

MBK PLC

No. 134/2019
21 August 2019

CORPORATES

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

Last Review Date: 22/08/18

Company Rating History:

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

Contacts:

Pramuansap Phonprasert
pramuansap@trisrating.com

Jutamas Bunyawanichkul
jutamas@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com



WWW.TRISRATING.COM

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 stable cash flows from MBK's commercial property business, its close relationship with the Thanachart Group, and the high level of financial flexibility it has because of sizable investment portfolio. These strengths are partially offset by an increasing exposure to financial service business.

KEY RATING CONSIDERATIONS

Stable cash flows from commercial property business

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 good locations, sited 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 was rented under fixed rate contracts. In 2018, the commercial property segment comprised about 38% of MBK's total revenue and 61% of its total earnings before interest, tax, depreciation and amortization (EBITDA).

TRIS Rating projects MBK's commercial properties will continue to generate solid operating results. During the next three years, TRIS Rating's forecast assumes the OR will stay over 90% and the average rental rate will rise by around 3% per annum.

Financial service business continues to expand

The values of MBK's loan portfolios have been rising. The value of outstanding motorcycle loans increased to Bt6.98 billion as of March 2019 from Bt4.84 billion as of December 2017. The portfolio of asset financing loans also rose, jumping to Bt7.41 billion as of March 2019 from Bt6.79 billion as of December 2017.

Loan quality is a growing concern as the loan portfolios increase in size. For example, the ratio of non-performing loans (NPLs) to total motorcycle loans increased to 4.2% as of March 2019 from 3.1% in 2017 due to the aggressive expansion of the loan portfolio. However, despite the recent jump in size, the ratio of NPL to total mortgage loans held at 2.5% during the same period.

During the next three years, assets from financial service business will grow around 10% per annum, reflecting MBK's plan to increase the sizes of its loan portfolios. We project the motorcycle loan and asset financing loan portfolios will moderately expand, reaching Bt8.50 billion and Bt9.50 billion, respectively by 2021. We also expect MBK will manage the quality of the loan portfolios prudently so that the ratios of NPLs to total loans do not exceed the current levels.

Flat result in hotel business

The performance of hotel business was flat in 2018. Average revenue per available room (RevPAR) was flat, holding steady at around Bt2,300 per night in 2017-2018. In the first three months of 2019, RevPAR was less than it was

in the first three months of 2018. Average RevPAR of the first three months of 2019 declined to Bt2,761 per night, compared with Bt3,290 per night in the same period of the previous year. The drop was due to the opening of a new hotel and the stagnant growth rate of foreign tourist arrivals. In the first five months of 2019, foreign tourist arrivals increased by only 1.3% year-on-year (y-o-y), compared with a 12.6% y-o-y growth in the same period of the previous year. TRIS Rating estimates foreign tourist arrivals may grow at a moderate rate over the next few years. As a result, we forecast MBK's revenue of the hotel segment to stay around Bt1.30 billion during 2019-2021.

Launched new condominium project

In late 2018, MBK launched a new condominium project, "Quinn Sukhumvit 101". The project is located on Sukhumvit road adjacent to the Punnawithi BTS station. The project is a high-rise building, with a total of 347 units, worth approximately Bt2.20 billion. The project is targeted to be complete and units will be ready for transfer to customers in late 2020.

MBK's other residential property projects are located in or near its golf courses and shopping mall. The company also owns residential property projects in Chonburi province which target medium- to low-income customers. As of March 2019, the value of the unsold units in the active projects was around Bt3 billion. Our projections assume MBK will recognize revenue of Bt400 million per annum from these residential property projects during 2019-2021.

Financial leverage is expected to stay below 60%

MBK will have a capital expenditure budget, excluding financial service segment, totaling Bt2.50 billion over the next three years. The company also plans to expand its loan portfolio of around Bt5 billion in financial service segment during 2019-2021. These investments will be financed by internal cash flow and debt. As a result, the adjusted debt to capitalization ratio is forecast to stay below 60% during 2019-2021 while the adjusted debt to EBITDA ratio will be in the range of 5-7 times.

Satisfactory liquidity profile

MBK's liquidity position remains satisfactory. As of March 2019, sources of funds comprised cash on hand of Bt551 million, marketable securities worth Bt2 billion, plus undrawn credit facilities available from commercial banks of Bt5.48 billion. We project funds from operations (FFO) will amount to Bt3.10 billion for the next 12 months. MBK has scheduled principal repayments of Bt78 million and repayments of outstanding short-term obligations of Bt3.22 billion coming due in the next 12 months. The company has an investment budget of approximately Bt800 million in 2019. We also expect MBK to lend around Bt1.50 billion to the financial service segment in 2019.

TRIS Rating believes 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 2018 was 0.7 times, below the debenture covenant of 2 times. The EBITDA interest coverage ratio at the end of December 2018 was 11.5 times, better than the debenture covenant of 4 times.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions during 2019 to 2021 are as follows:

- Revenues will rise to Bt12.50 billion by 2021 from Bt10.50 billion in 2019.
- The operating profit margin will stay around 40%.
- Total capital expenditures, excluding financial service segment, will be around Bt2.50 billion over the three-year forecast period.
- Outstanding loans in the financial service segment will increase to around Bt18.00 billion in 2021 from Bt12.93 billion in 2018.
- The adjusted debt to capitalization ratio will stay below 60%.
- The adjusted debt to EBITDA ratio will be in the range of 5-7 times.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MBK will continue to receive reliable cash flow streams from its rental properties and we assume each of business unit will continue to have satisfactory operating results.

RATING SENSITIVITIES

MBK's ratings could be upgraded, should cash flow increase substantially while leverage remains at the 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.

COMPANY OVERVIEW

MBK was established in 1974. Thanachart Capital PLC (TCAP) and other companies in the Thanachart Group continue to be 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 2018, the commercial property (retail properties and office buildings) segment comprised about 38% of its total revenue and 61% of its total EBITDA. The financial service and hotel segments contributed around 21% and 13% of total revenue, respectively, and 24% and 10% 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 7% of total revenue and 6% of EBITDA in 2018. The revenue and EBITDA contributions from the food segment were 21% and -1%, respectively.

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

Unit: %

Revenue Breakdown		Unit	2013	2014	2015	2016	2017	2018
Total revenue	Bt million		9,273	9,114	11,550	10,415	9,734	10,548
Commercial properties	%		41	43	35	39	41	38
Hotels	%		13	12	10	12	13	13
Golf courses	%		4	4	4	4	5	4
Food	%		24	21	22	18	16	21
Residential properties	%		3	6	19	14	7	3
Financial services	%		13	13	10	13	18	21
Others	%		2	1	0	0	0	0
Total revenue	%		100	100	100	100	100	100
EBITDA Breakdown		2013	2013	2014	2015	2016	2017	2017
Total EBITDA	Bt million		2,603	2,587	3,138	3,017	2,882	2,641
Commercial properties	%		71	63	54	59	61	61
Hotels	%		14	7	7	11	11	10
Golf courses	%		6	5	5	5	5	7
Food	%		2	4	4	0	-1	-1
Residential properties	%		-1	6	17	12	4	-1
Financial services	%		9	15	13	12	20	24
Others	%		-1	0	0	1	0	0
Total EBITDA	%		100	100	100	100	100	100

Source: MBK

Table 2: MBK's Shopping Center Portfolio as of 30 Jun 2019

Property Name	Location	Rental Space (Sq.m.)	% Holding	Equity Rental Space (Sq.m.)
1 MBK Center	Bangkok	83,489	100	83,489
2 Paradise Park	Bangkok	92,048	100	92,048
3 The Nine Center	Bangkok	15,016	100	15,016
4 Paradise Place	Bangkok	13,717	100	13,717
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	173,910	24	42,573
Total		633,400		321,716

Source: MBK

Table 3: MBK's Office Building Portfolio as of 30 Jun 2019

	Property Name	Location	Rental Space (Sq.m.)	% Holding	Equity Rental Space (Sq.m.)
1	MBK Center	Bangkok	15,346	100	15,346
2	The Nine Office	Bangkok	9,305	100	9,305
3	Glas Haus Sukumwit	Bangkok	12,950	100	12,950
4	Glas Haus Ratchda	Bangkok	9,442	100	9,442
5	Paradise Place	Bangkok	6,363	100	6,363
6	Siam Tower	Bangkok	33,636	48	16,145
	Total		86,965		69,515

Source: MBK

Table 4: MBK's Hotel Portfolio as of 30 Jun 2019

	Property Name	Location	No. of Rooms	RevPAR 2018 (Bt/Room/Night)
1	Pathumwan Princess Hotel	Bangkok	455	2,815
2	Dusit Thani Krabi Beach Resort	Krabi	240	3,276
3	Tinidee Hotel @Ranong	Ranong	136	546
4	Tinidee Inn	Ranong	48	340
5	Tinidee Hotel @ Phuket	Phuket	45	494
6	Layana Resort & Spa	Krabi	57	4,486
7	Tinidee Hotel @ Bangkok Golf Club	Bangkok	128	205
	Total		979	2,312

Source: MBK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2019	Year Ended 31 December			
		2018	2017	2016	2015
Total operating revenues	2,739	10,608	9,859	10,500	11,671
Operating income	1,183	4,228	4,231	4,394	4,430
Earnings before interest and taxes (EBIT)	886	3,255	3,255	3,414	3,272
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,184	4,775	4,713	4,946	4,874
Funds from operations (FFO)	737	2,881	3,191	3,414	3,324
Adjusted interest expense	333	1,289	1,147	1,151	1,175
Capital expenditures	129	661	640	965	1,009
Total assets	50,633	49,096	46,552	42,518	40,549
Adjusted debt	26,021	25,752	22,497	19,456	18,953
Adjusted equity	23,664	22,684	22,185	20,352	17,941
Adjusted Ratios					
Operating income as % of total operating revenues (%)	43.20	39.86	42.91	41.85	37.96
Pretax return on permanent capital (%)	6.47	6.64	7.22	8.21	8.41
EBITDA interest coverage (times)	3.56	3.70	4.11	4.30	4.15
Debt to EBITDA (times)	5.44	5.39	4.77	3.93	3.89
FFO to debt (%)	10.99	11.19	14.18	17.55	17.54
Debt to capitalization (%)	52.37	53.17	50.35	48.87	51.37

* 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:	
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

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2019, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria