

MIDA ASSETS PLC

No. 119/2019
26 July 2019

FINANCIAL INSTITUTIONS /CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 10/07/18

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Mida Assets PLC (MIDA) at “BBB-”. The rating reflects MIDA’s small business scale, despite the slight and stable growth in its revenues and earnings over the last five years. The rating also takes into consideration MIDA’s rising non-performing loans (NPLs) from its hire-purchase business, its moderate financial leverage, and concerns over the slowdown in the domestic economy which may negatively affect both financing and property-related businesses of the company.

KEY RATING CONSIDERATIONS

Small business scale

In TRIS Rating’s view, MIDA’s business scale is considered small despite its recent expansion into various businesses. Its revenues grew slightly each year over the last five years, increasing to Bt2,783 million in 2018 from Bt2,337 million in 2014. MIDA’s earnings before interest, taxes, depreciation, and amortization (EBITDA) also increased gradually to around Bt600 million in 2018, from around Bt450 million in 2014.

In the last five years, around 60% of MIDA’s revenues came from its auto hire purchase and electrical home appliance sales and financing businesses, followed by revenue from residential property for sale (20%) and hotel businesses (15%). Revenue from rental assets and service income remained negligible.

Gradual growth in hire purchase business, with slight deterioration in its asset quality

Due to intense competition in the hire purchase financing business, MIDA’s outstanding loan portfolio grew at a slow pace. Its outstanding hire purchase loans increased by 4% year-on-year (y-o-y) to Bt4,054 million as of December 2018. Outstanding loans dropped slightly to Bt4,002 million as of March 2019. The interest yield on hire purchase loans was stable at 28%-29% during 2015 through the first three months of 2019. Interest income from providing financing for the buyers of electrical home appliances and auto hire purchase was around Bt1,000 million per annum during 2015-2018. Going forward, we expect MIDA’s interest income from its hire purchase business will range between Bt1,000-Bt1,200 million per annum during 2019-2021, with a minimum yield of 28%.

The quality of MIDA’s loan portfolio has declined due to the weak credit profile of the company’s target customers as a result of the slowdown in the domestic economy. The NPL ratio (loans more than 90 days past due divided by total loans) increased to 5.7% as of March 2019, from 4.5% as of December 2017 and 4.2% as of December 2016. MIDA’s reserve coverage has been lower than its direct peers, at 85% at the end of 2018. Nonetheless, we believe this is adequate given the company’s hire purchase loans have assets pledged as collateral. We expect its reserve coverage to gradually increase over the next three years due to the implementation of TFRS 9 in 2020, which means MIDA may need to set aside a higher loan loss provision. However, we expect that MIDA will be able to keep its NPL ratio below 6.0% over the next few years as the company improves its loan collection and underwriting system.

Hotel business is still small, but has potential to grow

TRIS Rating views that MIDA's hotel portfolio remains relatively small comparing to other hotel operators. MIDA currently operates seven hotels located in Bangkok, Hua Hin, Kanchanaburi, Nakhon Pathom, and Rayong provinces, with a total of 942 rooms. Revenue from the hotel business was around Bt400 million per annum during 2017-2018 and Bt126 million in the first quarter of 2019. Revenue contribution from hotels in the upcountry was around 70% of total hotel revenue during 2017 through the first quarter of 2019, while the rest was from hotels in Bangkok.

The operating performance of its hotels in the upcountry was still far below its hotels in Bangkok. The occupancy rate (OR) of the hotels in Bangkok has been above 70% during 2016 through the first three months of 2019, while the OR of the hotels in upcountry was quite low at around 40%-50%. The average room rate (ARR) of the hotels in Bangkok was Bt900-Bt1,000 per room per night, while the ARR of the hotels in the upcountry was Bt1,000-Bt3,000 per room per night. Thus, the average revenue per available room (RevPar) of all its hotels was Bt600-Bt800 per room per night during the past five years. Based on our base case scenario, we expect overall OR of the hotels will be around 60% and the ARR will grow by at least 3% in each hotel. Revenue from hotel business will increase to Bt500 million per annum over the next three years.

Small portfolio of residential property development business

TRIS Rating views that MIDA's residential property portfolio was comparatively small. Despite its long track record, revenue from the sales of residential property was only Bt500-Bt600 million per annum during the past five years. In addition, most of its projects are concentrated in Nakhon Pathom province. At the end of April 2019, MIDA had 11 active landed property projects as well as two low-rise and one high-rise condominium projects. The total remaining in the projects available for sale was Bt5,508 million, including the remaining sale value of the Panora Pattaya project, the first high-rise condominium project of MIDA, worth Bt1,630 million. Across the entire portfolio, the projects were 31% sold and 26% transferred to customers. At the end of April 2019, MIDA's backlog was only Bt367 million. Its Bt254 million backlog will be delivered to customers during the remainder of 2019 and the remaining will be delivered in 2021.

Our base case scenario assumes MIDA's revenue from its residential property will stay at Bt500 million per annum during 2019-2020. We expect its residential sales will increase to Bt800 million in 2021, since the company should be able to deliver The Panora Pattaya as scheduled. The gross margin from its residential projects is projected at 29%-31% during the forecast period. Our assumptions include investments in land acquisition and construction of Bt500-Bt600 million annually during 2019-2021.

Moderate financial leverage

In TRIS Rating's forecast, we assume MIDA's debt burden may slightly increase during 2019-2021 with the expansion in its hire purchase loan portfolio and residential project portfolio. Due to large capital expenditures in hotels during the past several years, MIDA has no plans to develop any new hotels in the next three years. We expect MIDA to keep its debt to capitalization ratio below 50%, or its interest-bearing debt to equity ratio lower than 1 times. The ratio of funds from operations (FFO) to total debt should be around 5% and the debt to EBITDA ratio should stay below 10 times.

According to the key financial covenants on its debentures, MIDA has to maintain the interest-bearing debt to equity ratio (based on its consolidated financial statements) at lower than 2 times. The ratio as of March 2019 was 1 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that MIDA should have no problem complying with its financial covenants over the next 12 to 18 months.

Liquidity is tight but should be manageable

At the end of March 2019, MIDA had Bt2,859 million of debt due over the next 12 months, comprising Bt2,066 million in debentures, Bt782 million in loans from financial institutions and related parties, and Bt11 million in financial lease. MIDA's sources of liquidity comprised cash on hand of Bt180 million, principal of hire purchase receivables due within one year of Bt1,685 million, and projected FFO over the next 12 months of Bt250 million. The company also had undrawn committed project loan facilities from financial institutions of Bt899 million, which will be drawn along the construction progress of each project. In addition, the company also had unencumbered fixed assets worth Bt1,456 million, which can be used as collateral for new loans, if needed.

MIDA normally refinances its maturing bonds with new bond issues. However, in the event of debt market distress, MIDA could face refinancing risk or higher cost of funds when issuing new debentures. MIDA's cost of funds increased to 5.2%-5.3% during 2018 through the first quarter of 2019, from 4.8% in 2017. Bank loans will be partly repaid with cash flow from operations and the remainder will be refinanced with new loans.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- Outstanding loans will stay at Bt4,000-Bt4,200 million at the end of each year during 2019-2021
- NPL ratio should stay below 6%
- Credit cost will be in the range of 5.2%-5.5%, while yield on loans will be around 28%
- Overall OR of hotels will be around 60%, with at least 3% ARR growth in each hotel
- Annual investments in land acquisition and construction of residential projects will be Bt500-Bt600 million

RATING OUTLOOK

The "stable" outlook reflects our expectation that MIDA will be able to sustain its operating performance at the target levels. TRIS Rating expects MIDA to keep the FFO to total debt ratio at around 5% and the debt to EBITDA ratio below 10 times.

RATING SENSITIVITIES

MIDA's rating and/or outlook could be revised downward if MIDA's operating performance deteriorates from the target levels. We could also lower the rating and/or outlook if MIDA's financial profile weakens, such that the interest-bearing debt to equity ratio increases to 2 times. A credit upside is limited due to its relatively small business scale and weak market position. However, a credit upside would materialize if MIDA can enlarge its earnings and cash flow while its financial profile does not deteriorate from the current level.

COMPANY OVERVIEW

MIDA was established by Mr. Kamol leosivikul and Mr. Thanee Diloksakayavitoon in 1991 and listed on the Stock Exchange of Thailand (SET) in 2003. As of March 2018, the leosivikul family was the largest shareholder, owning a 28% stake, following by the Diloksakayavitoon family, owning 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 all over the country. MIDA's policy focuses on hire purchase for medium to small scale customers in rural areas. 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 automobile hire purchase services through MIDA Lao, a subsidiary in which MIDA holds a 60% stake.

As of March 2019, outstanding hire purchase loans consisted of vehicle hire purchase loans operated by ML (75%), electrical home appliance hire purchase loans operated by MIDA (15%), and vehicle hire purchase loans operated by MIDA Lao (10%).

MIDA currently operates seven hotels located in Bangkok, Hua Hin, Kanchanaburi, Nakhon Pathom, and Rayong provinces, with a total of 942 rooms. The company manages the hotels under its own brands: MIDA, MIDA De Sea, Ace, Xen, and Aksorn. The target customers are the operators of business meetings and seminars. Most customers are Thai and other Asian nationalities.

MIDA's residential property business focuses on developing landed property projects and targets the middle-to-low income segment. The company offers single-detached house (SDH), Semi-DH, and townhouse units with the price range of Bt1-Bt8 million per unit and condominium units with the selling price of Bt60,000-Bt120,000 per square meter (sq.m.). Around 65% of the total project value of existing projects is located in Nakhon Pathom province, while the others are located in Petchaburi, Chonburi, Ratchaburi, Prachuapkhirkhan, and Khonkaen provinces.

MIDA's revenue contribution from its hire purchase business, including hire purchase financing income and electrical home appliance sales, constituted around 60% of total operating revenue during the past five years. Revenue contribution from its residential property business and hotel operations contributed 20% and 15%, respectively, of total operating revenue during 2017 through the first quarter of 2019. Revenue from rental assets and service income remained negligible.

KEY OPERATING PERFORMANCE

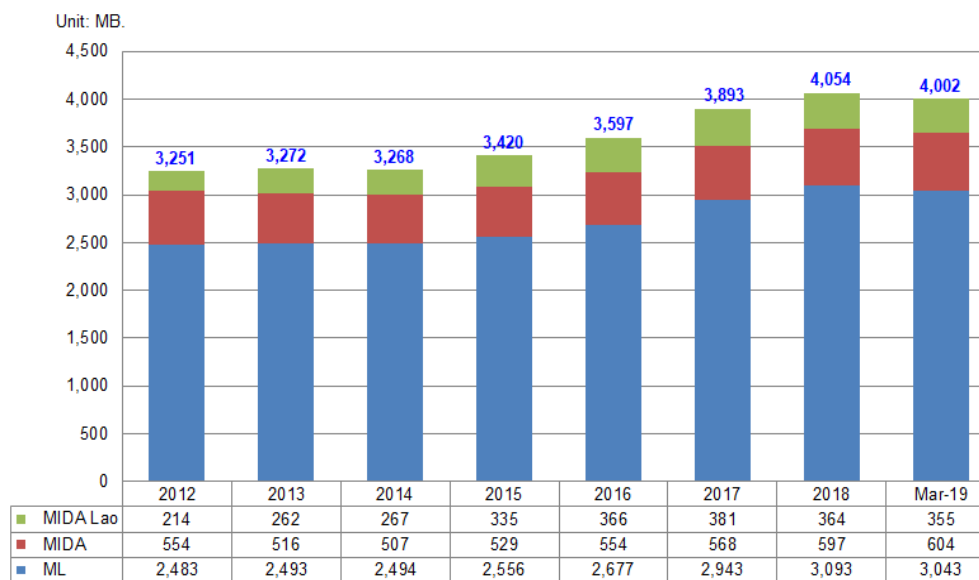
Table 1: MIDA's Revenue Breakdown by Business

Unit: %

Revenue Breakdown	2013	2014	2015	2016	2017	2018	3M19
Sales of merchandises	20	19	19	20	19	18	18
Hire purchase financing income	40	42	42	41	42	42	40
Property sales	32	29	27	26	20	21	22
Golf course services and rental income	2	2	1	-	1	-	-
Hotel operations	6	7	7	10	14	16	18
Services	-	1	4	3	4	3	2
Revenue from Sales and Services	100	100	100	100	100	100	100
Revenue from Sales and Services (Bt million)	2,249	2,235	2,356	2,459	2,534	2,649	701

Source: MIDA

Chart 1: MIDA's Hire Purchase Outstanding Loans



Source: MIDA

Table 2: MIDA's Hotel Performance

Hotel	2013	2014	2015	2016	2017	2018	Q1-19
No. of Room	470	477	480	822	830	942	942
ARR (Bt/room/night)	875	1,127	1,059	1,141	1,322	1,352	1,420
OR (%)	53	48	52	52	52	55	62
RevPar(Bt/room/night)	464	537	550	597	688	750	873

Source: MIDA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	734	2,783	2,675	2,613	2,490
Operating income	148	550	584	468	466
Earnings before interest and taxes (EBIT)	126	454	413	401	390
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	160	595	597	555	509
Funds from operations (FFO)	80	283	314	311	290
Adjusted interest expense	68	265	234	183	143
Financial lease receivables (after allowance)	3,795	3,855	3,729	3,447	3,294
Total assets	10,847	10,888	10,392	10,227	9,051
Adjusted debt	4,915	5,095	4,654	4,333	3,457
Adjusted equity	5,085	5,055	4,961	4,873	4,758
Adjusted Ratios					
Operating income as % of total operating revenues (%)	12.99	12.43	14.88	12.67	13.43
Pretax return on permanent capital (%)	4.40 **	4.48	4.23	4.41	4.95
EBITDA interest coverage (times)	2.34	2.25	2.56	3.03	3.55
Debt to EBITDA (times)	8.43 **	8.56	7.79	7.80	6.80
FFO to debt (%)	5.49 **	5.56	6.74	7.18	8.38
Debt to capitalization (%)	49.15	50.19	48.40	47.07	42.08
Debt to Equity (times)	1.00	1.03	0.97	0.96	0.76

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Nonbank Lending Company, 7 May 2018
- Group Rating Methodology, 10 July 2015

Mida Assets PLC (MIDA)

Company Rating:	BBB-
Rating Outlook:	Stable

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