

Ananda Development

ANAN TB / ANAN.BK

May 10, 2018

1Q18 core profit in line with our estimate, 2Q18 recovery ahead

Core profit was in line, but net profit beat our estimates

ANAN reported core profit of Bt118m in 1Q18, up 42% YoY but down 85% QoQ, in line with our estimate. Including Bt26m in net-of-tax gains on carrying costs of land sourcing for future JV condos, net profit was Bt145m, in line with the consensus forecast.

Result highlights

YoY growth in 1Q18 profit was driven by a higher top-line and a fatter core margin, while the QoQ contraction was due to a weaker core margin. Residential sales rose 17% YoY but fell 38% QoQ to Bt1.9bn (80% condos and 20% low rises), as *Venio Sukhumvit 10* started to transfer. Residential gross margin improved 40bps YoY to 30.7% in 1Q18, but eased from 32.3% in 4Q17. The SG&A expenses/sales ratio remained high at 25.4% in 1Q18, up from 25.1% in 1Q17 and 17.4% in 4Q17. Equity income from JV condos fell deeper into the red at Bt66m in 1Q18 from Bt58m in 1Q17 (and swung from a profit of Bt129m in 4Q17), as *Q Chidlom* was the only JV condo to start transfers in 1Q18. Net gearing rose from 0.6x at YE17 to 0.9x at end-March.

Outlook

We anticipate both YoY and QoQ profit growth in 2Q18, driven by a higher top line and improvement in equity income from JV condos (there was a deep equity loss of Bt300m in 2Q17). A new JV condo, *Ashton Chula-Silom* (Bt8.7bn, 80% booked), and a wholly owned condo, *Unio Ramkhamhaeng*, will start to transfer in 2Q18. We expect interim DPS of Bt0.06 for 1H18, for a 1.5% simple yield, XD in Aug.

What's changed?

Although 1Q18 core earnings represent only 8% of our modeled 2018 earnings, we maintain our earnings projection based on key assumptions (excluding the transfer of *Ashton Asoke* units). Residential revenue in 2018 is expected to drop 9% to Bt8bn (48% secured by the backlog at end-Mar). Equity income is forecast to turn around from a loss of Bt342m in 2017 to a positive Bt11m in 2018. Units at seven JV condos (excluding *Ashton Asoke*) are scheduled to start transfers in 2018, versus only three JV condos in 2017, and the value of JV condos completed will jump from Bt11bn in 2017 to Bt29bn in 2018. Note that our earnings estimate is set conservatively, 19% below the consensus.

Recommendation

ANAN's 2018 business plan is appropriately conservative (aggregate new launch value down 20% from 2017), which will ease execution risk. Current valuations, with shares priced below its YE17 BV of Bt4, have already priced in a worst-case scenario without the earnings contributions previously expected from *Ashton Asoke* (Bt2/share or EPS of Bt0.16 EPS). ANAN trades at a 2018 PER of 8.9x, far below the mean of 10.5x since the IPO in 2012. Thus, we reiterate our TRADING BUY rating with a YE18 target price of Bt4.6, based on a target PER at the mean of 10.5x.

Sector: Residential Property OVERWEIGHT
Rating: TRADING BUY
Target Price: Bt4.60
Price (May 9, 2018): Bt3.92

Financial summary

FY Ended 31 Dec	2017	2018E	2019E	2020E
Revenues (Btm)	12,362	12,131	12,990	13,244
Net profit (Btm)	1,328	1,463	1,986	2,402
EPS (Bt)	0.40	0.44	0.60	0.72
EPS growth (%)	n.a.	n.a.	+35.7%	+20.9%
Core profit (Btm)	1,271	1,463	1,986	2,402
Core EPS (Bt)	0.38	0.44	0.60	0.72
Core EPS growth (%)	-15.3%	+15.1%	+35.7%	+20.9%
PER (x)	15.3	8.9	6.6	5.4
PBV (x)	1.5	0.9	0.8	0.7
Dividend (Bt)	0.1	0.1	0.2	0.2
Dividend yield (%)	2.1	3.5	4.7	5.7
ROE (%)	11.5	11.3	14.0	15.1

CG/Anti-corruption

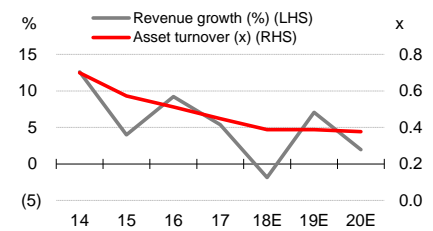


Narumon Ekasamut
 Securities Fundamental Investment Analyst
 narumon.e@bualuang.co.th
 +66 2 618 1345

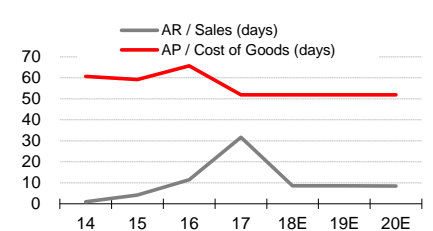
ANAN: Financial Tables – Year

Btm	2016	2017	2018E	2019E	2020E
Revenue	11,730	12,362	12,131	12,990	13,244
Cost of sales and services	(7,687)	(8,021)	(7,936)	(8,494)	(8,638)
Gross profit	4,043	4,340	4,195	4,496	4,605
SG&A	(2,516)	(2,558)	(2,463)	(2,729)	(2,747)
EBIT	1,527	1,783	1,732	1,767	1,859
Interest expense	(335)	(285)	(410)	(568)	(593)
Other income/exp.	500	474	497	509	522
EBT	1,692	1,972	1,818	1,708	1,788
Corporate tax	(306)	(359)	(366)	(497)	(600)
After-tax net profit (loss)	1,386	1,613	1,452	1,211	1,187
Minority interest	0	0	0	0	0
Equity earnings from affiliates	115	(342)	11	775	1,215
Extra items	0	57	0	0	0
Net profit (loss)	1,501	1,328	1,463	1,986	2,402
Reported EPS	0.45	0.40	0.44	0.60	0.72
Fully diluted EPS	0.45	0.40	0.44	0.60	0.72
Core net profit	1,501	1,271	1,463	1,986	2,402
Core EPS	0.45	0.38	0.44	0.60	0.72
EBITDA	1,622	1,909	1,863	1,926	2,047
KEY RATIOS					
Revenue growth (%)	9.2	5.4	(1.9)	7.1	2.0
Gross margin (%)	34.5	35.1	34.6	34.6	34.8
EBITDA margin (%)	13.8	15.4	15.4	14.8	15.5
Operating margin (%)	13.0	14.4	14.3	13.6	14.0
Net margin (%)	12.8	10.7	12.1	15.3	18.1
Core profit margin (%)	12.8	10.3	12.1	15.3	18.1
ROA (%)	6.6	4.8	4.7	5.9	6.8
ROCE (%)	7.7	5.6	5.4	6.8	7.7
Asset turnover (x)	0.5	0.4	0.4	0.4	0.4
Current ratio (x)	2.0	2.8	2.3	2.0	2.4
Gearing ratio (x)	1.0	0.9	1.0	0.9	0.8
Interest coverage (x)	n.m.	n.m.	n.m.	n.m.	n.m.
BALANCE SHEET (Btm)					
Cash & Equivalent	2,683	2,063	3,242	2,652	2,079
Accounts receivable	369	1,072	283	306	307
Inventory	12,399	13,174	13,188	13,330	13,647
PP&E-net	1,170	1,170	2,018	2,607	3,168
Other assets	8,745	12,391	13,891	15,391	16,891
Total assets	25,366	29,870	32,622	34,286	36,092
Accounts payable	1,383	1,141	1,129	1,208	1,229
ST debts & current portion	5,999	4,134	6,145	7,145	5,145
Long-term debt	4,939	8,227	8,000	7,000	9,000
Other liabilities	2,291	2,908	2,838	2,891	2,892
Total liabilities	14,612	16,410	18,111	18,244	18,265
Paid-up capital	1,383	1,141	1,129	1,208	1,229
Share premium	5,159	5,150	5,150	5,150	5,150
Retained earnings	3,258	3,909	4,960	6,491	8,276
Shareholders equity	10,754	12,396	13,447	14,978	16,763
Minority interests	0.0	1,063.5	1,063.5	1,063.5	1,063.5
Total Liab.&Shareholders' equity	25,366	29,870	32,622	34,286	36,092
CASH FLOW (Btm)					
Net income	1,501	1,328	1,463	1,986	2,402
Depreciation and amortization	95	127	131	160	189
Change in working capital	(7,459)	(15,504)	992	(32)	(297)
FX, non-cash adjustment & others	7,937	8,360	0	0	0
Cash flows from operating activities	2,074	(5,689)	2,587	2,114	2,294
Capex (Invest)/Divest	(4,646)	108	(2,479)	(2,249)	(2,250)
Others	0	0	0	0	0
Cash flows from investing activities	(4,646)	108	(2,479)	(2,249)	(2,250)
Debt financing (repayment)	2,256	4,629	1,784	0	0
Equity financing	1,000	2,090	0	0	0
Dividend payment	(360)	(718)	(413)	(455)	(617)
Others	0	0	0	0	0
Cash flows from financing activities	2,181	5,161	1,371	(455)	(617)
Net change in cash	(391)	(419)	1,478	(590)	(573)
Free cash flow (Btm)	(2,572)	(5,580)	108	(135)	44
FCF per share (Bt)	(0.77)	(1.67)	0.03	(0.04)	0.01
KEY ASSUMPTIONS					
Residential sales, revenue (Btm)	9,780	8,914	8,099	8,748	8,780
Residential sales growth	2%	-9%	-9%	8%	0%
Residential GM (%)	33.8%	32.0%	32.2%	32.3%	32.4%
Presales backlogs (Btm)	-	-	3,853	1,000	0
% secured housing revenue by backlogs	-	-	48%	11%	0%

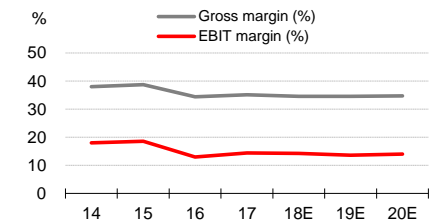
Revenue growth and asset turnover



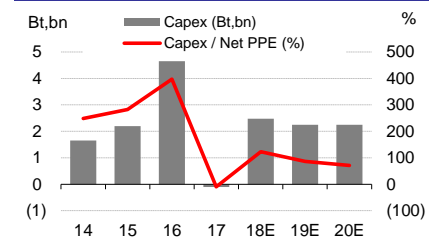
A/C receivable & A/C payable days



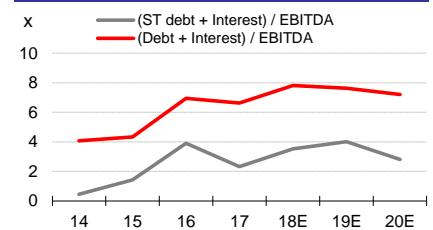
Profit margins



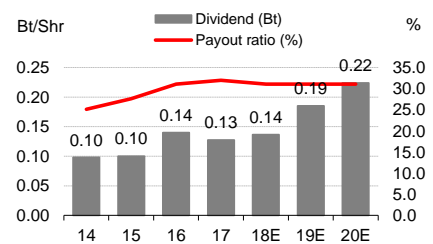
Capital expenditure



Debt serviceability



Dividend payout



ANAN: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	1Q17	2Q17	3Q17	4Q17	1Q18
Revenue	2,183	3,590	2,634	3,955	2,693
Cost of sales and services	(1,461)	(2,259)	(1,708)	(2,594)	(1,783)
Gross profit	722	1,331	927	1,361	910
SG&A	(548)	(674)	(649)	(687)	(685)
EBIT	174	657	277	674	225
Interest expense	(87)	(104)	(89)	(4)	(92)
Other income/exp.	60	162	125	128	101
EBT	147	715	313	797	234
Corporate tax	(6)	(135)	(59)	(159)	(50)
After-tax net profit (loss)	141	580	254	638	184
Minority interest	0	0	0.00	0	0
Equity earnings from affiliates	(58)	(300)	(113)	129	(66)
Extra items	57	0	0	0	26
Net profit (loss)	140	279	141	768	145
Reported EPS	0.04	0.08	0.04	0.23	0.04
Fully diluted EPS	0.04	0.08	0.04	0.23	0.04
Core net profit	83	279	141	768	118
Core EPS	0.02	0.08	0.04	0.23	0.04
EBITDA	264	850	435	835	359

KEY RATIOS

Gross margin (%)	33.1	37.1	35.2	34.4	33.8
EBITDA margin (%)	12.1	23.7	16.5	21.1	13.3
Operating margin (%)	8.0	18.3	10.5	17.0	8.4
Net margin (%)	6.4	7.8	5.4	19.4	5.4
Core profit margin (%)	3.8	7.8	5.4	19.4	4.4
BV (Bt)	3.5	3.5	3.6	4.0	4.1
ROE (%)	4.7	9.5	4.8	24.8	4.6
ROA (%)	2.1	4.3	2.1	10.3	1.6
Current ratio (x)	1.8	2.3	2.3	2.8	2.5
Gearing ratio (x)	0.4	0.7	0.6	0.7	1.1
Interest coverage (x)	2.0	6.3	3.1	159.4	2.5

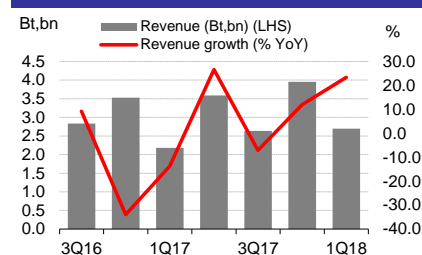
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	3,276	1,842	1,461	2,063	5,239
Accounts receivable	287	233	491	1,072	482
Inventory	13,464	11,697	12,154	13,174	15,549
PP&E-net	456	784	284	284	323
Other assets	9,827	11,590	12,629	13,276	14,134
Total assets	27,311	26,147	27,019	29,870	35,727
Accounts payable	1,436	980	1,006	1,141	1,017
ST debts & current portion	1,089	1,451	857	1,499	3,336
Long-term debt	4,235	6,385	6,403	8,232	11,956
Other liabilities	8,700	5,534	6,775	5,538	5,866
Total liabilities	15,461	14,350	15,041	16,410	22,174
Paid-up capital	333	333	333	333	333
Share premium	5,159	5,159	5,159	301	5,150
Retained earnings	3,363	3,309	3,202	3,879	4,003
Shareholders equity	11,847	11,793	11,686	12,396	12,490
Minority interests	3.3	3.4	292.6	1,063.5	1,063.5
Total Liab.&Shareholders' equity	27,311	26,147	27,019	29,870	35,727

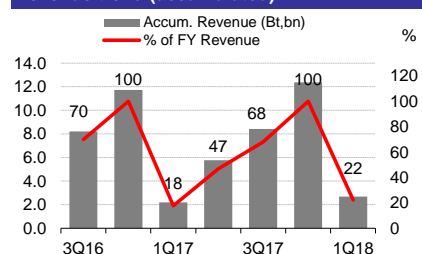
KEY STATS

Presales (Btm)	6,930	10,013	4,436	11,050	9,645
Resi revenue (Btm)	2,358	2,716	1,577	2,661	1,692
Resi revenue growth (YoY)	5%	-45%	-28%	5%	-28%
Housing GM	39%	37%	35%	35%	30%

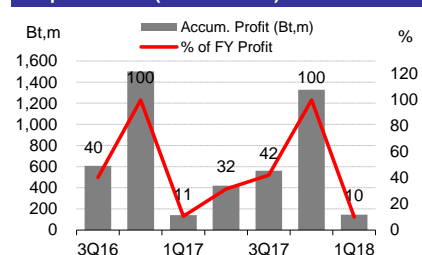
Revenue trend



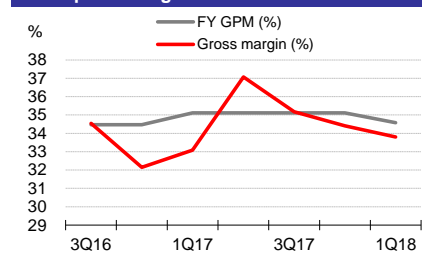
Revenue trend (accumulated)



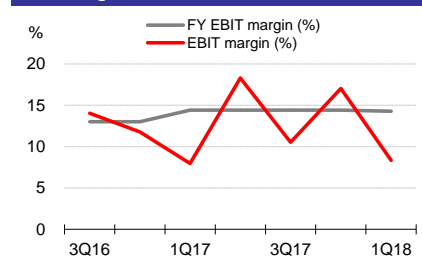
Net profit trend (accumulated)



Gross profit margin



EBIT margin



Company profile

Ananda Development Public Company Limited (ANAN) was founded in 1999 by Chanond Ruangkritya. It has continued to develop its brands and its "Urban Living Solutions" to make it a leading developer of residential projects in close proximity to mass transit stations in Bangkok. Ananda's branded condos, such as IDEO, launched in 2007, and IDEO MOBI, launched in the first quarter of 2012, are stylish and employ modern designs. The top high-end condo brand is ASHTON. The low end of the market is served by the UNIO brand. The firm's products have a strong competitive advantage due to affordable prices and prime locations. Its low-rise business (approximately 20% of ANAN's portfolio) is in an early stage of development under the brands ATOLL, ARDEN, ARTALE and AIRI.

Figure 1 : 1Q18 results

FY Ended 31 Dec (Btm)	1Q18	1Q17	YoY %	4Q17	QoQ %	3M18	3M17	YoY %	3M18 vs. FY18E
Income Statement									
Revenue	2,693	2,183	23	3,955	(32)	2,693	2,183	23	22
Cost of sales and services	(1,783)	(1,461)	22	(2,594)	(31)	(1,783)	(1,461)	22	22
EBITDA	359	264	36	835	(57)	359	264	36	-
EBIT	225	174	29	674	(67)	225	174	29	13
Interest expense	(92)	(87)	5	(4)	2,068	(92)	(87)	5	22
Other income/exp.	101	60	68	128	(21)	101	60	68	20
Equity earnings from affiliates	(66)	(58)	nm	129	(151)	(66)	(58)	nm	-
Extra items	26	57	0	0	0	26	57	0	-
EBT	234	147	59	797	(71)	234	147	59	13
Corporate tax	(50)	(6)	720	(159)	(69)	(50)	(6)	720	-
Minority interest	0	0	-	0	-	0	0	-	-
Net profit (loss)	145	140	3	768	(81)	145	140	3	10
Reported EPS	0.04	0.04	3	0.23	(81)	0.04	0.04	3	8
Core net profit	118	83	42	768	(85)	118	83	42	8
Key ratios									
Gross margin (%)	33.8	33.1		34.4		33.8	33.1		
EBITDA margin (%)	13.3	12.1		21.1		n.a.	12.1		
EBIT margin (%)	8.4	n.a.		17.0		8.4	8.0		
Tax rate (%)	21.3	n.a.		19.9		21.3	4.1		
Net margin (%)	5.4	6.4		19.4		5.4	6.4		
Current ratio (x)	2.5	1.8		2.8		2.5	1.8		
Gearing ratio (x)	1.1	0.4		0.7		1.1	0.4		
Interest coverage (x)	2.5	2.0		159.4		2.5	2.0		
Balance Sheet									
Cash & Equivalent	5,239	3,276	60	2,063	154				
Total assets	35,727	27,311	31	29,870	20				
ST debts & current portion	3,336	1,089	100	1,499	100				
Long-term debt	11,956	4,235	182	8,232	45				
Total liabilities	22,174	15,461	43	16,410	35				
Retained earnings	4,003	3,363	19	3,879	3				
Shareholders equity	12,490	11,847	5	12,396	1				
Minority interests	1,063	3	0	1,063	100				
BV (Bt)	3.8	3.6	5	1.5	147				

- Residential revenue was Bt1.9bn in 1Q18, up 17% YoY but down 38% QoQ.
- Equity losses from JV condos in 1Q18
- Net profit was in line with the consensus, but above our estimate of Bt117m due to Bt26m in net-of-tax gains from land sourcing for future JV condo projects.
- Core profit was in line with our forecast.

Sources: Company data, Bualuang Research estimates

Bualuang Securities Public Company Limited

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CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors

- companies that have **declared** their intention to join CAC, and
- companies **certified** by CAC.

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.