

MBK PLC

No. 38/2013

22 May 2013

Company Rating: A

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
01/02/11	A/Sta	-/A
08/10/07	A-/Sta	-/A-

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Rating Rationale

TRIS Rating affirms the company and senior debenture ratings of MBK PLC (MBK) at "A". The ratings reflect the stable cash flows from MBK's contract-based retail property business, a close relationship with the Thanachart Group, and a high level of financial flexibility from its sizable investment portfolio. These strengths are partially offset by rising operating costs from new leasehold contract for MBK Center starting from 2013.

MBK was established in 1974. Thanachart Capital PLC (TCAP) and other companies in the Thanachart Group are MBK's major shareholders, holding a 20% stake in total. MBK is currently engaged in many lines of business: retail property for rent, hotels, golf courses, residential property development, rice, and financial services. MBK owns and operates the MBK Center, a well-known shopping center located on leasehold land close to the Siam Square shopping district in downtown Bangkok. Despite its diverse portfolio of businesses, the company's performance continues to be reliant on its two core properties, MBK Center and the Pathumwan Princess Hotel. In 2012, the two properties generated approximately 32% of MBK's revenue and 52% of its cash flow.

To mitigate business concentration risk, MBK has gradually expanded its retail property development business. MBK reopened the Paradise Park shopping mall in 2010 and launched its first community mall on Rama IX road, the Nine Neighborhood Center, in 2011. The company also has a 31% stake in Siam Piwat Co., Ltd., which owns and operates several shopping centers in the Siam Square area. Siam Piwat owns 100% of Siam Center (19,000 square meters; sq.m.) and Siam Discovery Center (23,200 sq.m.) and has a 50% interest in Siam Paragon (191,000 sq.m.). As of March 2013, MBK's portfolio of retail property and office space totaled 202,091 sq.m. and 56,044 sq.m., respectively.

For the hotel business, the company currently owns and operates six hotels in key tourist provinces of Thailand, with a total of 964 rooms. Due to favorable prospects in the tourism industry, the average occupancy rate (OR) of MBK's properties was high at 83.8% in the first quarter of 2013. The average room rate increased by 3.3% to Bt3,290 per night in the first quarter of 2013. Thus, MBK's average revenue per available room (RevPAR) also increased, rising from Bt2,311 per night in the first quarter of 2012 to Bt2,755 per night in the first quarter of 2013.

For the financial service business, MBK acquired T Leasing Co., Ltd. (TLS), a provider of motorcycle hire-purchase loans, in 2010. TLS's outstanding motorcycle loans were Bt2,063 million as of March 2013. The ratio of non-performing loans (NPLs) to total loans was 5.5% as of March 2013. MBK also offers mortgage loans. As of March 2013, the mortgage loan portfolio was worth Bt3,689 million, with a loan-to-value ratio of 54%. MBK continues to face a challenge to maintain the quality of assets while expanding its loan portfolio.

In 2012, MBK's total revenue increased by 3.6% year-on-year (y-o-y) to Bt8,097 million. The operating profit margin increased from 30.0% in fiscal year (FY) 2011 (ending June 2011) to 33.2% in 2012. The higher operating margin was mainly driven by improvements in the hotels and rental property businesses. For the first three months of 2013, MBK's total revenue was Bt2,317 million and operating profit margin was 37.3%. However, since April 2013, the company has incurred higher lease payments for MBK Center. The payments leaped from Bt85 million per year to Bt695 million per year. The company's profit margin is expected

to decline if MBK is unable to pass through this significant cost increase to its tenants. The company plans to increase its rental rates to cope with the rise in its lease payment obligations and to stabilize its profit margin.

MBK's funds from operations (FFO) increased from Bt2,086 million in FY2011 to Bt2,479 million in 2012 and stood at Bt962 million in the first three months of 2013. The level of debt slightly increased from Bt9,206 million at the end of June 2011 to Bt10,071 million at the end of March 2013. The FFO to total debt ratio improved from 22.7% in FY2011 to 24.8% in 2012 and stood at 9.6% (non-annualized) in the first three months of 2013. The total debt to capitalization ratio improved from 42.1% at the end of June 2011 to 35.5% as of March 2013. The company's liquidity position remained satisfactory. As of March 2013, the company had cash on hand of Bt4,607 million, while the value of its investment portfolio was Bt6,955 million.

Rating Outlook

The "stable" outlook reflects the expectation that MBK will continue to receive reliable cash flow stream from its rental properties. The company is also expected to maintain the quality of its loan portfolio through its stringent loan approval and collection procedures.

MBK PLC (MBK)

Company Rating:	A
Issue Ratings:	
MBK137A: Bt3,000 million senior debentures due 2013	A
MBK163A: Bt2,000 million senior debentures due 2016	A
MBK188A: Bt300 million senior debentures due 2018	A
MBK188B: Bt400 million senior debentures due 2018	A
MBK227A: Bt500 million senior debentures due 2022	A
MBK229A: Bt400 million senior debentures due 2022	A
MBK229B: Bt1,000 million senior debentures due 2022	A
MBK27NA: Bt1,500 million senior debentures due 2027	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 30 Jun -----					
	Jan-Mar 2013	Jan-Dec 2012	Jul-Dec 2011	2011	2010	2009
Sales	2,317	8,097	3,892	7,578	5,418	5,811
Gross interest expense	107	336	191	373	351	386
Net income from operations	504	1,693	646	1,285	2,578	1,308
Funds from operations (FFO)	962	2,479	981	2,086	3,447	1,772
Capital expenditures	132	679	552	1,439	3,256	1,134
Total assets	36,514	31,943	27,065	28,479	26,682	24,654
Total debt	10,071	9,988	8,223	9,206	7,605	7,866
Shareholders' equity	18,336	15,706	12,860	12,640	12,077	12,198
Operating income before depreciation and amortization as % of sales	37.32	33.32	31.11	30.00	32.59	36.06
Pretax return on permanent capital (%)	2.83 **	10.85	5.07 **	10.26	19.47	11.20
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	9.41	10.51	8.41	8.16	13.01	7.04
FFO/total debt (%)	9.56 **	24.82	11.93 **	22.66	45.88	22.53
Total debt/capitalization (%)	35.45	38.87	39.00	42.14	38.64	39.21

Note: In December 2011, MBK changed the accounting period from July-June to January-December.

* Consolidated financial statements

** Non-annualized

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