

MBK PLC

No. 136/2020
9 September 2020

CORPORATES

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

Last Review Date: 21/08/19

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on MBK PLC (MBK) and the ratings on MBK's senior unsecured debentures at "A", with a "stable" outlook. The ratings reflect the company's diversified revenue base and its strong financial flexibility which will alleviate the impacts of the Coronavirus Disease 2019 (COVID-19) pandemic. Its operating performance is expected to recover in 2021-2022. The ratings continue to reflect the reliable cash flows from the commercial property business and its close relationship with the Thanachart Group.

KEY RATING CONSIDERATIONS

Diversified revenue base alleviates impact from COVID-19

MBK's diversified revenue base has alleviated the impact from COVID-19. The pandemic has affected MBK's earnings, especially its tourism-related businesses. MBK closed all shopping malls and five hotel properties during the lockdown period from late March 2020 onwards. The company reopened all shopping malls and hotels in May and July, respectively. As a result, its revenue from hotels and shopping malls declined substantially in the second quarter of 2020. However, the declining revenue from tourism-related businesses was partially offset by its financial business which continued to exhibit strong growth of 8% year-on-year (y-o-y) in the first half of 2020. In addition, the company posted THB840 million in dividend receipts from its investments which has supported its cash flow and liquidity.

Commercial property's performance to gradually improve

We expect MBK's commercial property business will gradually recover in 2021-2022. The commercial property business has been adversely affected by the COVID-19 pandemic in 2020 as MBK had to waive rental fees for its tenants during the closure period. For "MBK Center", where the main customers are foreigners, the company has supported its tenants by continuing to provide discounts on rental fees for the rest of 2020. However, its other outbound shopping malls and office buildings have been less affected as the main customers are Thai. In the third quarter of 2020, the number of customers in the outbound shopping malls has returned close to normal. Also, the company returned to charging its normal rental rate. TRIS Rating projects that MBK's revenue from commercial property will drop by 35%-40% in 2020, but will recover by around 30% in 2021 and 7% in 2022.

MBK operates four shopping centers and four office buildings in Bangkok. The company also has a 48% stake in Siam Piwat Co., Ltd., which owns and operates several shopping centers in Bangkok. Its properties are in prime locations, located in downtown shopping districts or densely populated areas. As a result, the properties of the company typically have occupancy rates (OR) of over 90% and high rental rates.

The commercial properties provide stable recurring cash flow from contract-based rental and service income. Over 80% of the rentable area is rented under fixed-rate contracts. In 2019, the commercial property segment contributed about 38% of MBK's total revenue and 59% of its total earnings before interest, tax, depreciation and amortization (EBITDA).

Hotel business affected by COVID-19 pandemic

We forecast the operating performance of MBK's hotel properties will deteriorate drastically in 2020, but will gradually rebound in 2021-2022. Thailand's tourism industry has been severely affected by the COVID-19 fallout. Travel restrictions and lockdown measures have severely weakened the performance of MBK's hotels, particularly in the second quarter of 2020. MBK's hotel operating results, especially those outside Bangkok, are likely to pick up. This is because the government has eased its domestic lockdown measures after bringing the outbreak under control and launched several stimulus packages to boost domestic tourism. Any revival of foreign tourist arrivals looks to be some way off as the number of infections continues to soar globally, dashing any hopes of cross-border travel restrictions being lifted soon. In addition, the global economic recession could continue to dampen travel demand even after the pandemic has been largely contained.

Under our base-case scenario, we project MBK's hotel revenue in 2020 to drop by approximately 60% from the 2019 level, before improving in 2021 to around 35% below the 2019 level, and in 2022 to around 10% below the 2019 level.

Sluggish demand delays new condominium sales

In late 2020, MBK expects to complete a new condominium project, "Quinn Sukhumvit 101," with units ready for transfer to customers. The project is located on Bangkok's Sukhumvit road adjacent to Punnawithi BTS station. The project is a high-rise building, with a total of 347 units, worth approximately THB2.2 billion. As of March 2020, the company was able to presell 32% of the total project value due to the sluggish demand for residential properties. We believe condominium sales will continue to decelerate over the next few years in tandem with the economic slowdown.

MBK's other residential property projects are located in or near its golf courses. The company has a residential property project nearby "The Nine" shopping mall which will complete and ready to transfer to customers in the second half of 2020. The company also owns residential property projects in Chonburi province which target medium- to low-income customers. As of March 2020, the value of unsold units in the active projects was around THB4 billion. Our projections assume MBK will recognize revenue from these residential property projects of around THB400 million in 2020 and around THB1.1-THB1.3 billion per annum during 2021-2022.

Finance business continues to provide reliable cash flow

MBK's finance business has provided an EBITDA of THB600-THB700 million per year during the past three years. As of June 2020, the value of outstanding motorcycle loans was THB7.4 billion while the portfolio of asset financing loans stayed at THB8.31 billion.

The COVID-19 pandemic has hurt the domestic economy, diminishing the purchasing power of Thai consumers and increasing unemployment. This could hamper the ability of some customers to repay loan installments which could lead to a rise in non-performing loans (NPLs) in the company's financial business.

As of June 2020, the ratio of non-performing loans (NPLs) to total motorcycle loans was 5.5%, compared with 4.7% in 2019. The ratio of NPLs to total mortgage loans declined to 8.1% as of June 2020 from 11.1% in 2019. To manage of NPLs potentially increasing, the company has frozen lending and introduced more prudent loan approval and collection procedures.

We project the value of MBK's loan portfolios will decline by around 5%-10% in 2020, and will expand by 5% in 2021 and 2022.

Operating performance to weaken in 2020, and will gradually improve

We forecast the company's ratio of adjusted net debt to earnings before interest, tax, depreciation, and amortization (EBITDA) to weaken in 2020, and will improve in 2021-2022. In 2020, the adjusted debt to EBITDA ratio to weaken to around 7 times owing to the impacts of the COVID-19 pandemic. The company's adjusted debt to EBITDA ratio is expected to improve to the range of 4-5 times during 2021-2022 in tandem with the anticipated recovery of its operating performance. The adjusted debt to capitalization ratio is forecast to stay in the 50%-55% range over the next three years. MBK has set a capital budget totaling around THB1.7 billion for the next three years.

Satisfactory liquidity profile

MBK's liquidity position remains satisfactory. As of June 2020, sources of funds comprised THB6.69 billion of cash on hand and THB4.07 billion of undrawn credit facilities available from commercial banks. We project funds from operations (FFO) to amount to THB2.8 billion for the next 12 months. MBK has scheduled principal repayments of THB3.29 billion and repayments of outstanding short-term obligations of THB693 million coming due in the next 12 months. The company has an investment budget of approximately THB685 million in 2020. As of June 2020, the market value of MBK's investment in listed firm was worth THB4.8 billion which helped strengthen its liquidity.

We believe that MBK will be able to comply with its debenture covenants over the next 12 to 18 months. The net interest-bearing debt to equity ratio at the end of December 2019 was 0.68 times, well below the debenture covenant of 2 times. The EBITDA interest coverage ratio at the end of December 2019 was 9.49 times, over the debenture covenant of at least 4 times.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions during 2020 to 2022 are as follows:

- Revenues to drop to around THB8 billion in 2020, and will increase to THB10-THB12 billion per annum during 2021-2022.
- EBITDA margin to decline to 43% in 2021, and will improve to around 48% during 2021-2022.
- Total capital expenditure, excluding financial service segment, will be around THB1.7 billion over the three-year forecast period.
- Outstanding loans in the financial service segment to stay around THB15-THB16 billion.
- Adjusted debt to capitalization ratio to stay around 50%-55%.
- Adjusted debt to EBITDA ratio to weaken to around 7 times in 2020, and will improve to the range of 4-5 times during 2021-2022.

RATING OUTLOOK

The "stable" outlook reflects the company's diversified revenue base and strong financial position which underpin the company's expected ability to weather the COVID-19 impact. We also expect contributions from the finance business and investment portfolio to help mitigate declining revenue from MBK's shopping center and hotel businesses.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. In contrast, a rating downward revision may occur if operating performance deteriorates more than expected because of a prolonged effect from the COVID-19 fallout or if the company makes an aggressive debt-funded investment.

COMPANY OVERVIEW

MBK was established in 1974. Thanachart Capital PLC (TCAP) and other companies in the Thanachart Group are MBK's major shareholders, holding a combined 20% stake. MBK has many lines of business: retail properties for rent, hotels, golf courses, residential property development, food, and financial services. In 2019, the commercial property segment (retail properties and office buildings) contributed about 38% of total revenue and 61% of total EBITDA. The financial services and hotel segments contributed around 22% and 13% of total revenue, respectively, and 29% and 9% of EBITDA. The company also develops residential property projects and operates golf courses. The combined revenues of the residential property development and golf course segments amounted to 8% of total revenue and 6% of EBITDA in 2019. The revenue and EBITDA contributions from the food segment were 19% and 0%, respectively.

KEY OPERATING PERFORMANCE
Table 1: MBK's Revenue and EBITDA Breakdown

Unit: %

Revenue Breakdown		Unit	2014	2015	2016	2017	2018	2019
Total revenue	Mil. THB		9,114	11,550	10,415	9,734	10,548	10,287
Commercial properties	%		43	35	39	41	38	38
Hotels	%		12	10	12	13	13	13
Golf courses	%		4	4	4	5	4	5
Food	%		21	22	18	16	21	19
Residential properties	%		6	19	14	7	3	3
Financial services	%		13	10	13	18	21	22
Others	%		1	0	0	0	0	0
Total revenue	%		100	100	100	100	100	100
EBITDA Breakdown		2013	2014	2015	2016	2017	2018	2019
Total EBITDA	Mil. THB		2,587	3,138	3,017	2,882	2,641	2,741
Commercial properties	%		63	54	59	61	61	59
Hotels	%		7	7	11	11	10	9
Golf courses	%		5	5	5	5	7	7
Food	%		4	4	0	-1	-1	0
Residential properties	%		6	17	12	4	-1	-1
Financial services	%		15	13	12	20	24	26
Others	%		0	0	1	0	0	0
Total EBITDA	%		100	100	100	100	100	100

Source: MBK

Table 2: MBK's Shopping Center Portfolio as of 30 Jun 2020

	Property Name	Location	Rental Space (Sq.m.)	% Holding	Equity Rental Space (Sq.m.)
1	MBK Center	Bangkok	84,212	100	84,212
2	Paradise Park	Bangkok	91,508	100	91,508
3	The Nine Center	Bangkok	15,116	100	15,116
4	Paradise Place	Bangkok	21,595	100	21,595
5	Siam Center	Bangkok	23,436	48	11,249
6	Siam Discovery	Bangkok	29,261	48	14,045
7	Siam Paragon	Bangkok	202,523	24	49,578
8	ICONSIAM	Bangkok	178,036	24	43,583
	Total		645,687		330,886

Source: MBK

Table 3: MBK's Office Building Portfolio as of 30 Jun 2020

	Property Name	Location	Rental Space (Sq.m.)	% Holding	Equity Rental Space (Sq.m.)
1	MBK Center	Bangkok	15,730	100	15,730
2	The Nine Office	Bangkok	9,305	100	9,305
3	Glas Haus Sukumwit	Bangkok	12,687	100	6,363
4	Glas Haus Ratchda	Bangkok	6,363	100	12,687
5	Paradise Place	Bangkok	9,442	100	9,442
6	Siam Tower	Bangkok	33,559	48	16,108
	Total		87,086		69,635

Source: MBK

Table 4: MBK's Hotel Portfolio as of 30 Jun 20

	Property Name	Location	No. of Rooms	RevPAR 2019 (THB/Room/Night)
1	Pathumwan Princess Hotel	Bangkok	455	2,585
2	Dusit Thani Krabi Beach Resort	Krabi	240	3,093
3	Tinidee Hotel @Ranong	Ranong	136	494
4	Tinidee Inn	Ranong	48	317
5	Tinidee Hotel @ Phuket	Phuket	45	412
6	Layana Resort & Spa	Krabi	57	4,282
7	Tinidee Hotel @ Bangkok Golf Club	Bangkok	128	461
	Total		979	2,097

Source: MBK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	4,458	10,449	10,613	9,859	10,500
Earnings before interest and taxes (EBIT)	900	4,433	3,261	3,255	3,414
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,536	5,311	4,780	4,713	4,946
Funds from operations (FFO)	1,859	3,596	2,881	3,191	3,414
Adjusted interest expense	584	1,371	1,294	1,147	1,151
Capital expenditures	310	649	661	640	965
Total assets	60,266	52,443	49,096	46,552	42,518
Adjusted debt	27,589	26,966	27,164	24,812	21,777
Adjusted equity	21,494	24,706	22,684	22,185	20,352
Adjusted Ratios					
EBITDA margin (%)	56.89	50.83	45.04	47.80	47.11
Pretax return on permanent capital (%)	6.48 **	8.49	6.65	7.22	8.21
EBITDA interest coverage (times)	4.34	3.87	3.69	4.11	4.30
Debt to EBITDA (times)	5.70 **	5.08	5.68	5.26	4.40
FFO to debt (%)	11.87 **	13.33	10.60	12.86	15.68
Debt to capitalization (%)	56.21	52.19	54.49	52.79	51.69

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

MBK PLC (MBK)

Company Rating:	A
Issue Ratings:	
MBK227A: THB500 million senior unsecured debentures due 2022	A
MBK229A: THB400 million senior unsecured debentures due 2022	A
MBK229B: THB1,000 million senior unsecured debentures due 2022	A
MBK27NA: THB1,500 million senior unsecured debentures due 2027	A
Rating Outlook:	Stable

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