

MBK PLC

No. 45/2015

5 June 2015

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

Company Rating History:

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

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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 retail property business, its close relationship with the Thanachart Group, and a high level of financial flexibility from its sizable investment portfolio. These strengths are partially offset by its expansion to other business which has higher risk such as financial service segment and the stagnant growth of domestic economy.

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 2014, these two properties generated approximately 35% of MBK’s revenue and 57% of its cash flow.

To mitigate its business concentration risk, MBK has gradually expanded its retail property development business. MBK reopened the Paradise Park shopping mall in 2010 and the Nine Neighborhood Center, in 2011. The company launched a new community mall, HaHa Market, in late 2014. The new community mall, adjacent to Paradise Park on Srinakarin road, has approximately 18,000 square meter (sq.m.) of retail space. 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 2015, MBK’s portfolio of retail property totaled 200,145 sq.m. while the portfolio of office space totaled 54,468 sq.m.

In the hotel segment, the company owns and operates six hotels, with total rooms of 973, located in key tourist destination throughout Thailand. In the first quarter of 2015, the tourism industry recovered from the recent political turmoil, especially in the Bangkok Metropolitan Area. The number of foreign tourist arrivals increased by 23.5% year-on-year (y-o-y) to 7.88 million in the first quarter of 2015. As a result, the average occupancy rate (OR) of MBK’s hotels rose to 84.1% in the first quarter of 2015, compared with 64.2% in the same period of the previous year. The average room rate also improved by 4.4% to Bt3,375 per night in the first quarter of 2015. Thus, MBK’s average revenue per available room (RevPAR) increased from Bt2,076 per night in the first quarter of 2014 to Bt2,838 per night in the first quarter of 2015.

For the financial service segment, MBK provides motorcycle hire-purchase loans via T Leasing Co., Ltd. (TLS) and mortgage loans through MBK Guarantee Co., Ltd. (MBK-G). During 2014, TLS froze motorcycle loans portfolio and put more focus on collection procedures. The value of outstanding motorcycle loans shrank from Bt2,188 million as of December 2013 to Bt2,001 million in 2014. The ratio of non-performing loans (NPLs) to total motorcycle loans improved from 7% in 2013 to 5% in 2014. The portfolio of mortgage loans also decreased from Bt4,999 million as of December 2013 to Bt3,630 million as of December 2014 as a large mortgage loan was matured. The ratio of NPLs to total mortgage loans has held at around 1% during the past few years.

For the 2014 operation, MBK’s total revenue declined by 1.7% to Bt9,114 million, due to lower rice exports and weaker performance in the hotel business,

caused by the recent political unrest. However, in the first quarter of 2015, MBK’s total revenue recovered by 5.1% to Bt2,322 million following the strong rebound of the tourism industry. The operating profit margin was 34.6% in 2014 but increased to 39% in the first quarter of 2015. The operation improvements were from tourism-related business namely hotel, food, and golf businesses.

At the end of March of 2015, total debt increased to Bt16,374 million as the company reserved cash for liquidity management and investment opportunities. As a result, the total debt to capitalization ratio increased to 48.2% as of March 2015, from 45.4% in 2014.

The company’s liquidity position remains satisfactory. Funds from operations (FFO) in 2014 decreased to Bt2,773 million. FFO in 2013 was unusually high because MBK has one-time gain on asset sales of Bt3,095 million during the year. The FFO to total debt ratio declined from 42.4% in 2013 to 19.8% in 2014. For the first quarter of 2015, FFO stood at Bt628 million and the FFO to total debt ratio stood at 16.8% (annualized, from the trailing 12 months). As of March 2015, the company had cash on hand of Bt593 million, and marketable securities worth Bt3,769 million. Meanwhile, MBK has short-term debt of Bt3,053 million, with no long-term debt service obligations, due in 2015.

During the next three years, TRIS Rating expects MBK’s total revenue to grow at a moderate rate from an increase in rental rates for its retail properties and the expansion of financial services business. The profit margin is forecasted to stay at around 35%. MBK plans capital expenditures of Bt1,000 million per annum, financed through its internal cash flow. The debt to capitalization ratio is expected to be in the ranges of 40%-50% in the next three years.

Rating Outlook

The “stable” outlook reflects the expectation that MBK will continue to receive reliable cash flow streams from its rental properties. MBK’s credit upside is unlikely in the near future, based on its current credit profile. In contrast, the rating downside may occur if its operating performance deteriorates substantially in prolonged period or if the company makes an aggressive debt-funded investment.

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 -----					
	Jan-Mar 2015	2014	2013	2012	Jul-Dec *** 2011	Jul-Jun 2011
Sales	2,322	9,114	9,272	8,344	3,892	7,578
Gross interest expense	171	679	675	336	191	373
Net income from operations	421	1,591	4,108	1,895	646	1,285
Funds from operations (FFO)	628	2,773	6,249	2,815	981	2,086
Capital expenditures	167	914	1,578	679	552	1,439
Total assets	40,956	37,909	37,922	31,943	27,065	28,479
Total debt	16,374	14,026	14,741	9,988	8,223	9,206
Shareholders' equity	17,584	16,877	15,951	15,706	12,860	12,640
Operating income before depreciation and amortization as % of sales	38.98	34.59	32.59	35.30	31.11	30.00
Pretax return on permanent capital (%)	6.49 **	8.59	19.89	11.76	5.07	10.26
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.25	6.07	10.20	11.10	8.41	8.16
FFO/total debt (%)	16.80 **	19.77	42.39	28.18	11.93	22.66
Total debt/capitalization (%)	48.22	45.39	48.03	38.87	39.00	42.14

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

* Consolidated financial statements

** Annualized from the trailing 12 months

*** Non-annualized

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