

MIDA ASSETS PLC

No. 121/2020
11 August 2020

FINANCIAL INSTITUTIONS /CORPORATES

Company Rating: BB+
Outlook: Negative

Last Review Date: 10/04/20

Company Rating History:

Date	Rating	Outlook/Alert
10/04/20	BB+	Alert Negative
11/07/17	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on MIDA Assets PLC (MIDA) at “BB+”. At the same time, TRIS Rating removes the “CreditAlert” with “negative” implication on MIDA and replaces it with a “negative” rating outlook. The “negative” outlook reflects our view that MIDA’s operating performance will continue to come under pressure over the next 12 months amid the fallout from the Coronavirus Disease 2019 (COVID-19) pandemic.

The rating reflects MIDA’s small but diversified businesses, as well as the weakening operating performance of its hire purchase, hotel, and residential property development businesses, and its declining asset quality due to the rising non-performing loans (NPLs) of its hire purchase business. The rating also takes into consideration the relatively stable operating performance of its leasing business and its relatively conservative capital structure.

KEY RATING CONSIDERATIONS

Small but diversified businesses

TRIS Rating views that MIDA’s business scale is small compared with other rated entities. However, its revenues and earnings have been relatively stable over the past several years as its businesses are rather diversified and unrelated. In the last five years, around 40% of MIDA’s revenue came from its hire purchase financing businesses, including auto and electrical home appliance hire purchase, 20% from electrical home appliance sales, followed by revenue from the hotel business (20%) and from residential properties for sale (20%). Revenue from rental property and service income remained minimal.

MIDA’s total operating revenues has grown slightly each year during the past five years, increasing to THB2.7 billion in 2019 from THB2.5 billion in 2015. Its earnings before interest, tax, depreciation, and amortization (EBITDA) have been in the range of THB0.5-THB0.6 billion per annum during 2015-2019 despite fluctuations in the residential property and hotel businesses.

Hospitality and residential property businesses severely affected by COVID-19

The COVID-19 pandemic has directly affected both the hotel and residential property businesses of MIDA. Travel restrictions and lockdown measures imposed by authorities in an attempt to contain the spread of the virus caused a sharp drop in revenue from hotel operations in the second quarter of 2020. The easing of the domestic lockdown in the second half of 2020 should help improve the operating performance of MIDA’s hotels located nearby Bangkok. However, the recovery of the tourism industry remains uncertain. Increasing numbers of infections are still being reported worldwide, which means travel restrictions will remain in place for a longer period of time. Sales of MIDA’s condominium projects, which target foreign buyers, especially Chinese investors, have also been interrupted and are not expected to recover soon.

In our base-case scenario, we project MIDA’s hotel revenue per available room (RevPar) will plunge by 65% year-on-year (y-o-y) to THB275 per room per night in 2020, before gradually recovering to THB580 per room per night in 2021 and THB875 per room per night in 2022. Revenue from the company’s hotel operations is expected to decline by 60% y-o-y to around THB0.2 billion in 2020. We anticipate revenue from MIDA’s hotels will improve to THB0.4 billion in 2021, by the time we believe to see signs of a recovery in foreign tourists,

and thus to grow to THB0.6 billion in 2022.

TRIS Rating views that MIDA's presales and revenue from residential projects will drop by 50% y-o-y and 30% y-o-y, respectively, in 2020 given sluggish demand among domestic homebuyers and very few foreign buyers. MIDA's backlog at the end of May 2020 was only THB0.4 billion, which is scheduled for delivery to customers during the remainder of 2020 through 2022.

Our base-case scenario assumes MIDA's revenue from the residential property business will range at THB0.3-THB0.4 billion per annum during 2020-2021 and increase to almost THB1 billion in 2022 once its high-rise condominium project, the "Panora Pattaya", starts transfers. We project the gross profit margin from residential projects to be 28%-31% over the forecast period. Our assumptions incorporate investments in land acquisition and construction of residential projects of THB0.4-THB0.5 billion per annum during 2020-2022.

Expected contraction in hire purchase loan portfolio, with weakening asset quality

TRIS Rating expects MIDA's outstanding hire purchase loans to wane to THB3.2-THB3.3 billion at the end of each year during 2020-2022 owing to a slowdown in the domestic economy from the COVID-19 outbreak and decreasing new hire purchase loans from intense competition. The auto hire purchase portfolio accounts for almost 85% of MIDA's total hire purchase loan portfolio, while the electrical appliance hire purchase portfolio accounts for the remainder. Due to the severe drought in 2019-2020, MIDA's outstanding loan portfolio contracted to THB3.7 billion as of March 2020 from THB4 billion as of December 2018. However, MIDA has been able to keep the interest yield on its hire purchase loans at around 28%-29% over the past five years. We expect the company to maintain its interest yield at around 28% over the next three years. Interest income from installment sales will stay at THB0.9-THB1 billion annually during 2020-2022, slightly lower than the THB1-THB1.1 billion level during 2016-2019.

MIDA's asset quality could deteriorate further in 2020 given the economic fallout from the COVID-19 pandemic on the credit profiles of its customers. The NPL ratio (loans of more than 90 days past due divided by total loans) rose to 8%-10% during 2018 through the first three months of 2020 from 6%-7% during 2015-2017. We expect MIDA to keep the NPL ratio below 10% during this difficult time. MIDA's reserve coverage was relatively low at around 60%. Nonetheless, we believe this is adequate given that the company's hire purchase loans have assets pledged as collateral. Despite the weakening asset quality, we view that MIDA's current level of loan loss provisions based on the IFRS9 standard is sufficient. Any further deterioration in asset quality might require the company to set higher loan loss provisions in the future.

Relatively conservative capital structure

In TRIS Rating's forecast, we assume that MIDA's debt burden will stay at THB4.6-THB5 billion during 2020-2022 as we expect slower growth in the company's hire purchase loan portfolio and no new major investments in both hotel and residential property businesses. MIDA's debt to capitalization ratio is expected to stay below 50%, or the interest-bearing debt to equity ratio below 1 times over the next three years. However, due to the weakening performance of its hotel and residential property businesses, MIDA's ratio of funds from operations (FFO) to total debt is expected to drop significantly during 2020-2021 before recovering to 3.5%-4.5% in 2022.

Regarding the key financial covenants on its debentures, MIDA has to maintain its interest-bearing debt to equity ratio (based on its consolidated financial statements) at lower than 2 times. The ratio as of March 2020 was 0.97 times. TRIS Rating expects MIDA should have no problem keeping the interest-bearing debt to equity ratio in compliance with the bond covenants.

Heightened liquidity risk

As of March 2020, MIDA's debt due over the next 12 months was THB2.18 billion, consisting of THB1.58 billion in debentures, THB0.3 billion in short-term borrowings, and THB0.3 billion in long-term loans. MIDA's sources of liquidity comprised cash on hand of THB0.1 billion, undrawn working capital from bank of THB0.3 billion, and principal of hire purchase receivables due within one year of THB1.6 billion. In addition, the company had unencumbered assets worth THB0.5 billion at book value, which can be used as collateral for new loans, if needed.

MIDA has managed to obtain the approval from some lenders to reschedule principal and interest repayment of hotel project loans during the months affected. MIDA's debt obligations coming due over the next 12 months include debentures of THB160 million due on 27 September 2020, THB770 million due on 15 November 2020, and THB650 million due on 24 January 2021. The company plans to repay the coming due THB160 million debentures by using its internal cash flow, and refinance the remaining debentures by new debentures issuance and bank loans. Due to the uncertainty on investor demand, there is a risk that MIDA may not be able to rollover the whole amount of the maturing debentures. To address this risk, the company plans to seek bank loans in advance as an alternative source of funding.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for MIDA's operations during 2020-2022:

- Total operating revenues to decline to around THB2-THB2.2 billion per annum during 2020-2021, and will improve to THB3 billion in 2022.
- Outstanding hire purchase loans to stay at THB3.2-THB3.3 billion at the end of each year.
- NPL ratio to stay in the range of 8%-10%.
- Credit cost to be in the range of 5.2%-5.9%, while yield on loans to be 28%.
- Investments in land acquisition and construction of residential projects to be THB0.4-THB0.5 billion per annum.

RATING OUTLOOK

The "negative" outlook reflects our expectation of a material deterioration in MIDA's operating performance throughout 2020 and our concern over the tightened refinancing risk of the company and its subsidiary's maturing debentures amid the uncertainty of investors' demand in the bond market.

RATING SENSITIVITIES

MIDA's rating could be revised downward should the fallout from the pandemic turn out in a way that leads us to believe that its operating performance and/or financial profile are heading for a deeper deterioration than expected, or if the company could not properly manage its liquidity. On the contrary, MIDA's outlook could be revised back to "stable" if its operating performance recovers to the pre-pandemic level and there is no concern over refinancing risk.

COMPANY OVERVIEW

MIDA was established by Mr. Kamol leosivikul and Mr. Thanes Diloksakayavitoon in 1991 and listed on the Stock Exchange of Thailand (SET) in 2003. As of June 2020, the leosivikul family was the largest shareholder, owning a 32% stake, followed by the Diloksakayavitoon family, with a 12% stake.

MIDA has long experience in the hire purchase business. The company provides installment sales financing for the purchase of electrical home appliances through a headquarters office and 98 branches in 50 provinces. MIDA focuses on hire purchase for medium- to small-scale customers in rural areas. The company has business alliances with several leading brand name electrical appliance manufacturers. Washing machines and television and audiovisual facilities have been the major contributors to MIDA's hire purchase revenue. MIDA also renders automobile hire purchase services through MIDA Lao Financing Co., Ltd. (MIDA Lao), a subsidiary in which MIDA holds a 60% stake.

As of March 2020, outstanding hire purchase loans consisted of vehicle hire purchase loans operated by Mida Leasing PLC (ML) (76%), electrical home appliance hire purchase loans operated by MIDA (15%), and vehicle hire purchase loans operated by MIDA Lao (9%).

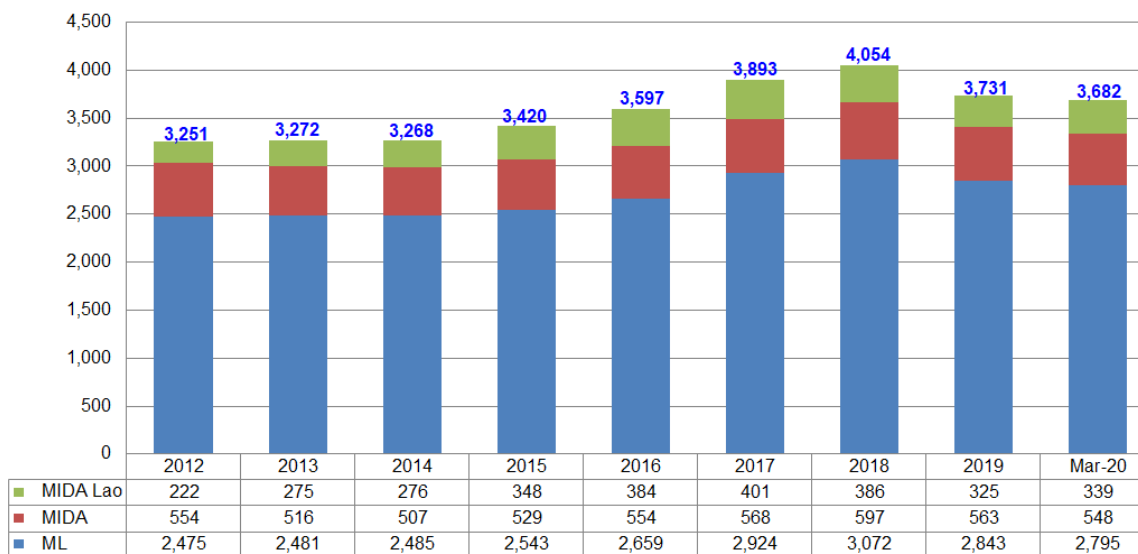
MIDA currently operates eight hotels located in Bangkok, Petchaburi, Kanchanaburi, Nakhonpathom, Rayong, and Phuket provinces, with a total of 1,306 rooms. The company manages the hotels under its own brands: "MIDA", "MIDA Grande Resort", "MIDA De Sea", "Ace", "Xen", and "Aksorn". Some 60% of customers are Thai, 30% are other Asian nationalities, and the rest are from other countries.

MIDA's residential property business focuses on developing landed property projects and targets the middle- to low-income segments. The company offers single-detached houses (SDH), Semi-DH, and townhouse units with a price range of THB1-THB8 million per unit and condominium units with a selling price of THB60,000-THB120,000 per square meter (sq.m.). Most existing projects are located in Nakhonpathom province, while others are located in Petchaburi, Chonburi, Ratchaburi, Prachuapkhirikhan, Khonkaen, and Kanchanaburi provinces.

MIDA's hire purchase business, including hire purchase financing income and electrical home appliance sales, has contributed around 60% of total revenue from sales and services during the past five years. The residential property and hotel operation businesses each has contributed around 20%. Revenue from rental assets and service income remained negligible.

KEY OPERATING PERFORMANCE
Table 1: MIDA's Revenue Breakdown by Business
Unit: %

Revenue Breakdown	2013	2014	2015	2016	2017	2018	2019	Jan-Mar 20
Sales of merchandises	20	19	19	20	19	18	16	14
Hire purchase financing income	40	42	42	41	42	42	43	48
Property sales	32	29	27	26	20	21	20	17
Golf course service and rental income	2	2	1	-	1	-	-	1
Hotel operations	6	7	7	10	14	16	19	19
Services	-	1	4	3	4	3	2	1
Revenue from sales and services	100	100	100	100	100	100	100	100
Revenue from sales and services (Mil. THB)	2,249	2,235	2,356	2,459	2,534	2,649	2,585	544

Source: MIDA
Chart 1: MIDA's Hire Purchase Outstanding Loans
Unit: Mil. THB

Source: MIDA
Table 2: MIDA's Hotel Performance

Hotel	2013	2014	2015	2016	2017	2018	2019	Q1-20
No. of Room	470	477	480	822	830	942	1,005	1,306
ARR (THB/room/night)	875	1,127	1,059	1,141	1,322	1,352	1,429	1,576
OR (%)	53	48	52	52	52	55	56	33
RevPar(THB /room/night)	464	537	550	597	688	750	796	517

Source: MIDA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	586	2,709	2,783	2,675	2,613
Earnings before interest and taxes (EBIT)	61	410	454	413	401
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	101	555	595	597	555
Funds from operations (FFO)	30	215	274	307	304
Adjusted interest expense	69	294	274	240	191
Financial lease receivables (after allowance)	3,513	3,538	3,855	3,729	3,447
Total assets	10,772	10,689	10,888	10,392	10,227
Adjusted debt	4,854	4,775	5,095	4,654	4,333
Adjusted equity	5,134	5,096	5,055	4,961	4,873
Adjusted Ratios					
Operating income as % of total operating revenues (%)	6.91	10.73	12.17	14.88	12.67
Pretax return on permanent capital (%)	3.38 **	4.01	4.48	4.23	4.41
EBITDA interest coverage (times)	1.45	1.89	2.17	2.48	2.91
Debt to EBITDA (times)	9.78 **	8.60	8.56	7.79	7.80
FFO to debt (%)	3.39 **	4.50	5.38	6.59	7.01
Debt to capitalization (%)	48.60	48.37	50.19	48.40	47.07
Debt to Equity (times)	0.97	0.96	1.03	0.97	0.96

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Nonbank Financial Institutions Rating Methodology, 17 February 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Mida Assets PLC (MIDA)

Company Rating:	BB+
Rating Outlook:	Negative

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