

# MBK PLC

No. 121/2018  
22 August 2018

## CORPORATES

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A
<b>Outlook:</b>	Stable

### Company Rating History:

Date	Rating	Outlook/Alert
01/02/11	A	Stable
08/10/07	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on MBK PLC (MBK) and the ratings on MBK's senior unsecured debentures at "A". The ratings reflect the stable cash flows from MBK's retail property business, the close relationship with the Thanachart Group, and a high level of financial flexibility from its sizable investment portfolio. These strengths are partially offset by its increasing exposure of financial service business, which has higher risk.

## KEY RATING CONSIDERATIONS

### Stable cash flows from commercial properties

TRIS Rating projects MBK will continue to generate solid operating performance from its properties. Currently, MBK operates four shopping centers and four office buildings in Bangkok. Its commercial properties provide stable recurring cash flow from contract-based rental and service income. Over 80% of MBK's rentable area was rented under fixed rate contracts. In 2017, the retail property and office building segment comprised about 41% of total revenue and 61% of total earnings before interest, tax, depreciation and amortization (EBITDA).

Its properties are located in good locations, sited in downtown shopping districts or densely populated areas. Therefore, MBK's properties have had high occupancy rates (OR) of over 90% and high rental rates. During the next three years, TRIS Rating forecasts MBK will maintain OR of over 90% and increase the average rental rate by around 3%-5% per annum. The company also has a 48% stake in Siam Piwat Co., Ltd., which owns and operates several shopping centers in the Siam Square area.

### Hotel business continues to improve

The company posted strong hotel operating performance in the first quarter of 2018. MBK's average revenue per available room (RevPAR) increased by 11.8% year-on-year (y-o-y) to Bt3,288 per night in the first quarter of 2018. This was due to the strong growth of foreign tourist arrivals which increased by 15.4% y-o-y to 10.61 million persons. We project MBK's RevPAR will increase by 3% per annum in the next three years due to continuing growth of foreign tourist arrivals. In addition, the company plans to launch a new 128-room hotel at the Bangkok Golf Club in late 2018. As a result, we expect MBK's hotel revenue will increase to Bt1,400 million in 2020 from Bt1,297 million in 2017.

### New condominium project to be launched in late 2018

MBK plans to launch a new condominium project, located on Sukhumwit road adjacent to the Punnawithi BTS station. The project is a high-rise building with a total of 348 units. The total project value is approximately worth Bt2,000 million. We expect the project will be complete and ready to be transferred to customers in 2020.

MBK's other residential property projects are located in or near its golf courses and shopping mall. The company also expanded residential projects in Rayong province which target medium- to low-income customers. As of March 2018, the company had remaining projects value of around Bt2,800 million. We project that MBK will recognize revenue from these residential property projects of Bt500 million per annum during 2018-2020.

### Financial business continues to expand

During the next three years, revenue from financial service business will grow around 12% per annum following MBK's plan to increase its loan portfolio. Presently, MBK provides motorcycle hire-purchase loans via T Leasing Co., Ltd. (TLS) and asset financing loans through MBK Guarantee Co., Ltd. (MBK-G). The value of outstanding motorcycle loans increased to Bt5,659 million as of March 2018 from Bt3,010 million as of December 2016. The ratio of non-performing loans (NPLs) to total motorcycle loans slightly increased to 3.2% as of March 2018 from 3.0% in 2016. The portfolio of asset financing loans also rose, jumping to Bt7,252 million as of March 2018 from Bt5,631 million as of December 2016. NPL ratio to total mortgage loans was maintained at 2.5% during the same period. We project the outstanding motorcycle loans and asset financing loans of MBK will gradually expand to Bt6,000 million and Bt8,300 million in 2020, respectively. We also expect MBK will prudently manage the NPL ratio to total loans at the current level.

### Financial leverage is expected to maintain

We expect the debt to capitalization ratio to be maintained at 50%-55% during 2018-2020. The company has set an investment budget totaling Bt6,200 million for the next three years. The capital expenditures will be mainly financed by internal cash flow and cash receipts from the divestment of Royal Orchid Hotel (Thailand) PLC (ROH) and Dusit Thani PLC (DTC).

### Satisfactory liquidity profile

The company's liquidity position remains satisfactory. As of March 2018, MBK's source of funds comprised cash on hand of Bt514 million and marketable securities worth Bt2,061 million. The company has undrawn credit facilities available from commercial banks of Bt6,655 million. We project the company will generate funds from operations (FFO) of Bt2,500 million in the next 12 months. In 2018, the company received cash of around Bt2,200 million from divestment of ROH and DTC. Added together, these sources should be sufficient to cover debt service and investment needs over the next 12 months. MBK has scheduled principal repayments of Bt775 million and repayments of outstanding short-term obligations of Bt5,037 million coming due in the next 12 months. The company has investment budget of approximately Bt1,500 million in 2018.

TRIS Rating believes that MBK will be able to comply with its debenture covenants over the next 12 to 18 months. The net interest-bearing debt to equity ratio at the end of December 2017 was 0.8 times, below the debenture covenant of 2 times. Meanwhile, the EBITDA interest coverage ratio at the end of December 2017 was 6.7 times, better than the debenture covenant of 4 times.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that MBK will continue to receive reliable cash flow streams from its rental properties and maintain satisfactory operating performance in its other businesses. Under TRIS Rating's base case scenario, we assume that MBK's revenues will gradually grow to around Bt12,000 million in 2020. During 2018-2020, the operating profit margins will be in the range of 35%-40%. We project that the FFO to total debt ratio will stay around 12%-15% and the EBITDA interest coverage ratio should be approximately 4-5 times.

### RATING SENSITIVITIES

MBK's ratings could be upgraded, should cash flow enlarge substantially while leverage remains at the current level. In contrast, a rating downside case may occur if its operating performance deteriorates significantly for a prolonged period or if the company makes an aggressive debt-funded investment.

### COMPANY OVERVIEW

MBK was established in 1974. Thanachart Capital PLC (TCAP) and other companies in the Thanachart Group currently continue to be MBK's major shareholders, holding a combined 20% stake. MBK has many lines of business: retail property for rent, hotels, golf courses, residential property development, food, and financial services. In 2017, the retail property and office building segment comprised about 41% of total revenue and 61% of total EBITDA. The financial service and hotel segments contributed around 18% and 13% of total revenue, respectively, and 20% and 11% of EBITDA. The company also develops residential property projects and operates golf courses. The combined revenues of the residential property development and golf course segments amounted to 12% of total revenue and 9% of EBITDA in 2017. The revenue and EBITDA contributions from the food segment were 16% and -1%, respectively.

**KEY OPERATING PERFORMANCE**
**Table 1: MBK's Revenue and EBITDA Breakdown**

Unit: %

Revenue Breakdown	2012	2013	2014	2015	2016	2017
Shopping centers & office buildings	42	41	43	35	39	41
Hotels	15	13	12	10	12	13
Golf courses	4	4	4	4	4	5
Food	23	24	21	22	18	16
Residential properties	5	3	6	19	14	7
Financial services	9	13	13	10	13	18
Others	2	2	1	0	0	0
<b>Total revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total revenue (Bt million)</b>	<b>8,374</b>	<b>9,273</b>	<b>9,114</b>	<b>11,550</b>	<b>10,415</b>	<b>9,734</b>
EBITDA Breakdown	2012	2013	2014	2015	2016	2017
Shopping centers & office buildings	61	71	63	54	59	61
Hotels	12	14	7	7	11	11
Golf courses	5	6	5	5	5	5
Food	2	2	4	4	0	-1
Residential properties	6	-1	6	17	12	4
Financial services	9	9	15	13	12	20
Others	5	-1	0	0	1	0
<b>Total EBITDA</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total EBITDA (Bt million)</b>	<b>3,428</b>	<b>2,603</b>	<b>2,587</b>	<b>3,138</b>	<b>3,017</b>	<b>2,882</b>

Source: MBK

**Table 2: MBK's Shopping Center Portfolio as of Jun 2018**

Property Name	Location	Rental Space (Sq.m.)	% Holding	Equity Rental Space (Sq.m.)
1 MBK Center	Bangkok	84,383	100	84,383
2 Paradise Park	Bangkok	91,703	100	91,703
3 The Nine Center	Bangkok	15,174	100	15,174
4 Paradise Place	Bangkok	20,010	100	20,010
5 Siam Center	Bangkok	21,754	48	10,442
6 Siam Discovery	Bangkok	15,892	48	7,628
7 Siam Paragon	Bangkok	197,529	25	48,395
<b>Total</b>		<b>446,450</b>		<b>277,740</b>

Source: MBK

**Table 3: MBK's Office Building Portfolio as of Jun 2018**

Property Name	Location	Rental Space (Sq.m.)	% Holding	Equity Rental Space (Sq.m.)
1 MBK Center	Bangkok	15,512	100	15,512
2 The Nine Office	Bangkok	9,305	100	9,305
3 Glas Haus Sukumwit	Bangkok	12,950	100	12,950
4 Glas Haus Ratchda	Bangkok	7,509	100	7,509
5 Siam Tower	Bangkok	33,636	48	16,145
<b>Total</b>		<b>78,913</b>		<b>61,422</b>

Source: MBK

**Table 4: MBK's Hotel Portfolio as of Jun 2018**

	Property Name	Location	No. of Rooms	RevPAR 2017 (Bt/Room/Night)
1	Pathumwan Princess Hotel	Bangkok	455	2,760
2	Dusit Thani Krabi Beach Resort	Krabi	240	3,000
3	Tinidee Hotel @Ranong	Ranong	136	481
4	Tinidee Inn	Ranong	46	338
5	Tinidee Hotel @ Phuket	Phuket	45	491
6	Layana Resort & Spa	Krabi	57	4,143
	<b>Total</b>		<b>979</b>	<b>2,349</b>

Source: MBK

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Sales	5,238	9,740	10,416	11,550	9,114
Gross interest expense	388	632	672	693	679
Net income from operations	819	1,793	1,964	1,815	1,591
Funds from operations (FFO)	1,416	2,924	3,052	2,650	2,786
Capital expenditures	281	608	928	990	914
Total assets	48,620	46,552	42,518	40,549	37,909
Total debt	21,149	17,858	15,704	15,931	14,026
Total adjusted debt	28,364	24,953	22,012	22,164	20,245
Shareholders' equity	21,537	22,185	20,352	17,941	16,877
Operating income before depreciation and amortization as % of sales	40.26	41.96	41.17	37.15	39.93
Pretax return on permanent capital (%)	7.06 **	7.26	8.26	8.46	8.32
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.00	4.36	4.55	4.39	4.13
FFO/total debt (%)	11.94 **	12.13	14.77	12.81	14.01
Total debt/capitalization (%)	56.84	52.94	51.96	55.27	54.54

Note: All ratios are operating leased adjusted ratios.

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

**MBK PLC (MBK)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
MBK188B: Bt400 million senior unsecured debentures due 2018	A
MBK207A: Bt1,700 million senior unsecured debentures due 2020	A
MBK207B: Bt300 million senior unsecured debentures due 2020	A
MBK227A: Bt500 million senior unsecured debentures due 2022	A
MBK229A: Bt400 million senior unsecured debentures due 2022	A
MBK229B: Bt1,000 million senior unsecured debentures due 2022	A
MBK27NA: Bt1,500 million senior unsecured debentures due 2027	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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