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MBK Public Company Limited

Company Rating:	A-
Issue Ratings:	
MBK108A: Bt3,000 million senior debentures due 2010	A-
MBK117A: Bt2,000 million senior debentures due 2011	A-
Rating Outlook:	Stable

Rating History:	Company Rating	Issue Rating	
		Secured	Unsecured
8 Oct 2007	A-/Stable	-	A-

Rating Rationale

TRIS Rating affirms the company and issue ratings of MBK PLC (MBK) at "A-". The ratings reflect MBK's ownership of a well-known downtown shopping center with a strong traffic, the stable cash flow from its contract-based retail space leasing business, a close relationship with Thanachart Bank PLC (TBANK), and strong financial flexibility from its sizable investment in marketable securities and ability to raise funds through long-term lease arrangements with tenants. These strengths are partially offset by significantly higher leasehold payments that MBK must make, which will take effect following the expiration of the existing contract in 2013, and the company's active expansion plans which requires time and effort to prove successful. Along with the impact from a continuing slowdown in global economy, which has affected Thailand's economy, additional concerns are MBK's continuing aggressive investment policies in non-core businesses, which require substantial internal cash flow.

MBK was founded in 1974. Currently, Thanachart Capital PLC (TCAP) and other companies in the TCAP Group are MBK's major strategic shareholders, holding a 20% stake in total as of November 2009. MBK operates *MBK Center*, a well-known shopping center in downtown Bangkok, and is also engaged in the hotel, golf course, residential property development and rice milling businesses. MBK's performance is heavily reliant on *MBK Center* despite the diverse portfolio of businesses. The company's strategic properties, *MBK Center* and the *Pathumwan Princess Hotel*, are located on leasehold land in downtown Bangkok. In recent years, the two properties have generated approximately 40% of MBK's revenue and 75% of its cash flow. To mitigate business concentration risk, MBK has gradually expanded its retail space leasing business. Under its 50% joint-venture (JV) with Siam Piwat Co., Ltd., the JV is renovating a 150,000 square meters shopping mall acquired in 2008, *Paradise Park* (renamed from *Seri Center*) with a target to be fully operational in mid-2010. MBK also expects to develop its first community mall on Rama IX road within 2010. Together with expansions in the hotel, golf course and residential property businesses, these projects will require a large amount of capital. In the third quarter of 2009, MBK prepared funds available for expansion by letting out less than 20% of the *MBK Center* through long-term leases (10 years), generating slightly more than Bt3,000 million. This will help relieve the need to increase leverage in the medium term.

In recent years, though MBK's performance has been slightly impacted by the overall economic conditions, it has remained at an acceptable level. Revenue has grown slowly over recent years and has been around Bt5,800 million for the last two consecutive fiscal years. In the first quarter of the 2009/2010 fiscal year, revenue increased slightly by around 2%. MBK's profitability has been affected by the slowdown in the tourism industry. Operating profit margin decreased from 39% in 2007/2008 to 36% in 2008/2009 and 33% in the first quarter of 2009/2010. Funds from operations (FFO) stayed at around Bt1,700-Bt1,800 million for three consecutive years (2007-2009) and sharply increased to Bt2,720 million in the first quarter of 2009/2010 as a result of funds raised through long-term leases in *MBK Center* in late

2009. The FFOs to total debt, which deteriorated from 27% in 2007/2008 to 22.5% in 2008/2009, improved to 34.8% in the first quarter of 2009/2010 (non-annualized). Although the level of debt increased from Bt6,524 million at the end of June 2008 to around Bt7,800 million in June and September 2009, the total debt to capitalization ratio remained at 37%-39% for three consecutive fiscal years.

Thailand's overall economy has slowed since the last quarter of 2008, which hurt the country's private consumption and especially the retail sector. The retail sales index had continuously declined from late 2008 until late 2009. The consumer confidence index remained relatively low, despite improving to 76.5 in November 2009 from its lowest point in May 2009 at 71.5, because of the uncertainty as a consequence of political activities. The low index reflected the uncertainty of consumers to spend during a slowing economy. All these unfavorable factors have limited the ability of contract-based property retailers to increase rents or boost occupancy. The tourism industry has shown an improving sign in late 2009 over the previous year's performance when it was affected by the airport closure and political activities. However, the whole year performance of the industry in 2009 is expected to be weaker than the previous year, leaving hotel operators with a challenge to sustain operations during the industry slowdown.

Rating Outlook

The "stable" outlook reflects the expectation that MBK will continue to generate stable cash flow stream from *MBK Center*. Despite the substantial capital expenditures planned for 2010-2011, the company is expected to maintain the leverage level, as measured by the total debt to capitalization ratio, at the current level in the medium term. The company's credit profile could be revised upward if the recent strategic investments perform in line with TRIS Rating's expectations.

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