

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-	- A-

Rating Rationale

TRIS Rating affirms the company and issue ratings of MBK PLC (MBK) at “A-”. The ratings reflect MBK’s well-known downtown shopping center with strong traffic and stable cash flow and the ability to raise funds through long-term lease arrangements with tenants after renewal of its leasehold contract. These strengths are partially offset by MBK’s significantly-higher leasehold payments, which will take effect following the expiry of the existing contract in 2013, and the company’s active expansion plans during the struggling economy in the near future. Along with the potential impact from a global recession, which is expected to affect Thailand’s economy, additional concerns are MBK’s continuing aggressive investment policies in non-core businesses, which require substantial investments and a highly leveraged balance sheet.

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 21% stake. 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-mill production businesses. MBK’s performance is heavily reliant on *MBK Center* despite its diverse portfolio. 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 45% of MBK’s revenue and 70% of its cash flow. To mitigate concentration risk, MBK actively expanded into the retail business in 2008. The company acquired *Seri Center*, a shopping center in the outskirts of Bangkok, and plans to develop its first community mall on Rama IX road. Together with expansions in the hotel, golf course and residential property businesses, these projects will require a large amount of capital that will lead to more leverage, though the company may seek a partner in the projects to reduce investment risk.

In recent years, MBK’s performance has been acceptable. Revenue has continued to increase, reaching Bt5,800 million in the fiscal year 2007/2008, up from Bt5,220 million for 2006/2007. MBK’s profitability continues to be healthy benefiting from the low lease expenses under the current lease contract. Operating profit margins stayed at 36%-39% over the last three years. However, funds from operations (FFO) to total debt declined significantly from 49% in 2006/2007 to 12% (annualized) in the first quarter of 2008/2009 as debt increased considerably in recent years. MBK’s cash flow protection also declined significantly due to the debt incurred to fund aggressive business expansion and non-core investment; however, the decline was anticipated and had been incorporated into the existing ratings.

Recently, TRIS Rating revised down the rating of the tourism industry as a whole due to the unfavorable global economy and political instability locally. The current unfavorable tourism climate will negatively impact hotel operators in the short to medium term. Though retail property is less affected, operators are challenged by the struggling economy, which limits ability to increase rents. MBK’s businesses will face more difficulties than in previous years since its retail and hotel properties rely mostly

on foreign tourists. It is expected that MBK will be more conservative in terms of non-core investment, due to the fact that further investment could negatively affect the ratings. In 2007/2008, MBK spent more than Bt1,500 million in its investment and loan portfolio, compared with its FFOs of around Bt1,200-Bt1,300 million annually over the last three years. MBK's large scale investments (representing 24% of total assets) reflect its policy to build up a sizable portfolio of companies in which MBK has no direct control. Greater exposure in non-core investment may impact the company's credit quality in the short term.

Rating Outlook

The "stable" outlook reflects the expectation that MBK will be able to continue to generate a stable cash flow from *MBK Center*. Despite substantial capital expenditures planned for 2009-2010, the company is expected to maintain its leverage, as measured by debt to capitalization at less than 50% in the medium term. The company's credit profile could be revised downward if the aggressive investment policy in its non-core business continues.

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