

MBK PLC

No. 51/2012

20 September 2012

Company Rating: A

Outlook: Stable

New Issue Rating: A

Rating History:

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

Rating Rationale

TRIS Rating affirms the company and current issue ratings of MBK PLC (MBK) at "A". At the same time, TRIS Rating assigns the ratings of "A" to MBK's proposed issue of up to Bt1,000 million in senior debentures and the senior debentures worth Bt400 million (MBK229A). The proceeds from the new debenture issues will be used to refinance its existing debt, liquidity reserve, and for future investments. 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 an upcoming rise in its operating costs as a new leasehold contract for MBK Center takes effect in 2013.

MBK was established in 1974. Thanachart Capital PLC (TCAP) and other companies in the TCAP Group are MBK's major shareholders, holding a 20% stake in total. MBK is currently engaged in many business segments: 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 business portfolio, the company's performance continues to be reliant on its two core properties, MBK Center and the Pathumwan Princess Hotel. In the first half of 2012, the two properties generated approximately 32% of MBK's revenue and 53% of its cash flow.

To mitigate business concentration risk, MBK has gradually expanded its retail property development business. The company 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 (186,010 sq.m.). In addition, a 50:50 joint venture (JV) between MBK and Siam Piwat renovated and reopened the Paradise Park (formerly Seri Center) shopping mall (90,177 sq.m.) in July 2010. In August 2011, MBK launched its first community mall on Rama IX road, The Nine Neighborhood Center, which has retail space and office space of 12,873 sq.m. and 8,979 sq.m., respectively. As of June 2012, MBK's portfolio of retail property and office space totaled 205,251 sq.m. and 57,895 sq.m., respectively.

For the hotel business, the company currently owns and operates six hotels in key tourism provinces of Thailand, with a total of 972 rooms. Due to strong demand in the tourism industry, the average occupancy rate (OR) of MBK's properties was high at 69% in the first half of 2012. The average room rate increased by 3.3% to Bt2,940 per night in the first half of 2012. Thus, MBK's average revenue per available room (RevPAR) increased from Bt1,914 per night in the first half of 2011 to Bt2,033 per night in the first half of 2012.

Apart from the commercial property business, MBK acquired T Leasing Co., Ltd. (TLS), a provider of motorcycle hire-purchase loans, in 2010. TLS's outstanding motorcycle loans were Bt1,180 million as of June 2012. As a result of the severe flood in late 2011, the quality of MBK's loan portfolio deteriorated. The ratio of non-performing loans (NPLs) to total loans rose from 4.2% as of September

Contacts:

Pramuansap Phonprasert
pramuansap@trising.com

Jutamas Bunyanichkul
jutamas@trising.com

Kanokporn Nitniphrut
kanokporn@trising.com

Wiyada Pratoomsuwan, CFA
wiyada@trising.com

WWW.TRISING.COM

CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The *CreditUpdate* occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The *CreditUpdate* announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

2011 to 6.5% as of March 2012 but declined to 3.6% as of June 2012. MBK faces a challenge to continue to expand its loan portfolio while maintaining the quality of assets. MBK also offers mortgage loans. As of June 2012, the mortgage loan portfolio was worth Bt2,551 million, with a loan-to-value ratio of 45%.

For the fiscal year (FY) 2011/2012 (July 2011-June 2012), MBK's revenue increased by 3% year-on-year (y-o-y) to Bt7,819 million. The operating profit margin increased from 30.0% in FY2010/2011 to 33.4% in FY2011/2012. The higher operating margin was mainly driven by the improvement in the hotels and rental property businesses. However, starting from April 2013, the company will incur higher lease payments for MBK Center. The payments will leap 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. The rises in rental rates will help to improve its profit margin.

MBK's funds from operations (FFOs) increased from Bt2,086 million in FY2010/2011 to Bt2,337 million in FY2011/2012. The level of debt declined from Bt9,206 million at the end of June 2011 to Bt7,173 million at the end of June 2012, following the debt repayments. The FFOs to total debt ratio improved from 22.7% in FY2010/2011 to 32.6% in FY2011/2012. The total debt to capitalization ratio decreased from 42.1% at the end of June 2011 to 33.7% as of June of 2012. The company's liquidity position remained satisfactory. As of June 2012, the company had cash on hand of Bt999 million, while the value of its investment portfolio was Bt4,511 million.

Rating Outlook

The "stable" outlook reflects the expectation that MBK will continue to receive reliable cash flows from its rental property. The company is expected to maintain the quality of its motorcycle loan portfolio through its stringent loan approval and collection procedures. With moderate amounts of capital expenditures planned for 2012-2013, the company is expected to maintain its current leverage level, as measured by the total debt to capitalization ratio.

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
Up to Bt1,000 million senior debentures due within 2022	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 30 June				
	2012	2011	2010	2009	2008
Sales	7,819	7,578	5,418	5,811	5,800
Gross interest expense	343	373	351	386	187
Net income from operations	1,529	1,285	2,578	1,308	1,402
Funds from operations (FFOs)	2,337	2,086	3,447	1,772	1,759
Capital expenditures	813	1,439	3,256	1,134	3,415
Total assets	27,198	28,479	26,682	24,654	21,101
Total debt	7,173	9,206	7,605	7,866	6,524
Shareholders' equity	14,124	12,640	12,077	12,198	10,465
Operating income before depreciation and amortization as % of sales	33.41	30.00	32.59	36.06	39.19
Pretax return on permanent capital (%)	11.26	10.26	19.47	11.20	14.94
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	9.98	8.16	13.01	7.04	14.72
FFOs/total debt (%)	32.57	22.66	45.88	22.53	26.96
Total debt/capitalization (%)	33.68	42.14	38.64	39.21	38.40

Note: Starting in 2011, MBK changed the end of its fiscal year to be December. The numbers presented in FY2011/2012 are for comparison purpose only.

* Consolidated financial statements

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2012, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at http://www.trisrating.com/en/rating_information/rating_criteria.html.