TRIS RATING
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MBK Public Company Limited

Company Rating:	A
Issue Ratings:	
MBK117A: Bt2,000 million senior debentures due 2011	A
MBK137A: Bt3,000 million senior debentures due 2013	A
Rating Outlook:	Stable

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

Rating Rationale

TRIS Rating upgrades the company and issue ratings of MBK PLC (MBK) to “A” from “A-”. The upgrades reflect MBK’s strengthened position in the commercial property development industry after the opening of the Paradise Park shopping mall, the ability to maintain an acceptable level of leverage, and strong financial flexibility from its sizable investment in marketable securities. The ratings also reflect the stable cash flows from its contract-based retail space leasing business and a close relationship with Thanachart Group. These strengths are partially offset by an upcoming rise in its operating cost from a new leasehold contract which will take effect in 2013 and the expansion into motorcycle financing business.

MBK was founded in 1974. Thanachart Capital PLC (TCAP) and other companies in the TCAP Group are MBK’s current major shareholders, holding a 20% stake in total. MBK currently engaged in retail property for rent, the hotel, golf course, residential property development, rice milling and finance businesses. MBK owns and operates MBK Center, a well-known shopping center in downtown Bangkok. The company’s performance is heavily reliant on its core properties, MBK Center and Pathumwan Princess Hotel, despite its diverse business portfolio. These properties are located on leasehold land close to the Siam Square area in Bangkok. In recent years, the two properties have generated approximately 40% of MBK’s revenue and 65% of its cash flow.

To mitigate business concentration risk, MBK has gradually expanded its retail property business. The company has a 31% stake in Siam Piwat Co., Ltd., which owns and operates shopping centers in the Siam Square area. Siam Piwat owns 100% of Siam Center (18,700 square meters, sq.m.) and Siam Discovery Center (24,890 sq.m.), and has a 50% interest in Siam Paragon (186,010 sq.m.). In addition, a 50% joint venture (JV) between MBK and Siam Piwat has completely renovated the Paradise Park (formerly Seri Center) shopping mall (90,000 sq.m.), which was fully operated in July 2010. MBK is developing its first community mall on Rama IX road with a target opening date in mid-2011. As of December 2010, MBK’s net retail property portfolio stood at 192,786 sq.m. and will increase slightly after the opening of the community mall. The acquisition of an 8,223-sq.m. office building in June 2010 raised its office space holdings to a total of 48,921 sq.m.

Apart from the commercial property business, MBK acquired T Leasing Co., Ltd., a motorcycle financing business in April 2010. Outstanding motorcycle loans were Bt805 million as of September 2010, accounting for 3% of total assets. The loan quality was satisfactory as the ratio of non-performing loans (NPL) to total loans was 4.21%. However, the ability to control asset quality, while expanding size of the loan portfolio, remains a challenge for MBK.

Although the tourism industry in Thailand has been negatively affected by global economic conditions and domestic political unrest, MBK’s operations have held at an acceptable level. Revenue accounted for around Bt5,800 million for the last three fiscal years. From July to September 2010, the first quarter of the 2010/2011 fiscal year (FY), revenue increased by 18% year-on-year (y-o-y) to Bt1,670 million, after

Paradise Park shopping mall fully operated and the finance business started up. However, MBK's profitability has been affected by the volatile price of rice and the slowdown in the tourism industry. The operating profit margin decreased from 36.06% in FY2008/2009 to 29.84% in FY2009/2010 and to 28.36% for the first three months of FY2010/2011. Funds from operations (FFO) stayed at Bt1,700-Bt1,800 million for three consecutive fiscal years (FY2007-2009) but sharply increased to Bt3,458 million in FY2009/2010. The rise was the result of the Bt3,000 million raised through the execution of long-term leases in MBK Center in late 2009. The FFO to total debt ratio improved from 22.53% in FY2008/2009 to 45.47% in FY2009/2010. The level of debt was relatively stable at Bt7,778 million in September 2010, but the total debt to capitalization ratio slightly improved from 38.64% in June 2010 to 36.65% in September 2010. In FY2009/2010, MBK also realized gains on sales of investments in marketable securities amounting to Bt2,233 million, which helped strengthen its liquidity. Its marketable securities portfolio as of September 2010 was worth Bt6,389 million.

Rating Outlook

The "stable" outlook reflects the expectation that MBK will continue to receive stable cash flows from its retail properties to offset the weak performance of its hotel business. MBK is expected to maintain the quality of its motorcycle loan portfolio through its stringent approval and collection procedures. With the moderate amount of capital expenditures planned for 2010-2011, the company is expected to maintain its leverage level, as measured by the total debt to capitalization ratio.