

# M.K. REAL ESTATE DEVELOPMENT PLC

No. 4/2025  
11 February 2025

## CORPORATES

**Company Rating:** BB-  
**Outlook:** Stable

**Last Review Date:** 26/03/24

### Company Rating History:

Date	Rating	Outlook/Alert
26/03/24	BB-	Stable
12/04/23	BB+	Stable
26/04/22	BBB-	Negative
10/04/20	BBB-	Stable
12/04/19	BBB	Negative
10/02/16	BBB	Stable
24/06/15	BBB+	Alert Negative
17/06/15	BBB+	Negative
05/03/10	BBB+	Stable
20/03/08	BBB	Stable

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## RATIONALE

TRIS Rating affirms the company rating on M.K. Real Estate Development PLC (MK) at “BB-” with a “stable” rating outlook. The rating reflects MK's weak operating performance, modest revenue and earnings base, and significant financial leverage. The rating also takes into account the company's liquidity risk, challenges facing its residential property sales due to higher bank rejection rates as well as increasing geopolitical tensions that may affect its industrial property (IP) business.

## KEY RATING CONSIDERATIONS

### Weak operating performance

MK's operating performance weakened significantly in the first nine months of 2024 (9M24). Operating revenue in 9M24 was THB1 billion, achieving only 47% of our full year target. The company reported negative funds from operations (FFO) of THB392 million, while EBITDA declined by 32% year-on-year (y-o-y) to THB383 million.

The weak performance was primarily driven by lower-than-expected residential sales amid intense competition and higher mortgage rejection rates. Additionally, revenue from the warehouse and factory for rent business fell short of our forecast due to construction delays and lower occupancy. Although the divestiture of the wellness business to FNS Holdings PLC (FNS) in April 2024 was expected to support MK's operating performance, slower sales of remaining residential units and escalating financing costs continued to weigh on the company's financial profile.

Looking ahead, we project MK's total operating revenue to range between THB1.2-THB1.4 billion per annum in 2025-2027. EBITDA is expected to remain volatile, primarily driven by the sale of the company's warehouse and factory rental space to its own real estate investment trust (REIT), “Prospect Logistics and Industrial Freehold and Leasehold Real Estate Investment Trust” (PROSPECT). MK's EBITDA is forecast to fall within the THB0.9-THB1.5 billion range while FFO are anticipated to fluctuate and may remain negative in certain years.

### Modest business scale

MK's business scale is considered modest in comparison to other rated property developers. Its residential property business is winding down as the company plans to exit this segment while its IP business, under Prospect Development PLC (PD), despite expanding, remains relatively modest.

At the end of 2024, PD's portfolio comprised only 0.34 million square meters (sq.m.) of its own ready-built warehouses/factories for rent. Total leasable areas under its management, including areas under PROSPECT and its joint ventures (JVs), amounted to just 0.86 million sq.m. Excluding gains from the sale of assets to PROSPECT, PD's EBITDA has been only THB300-THB400 million annually over the past three years.

MK's residential property business is winding down. In June 2023, MK sold seven incomplete residential projects to a non-related party for THB3.08 billion in payables from transfer of right agreement to receive payments from housing units sold in seven existing projects. MK received THB1.50 billion in payables from transfer of right agreement to receive payments from housing units sold

at the start of the transaction while the non-related party agreed to provide THB1.57 billion additional financial support for completing the construction during 2023-2030. The revenue generated from the sale of the remaining housing units will be used to repay the non-related party, amounting to a minimum total of THB3.7 billion.

### **MK's operating performance to depend heavily on the success of its IP business.**

Looking ahead, MK will focus only on its IP business under PD. PD plans to develop 0.05-0.15 million sq.m of warehouses and factories for rent annually. The company aims to maintain a leasable area of around 0.2 million sq.m. for its own recurring rental income. The remaining rental space will be sold to PROSPECT to realize gains from sale on a regular basis. In 2024, PD successfully developed 225,579 sq.m. of leasable space, including 153,943 sq.m. under JVs. The company plans to sell 272,426 sq.m. of its rental assets to PROSPECT in 2025.

Apart from warehouse and factory development, the company recently acquired 1,000 rais of land in the Eastern Economic Corridor (EEC) to develop an industrial estate. The company plans to set up a 50:50 JV with a strategic partner to develop and operate its first industrial park. Construction is expected to begin in late 2025, with land transfers to customers set to start in 2026. The investment cost, approximately THB6 billion, will be funded through bank loans (55%) and equity/shareholder loans (45%). Due to the loss incurred from this JV, PD is expected to record a share loss of around THB0.02 billion in 2025, followed by share profits from investment in JVs and associates of approximately THB0.4 billion to THB0.8 billion per year in 2026-2027.

### **Lingering high financial leverage**

We expect MK's financial leverage to remain elevated throughout the forecast period, driven by its expansion in the industrial property sector. Our base case projects MK's debt to capitalization ratio to stay high at 73%-74% during 2025-2027, while its FFO to debt ratio is expected to fluctuate between -1% and 3% over the same period. As of September 2024, these ratios stood at 74% and -3.9%, respectively. The financial covenants on MK's debentures and bank loans stipulate that the company must maintain its net interest-bearing debt to equity ratio below 3 times. As of September 2024, the ratio was 2.7 times.

Our base case assumes capital expenditure for investment properties will total THB4.7 billion in 2025, including the acquisition of a 50% stake in BFTZ Wangnoi Co., Ltd., and approximately THB1 billion per annum during 2026-2027. We assume PD to develop 0.05-0.15 million sq.m. of warehouses/factories per annum. PD is also expected to invest approximately THB3 billion in total over the next three years in its JVs to support the development of a warehouse and an industrial park. In addition, the company is expected to maintain its shareholding in PROSPECT at around 15%. Therefore, it needs to reinvest the proceeds from the sales of its assets back into PROSPECT.

### **Tight liquidity**

We expect MK's liquidity to remain tight over the next 12 months due to the company's limited funding sources. As of September 2024, the company's debt maturing over the next 12 months amounted to THB6.1 billion, comprising THB3.5 billion debentures, THB81 million short-term borrowing, and THB643 million in project loans from banks, THB1.3 billion loans from non-related parties, and THB601 million short-term loans from FNS and related parties.

As of September 2024, the company had THB32 million in cash and we forecast FFO of around THB50 million in 2025. The company plans to repay its debentures by using the net proceeds, after repaying bank loans, from the sale of its rental warehouses and factories to PROSPECT, and the proceeds from divesting a 50% stake in its industrial park project to a strategic partner. The proceeds from the assets sale, after repaying bank project loans, along with cash proceeds from the partner, are expected to total around THB3.4 billion. Additionally, the company has unencumbered land valued at THB1 billion (at cost), which could be sold or pledged as collateral for new credit facilities, if needed.

### **Debt structure**

As of September 2024, MK had THB12.4 billion in debt, comprising THB5 billion debentures, THB101 million short-term loans, THB4.4 billion long-term loans, THB2.3 billion loans from a non-related party, and THB601 million short-term loans from FNS and a related party. MK's priority debt, amounting to THB8.4 billion, was made up of secured debts at the company and debts at the subsidiary level. This translates to MK's priority debt to total debt ratio of 68%. As the priority debt ratio surpasses our trigger level of 50%, we view that MK's unsecured creditors could be at a significantly disadvantaged position to its priority debt holders with respect to claims against the company's assets.

### **BASE-CASE ASSUMPTIONS**

These are the key assumptions in TRIS Rating's base-case forecast for MK's operations during 2025-2027:

- Operating revenues to range from THB1.2-THB1.4 billion per annum.
- MK to build and transfer housing units worth around THB450-THB500 million per annum over the next three years

- Capital expenditure in the industrial estate for rent business of THB4.7 billion in 2025 (including the acquisition of 50% of BFTZ Wangnoi Co., Ltd.) and around THB1 billion per annum during 2026-2027.
- PD's capital expenditure for constructing warehouses and an industrial park under JVs will be around THB3 billion per annum.
- PD to inject equity into PROSPECT of around THB200-THB600 million per annum to maintain its equity share in PROSPECT at 15%.
- PD to sell around 0.09-0.3 million sq.m. of rental space worth around THB2-THB6 billion per annum to PROSPECT.

## RATING OUTLOOK

The “stable” outlook reflects our expectation that the scale of the IP business is expected to expand and generate stable cash flows as targeted, while the sale of the remaining residential units should align with our targets.

## RATING SENSITIVITIES

The rating and/or outlook could be revised downward should the company's operating results fall short of our expectations. The rating could be revised downward multiple notches if the company fails to secure debt refinancing as planned. A rating upgrade is unlikely in the near term. However, a credit upside scenario could emerge if the company improves its operating performance and financial position significantly, resulting in an FFO to debt ratio higher than 2% on a sustained basis.

## COMPANY OVERVIEW

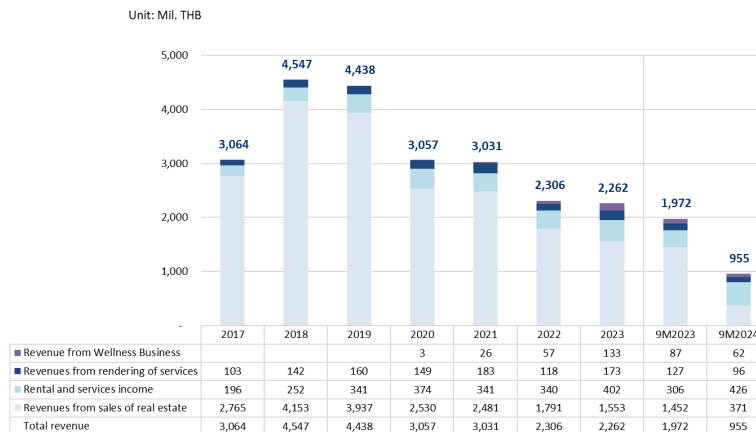
MK was founded in 1973 by Mr. Chuan Tangmatitham and listed on the Stock Exchange of Thailand (SET) in 1990. The Tangmatitham family was MK's major shareholder before it sold almost its entire stake in the company to Mr. Suthep Wongvorazathe in June 2015. Mr. Suthep consequently became the major shareholder of the company, holding a 20.64% stake as of September 2015. However, as MK later acquired 100% of the equity of PD, partly through a share swap, Mr. Suthep's stake in MK was diluted to 17.9% as of December 2015. The existing shareholders of PD then held 13.3% of MK with FNS (formerly Finansia PLC), the major shareholder of PD, holding 7.15% of MK. New top managers were put in place in 2015, most with a background in the financial services industry. In August 2023, FNS acquired additional shares in MK, becoming the single largest shareholder with a 49.5% shareholding. In November 2024, MK offered 363.7 million newly issued ordinary shares to existing shareholders. As a result, MK's shareholding structure has changed. FNS remains the largest shareholder with a 37% stake while the Jaruthavee family has become the second largest shareholder with 32%. However, this change in shareholdings does not affect the management structure of the company.

Initially, MK focused on developing low-rise residential property projects, with prices ranging from THB3-THB6 million per unit, under the “Chuan Chuen” brand. Most of its products are semi-prebuilt or prebuilt single detached houses (SDHs), semi-detached houses (semi-DHs), and townhouses (THs). Since 2021, MK has focused its investment in the industrial property and wellness businesses. The company's management plans to phase out and exit the residential property business over the next three to five years.

In April 2024, MK restructured the group business. MK sold its 100% stake in RXW to its parent company, FNS Holdings PLC. MK retains ownership of the operating assets but will lease and sub-lease the land and buildings at Bangkrachao and Sampran to RXW. PD, MK's subsidiary, acquired a 22.2% share of PROSPECT from FNS in May 2024 and plans to acquire a 50% share of BFTZ Wangnoi Ltd. in April 2025. Going forward, MK expects the IP business to be a significant earnings contributor.

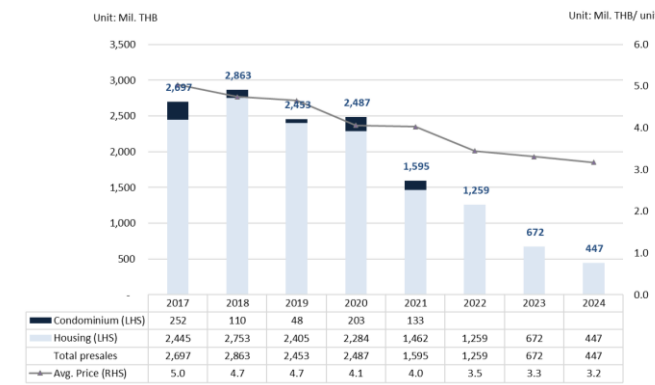
KEY OPERATING PERFORMANCE

Chart 1: Revenue Contribution from Each Business



Source: MK

Chart 2: Residential Property Presales



Source: MK

Table 1: Details of Assets in IP Business

Project	Location		Land area (rai)	Total NLA (sq.m.)	Developed (sq.m.)
<b>PD</b>					
- BFTZ1	Bangna-Trad Km.23	Leasehold	236	181,673	181,673
- BFTZ2	Theparak Rd.	Leasehold	17	12,481	12,481
- BFTZ3	Bangna-Trad Km.19	Leasehold	8	12,163	12,163
		Freehold	78	50,882	50,882
- BFTZ6	Bangna-Trad Km.19	Leasehold	50	50,748	50,748
		Freehold	33	28,992	
- BFTZ7	Bangna-Trad Km.10	Leasehold	44	35,608	35,608
- BFTZ8	Theparak Rd.	Leasehold	32	24,769	
- EEC	EEC	Freehold	1,000		
		Industrial land for sale			
<b>Total</b>			<b>1,498</b>	<b>397,316</b>	<b>343,555</b>
<b>JV</b>					
- TPARK BFTZ (FPIT 60%)	Bangna-Trad Km.23	Leasehold	92	80,930	80,930
- BFTZ4 (SIRI 50%)	Bangpakong	Freehold	323	189,545	111,876
- BFTZ5 (FNS 50%)	Wangnoi	Leasehold	145	109,355	109,355
<b>Total</b>			<b>560</b>	<b>379,830</b>	<b>302,161</b>

Note: All projects managed by PD except TPARK BFTZ

Source: MK and PD

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	955	2,262	2,306	2,939	3,057
Earnings before interest and taxes (EBIT)	71	200	159	(55)	413
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	383	573	435	240	668
Funds from operations (FFO)	(392)	(306)	(151)	(249)	229
Adjusted interest expense	723	806	637	489	398
Real estate development investments	615	1,727	2,799	1,434	2,589
Total assets	20,524	19,360	19,865	19,041	17,985
Adjusted debt	14,674	12,519	12,678	10,970	9,803
Adjusted equity	5,073	5,672	6,463	6,468	6,641
<b>Adjusted Ratios</b>					
EBITDA margin (%)	40.1	25.3	18.9	8.2	21.8
Pretax return on permanent capital (%)	0.0 **	1.0	0.9	(0.3)	2.5
EBITDA interest coverage (times)	0.5	0.7	0.7	0.5	1.7
Debt to EBITDA (times)	37.3 **	21.8	29.2	45.7	14.7
FFO to debt (%)	(3.9) **	(2.4)	(1.2)	(2.3)	2.3
Debt to capitalization (%)	74.3	68.8	66.2	62.9	59.6

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Rating Methodology for Real Estate for Rent Companies, 16 December 2024
- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

## M.K. Real Estate Development PLC (MK)

**Company Rating:**

BB-

**Rating Outlook:**

Stable

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