heavy burden of interest costs. ANAN’s gross profit margin plunged to 17% in 2023, well below our previous target of 30%. The company has to sacrifice profit margin on most residential projects, especially ready-to-move (RTM) condominiums, in order to boost cashflow and ease tight liquidity. With higher operating expenses and rising interest costs, ANAN reported a substantial net loss of THB887 million in 2023, 40% deeper than our previous forecast.

Looking ahead, we expect ANAN to benefit from the increasing demand for condominiums, especially from foreign buyers. As of December 2023, ANAN’s RTM condominium inventory, comprising both its own and JV projects, amounted to THB20.2 billion, which could be sold and recognized as revenues immediately. However, the ability to trim RTM condominium stock with satisfactory profit margins remains a key challenge.

Challenging operating performance ahead

A level of uncertainty surrounds future revenue and earnings, in our view. ANAN may find it challenging to deliver operating performance as targeted, particularly if economic conditions deteriorate and competition in the residential property market remains intense. In addition, the pending resolution of the Ashton Asoke issue and the deferred divestment of some investments may cause the company’s financial profile to deviate from our targets, potentially affecting the ratings on ANAN.

We project ANAN's operating revenue to improve to THB4.5 billion in 2024 and jump to THB8-THB10 billion per annum in 2025-2026, from THB3.4 billion in 2023, thanks to the scheduled transfer of condominium projects in late 2025. We expect a higher gross profit margin of around 22% in 2024-2026, driven by favorable margins in newly completed projects. We also anticipate net shared profit from investments in JVs totaling THB100-THB200 million annually. ANAN's earnings before interest, taxes, depreciation, and amortization (EBITDA) should increase to THB1.4 billion in 2024 (including gain from the divestment of some investments), rising to the THB2-THB3 billion level in 2025-2026. With high operating and interest expenses, ANAN's bottom line is likely to remain in negative territory in 2024-2025 but should turn positive in 2026.

High financial leverage

The deterioration in ANAN's overall operation and the net losses incurred over four consecutive years have caused its leverage to hang at a high level. ANAN's debt to capitalization ratio has remained in the 65%-68% range in 2020-2023. The company has continued to record negative FFO over the past four years. However, we expect a significant improvement in ANAN's financial results from 2025 onwards based on our projected revenue and earnings. We project the debt to EBITDA ratio will decline to 8 times in 2025 and 5 times in 2026, from 24 times in 2023. We view that the debt to capitalization ratio in 2024-2025 will likely stay at the same level as 2023 before improving to 65% in 2026. The FFO to debt ratio should recover to 2%-5% beginning in 2025.

Our base case scenario assumes that ANAN will launch new residential projects worth THB20-THB24 billion per annum in 2024-2025 and around THB4 billion in 2026. Most of the new projects will be developed under JVs. Thus, ANAN will need to inject equity and provide shareholder loans totaling THB3 billion to the JVs over the next three years. We also assume a budget for land acquisition for its own projects of THB1 billion in 2026.

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 2023, the ratios were 1.4 times for the bank loan covenants and 1.7 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 as tight, but it should be manageable over the next 12 months. As of 31 December 2023, ANAN's sources of funds included cash on hand of THB4.7 billion plus unused committed unconditional loan facilities of THB3 billion. We project ANAN's FFO in 2024 to be around THB200 million. In addition, the company had unsold finished residential units in its own debt-free projects with a total selling price of THB4.2 billion and unencumbered land banks at book value of THB3.8 billion, which can be pledged as collateral for new loans, if needed.

On the flip side, ANAN's debts maturing within the next 12 months amount to THB10.8 billion, comprising THB7.1 billion in senior unsecured debentures, THB2.6 billion in short-term loans, THB1.1 billion in long-term loans, and THB84 million in lease liability. ANAN repaid THB3.8 billion in debentures due in January 2024 using cash flow from residential unit transfers. ANAN intends to divest some investments in mid-2024 to partly support bond repayments in July 2024. 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 December 31, 2023, ANAN had total debt of THB23.7 billion (per priority debt consideration). Priority debt, including secured debt of the parent company and total debt of its operating subsidiaries, was THB5.6 billion. These figures translate to a priority debt to total consolidated debt ratio of 23%.

BASE-CASE ASSUMPTIONS

These are the key assumptions for ANAN's operations in TRIS Rating's base-case forecast for 2024-2026:

- ANAN to launch new residential projects worth THB20-THB24 billion per annum in 2024-2025 and around THB4 billion in 2026.
- Budget for land acquisition for its own projects to be THB1 billion in 2026.
- Total operating revenue of THB4.5 billion in 2024, rising to the THB8-THB10 billion level in 2025-2026.
- Net shared profit from investments in all JVs to be THB100-THB200 million annually.

RATING OUTLOOK

The "negative" outlook reflects our concerns over the uncertainty of ANAN's projected revenue and earnings amid the unfavorable market sentiment and intense competition in the residential property segment. ANAN's recent weaker-than-expected financial profile stemming from low profitability and high leverage could lead to a further deterioration in the company's credit profile.

RATING SENSITIVITIES

A downward pressure on the ratings could develop if ANAN's operating results and/or financial profile turn out to be weaker than our expectations. Heightened refinancing risk or a delay in the deleveraging plan could be a key contributing factor for towards a rating downgrade.

The rating outlook could be revised to "stable" if ANAN delivers operating performance as our target and improves its financial position such that we could expect FFO to debt ratio to recover to 2%-5% from 2025 onwards and debt to capitalization ratio to stay in the 65%-68% range. We also expect to see an explicit evidence of Ashton Asoke resolution and an execution of unloading balance sheet.

COMPANY OVERVIEW

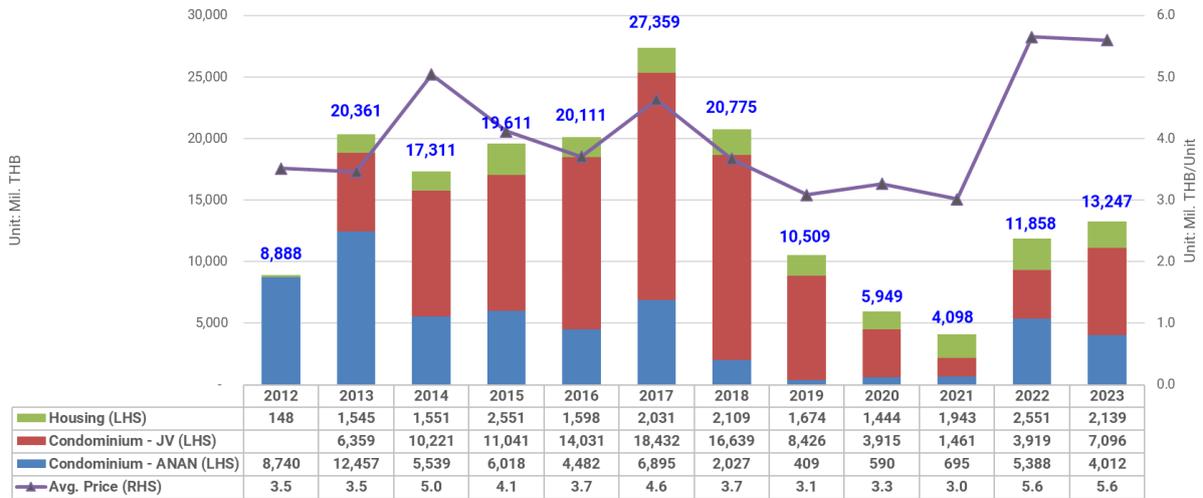
ANAN was established in 1999 by the Ruangkritya family and listed on the Stock Exchange of Thailand (SET) in December 2012. As of 31 December 2023, the Ruangkritya family was ANAN's largest shareholder, holding 48.27% of the shares. ANAN is engaged in the development of residential properties, particularly 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, Unio Town, and ANDA brands.

As of 31 December 2023, ANAN's portfolio consisted of 19 condominium projects (including nine JV projects) and 12 landed property projects, with total remaining value of THB34.7 billion (including built and un-built units). Across the entire portfolio value, the projects were 64% sold and 52% transferred. Backlog on hand amounted to THB11.3 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%-80% during 2017-2023. The revenue contribution from project management services and commission income through JV projects continuously increased to 15%-30% during the past five years, from less than 10% before 2016. The revenue from rental and service income accounted for rest.

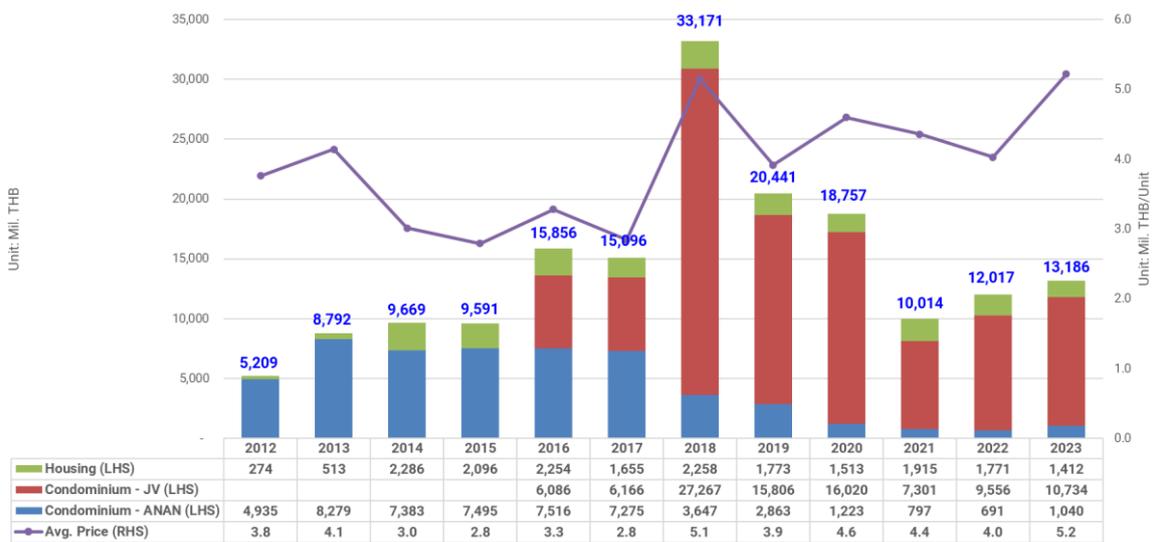
KEY OPERATING PERFORMANCE

Chart 1: Net Presales



Source: ANAN

Chart 2: Transfers



Source: ANAN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	3,412	3,112	3,710	4,199	7,302
Earnings before interest and taxes (EBIT)	595	866	480	423	1,830
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	922	1,208	844	1,003	2,685
Funds from operations (FFO)	(654)	(198)	(623)	(575)	1,290
Adjusted interest expense	1,440	1,319	1,363	1,450	1,436
Real estate development investments	18,823	17,703	20,087	19,829	20,411
Total assets	37,033	41,976	39,382	43,298	48,795
Adjusted debt	22,225	23,842	26,256	25,683	27,300
Adjusted equity	10,337	11,983	12,441	13,564	14,684
Adjusted Ratios					
EBITDA margin (%)	27.0	38.8	22.8	23.9	36.8
Pretax return on permanent capital (%)	1.5	2.1	1.1	0.9	4.2
EBITDA interest coverage (times)	0.6	0.9	0.6	0.7	1.9
Debt to EBITDA (times)	24.1	19.7	31.1	25.6	10.2
FFO to debt (%)	(2.9)	(0.8)	(2.4)	(2.2)	4.7
Debt to capitalization (%)	68.3	66.6	67.9	65.4	65.0

* 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:	BB+
Issue Ratings:	
ANAN247A: THB3,231.2 million senior unsecured debentures due 2024	BB+
ANAN251A: THB1,811.7 million senior unsecured debentures due 2025	BB+
ANAN251B: THB1,176.6 million senior unsecured debentures due 2025	BB+
ANAN256A: THB2,275.8 million senior unsecured debentures due 2025	BB+
ANAN261A: THB2,823.4 million senior unsecured debentures due 2026	BB+
ANAN19PA: THB1,000 million subordinated capital debentures	B+
ANAN20PA: THB1,000 million subordinated capital debentures	B+
ANAN21PA: THB1,000 million subordinated capital debentures	B+
Rating Outlook:	Negative

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