

MBK PLC

No. 201/2024
1 November 2024

CORPORATES

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

Last Review Date: 24/06/24

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, and enhanced financial flexibility from its large investment portfolio. The ratings also take into consideration the challenging market conditions pressuring the company's real estate development and financial services businesses as well as the uncertainty surrounding the economic recovery.

KEY RATING CONSIDERATIONS

Diversified sources of revenue and earnings

In our view, MBK's credit profile continues to be supported by its diversified sources of revenue and earnings. The company's diversified revenue and earnings streams help lessen the potential negative impacts on its overall operating results in the event of a downturn in any specific industry sector. During the COVID-19 pandemic, EBITDA (after the financial cost of the financial services business and excluding share of profit and dividend income) from the commercial property and hotel businesses declined substantially, while EBITDA from the financial services business grew steadily. The EBITDA contribution from commercial property decreased to 30%, and from hotel operations to -6%, while financial services contributed 48%, with the remainder coming from other businesses (golf course, food, residential property, and auction). However, since the pandemic eased, the company's tourism-related businesses have improved continuously. For the first six months of 2024, the EBITDA contribution from commercial property increased to 50%, the hotel business rose to around 20%, while financial services accounted for about 20%, with the rest coming from other businesses.

Improvement in commercial property performance to continue

We anticipate the operating performance of the company's shopping centers will continue to improve over the next few years driven by an expected increase in tourist arrivals. We also expect a stronger operating performance for Paradise Park following the completion of renovations, which should enhance performance of the company's commercial property business over the forecast period.

In our base case, we expect the overall occupancy rate (OR) of the company's shopping malls to gradually improve from around 84% in 2024 to around 93% in 2026. We also expect the average rental rate (ARR) for shopping malls to increase by 2%-8% annually over the forecast period. Meanwhile, the performance of the company's office rentals is anticipated to remain stable during 2024-2026. The company's rental revenue from shopping malls and offices is projected to increase from around THB3.3 billion in 2024 to THB3.7 billion in 2026.

For the first six months of 2024, the company's revenue from shopping centers and offices increased by 27% year-on-year (y-o-y) to THB1.6 billion. The overall OR for shopping centers reached 80% in the first six months of 2024, up from 75% during the same period last year, supported by the recovery of Thailand's tourism industry and the near completion of renovations at Paradise Park. The ARR for the first six months of 2024 also improved, rising by 12% compared to the same period last year and reaching 95% of the pre-pandemic level.

Hotel business expected to strengthen

We expect the company's hotel performance to continue improving over the next few years underpinned by sustained demand for leisure travel. The company's hotel revenue per available room (RevPAR) in 2024 is likely to stay at around the same level as 2023 but increase by around 3% per annum in 2025-2026 driven by sustained OR and a gradual increase in the average daily rate (ADR) following renovations of some hotels in the company's portfolio. The company's revenue from hotel operations is expected to stay around THB1.4-THB1.6 billion per annum in 2024-2026.

For the first six months of 2024, the company reported hotel revenue of THB0.8 billion, representing a 19% y-o-y increase. The company's RevPar (excluding Tinidee Trendy Bangkok Khaosan Hotel) rose by approximately 13% y-o-y for the first six months of 2024, primarily driven by an increase in ADR. In 2023, the company acquired a hotel located on Khaosan Road, which the company later renovated and renamed Tinidee Trendy Bangkok Khaosan. The hotel opened for business in December 2023 and is expected to contribute to overall hotel revenue from 2024 onwards.

Real estate sales to remain modest

Given the current unfavorable housing market sentiment and heightened competition, we expect the company's revenue from real estate sales to remain modest over the next few years. Our base-case scenario projects the company's revenue from real estate sales to stay around THB0.5-THB0.7 billion per annum in 2024-2026. The revenue was THB0.2 billion for the first six months of 2024. At the end of June 2024, the company's residential sales backlog amounted to THB0.2 billion, which is expected to be recognized as revenue in the second half of 2024. The value of the remaining unsold units was around THB2.5 billion, mostly from the Quinn Sukhumvit 101 condominium project and The Riverdale Residence project. The company plans to launch two new residential projects in Chonburi and Phuket worth a total of THB1.5 billion. We expect the new projects to start contributing revenues from 2025 onwards.

Some weakening in financial services but improvement expected

In 2023, the company observed a softening in asset quality, primarily in its motorcycle hire purchase loans, causing credit cost to increase and pressuring earnings for the year. The company's EBTDA from financial services decreased to THB0.3 billion, compared with THB0.6 billion in 2022. We view that the persistently weak economy and vulnerability of the company's customer base remain a challenge to asset quality in the company's motorcycle hire purchase business. Nonetheless, as the asset quality of motorcycle hire purchase loans showed signs of positive development in 1H24, reflected in a decrease in credit costs to 7.4% in 1H24 from 9.1% in 2023, we view asset quality should remain manageable over the next few years supported by the company's continuous efforts to tighten underwriting policy. Additionally, the company's prudent loan to value (LTV) policy should help limit loan losses from non-performing asset-based loans. The company's average LTV ratio of asset financing loans remained at a relatively low 42% in the first six months of 2024.

We expect modest growth of the company's outstanding loan portfolio, which includes asset financing and motorcycle hire purchase loans, as the company prioritizes quality and selectively pursues growth opportunities. We project the loan portfolio to grow by 1%-4% annually to THB16-THB17 billion in 2024-2026. Although the interest rate yield of the company's motorcycle hire purchase loans has been pressured by the interest rate ceiling implemented in early 2023 and by the intense competition, we do not expect any further decline in the yield over the next few years. This assumption is based on the observed decline in the company's dealer commissions in 2024, driven by easing competition, which should help stabilize the net yield. We also expect the yield of the company's asset financing to sustain at the current level over the forecast period. Overall, revenue from financial services is expected to hover around THB2.3-THB2.5 billion per annum in 2024-2026.

Financial leverage to improve

We expect the company's financial leverage to gradually improve over the coming years with its adjusted debt to EBITDA ratio to decline to approximately 5.5 times in 2026 from 7.6 times at the end of June 2024, as operating performance picks up. The company's EBITDA is projected to gradually rise from THB3.9 billion in 2023 to THB5.2 billion in 2026, with its EBITDA margin to stay at around 44%-46% from 2024 to 2026. Under our base-case forecast, we assume total capital expenditure of THB2.2 billion for the three-year period. Our projections for capital expenditure include the renovation of shopping malls and hotels, land acquisition and construction costs for residential projects, as well as planned investments in the golf, auction, and food businesses.

The financial covenants on MBK's debentures require the company to maintain its EBITDA interest coverage ratio (excluding interest from lease liabilities) at a level equal to or above 4 times and its debt to equity ratio (excluding lease liabilities) below or equal to 2 times. As of June 2024, the ratios were 9.4 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.

Liquidity to remain sufficient with financial flexibility from large investment portfolio

We assess MBK's liquidity as adequate for the next 12 months. As of June 2024, the company's sources of liquidity included THB0.7 billion in cash on hand and THB5.0 billion in undrawn credit facilities available from commercial banks. We project funds from operations (FFO) in 2024 to be around THB3.3 billion. Debts coming due over the next 12 months will amount to THB5.1 billion, comprising THB3.2 billion short-term borrowings from financial institutions, THB1.0 billion debentures, THB0.9 billion lease liabilities, and THB0.1 billion long-term loans. We also expect a total capital expenditure of THB1.5 billion in 2024.

MBK also has a large investment portfolio, which helps support its liquidity, if needed. As of June 2024, the fair market value of the company's investment in a listed associated company (Thanachart Capital PLC - TCAP) was THB11.8 billion. The portfolio also included investments in listed equity securities worth THB0.5 billion, Siam Piwat Co., Ltd. (SPW), an investment associated company, worth THB5.7 billion at equity value, corporate debentures of around THB0.07 billion, and SPW's perpetual debenture of THB0.3 billion.

Debt structure

As of June 2024, MBK's total debt (excluding lease liability) was THB21.7 billion. The company's priority debt, made up of unsecured debts at the subsidiaries, was THB0.7 billion. This translated to a priority debt to total debt ratio of 3%.

BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for MBK's operations in 2024-2026 are as follows:

- Total operating revenue to range from THB10-THB12 billion per annum
- EBITDA margin to hover around 44%-46%
- Capital expenditure for business operations to total THB2.2 billion over the three-year period
- Outstanding loans in the financial services segment to grow by around 1%-4% annually

RATING OUTLOOK

The "stable" outlook reflects the expectation that MBK's rental properties will continue generating stable 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, coupled with strong financial flexibility, will continue to underpin the ratings.

RATING SENSITIVITIES

The credit upside would materialize if MBK materially expands cash generation and improves its financial leverage while maintaining a significant earnings contribution from the commercial property business. 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 MBK Group are MBK's major shareholders, (PRG holding 28%, PRG Properties 1.4%, TCAP 21%, Thanachart SPV1 1.7%) as of September 2024. MBK has many lines of business: retail properties for rent, hotels, golf courses, residential property development, food, financial services, and auction. In 2023, the commercial property segment (retail properties and office buildings) contributed about 27% of the company's total revenue and 45% of its total EBITDA. The financial service and hotel segments contributed 23% and 13% of its total revenue, respectively, and 13% and 19% 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 11% of total revenue and 12% of EBITDA. The revenue and EBITDA contributions from the food segment were 18% and -3%, respectively. Lastly, the revenue and EBITDA contributions from the auction segment were 7% and 13%, respectively.

KEY OPERATING PERFORMANCE

Table 1: MBK's Revenue Breakdown

Unit: %

Revenue Breakdown	Unit	2018	2019	2020	2021	2022	2023
Total revenue	Mil. THB	10,548	10,287	8,636	7,631	8,405	10,014
Commercial properties	%	38	38	27	19	20	26
Hotels	%	13	13	6	3	10	13
Golf courses	%	4	5	4	3	5	5
Food	%	21	19	20	22	19	18
Residential properties	%	3	3	8	13	11	6
Financial services	%	21	22	29	32	28	23
Auction	%	0	0	6	8	7	7
Total revenue	%	100	100	100	100	100	100

Source: MBK

Table 2: MBK's Shopping Center Portfolio as of 30 Jun 2024

	Property Name	Location	Rental Space (Sq.m.)	Holding (%)	Equity Rental Space (Sq.m.)
1	MBK Center	Bangkok	83,781	100	83,781
2	Paradise Park	Bangkok	82,771	100	82,771
3	The Nine Rama 9	Bangkok	15,165	100	15,165
4	Paradise Place	Bangkok	19,758	100	19,758
5	The Nine Tiwanon	Bangkok	11,735	100	11,735
6	Siam Center	Bangkok	23,436	48	11,249
7	Siam Discovery	Bangkok	26,738	48	12,834
8	Siam Paragon	Bangkok	195,357	24	47,823
9	ICONSIAM	Bangkok	177,542	24	43,462
10	SIAM Premium Outlet	Bangkok	24,577	24	6,017
11	ICS	Bangkok	17,310	24	4,237
	Total		674,942		335,605

Source: MBK

Table 3: MBK's Hotel Portfolio as of 30 Jun 2024

	Property Name	Location	Capacity (rooms)
1	Pathumwan Princess	Bangkok	445
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
7	Tinidee Trendy Bangkok Khaosan	Bangkok	215
	Total		1,151

Source: MBK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	5,608	10,069	8,585	7,731	8,734
Earnings before interest and taxes (EBIT)	2,330	3,187	1,821	744	1,759
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,748	3,854	3,419	3,004	4,200
Funds from operations (FFO)	1,993	2,430	1,967	1,515	2,759
Adjusted interest expense	682	1,186	1,206	1,281	1,185
Capital expenditures	943	2,284	957	776	712
Total assets	61,653	60,471	54,350	55,257	57,142
Adjusted debt	33,032	32,136	25,998	25,970	27,894
Adjusted equity	23,251	22,385	21,813	21,058	21,385
Adjusted Ratios					
EBITDA margin (%)	49.0	38.3	39.8	38.9	48.1
Pretax return on permanent capital (%)	7.0 **	6.0	3.6	1.4	3.3
EBITDA interest coverage (times)	4.0	3.2	2.8	2.3	3.5
Debt to EBITDA (times)	7.6 **	8.3	7.6	8.6	6.6
FFO to debt (%)	8.7 **	7.6	7.6	5.8	9.9
Debt to capitalization (%)	58.7	58.9	54.4	55.2	56.6

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- 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

MBK PLC (MBK)

Company Rating:	A-
Issue Ratings:	
MBK255A: THB1,600 million senior unsecured debentures due 2025	A-
MBK25NA: THB2,100 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-
MBK347A: THB1,000 million senior unsecured debentures due 2034	A-
Rating Outlook:	Stable

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