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Recommendation: Underperform

20 Feb 2020

Target Price: Bt2.20

Price (Bt)	2.12
Market Value (Bt mn)	7,066
Date Established	20 Feb 2020
Average Daily Value (Bt mn)	12.53
Free Float (%)	46.24

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Ananda Development: Challenging 2020E

Downgrade to Underperform with PO of Bt2.20/share

We downgrade ANAN to Underperform from Neutral and lower our PO to Bt2.20/share (from Bt3.10). We cut our estimates by 24%-26% for 2019E and 2020E to factor in weaker revenue, equity income and launch plan. ANAN's earnings outlook will be challenging depending on the sales of stock on hand. Despite a weaker investment plan, its balance sheet remains stretched with net gearing over 1x. Its diversification to serviced apartments should benefit the company in 2021E. Note that we assume a higher dividend payout of 50% in 2019E-2021E.

2019 operations recap

ANAN achieved presales of Bt26.8bn last year, down 15% YoY. The decline was not a surprise to the market due to weaker condo take-up rates and a smaller launch plan of Bt16bn, which consisted of four condo and two landed property projects.

2020 business plan

ANAN targets to achieve presales of Bt20bn this year, down 25% YoY. While the target looks conservative, we see it as challenging as this implies that ANAN will have to boost its sales of stock on hand to Bt4.2bn per quarter from last year's figure of Bt3.0-3.5bn. Despite having eight projects in the pipeline, ANAN plans to launch only one condo project, Ideo Phahol Saphan Khwai, in 2Q20 with a project value of Bt8.5bn. ANAN targets housing revenue of Bt22bn (including JV projects). However, with smaller launches and backlog on hand, ANAN will need to boost sales of its stock on hand to achieve its presales and revenue target. Note that the backlog on hand has secured 56% of its guideline. ANAN will commercially operate two serviced apartments this year. Somerset Rama 9 will be operational in 1Q and Lyf Sukhumvit 8 will be operational in 2Q. ANAN targets to achieve revenue of Bt300mn and we assume that the projects will break even this year. ANAN will keep a low land acquisition budget at Bt3bn this year.

4Q preview

ANAN should report pre-ex net income of Bt414mn, down 41% YoY but up 69% QoQ. 2019 pre-ex net income should be Bt963mn, down 60% YoY mainly due to weaker transfers.

Estimates (Dec)

(Bt)	2017A	2018A	2019E	2020E	2021E
Net Income (report - mn)	1,328	2,419	1,001	1,003	1,202
EPS	0.40	0.73	0.30	0.30	0.36
EPS Change (YoY)	-11.5%	82.1%	-58.6%	0.2%	19.8%
DPS	0.13	0.25	0.14	0.15	0.18

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	5.3	2.9	7.1	7.1	5.9
Dividend Yield	6.1%	11.8%	6.6%	7.1%	8.5%
EV / EBITDA	9.7	105.1	-194.0	-122.3	292.6
Free Cash Flow Yield	-48.2%	-75.4%	-94.1%	11.6%	-9.7%

Bus Performance (Dec)	2017A	2018A	2019E	2020E	2021E
Return on Asset	4.8%	6.8%	2.3%	2.3%	2.7%
Return on Equity	11.5%	17.1%	6.2%	6.1%	7.2%
Operating Margin	14.4%	0.7%	-2.7%	-4.2%	0.2%
Free Cash Flow (Bt mn)	-3,408	-5,326	-6,646	822	-685
Quality of Earnings (Dec)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio (x)	-0.8	-1.0	-6.5	1.0	-0.4
Asset Replacement Ratio (x)	1.0	0.9	1.2	1.2	1.2
Net Debt-to-Equity Ratio	0.8	0.8	1.2	1.3	1.3
Interest Cover	3.9	0.3	(0.1)	(0.2)	0.1
Income Statement Data (Dec) (Bt Millions)	2017A	2018A	2019E	2020E	2021E
Sales	12,402	9,934	8,695	8,153	9,050
% Change	5.7%	-19.9%	-12.5%	-6.2%	11.0%
EBIT	1,780	72	-235	-339	16
% Change	16.5%	-96.0%	-428.1%	-44.4%	104.7%
EBITDA	1,907	215	-151	-253	104
% Change	17.5%	-88.7%	-170.2%	-68.0%	140.9%
Net Interest & Other Income	19	46	-109	-84	-316
Net Income (report - mn)	1,328	2,419	1,001	1,003	1,202
% Change	-11.5%	82.1%	-58.6%	0.2%	19.8%
Free Cash Flow Data (Dec) (Bt Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	1,328	2,419	1,001	1,003	1,202
Depreciation & Amortization	127	143	84	86	88
Change in Working Capital	-2,819	-2,678	-6,352	1,234	-370
Capital Expenditure	-126	-122	-104	-104	-104
Free Cash Flow	-3,408	-5,326	-6,646	822	-685
Net Debt	10,310	13,488	20,237	21,928	21,454
Balance Sheet Data (Dec) (Bt Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	2,063	4,914	3,000	0	0
Trade Receivables	1,072	773	505	474	526
Other Current Assets	19,026	22,316	27,216	25,843	26,379
Property, Plant & Equipment	814	684	707	727	746
Other Non-Current Assets	6,929	12,886	14,203	15,663	17,231
Total Assets	29,904	41,573	45,641	42,707	44,868
Short-Term Debt	4,141	7,585	11,021	15,328	18,257
Other Current Liabilities	3,898	5,020	3,976	2,191	4,531
Long-Term Debt	8,232	10,817	12,216	6,600	3,196
Other Non-Current Liabilities	173	162	171	179	188
Total Liabilities	16,444	23,584	27,410	24,253	26,161
Minority interest	1,063	2,034	1,994	1,954	1,914
Total Equity	12,396	15,955	16,227	16,500	16,807
Total Equity & Liabilities	29,904	41,573	45,641	42,707	44,868

Figure 1: ANAN – Changes in basic assumptions

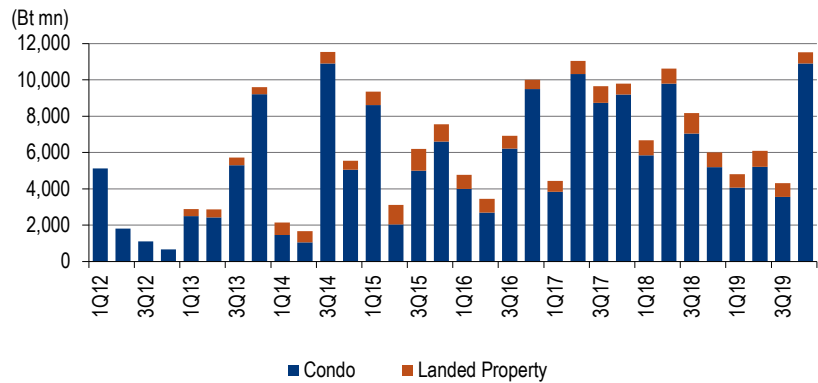
	2019E	2020E	2021E
Housing revenue (Bt mn)			
Current	4,650	3,926	4,540
Previous	4,790	4,184	5,406
% Change	(2.93)	(6.16)	(16.02)
Gross margin			
Current	27.7%	28.3%	29.9%
Previous	27.7%	28.3%	29.7%
Operating costs to sales, net of tax			
Current	30.7%	31.8%	29.2%
Previous	30.8%	32.0%	29.7%
Equity income (Bt mn)			
Current	1,262	1,381	1,482
Previous	1,496	1,631	1,472
% Change	(15.66)	(15.30)	0.68
Recurring net income (Bt mn)			
Current	944	1,045	1,238
Previous	1,280	1,355	1,199
% Change	(26.23)	(22.86)	3.29
Reporting net income (Bt mn)			
Current	998	1,045	1,238
Previous	1,334	1,355	1,199
% Change	(25.17)	(22.86)	3.29

Source: Phatra Securities estimates

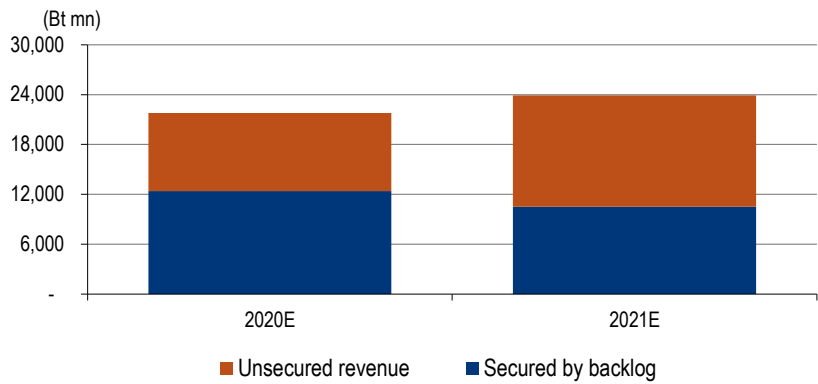
Figure 2: ANAN - 4Q19 results preview

(Bt mn)	4Q19E	4Q18	% YoY	3Q19	% QoQ	2019E	2018	% YoY
Sale of real estate	1,473	1,043	41.3%	1,531	-3.7%	4,650	5,905	-21.3%
Total revenue	2,561	2,335	9.7%	2,569	-0.3%	8,695	9,934	-12.5%
Cost of real estate sold	(1,014)	(791)	28.2%	(1,068)	-5.0%	(3,363)	(4,261)	-21.1%
Total cost of sales	(1,791)	(1,709)	4.8%	(1,868)	-4.1%	(6,259)	(6,950)	-9.9%
Gross profit - real estate	459	252	82.4%	463	-0.8%	1,287	1,644	-21.7%
Total gross profit	770	626	23.1%	702	9.8%	2,436	2,984	-18.4%
Total SG&A expenses	(673)	(805)	-16.5%	(754)	-10.8%	(2,671)	(2,912)	-8.3%
EBIT	98	(179)	-154.4%	(53)	-285.6%	(235)	72	-428.1%
EBITDA	124	(216)	-157.1%	(90)	-237.8%	(319)	(72)	345.5%
Other income/ expense	137	130	5.8%	108	27.5%	453	414	9.4%
Interest expense	(127)	(100)	26.8%	(173)	-26.4%	(565)	(368)	53.5%
EBT	108	(150)	-171.9%	(118)	-191.6%	(347)	118	-395.0%
Taxes	(9)	(16)	-40.6%	24	-140.1%	69	(88)	-178.6%
EAT & before special items	98	(166)	-159.3%	(94)	-204.4%	(278)	29	-1045.7%
Total share of profit from associates & JV	277	886	-68.7%	361	-23.1%	1,262	2,341	-46.1%
Pre-exceptional profit	443	720	-38.4%	244	81.4%	944	2,393	-60.5%
Total extraordinary items	-	(21)	-100.0%	(10)	-100.0%	54	27	99.8%
NI	443	699	-36.6%	234	89.5%	998	2,419	-58.7%
EPS (Bt)	0.13	0.21	-36.6%	0.07	89.5%	0.30	0.73	-58.7%
Pre-exceptional EPS (Bt)	0.13	0.22	-38.4%	0.07	81.4%	0.28	0.72	-60.5%
Key ratios								
Gross margin - real estate (%)	31.2%	24.1%	N.A.	30.2%	N.A.	27.7%	27.8%	N.A.
Gross margin (%)	30.1%	26.8%	N.A.	27.3%	N.A.	28.0%	30.0%	N.A.
OPEX as % of sales (%)	26.3%	34.5%	N.A.	29.4%	N.A.	30.7%	29.3%	N.A.
EBIT margin (%)	3.8%	-7.7%	N.A.	-2.0%	N.A.	-2.7%	0.7%	N.A.
EBITDA margin (%)	4.8%	-9.3%	N.A.	-3.5%	N.A.	-3.7%	-0.7%	N.A.
Tax rate (%)	8.8%	-10.6%	N.A.	20.0%	N.A.	20.0%	75.0%	N.A.
Net margin (%)	17.3%	29.9%	N.A.	9.1%	N.A.	11.5%	24.4%	N.A.
Net gearing (x)	1.50	1.03	N.A.	1.41	N.A.	1.50	1.03	N.A.

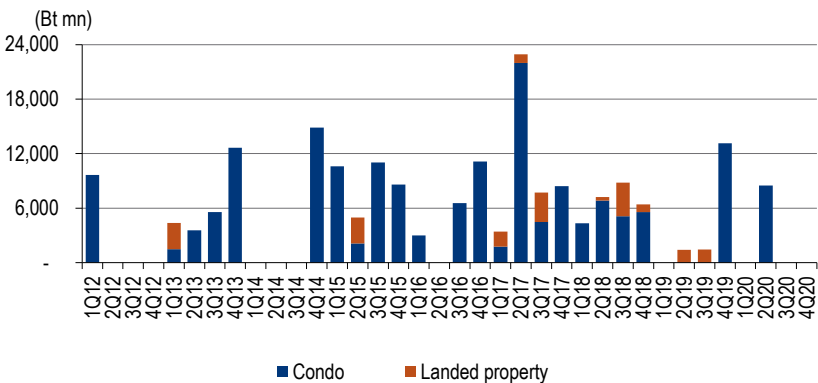
Source: Company, Phatra Securities estimates

Figure 3: ANAN - Quarterly presales


Source: Company, Phatra Securities estimates

Figure 4: Revenue secured by backlog on hand (company + JV)


Source: Company, Phatra Securities estimates

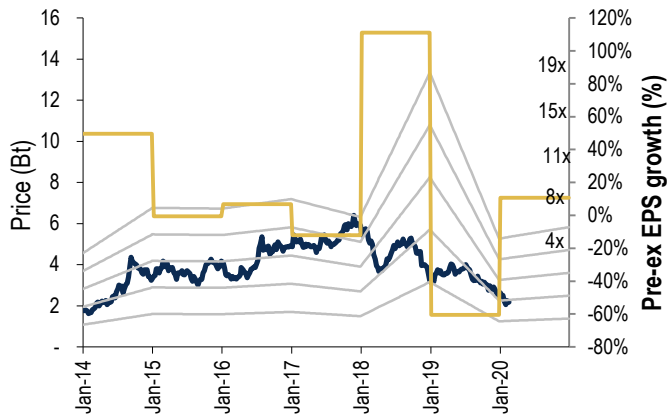
Figure 5: ANAN - Quarterly launches


Source: Company, Phatra Securities estimates

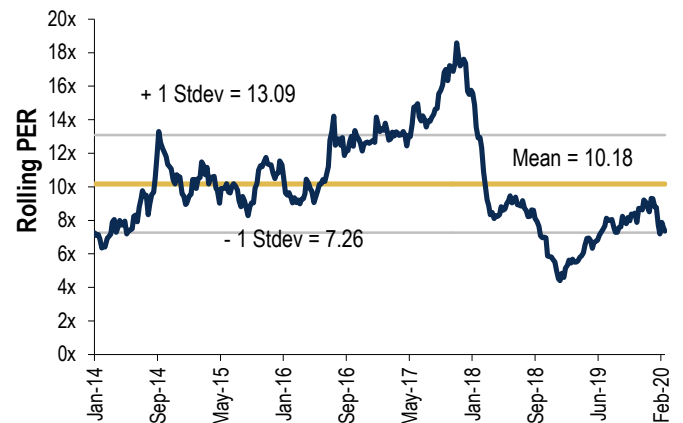
Figure 6: Property Comp

	Price (Bt)	Market cap (US\$ mn)	Recurring EPS growth			Core PER (x)			Yield (%)			PBV (x)	ROE (%)		Housing P/E	
			2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E		2020E	2021E	2020E	2021E
LH	9.40	3,596	-14.2%	7.3%	10.9%	13.98	13.03	11.75	7.58	6.52	7.23	2.16	16.7%	18.1%	3.18	2.80
AP	6.90	695	-20.1%	10.6%	14.1%	7.04	6.36	5.58	5.21	5.66	6.46	0.76	12.5%	13.0%	6.36	5.58
SPALI	17.10	1,173	-7.7%	6.7%	8.4%	6.88	6.45	5.95	5.23	5.58	6.05	0.90	14.6%	14.5%	6.45	5.95
QH	2.56	878	-22.4%	-4.7%	8.5%	9.32	9.77	9.01	6.57	6.34	6.88	0.99	10.3%	10.7%	(21.85)	(20.29)
LPN	5.25	246	-5.4%	-8.5%	5.0%	6.03	6.59	6.28	11.43	10.61	11.05	0.57	8.8%	9.0%	6.59	6.28
PSH	14.80	1,037	-16.0%	-6.6%	21.6%	6.40	6.85	5.63	8.73	8.20	9.97	0.72	10.8%	12.4%	6.85	5.63
ANAN	2.12	226	-60.5%	10.6%	18.5%	7.48	6.76	5.71	10.85	5.72	8.00	0.43	6.5%	7.5%	6.76	5.71
SC	2.38	318	-5.4%	-1.8%	-1.7%	5.90	6.01	6.12	6.78	6.66	6.54	0.55	9.4%	8.8%	6.01	6.12
SIRI	1.00	461	-6.2%	-9.9%	9.2%	7.44	8.25	7.56	10.00	7.27	7.94	0.47	5.7%	6.1%	8.25	7.56
Average			-16.8%	1.9%	11.5%	10.03	9.66	8.71	7.40	6.65	7.44	1.34	11.6%	12.3%	2.34	2.00

Source: Companies, Phatra Securities estimates

Figure 7: ANAN – P/E band


Source: SET, Phatra Securities estimates

Figure 8: ANAN – Trailing P/E


Source: SET, Phatra Securities estimates

Price objective basis and risk

Our 12-month price objective (PO) of Bt2.20 is based on (1) an average P/E of 7.15x, which is one-standard deviation below its trailing P/E. This is justified by its earnings risk in 2020E from weak condo outlook which would result in slow presales and transfers and (2) the combination of DCF valuation for ANAN and joint ventures to take into account the company's backlog on hand, which has secured part of our revenue estimates for the 2020-2022 period. Our DCF valuation is based on a 2% terminal growth rate and a discount rate of 7.2%. Note that we apply a 20% discount on the DCF valuation to reflect sector headwinds and we value its joint venture business at 1.0x of its investment value.

The risks to our PO are political headwinds, weaker-than-expected economic conditions, slower-than-expected housing sales, higher-than-expected competition among developers, tighter mortgage financing policy from commercial banks and a stronger-than-expected increase in interest rates.

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