

# MBK PLC

No. 80/2016

28 July 2016

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A
<b>Outlook:</b>	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, close relationship with the Thanachart Group, and 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 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 has 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 financial performance continues to be reliant on its two core properties, MBK Center and the Pathumwan Princess Hotel. In 2015, these two properties generated approximately 30% of MBK’s revenue and 51% of cash flow.

To mitigate its business concentration risk, MBK launched three retail properties during 2010-2014. Paradise Park and HaHa Market are shopping malls. The Nine Neighborhood Center is positioned as community malls. 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 2016, MBK’s portfolio of retail property totaled 191,522 square meters (sq.m.) while the portfolio of office space totaled 54,355 sq.m.

In the hotel segment, the company owns and operates six hotels with 979 rooms, located in key tourist destinations throughout Thailand. In the first quarter of 2016, the number of foreign tourist arrivals continued to increase by 15.5% year-on-year (y-o-y) to 9.04 million persons. As a result, the average occupancy rate (OR) of MBK’s hotels remained high at 84% in the first quarter of 2016. The average room rate improved by 4.3% to Bt3,521 per night in the first quarter of 2016. Thus, MBK’s average revenue per available room (RevPAR) increased from Bt2,838 per night in the first quarter of 2015 to Bt2,946 per night in the first quarter of 2016.

In 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). The value of outstanding motorcycle loans increased from Bt2,001 million in 2014 to Bt2,427 million as of March 2016. The ratio of non-performing loans (NPLs) to total motorcycle loans improved from 4.9% in 2014 to 3.2% as of March 2016 after the company tightened its loan approval and collection procedures. The portfolio of mortgage loans also rose from Bt3,630 million as of December 2014 to Bt4,526 million as of March 2016. However, the ratio of NPLs to total mortgage loans increased from 1.4% in 2014 to 3.1% as of March 2016.

During 2015 through the first quarter of 2016, MBK posted a strong revenue growth. Revenue rose by 26% year-on-year (y-o-y), due mainly to the recognition of condominium unit sales and higher rice exports. The operating profit margin was 35.3% in 2015 but increased to 40.3% in the first quarter of 2016. Operational improvements in the retail property and real estate segment were responsible for the rise.

Total debt increased from Bt14,026 million in 2014 to Bt15,387 million at the end of March of 2016 following its investment in securities. However, the total debt to capitalization ratio continued to hold approximately 52% at the end of March 2016 as higher operating profits enhanced MBK’s equity base.

The company’s liquidity position remains satisfactory. Funds from operations (FFO) in 2015 decreased to Bt2,650 million as it received fewer deposits from tenants. The FFO to total debt ratio declined from 14.6% in 2014 to 12.6% in 2015. For the first quarter of 2016, FFO stood at Bt768 million and the FFO to total debt ratio stood at 18.1% (annualized, from the trailing 12 months). As of March 2016, the company had cash on hand of Bt350 million, and marketable securities worth Bt4,120 million. MBK has short-term debts of Bt1,110 million, with no long-term debt service obligations due over the next 12 months.

TRIS Rating expects MBK’s total revenue will be around Bt10 billion in 2016 then grow at a moderate rate. The rise will come from increased rental rates at the 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 mainly through operating cash flow. The debt to capitalization ratio is expected to be approximately 50% over 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 rating could be upgraded, should its cash flow enlarges substantially while leverage maintains at current level. In contrast, the rating downside case may occur if operating performance deteriorates significantly for a prolonged period or if the company makes an aggressive debt-funded investment.

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### MBK PLC (MBK)

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
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
<b>Rating Outlook:</b>	Stable

### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar ** 2016	2015 **	2014 **	2013 **	2012	Jul-Jun 2011
Sales	2,933	11,550	9,114	9,272	8,344	7,578
Gross interest expense	172	693	679	675	336	373
Net income from operations	535	1,815	1,591	4,108	1,895	1,285
Funds from operations (FFO)	768	2,650	2,786	6,249	2,815	2,086
Capital expenditures	151	990	914	1,578	679	1,439
Total assets	41,072	40,549	37,909	37,922	31,943	28,479
Total debt	15,387	15,931	14,026	14,741	9,988	9,206
Total adjusted debt	20,484	21,006	19,012	19,647	9,988	9,206
Shareholders' equity	19,080	17,941	16,877	15,951	15,706	12,640
Operating income before depreciation and amortization as % of sales	40.26	35.29	39.09	37.01	35.30	30.00
Pretax return on permanent capital (%)	8.66 ***	8.65	8.54	18.18	11.76	10.26
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.63	4.30	4.16	6.72	11.10	8.16
FFO/total debt (%)	18.13 ***	12.61	14.65	31.81	28.18	22.66
Total debt/capitalization (%)	51.77	53.94	52.97	55.19	38.87	42.14

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

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