

MBK PLC

No. 193/2023
9 October 2023

CORPORATES

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

Last Review Date: 31/03/23

Company Rating History:

Date	Rating	Outlook/Alert
03/09/21	A-	Stable
01/02/11	A	Stable
08/10/07	A-	Stable

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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 company's diversified revenue and earnings base, improving operating performance, adequate liquidity, and enhanced financial flexibility from its large investment portfolio. The ratings also take into consideration unfavorable economic conditions and interest rate hikes, which could negatively affect domestic consumption and purchasing power in the short to medium term.

KEY RATING CONSIDERATIONS

Diversified revenue and earnings base

We view that MBK's various sources of revenue and earnings from diversified businesses will continue to support its credit profile in the long run. In the event of a downturn in any industry sector, MBK's diversified revenue and earnings would help mitigate potential adverse impact on overall operating results.

Prior to the pandemic, MBK had earnings before interest, taxes, depreciation, and amortization (EBITDA) (after the financial cost of the financial services business and excluding operating leased adjusted) of THB3.0-THB4.0 billion per annum in 2017-2019, around 50% of which were from the commercial property business, 20% from the financial services business, 10% from the hotel business, and the rest from other businesses (golf course, food, residential property, and auction).

During the COVID-19 pandemic, EBITDA from the commercial property and hotel businesses declined substantially, while EBITDA from the financial services business continually grew. As a result, EBITDA across the entire portfolio of businesses remained in the THB2.2-THB2.6 billion range in 2020-2022. MBK reported an EBITDA growth of around 50% year-on-year (y-o-y) in the first six months of 2023 (6M2023) to THB2.0 billion. EBITDA from commercial property accounted for around 35%, financial services 20%, hotel operations 13%, and the rest from other businesses.

Improvement in shopping center performance expected to continue

We expect the operating performance of MBK's shopping centers to continue recovering in 2024-2025 in tandem with the spending recovery of both Thai and foreign customers after the pandemic. We anticipate an overall occupancy rate (OR) of around 70%-75% for the company's shopping malls in 2023, improving to 90% in 2025. The OR in 2023 will be affected by the ongoing renovation of two shopping malls, Paradise Park and Paradise Place. We expect the average OR of shopping centers will reach the 2019 level in 2025 once the renovations are completed in 2024 and the OR of each shopping center fully recovers. We also expect the average rental rate (ARR) to improve by 3%-7% per annum over the forecast period as tenant discounts will be discontinued from 2023 onwards. The renovation of Paradise Park and Paradise Place should also support rental rate growth in 2024-2025. We view MBK's revenue from shopping centers will likely improve to around THB3.2 billion in 2024 and achieve the 2019 level in 2025.

MBK reported an overall OR for shopping centers of 75% in 6M2023, down from around 80% in 2021-2022 due to major renovations at two shopping

malls. The ARR in 6M2023 reverted to 95% of the 2019 level. Revenue from shopping centers soared by 19% y-o-y in 2022 and doubled from the same period of the prior year to THB1.1 billion in 6M2023.

Hotel operations on the rebound

We expect MBK to continue delivering satisfactory hotel performance, driven by improvements in both OR and average daily rate (ADR). Our base-case scenario projects MBK's hotel revenue per available room (RevPAR) to surpass the pre-pandemic level in 2023. RevPar is likely to drop slightly in 2024 as MBK intends to renovate parts of some of its hotels. We expect RevPar to grow by 10% y-o-y in 2025, supported by higher OR and rising ADR after the renovations. We expect MBK's revenue from hotel operations to increase to the THB1.2-THB1.4 billion level in 2023-2025.

The forecast is based on our view that a strong rebound in hotel performance can be sustained through 2023, driven by the recovery in tourist arrivals and increasing long-haul travel activities. The number of tourist arrivals increased significantly in 6M23, rising to 12.9 million from around 2 million in the same period of last year. The rebound in arrivals should drive further increases in OR and ADR. MBK's overall RevPar in 6M2023 surpassed the 2019 level with an average hotel OR of 75% and an ADR exceeding the pre-pandemic level.

Residential property sales to soften

We view that the reimposition of the loan-to-value (LTV) rules and interest rate hikes could soften demand for the residential property in the short to medium term. The LTV rules will generally have a greater impact on the middle and high-end segments since these buyers may have more than one mortgage contract. Rising interest rates will affect not only the funding costs of developers but also the debt servicing capacity of homebuyers, especially those in the middle- to low-income segments. Consequently, banks have become more stringent in their lending practices towards these groups of homebuyers.

Our base-case scenario projects MBK's revenue from real estate sales to stay around THB0.5-THB0.7 billion per annum in 2023-2025, down from THB0.9 billion in 2022 and THB1 billion in 2021. Its real estate sales will be driven mainly by the gradual unwinding of inventory in existing projects. As of June 2023, MBK's residential sales backlog amounted to THB326 million, which is expected to be recognized as revenue in the second half of 2023. The value of the remaining unsold units (including built and un-built units) was around THB3 billion, mostly from the Quinn Sukhumvit 101 condominium project and The Riverdale Residence project.

Gradual expansion in loan portfolio anticipated

We expect MBK's outstanding loan portfolio, including asset financing and motorcycle hire purchase loans, to grow by around 5% per annum to THB16-THB18 billion in 2023-2025. Although the motorcycle hire purchase business will be affected by the introduction of a regulatory ceiling on interest rates of 23% for motorcycle hire purchase loans beginning in January 2023, we expect MBK to be able to manage acceptable and competitive credit cost. We project interest income from financial services to maintain at around THB2.3 billion in 2023, near the same level as last year. Its income is expected to reach THB2.6 billion in 2025.

In terms of asset quality, the unfavorable economic environment and inflation have impaired the debt serviceability of borrowers and adversely impacted the asset quality of MBK's motorcycle hire purchase loans. The non-performing loan (NPL) ratio of motorcycle loans increased to 3.2% in 2022, from 2.9% in 2021. Nonetheless, with its tightened underwriting policy since the beginning of 2023, we expect the asset quality of motorcycle hire purchase loans to remain manageable over the next few years. For the asset financing business, the NPL ratio rose to 26.7% in 2022 from 17.2% in 2021 due to an increase in delinquent borrowers affected by the pandemic. However, MBK's prudent LTV policy should help limit loan losses in the event of payment default. MBK's average LTV ratio of asset financing loans remained at a relatively low 37% in 6M2023.

Financial leverage to improve

MBK's debt to EBITDA ratio gradually improved to around 7 times as of June 2023, from 8.6 times as of December 2021, following the post-pandemic economic recovery. In our base-case assumptions, we incorporate total capital expenditures of THB3.4 billion for rental and service-related businesses as well as THB0.5 billion for the real estate for sales business in 2023-2025. Our projections for capital expenditure include the renovation of shopping malls and hotels, renewal of the Paradise Park land lease agreement, construction costs of residential projects, as well as planned investments in the golf, auction, and food businesses. As a result, the debt to EBITDA ratio is likely to stay at around 7-8 times at the end of 2023. The ratio should improve to 6-7 times in 2024-2025 as we anticipate a revival of overall operations. We also expect the adjusted EBITDA interest coverage ratio to stay at around 3-4 times over the forecast period.

The financial covenants on MBK's debentures require the company to maintain its EBITDA interest coverage ratio (excluding interest from lease liabilities) equal or above 4 times and its debt to equity ratio (excluding lease liabilities) below or equal

to 2 times. As of June 2023, the ratios were 8.5 times and 0.9 times, respectively. We expect the company to remain in compliance with the financial covenants over the next 12 to 18 months.

As of June 2023, MBK's total debt (excluding lease liability) was THB18.9 billion. The company's priority debt, made up of unsecured debts at the subsidiaries, was THB2 billion. This translated to a priority debt to total debt ratio of 11%.

Expected to maintain adequate liquidity, plus financial flexibility from investment portfolio

We assess MBK's liquidity as adequate for the next 12 months. As of June 2023, the company's sources of liquidity included THB1.6 billion in cash on hand and THB5.4 billion in undrawn credit facilities available from commercial banks. We project funds from operations (FFO) over the next 12 months to be around THB3 billion. Debts coming due over the next 12 months will amount to THB4.1 billion, comprising THB2.6 billion in short-term borrowings from financial institutions, THB0.8 billion in lease liabilities, THB0.4 billion in debentures, and THB0.3 billion in long-term loans.

MBK also has a large investment portfolio, which helps support its liquidity, if needed. As of June 2023, the fair market value of the company's investment in a listed associated company (Thanachart Capital PLC - TCAP) was THB10.4 billion. The portfolio also included investments in listed company equities worth THB0.6 billion, Siam Piwat (SPW) worth THB5.1 billion, corporate debentures of around THB1.0 billion, and SPW's perpetual debenture of THB0.3 billion.

BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for MBK's operations in 2023-2025 are as follows:

- Total operating revenue to range from THB9.5-THB11.5 billion per annum
- EBITDA margin to hover around 43%-44%
- Capital expenditure for business operations (excluding renewal lease agreement of Paradise Park) to total THB2.5 billion over 2023-2025
- Outstanding loans in the financial service segment to grow by around 5% y-o-y

RATING OUTLOOK

The "stable" outlook reflects our expectation that MBK's rental properties will continue generating reliable cash flow while its tourism-related and other businesses will achieve satisfactory operating results as targeted. We also expect MBK's diversified revenue and earnings base to continue underpinning the ratings.

RATING SENSITIVITIES

The credit upside would materialize if MBK achieves a substantially larger cash generation to a level comparable with higher-rated peers, while maintaining a prudent financial discipline. On the contrary, the ratings and/or outlook could be revised downward if MBK's operating performance significantly deviates from our expectations and/or the company makes any aggressive debt-funded investments that materially weaken its financial profile.

COMPANY OVERVIEW

MBK was established in 1974. TCAP and other companies in the Thanachart Group are MBK's major shareholders, holding a combined 52% stake as of March 2023. MBK has many lines of business: retail properties for rent, hotels, golf courses, residential property development, food, financial services, and auction. In 2022, the commercial property segment (retail properties and office buildings) contributed about 20% of the company's total revenue and 31% of its total EBITDA. The financial service and hotel segments contributed 28% and 10% of its total revenue, respectively, and 29% and 12% 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 16% of its total revenue and 18% of EBITDA. The revenue and EBITDA contributions from the food segment were 19% and (-)2%, respectively. Lastly, the revenue and EBITDA contributions from the auction segment were 7% and 12%, respectively.

KEY OPERATING PERFORMANCE

Table 1: MBK's Revenue Breakdown

Unit: %

Revenue Breakdown	Unit	2017	2018	2019	2020	2021	2022
Total revenue	Mil. THB	9,740	10,548	10,287	8,636	7,631	8,405
Commercial properties	%	41	38	38	27	19	20
Hotels	%	13	13	13	6	3	10
Golf courses	%	5	4	5	4	3	5
Food	%	16	21	19	20	22	19
Residential properties	%	7	3	3	8	13	11
Financial services	%	18	21	22	29	32	28
Auction	%	0	0	0	6	8	7
Total revenue	%	100	100	100	100	100	100

Source: MBK

Table 2: MBK's Shopping Center Portfolio as of 30 Jun 2023

	Property Name	Location	Rental Space (Sq.m.)	Holding (%)	Equity Rental Space (Sq.m.)
1	MBK Center	Bangkok	83,891	100	83,891
2	Paradise Park	Bangkok	80,969	100	80,969
3	The Nine Rama 9	Bangkok	15,125	100	15,125
4	Paradise Place	Bangkok	21,740	100	21,740
5	The Nine Tiwanon	Bangkok	11,831	100	11,831
6	Siam Center	Bangkok	23,436	48	11,249
7	Siam Discovery	Bangkok	28,982	48	13,911
8	Siam Paragon	Bangkok	202,523	24	49,578
9	ICONSIAM	Bangkok	178,036	24	43,583
10	SIAM Premium Outlet	Bangkok	24,577	24	6,017
11	ICS	Bangkok	17,310	24	4,237
	Total		688,419		342,130

Source: MBK

Table 3: MBK's Hotel Portfolio as of 30 Jun 2023

	Property Name	Location	Capacity (rooms)
1	Pathumwan Princess	Bangkok	455
2	Tinidee Hotel @ Bangkok Golf Club	Bangkok	128
3	Dusit Thani Krabi Resort	Krabi	240
4	Layana Resort & Spa	Krabi	57
5	Tinidee Hideaway Tonsai Beach Krabi	Krabi	20
6	Tinidee Hotel	Phuket	46
	Total		946

Source: MBK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	4,822	8,585	7,731	8,734	10,449
Earnings before interest and taxes (EBIT)	1,685	1,821	744	1,759	4,433
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,257	3,419	3,004	4,200	5,311
Funds from operations (FFO)	1,545	1,967	1,515	2,759	3,608
Adjusted interest expense	572	1,206	1,281	1,185	1,371
Capital expenditures	269	957	776	712	649
Total assets	56,400	54,350	55,257	57,142	52,443
Adjusted debt	27,659	25,998	25,970	27,894	28,388
Adjusted equity	22,226	21,813	21,058	21,385	24,706
Adjusted Ratios					
EBITDA margin (%)	46.80	39.82	38.86	48.08	50.83
Pretax return on permanent capital (%)	5.23 **	3.57	1.42	3.29	8.49
EBITDA interest coverage (times)	3.94	2.84	2.35	3.54	3.87
Debt to EBITDA (times)	6.93 **	7.60	8.64	6.64	5.34
FFO to debt (%)	9.27 **	7.56	5.83	9.89	12.71
Debt to capitalization (%)	55.44	54.38	55.22	56.60	53.47

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology for Real Estate for Rent Companies, 15 July 2021
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

MBK PLC (MBK)

Company Rating:	A-
Issue Ratings:	
MBK255A: THB1,600 million senior unsecured debentures due 2025	A-
MBK265A: THB600 million senior unsecured debentures due 2026	A-
MBK27NA: THB1,500 million senior unsecured debentures due 2027	A-
Rating Outlook:	Stable

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