MBK PLC

Announcement no. 863 30 March 2012

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 issue ratings of MBK PLC (MBK) at “A”. The ratings reflect the stable cash flows from MBK’s contract-based retail space leasing business, a close relationship with the Thanachart Group, and high level of financial flexibility from its sizable investments in marketable securities. 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, hotel, golf course, residential property development, rice, and financial services. MBK owns and operates MBK Center, a well-known shopping center located on leasehold land close to the Siam Square area in downtown Bangkok. Currently, the company’s performance is reliant on its core properties situated on same location, MBK Center and the Pathumwan Princess Hotel, despite its diverse business portfolio. In recent years, the two properties generated approximately 35% of MBK’s revenue and 61% 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 (89,294 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 and office space of 12,873 sq.m. and 8,979 sq.m., respectively. As of December 2011, MBK’s portfolio of retail property and office space totaled 204,594 sq.m. and 57,895 sq.m., respectively.

For the hotel business, currently, the company owns and operates six hotels in four provinces of Thailand, with a total of 972 rooms. As demand for hotel recovered in 2011, the average occupancy rate (OR) of MBK’s properties increased from 55% in FY2009/2010 to 61% in FY2010/2011. In addition, MBK’s average revenue per available room (RevPAR) also increased by 8.5% to Bt1,694 in FY2010/2011.

Apart from the commercial property business, MBK acquired T Leasing Co., Ltd. (TLS), a motorcycle financing business, in April 2010. TLS’s outstanding motorcycle loans were Bt942 million at the end of December 2011. 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 to 6.8% as of December 2011, up from 4.2% as of September 2011. The ability to control asset quality, while expanding the loan portfolio, remains a challenge for MBK. MBK also offers mortgage loans. As of December 2011, the mortgage loan portfolio was worth Bt2,430 million, with loan-to-value ratio of 52%.

For the fiscal year 2010/2011 (ending June 2011), revenue increased by 40% to Bt7,578 million. The revenue rose because the Paradise Park shopping mall opened and the finance business fully started up. For the first six months of FY2011/2012, revenue increased by 4.9% year-on-year (y-o-y) to Bt3,892 million as the new neighborhood mall opened and performance rebounded in the hotel segment. The operating profit margin ranged from 30.0% to 32.6% from FY2009/2010 through the first half of FY2011/2012. Starting from April 2013, the company will have to make a higher annual lease payment for MBK Center. The payment will increase 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 cost to its tenants.

Funds from operations (FFOs) reached a peak of Bt3,447 million in FY2009/2010 as a result of the execution of long-term leases in MBK Center. However, in FY2010/2011, the FFOs dropped to Bt2,085 million for the year and stood at Bt981 million in the first half of FY2011/2012. The level of debt declined from Bt9,207 million at the end of June 2011 to Bt8,223 million at the end of December 2011, following the redemption of maturing debentures. The FFO to total debt ratio was at 22.66% in FY2010/2011 and stood at 11.93% (non-annualized) in the first half of FY2011/2012. The total debt to capitalization ratio decreased from 42.14% at the end of June 2011 to 39.00% at the end of December 2011. The company's liquidity position remained satisfactory. As of December 2011, the company had cash on hand of Bt655 million while its marketable securities portfolio was worth Bt4,283 million.

Rating Outlook

The "stable" outlook reflects the expectation that MBK will continue to receive reliable cash flows from its retail properties. 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
Rating Outlook:	Stable

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