

MBK PLC

No. 47/2014

23 June 2014

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
01/02/11	A	Sta
08/10/07	A-	Sta

Contacts:

 Pramuansap Phonprasert
pramuansap@trisrating.com

 Jutamas Bunyawanchkul
jutamas@trisrating.com

 Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com
WWW.TRISRATING.COM
Rating Rationale

TRIS Rating affirms the company and senior unsecured 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 the deterioration of asset quality of its motorcycle loans portfolio.

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, food, 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 2013, these 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. 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 plans to launch a new community mall in late 2014. The new community mall has approximately 18,000 square meter (sq.m.) of retail space adjacent to Paradise Park on Srinakarin road. The company also has a 31% stake in Siam Piwat Co., Ltd., which owns and operates several shopping centers in the Siam Square area. As of March 2014, MBK's portfolio of retail property totaled 182,412 sq.m. while the portfolio of office space totaled 56,030 sq.m.

For the hotel segment, the company currently owns and operates six hotels, with a total of 978 rooms, located in key tourist destination throughout Thailand. In the first quarter of 2014, the tourism industry was affected by the political turbulence, especially in the Bangkok Metropolitan Area. The number of foreign tourist arrivals declined by 5.8% year-on-year (y-o-y) to 6.6 million persons in the first quarter of 2014. As a result, the average occupancy rate (OR) of MBK's properties declined to 64.2% in the first quarter of 2014 compared with 83.8% in the same period of the previous year. The average room rate slightly declined by 1.6% to Bt3,232 per night in the first quarter of 2014. Thus, MBK's average revenue per available room (RevPAR) dropped from Bt2,752 per night in the first quarter of 2013 to Bt2,076 per night in the first quarter of 2014.

For the financial service segment, MBK provides motorcycle hire-purchase loans and mortgage loans via T Leasing Co., Ltd. (TLS) and MBK Guarantee Co., Ltd. (MBK-G), respectively. The value of outstanding motorcycle loans soared from Bt997 million as of December 2011 to Bt2,188 million as of December 2013. The ratio of non-performing loans (NPLs) to total motorcycle loans also increased, climbing from 5.1% in 2011 to 7% in 2013. In order to reduce NPLs, the company has decelerated on making motorcycle loans and prudentially considered its loan approval and collection procedures. The portfolio of mortgage loans increased from Bt2,430 million as of December 2011 to Bt4,999 million as of December 2013. The ratio of NPLs to total mortgage loans has held at around 1% during the past few years.

In 2013, MBK's total revenue increased by 11.1% y-o-y to Bt9,272 million, due mainly to the increasing rental rates in its shopping malls and loan portfolio expansion. The adjusted operating profit margin (operating leased adjusted) was 37% in 2013. For the first three months of 2014, MBK's total revenue was Bt2,209 million and the adjusted operating profit margin was 40.4%.

The company's total debt significantly increased from Bt9,988 million at the end of December 2012 to Bt13,967 million at the end of March 2014 due to a change in accounting standard regarding lease obligation. An impact of a treatment of lease obligation into financial debt is worth Bt5,105 million. The adjusted total debt to capitalization ratio increased from 38.9% at the end of December 2012 to 53.1% as of March 2014.

MBK's funds from operations (FFO) increased from Bt2,815 million in 2012 to Bt6,249 million in 2013 due to the substantial gain of Bt3,095 million from asset divestments. The FFO to total debt ratio improved from 28.2% in 2012 to 31.8% in 2013. In the first three months of 2014, FFO stood at Bt650 million and the FFO to total debt ratio stood at 24.6% (annualized from the trailing 12 months). The company's liquidity position remains satisfactory. As of March 2014, the company had cash on hand of Bt1,077 million, and the marketable securities worth Bt1,078 million.

On 22 May 2014, General Prayuth Chan-ocha declared coup d'etat, following the declaration of martial law two days earlier. In TRIS Rating's view, the political uncertainties arising from the coup will have a negative effect on investor confidence and tourism, at least in the short term. However, the longer term effects of the coup on the Thai economy depend on the policies executed by the National Council for Peace and Order (NCPO), plus the success of the political and social reforms the NCPO introduces. The political and social reforms aim to restore unity to Thai society. If the policies of the NCPO lead to an end of the prolonged political conflict and bring peace, the economic sentiment will improve substantially. The Thai tourism industry is also expected to post a quick recovery due to the attractive travel destinations it has. In the past, the number of foreign tourist arrivals recovered quickly after each unfavorable event was resolved. Recently, the NCPO put forth its roadmap to propel the country towards democracy and its economic roadmap to stimulate domestic consumption and investment. These roadmaps thus far have met a positive reception from the public and investors.

Rating Outlook

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

MBK PLC (MBK)

Company Rating:	A
Issue Ratings:	
MBK163A: Bt2,000 million senior unsecured debentures due 2016	A
MBK188A: Bt300 million senior unsecured debentures due 2018	A
MBK188B: Bt400 million senior unsecured debentures due 2018	A
MBK207A: Bt1,700 million senior unsecured debentures due 2020	A
MBK207B: Bt300 million senior unsecured debentures due 2020	A
MBK227A: Bt500 million senior unsecured debentures due 2022	A
MBK229A: Bt400 million senior unsecured debentures due 2022	A
MBK229B: Bt1,000 million senior unsecured debentures due 2022	A
MBK27NA: Bt1,500 million senior unsecured debentures due 2027	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	--- Year Ended 31 Dec ---			--- Year Ended 30 June ---		
	Jan-Mar ** 2014	2013 **	2012	Jul-Dec **** 2011	2011	2010
Sales	2,209	9,272	8,344	3,892	7,578	5,418
Gross interest expense	183	675	336	191	373	351
Net income from operations	285	4,108	1,895	646	1,285	2,578
Funds from operations (FFO)	650	6,249	2,815	981	2,086	3,447
Capital expenditures	256	1,578	679	552	1,439	3,256
Total assets	37,951	37,922	31,943	27,065	28,479	26,682
Total debt	13,967	14,741	9,988	8,223	9,206	7,605
Total adjusted debt	18,895	19,467	9,988	8,223	9,206	7,605
Shareholders' equity	16,693	15,951	15,706	12,860	12,640	12,077
Operating income before depreciation and amortization as % of sales	40.40	37.01	35.30	31.11	30.00	32.59
Pretax return on permanent capital (%)	9.06 ***	18.18	11.76	5.07	10.26	19.47
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.57	6.72	11.10	8.41	8.16	13.01
FFO/total debt (%)	24.62 ***	31.81	28.18	11.93	22.66	45.88
Total debt/capitalization (%)	53.09	55.19	38.87	39.00	42.14	38.64

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

* Consolidated financial statements

** All ratios are operating leased adjusted ratios

*** Annualized from the trailing 12 months

**** Non-annualized

TRIS Rating Co., Ltd.

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

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