

MIDA ASSETS PLC

No. 96/2018
10 July 2018

FINANCIAL INSTITUTIONS

Company Rating: BBB-
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
11/07/17	BBB-	Stable

RATIONALE

TRIS Rating affirms the company rating of Mida Assets PLC (MIDA) at “BBB-”. The rating reflects the stable and significant earnings contribution from its core hire purchase businesses, including its own electrical home appliance financing and the auto hire purchase businesses operated by its subsidiaries, Mida Leasing PLC (ML) and MIDA Lao Financing Co., Ltd (MIDA Lao). The rating, however, is constrained by MIDA’s relatively small market position in its core business and limited growth prospects overall, particularly for MIDA’s other businesses relating to real estate development and hotels. In addition, the rating takes into consideration high household debt, which may limit its revenue expansion in the short to medium term.

KEY RATING CONSIDERATIONS

Stable revenue from hire purchase business

The hire purchase business provides significant and steady revenue streams for MIDA. The business contributed 54% of total revenues in the first quarter of 2018. Other revenue sources include residential property development (22%), hotel business (15%), and property rental business (9%). The interest income from the hire purchase business has been relatively stable, at around Bt1 billion per year in the past few years, thanks to steady interest yield of about 28% on average and slow portfolio growth.

Expect gradual expansion in hire purchase

TRIS Rating expects modest growth in outstanding hire purchase loans during 2018-2020. This is because MIDA’s portfolio of outstanding loans grew at a very slow pace during the past few years due to strong competition and high household debt, and we expect these factors to continue in the medium term. Outstanding hire purchase loans increased by 8% to Bt3,893 million as of end-2017 from a year earlier. As of March 2018, loans contracted slightly from the end of 2017.

Limited growth prospects for hotel business

Although MIDA’s hotel portfolio remains very small relative to other hotel operators, revenues have grown continuously. MIDA’s hotel segment revenue presently derives from six hotel properties. The contribution from hotel operations increased to 16% in the first quarter of 2018 from less than 10% prior to 2016. A new hotel in Rayong is expected to be completed and become operational in the third quarter of 2018. This should provide additional revenue for MIDA in the future.

MIDA’s hotel revenue was driven mainly by hotels in Hua Hin and Kanchanaburi. The revenue contribution from hotels in the upcountry was 67% of the total compared with 33% from hotels in Bangkok. The occupancy rate (OR) of hotels in Bangkok has been higher, at 74%, compared with 42% for hotels in the upcountry. However, the average room rate (ARR) of upcountry hotels is generally higher. For example, the ARR of MIDA de sea Hua Hin and Ace of Hua Hin (formerly known as Radisson Blu resort Hua Hin) averaged of Bt2,345 per night in 2017, a 16% increase from 2016. The average ARR of hotels in Bangkok, on the other hand, remains low at around Bt960 per night.

MIDA’s hotel revenue has the potential to improve in the next three years as

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management gains more experience in managing hotel business. However, with the requirement of huge investments, future expansion may be limited.

Stagnant growth for property development

MIDA's property development business remains modest in terms of number of projects and revenue. Although MIDA has a long track record in the real estate business, the scale is small and focuses only in Nakorn Pathom and Khonkaen Provinces. Future project development is likely to be at gradual pace given management's conservative strategy, with focus on single-detached houses (SDH) and townhouses mainly in the two provinces.

As of December 2017, MIDA had 13 housing projects remaining in its portfolio. The aggregate value of the project was Bt3,256 million, representing 64% of the original project value. About half of these were SDH and the other half were townhouses. The company has Bt457 million in backlog scheduled to be transferred during 2018-2019. Revenue from property development was around Bt600 million for the past three years. TRIS Rating expects the total residential revenue to reach about Bt500 million per year for the next three years.

Moderate financial flexibility and leverage

MIDA has relatively strong financial flexibility and adequate liquidity. Its sources of funds include project loans from several local financial institutions, bills of exchange (B/E), and debentures. Total outstanding debt was Bt4.8 billion as of March 2018, with Bt2,130 million scheduled to be repaid within one year. TRIS Rating expects installments of hire purchase receivables will be sufficient to cover debt repayment. As a listed company, MIDA may also be able to raise additional capital when needed. However, in the event of debt market distress, MIDA could face refinancing risks or higher cost of funds when issuing B/Es or debentures. MIDA's cost of funds increased to 5.1% for the first quarter of 2018 from 4.4% in 2016.

MIDA's leverage is moderate despite having a higher debt level since 2015. The interest-bearing debt (IBD) to equity ratio was 0.95 times as of March 2018. According to its financial covenant, MIDA has to maintain its IBD to equity ratio below 2 times. TRIS Rating expects the IBD to equity ratio to stay below 1 time over the next three years, based on its business expansion plans.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that the market positions and financial performances of MIDA's businesses including finance, real estate and hotel businesses will remain satisfactory. The outlook is also premised on the expectation that the company's leverage is maintained at a moderate level.

RATING SENSITIVITIES

An upside to the outlook is limited in the medium term. The rating could be revised downward should MIDA's overall operating performance or asset quality of the financing business decline or if the liquidity profile deteriorates and the IBD rises above 1 times.

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 December 2017, the leosivikul family was the largest shareholder, owning a 27% stake, with the Diloksakayavitoon family owning a 12% stake.

MIDA has experience in the hire purchase business. MIDA provides installment sales financing for the purchase of home electrical appliances through a headquarters office and 91 branches nationwide. MIDA's policy focuses on hire purchase for medium to small scale customers in rural areas in various provinces all over the country. The company has business alliances with many leading brand name manufacturers such as LG, Panasonic, Samsung, Sharp, Toshiba, Hatari, Soken, Samart, and Mitsumaru. Television and audiovisual facilities and washing machines were the major contributors to MIDA's hire purchase revenue.

MIDA also renders the automobile hire purchase services through MIDA Lao, the subsidiaries in which MIDA holds a 60% share.

As of December 2017, outstanding loans consisted of vehicle hire-purchase loans operated by ML (76%), electricity hire-purchase loans operated by MIDA (14%), and vehicle hire-purchase loans operated by Mida Lao (10%).

MIDA has operated in the real estate business for more than 10 years, focusing on developing low-rise housing projects and targeting the middle- to low-income segment. Five years ago, the company entered the hotel business. Currently, the company operates six hotels, located in Bangkok, Kanchanaburi, Petchaburi, and Nakhon Pathom Provinces. In addition, the

company has a new hotel under construction in Rayong Province.

MIDA manages the hotel properties under its own “MIDA”, “Xen”, and “ACE” brands. The target customers are the operators of business meetings and seminars requiring audiovisual facilities as well as conference and banquet equipment. The company is now constructing a new hotel, Aksorn, in Rayong which is expected to be completed and operational in the third quarter of 2018.

KEY OPERATING PERFORMANCE

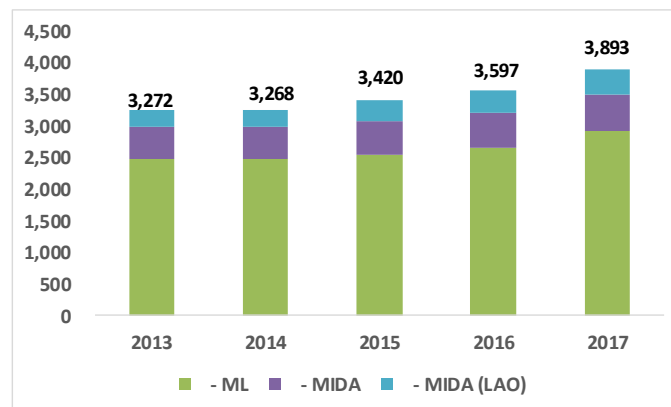
Table 1: MIDA’s Revenue Breakdown by Line of Business

Unit: %

Revenue Breakdown	2012	2013	2014	2015	2016	2017	3M18
Sales of merchandises	22	20	19	19	20	19	18
Hire purchase financing income	43	40	42	42	41	42	40
Property sales	29	32	29	27	26	20	24
Golf course services and rental income	2	2	2	1	0	1	0
Hotel operations	4	6	7	7	10	14	16
Services	-	-	1	5	3	4	2
Total revenue	100	100	100	100	100	100	100
Total revenue (Bt million)	2,121	2,249	2,235	2,356	2,459	2,534	688

Sources: MIDA’s financial statements

Chart 1: MIDA’s Hire Purchase Outstanding Loans



Source: MIDA

Table 2: MIDA's Hotel Performance

Hotel	2012	2013	2014	2015	2016	2017
Room Capacity (room)	410	470	477	480	822	830
ARR (Bt/night)	824	875	1,127	1,059	1,141	1,322
OR (%)	48	53	48	52	52	52
RevPAR (Bt/night)	744	813	871	965	1,037	1,225

Sources: MIDA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	688	2,534	2,459	2,356	2,235
Gross interest expense	60	229	178	139	141
Net income from operations	57	130	185	175	141
Funds from operations (FFO)	126	419	377	424	323
Capital expenditures	70	259	648	769	452
Total assets	10,476	10,392	10,227	9,051	7,851
Total debts	4,775	4,761	4,603	3,549	2,718
Shareholders' equity	5,102	4,961	4,873	4,758	4,384
Operating income before depreciation and amortization as % of sales***	15.87	11.26	9.91	12.10	12.62
Pretax return on permanent capital (%)***	4.14**	2.51	3.61	3.58	2.86
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.99	2.40	3.17	3.10	2.82
FFO/total debt (%)	10.57**	8.80	8.20	11.94	11.89
IBD/Equity (times)	0.95	0.96	0.94	0.75	0.62

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized

*** Including interest expense

Mida Assets PLC (MIDA)

Company Rating:	BBB-
Rating Outlook:	Stable

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