

# MBK PLC

No. 140/2021  
3 September 2021

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

Last Review Date: 09/09/20

### Company Rating History:

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

### Contacts:

Pramuansap Phonprasert  
pramuansap@trisrating.com

Jutamas Bunyawanichkul  
jutamas@trisrating.com

Wajee Pitakpaibulkij  
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA  
wiyada@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating downgrades the company rating on MBK PLC (MBK) and the ratings on MBK’s senior unsecured debentures to “A-” from “A”, with a “stable” outlook on the ratings. The downgrade reflects the company’s weakening operating performance caused by the prolonged Coronavirus Disease 2019 (COVID-19) pandemic. The performances of MBK’s tourism-related businesses have been hard hit and a potential recovery has been delayed from our previous projection as a result of new waves of the outbreaks and the slow pace of vaccinations. The expected revival of foreign tourist arrivals is also put off to a further date as the pandemic continues to evolve, while demand from domestic consumers remains sluggish. However, the ratings continue to reflect the company’s diversified revenue base, its strong financial flexibility and its close linkage with the Thanachart Group.

## KEY RATING CONSIDERATIONS

### Prolonged COVID-19 outbreak weakens performance

MBK’s operating performance has been weakened by the successive waves of COVID-19 outbreaks. In 2021, MBK’s operating results, especially in tourism-related businesses, have continued to deteriorate due to the rapid spread of the COVID-19 “Delta” variant and the slow vaccine rollout in Thailand. The company’s retail properties have been severely affected by the outbreak, particularly the key revenue contributor, “MBK Center”, which is heavily reliant on foreign tourists. The company has waived rental fees for its tenants during the period of mandatory closure of shopping malls. MBK has also supported its tenants by providing discounts on rental fees during the outbreak. In addition, the travel restrictions and lockdown measures have severely weakened the performance of MBK’s hotels. As a result, the company’s total earnings before interest, taxes, depreciation, and amortization (EBITDA) declined by 24% in 2020 and are expected to further decline by 20% in 2021. The company’s ratio of adjusted net debt to EBITDA is expected to weaken further to around 8-9 times in 2021, compared with 6.9 times in 2020.

The recovery of the company’s operating performance has been delayed from our previous projection. Currently, we expect MBK’s operating results to gradually improve in 2022 and 2023. In our base-case assumption, we project the current outbreak will be largely abated by the last quarter of 2021. We also expect the resumption in foreign tourist arrivals in the second half of 2022 when many countries have vaccinated majority of their populations. Thus, we project MBK’s total revenues to grow by approximately 25% and 10% in 2022 and 2023, respectively.

### Diversified revenue base alleviates impacts of COVID-19

MBK’s diversified revenue base has alleviated the impacts of COVID-19. During 2017-2019, before the COVID-19 outbreak, MBK had an average EBITDA (excluding operating leased adjusted) of THB2.6-THB2.8 billion per year. Approximately 60% of the EBITDA came from shopping centers, 10% from the hotel business, and 25% from the financial service business. During the COVID-19 outbreak in 2020, the company’s EBITDA from shopping centers declined by 50% while EBITDA from the hotel business turned negative. In contrast, EBITDA from the finance business increased by 10% for 2020 and jumped by 40% year-on-year (y-o-y) during the first six months of 2021. With

its business diversification and the good performance of its finance business, MBK's total EBITDA declined by only 20% in 2020 and 17% y-o-y during the first half of 2021.

### **Gradual improvement in commercial property expected**

The commercial property business has also been significantly affected by the COVID-19 pandemic but is expected to gradually recover in 2022 and 2023. During the government lockdown measures, the company has had to close its shopping malls and has waived rental fees for its tenants. The company has also supported its tenants by continuing to provide discounts on rental fees during the outbreak. MBK Center, the company's major cashflow contributor for the commercial property business, has been heavily affected by the outbreak as it caters mainly to foreign tourists. The company's other outbound shopping malls and office buildings have been less affected as their main customers are Thai. The company's average rental rate dropped by 40% in 2020 and likely to decline further by 10%-20% in 2021. We project rental rates will recover close to the 2019 level by 2023. We anticipate that MBK's revenue from commercial properties will drop by 30% in 2021, but should grow by around 85% in 2022 and 20% in 2023.

MBK operates four shopping centers and three office buildings in Bangkok. The company also has a 48% stake in Siam Piwat Co., Ltd., which owns and operates several shopping centers in Bangkok. In 2020, the commercial property segment contributed about 27% to MBK's total revenue and 47% to its total EBITDA.

### **Hotel business hard hit by COVID-19**

The operating performances of MBK's hotel properties for 2021 have continued to weaken from the successive waves of COVID-19 outbreaks, but should gradually rebound in 2022-2023. MBK's hotel performance in 2021 deteriorated further following the government's imposed travel restrictions and lockdown measures. The company also closed one hotel in Ranong province in 2021. We expect the demand for domestic travel will gradually recover in late 2021 when the latest COVID-19 outbreak is abated and the government gradually eases its domestic lockdown measures. In addition, the government is likely to launch stimulus packages to boost domestic tourism. We don't expect material revival of foreign tourist arrivals until mid-2022 when many countries have vaccinated majority of their populations and cross-border travel restrictions will have been eased. Under our base-case scenario, we project MBK's hotel revenue in 2021 to drop by approximately 37% from the 2020 level, before improving in 2022 to around 60% of the 2019 level, and in 2023 to around 80% of the 2019 level.

### **Sluggish demand delays new condominium sales**

In late 2020, MBK completed construction of its new condominium project, "Quinn Sukhumvit 101," with units ready for transfer to customers. The project is located on Bangkok's Sukhumvit road, adjacent to Punnawithi BTS station. The project is a high-rise building, with a total of 347 units, worth approximately THB2.4 billion. As of June 2021, the company was able to sell only 35% of the total project value due to the sluggish demand for residential properties. We believe condominium sales will continue to decelerate over the next few years in tandem with the economic slowdown.

MBK's other residential property projects are located in or near its golf courses. The company has a residential property project near "The Nine" shopping mall which was completed and ready to transfer to customers in late 2020. The company also owns residential properties in Chonburi province which target medium- to low-income customers. As of June 2021, the value of unsold units in the active projects was around THB3 billion. Our projections assume MBK will recognize revenue from these residential property projects of around THB600-THB700 million per annum during 2021-2023.

### **Financial service business continues to provide reliable cash flow**

MBK's financial service business has generated an EBITDA of THB600-THB800 million per year over the past three years. As of June 2021, the value of outstanding motorcycle loans was THB7.4 billion while the portfolio of asset financing loans stayed at THB9 billion.

Even though the COVID-19 pandemic has hurt the domestic economy, the company has been able to manage its non-performing loans (NPLs), especially in the motorcycle loan segment, by adopting more prudent lending policies and stringent collection procedures. As of June 2021, the NPL ratio to total motorcycle loans improved to 3.2%, compared with 5.4% in 2020. The NPL ratio to total mortgage loans remained at 12% during 2020 through the first half of 2021.

We project MBK's loan portfolio to be flat in 2021, before expanding by 5% annually in 2022 and 2023. Our projections assume revenue from the company's financial service business to be around THB2.4 billion in 2021, and to gradually increase to THB2.7 billion in 2023.

## Satisfactory liquidity profile

MBK's liquidity position remains satisfactory. As of June 2021, sources of funds comprised THB2.6 billion in cash on hand and THB4.6 billion in undrawn credit facilities available from commercial banks. We project funds from operations (FFO) to amount to THB2 billion for the next 12 months. MBK has scheduled principal repayments of THB913 million and repayments of outstanding short-term obligations of THB1 billion coming due in the next 12 months. The company's investment budget for 2021 is approximately THB1 billion. As of June 2021, the market value of MBK's investments in listed firms was worth THB4.7 billion, which provides significant financial flexibility.

Financial covenants on the company's debentures require the EBITDA interest coverage ratio to remain above 4 times and the net interest-bearing debt to equity ratio to stay below 2 times. At the end of June 2021, the net interest-bearing debt to equity ratio was 0.87 times and the EBITDA interest coverage ratio was 4.27 times, in conformance with the covenants. However, due to the impact of COVID-19 on the company's financial performance, MBK could potentially breach the limit on its EBITDA interest coverage ratio in 2021. The company plans to seek waivers from its debentureholders on financial covenants in 2021.

As of June 2021, MBK had total debt of THB18.5 billion (excluding lease obligations), including THB2.7 billion of priority debt. The priority debt was unsecured debt at the subsidiary level, which translates into a ratio of priority debt to total debt of 15%. As its priority debt ratio is lower than our threshold of 50%, the rating on MBK's senior unsecured debentures is equal to its company rating, according to TRIS Rating's "Issue Rating Criteria".

## BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for MBK's operations during 2021 to 2023 are as follows:

- Revenues to drop to around THB7.8 billion in 2021, then increase to THB10-THB11 billion per annum during 2022-2023.
- EBITDA margin to decline to 41%-42% in 2021, then improve to around 46% in 2022-2023.
- Total capital expenditure, excluding the financial service segment, to be around THB2 billion over the three-year forecast period.
- Outstanding loans in the financial service segment to remain around THB16-THB17 billion.
- Adjusted debt to capitalization ratio to stay around 52%-57%.
- Adjusted debt to EBITDA ratio to weaken to around 8-9 times in 2021, and to gradually improve to around 5 times in 2023.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that the company's tourism-related businesses will gradually recover based on the expected timeline of tourism revival. The company's diversified revenue base and strong financial position underpin the ratings. We expect contributions from the financial service business and investment portfolio to continue to cushion the impact of declining revenues from MBK's shopping center and hotel businesses.

## RATING SENSITIVITIES

The ratings could be revised upward if MBK's operating performance recovers strongly and remains solid on a sustained basis. In contrast, a rating downward revision may occur if MBK's operating performance deteriorates more than expected due to the prolonged effects of COVID-19 or if the company makes any aggressive debt-funded investments.

## COMPANY OVERVIEW

MBK was established in 1974. Thanachart Capital PLC (TCAP) and other companies in the Thanachart Group are MBK's major shareholders, holding a combined 52% stake. MBK has many lines of business: retail properties for rent, hotels, golf courses, residential property development, food, and financial services. In 2020, the commercial property segment (retail properties and office buildings) contributed about 27% of its total revenue and 47% of its total EBITDA. The financial service and hotel segments contributed around 29% and 6% of its total revenue, respectively, and 36% and -4% 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 12% of its total revenue and 10% of EBITDA in 2020. The revenue and EBITDA contributions from the food segment were 20% and 1%, respectively.

**KEY OPERATING PERFORMANCE**
**Table 1: MBK's Revenue and EBITDA Breakdown**

Unit: %

Revenue Breakdown		Unit	2015	2016	2017	2018	2019	2020
<b>Total revenue</b>	<b>Mil. THB</b>		<b>11,550</b>	<b>10,415</b>	<b>9,734</b>	<b>10,548</b>	<b>10,287</b>	<b>8,636</b>
Commercial properties	%		35	39	41	38	38	27
Hotels	%		10	12	13	13	13	6
Golf courses	%		4	4	5	4	5	4
Food	%		22	18	16	21	19	20
Residential properties	%		19	14	7	3	3	8
Financial services	%		10	13	18	21	22	29
Others	%		0	0	0	0	0	6
<b>Total revenue</b>	<b>%</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
EBITDA Breakdown		Unit	2015	2016	2017	2018	2019	2020
<b>Total EBITDA</b>	<b>Mil. THB</b>		<b>3,138</b>	<b>3,017</b>	<b>2,882</b>	<b>2,641</b>	<b>2,741</b>	<b>2,169</b>
Commercial properties	%		54	59	61	61	59	47
Hotels	%		7	11	11	10	9	-4
Golf courses	%		5	5	5	7	7	4
Food	%		4	0	-1	-1	0	1
Residential properties	%		17	12	4	-1	-1	6
Financial services	%		13	12	20	24	26	36
Others	%		0	1	0	0	0	10
<b>Total EBITDA</b>	<b>%</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: MBK

**Table 2: MBK's Shopping Center Portfolio as of 30 Jun 2021**

	Property Name	Location	Rental Space (Sq.m.)	Holding (%)	Equity Rental Space (Sq.m.)
1	MBK Center	Bangkok	84,366	100	84,366
2	Paradise Park	Bangkok	88,351	100	88,351
3	The Nine Center	Bangkok	15,119	100	15,119
4	Paradise Place	Bangkok	21,582	100	21,582
5	Siam Center	Bangkok	23,436	48	11,249
6	Siam Discovery	Bangkok	29,261	48	14,045
7	Siam Paragon	Bangkok	202,523	24	49,578
8	ICONSIAM	Bangkok	178,036	24	43,583
9	SIAM Premium Outlet	Bangkok	24,632	24	6,030
	<b>Total</b>		<b>667,306</b>		<b>333,903</b>

Source: MBK

**Table 3: MBK's Office Building Portfolio as of 30 Jun 2021**

	Property Name	Location	Rental Space (Sq.m.)	Holding (%)	Equity Rental Space (Sq.m.)
1	MBK Center	Bangkok	15,510	100	15,510
2	The Nine Office	Bangkok	9,305	100	9,305
3	Glas Haus Ratchda	Bangkok	7,509	100	7,509
4	Siam Tower	Bangkok	33,559	48	16,108
	<b>Total</b>		<b>65,884</b>		<b>48,433</b>

Source: MBK

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Jun 2021	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	3,986	8,734	10,449	10,613	9,859
Earnings before interest and taxes (EBIT)	696	1,601	4,433	3,261	3,255
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,806	4,053	5,311	4,780	4,713
Funds from operations (FFO)	1,015	2,612	3,596	2,881	3,191
Adjusted interest expense	656	1,185	1,371	1,294	1,147
Capital expenditures	397	712	649	661	640
Total assets	55,400	57,142	52,443	49,096	46,552
Adjusted debt	28,013	27,898	28,391	27,164	24,812
Adjusted equity	21,202	21,385	24,706	22,684	22,185
<b>Adjusted Ratios</b>					
EBITDA margin (%)	45.33	46.40	50.83	45.04	47.80
Pretax return on permanent capital (%)	2.60**	2.99	8.49	6.65	7.22
EBITDA interest coverage (times)	2.75	3.42	3.87	3.69	4.11
Debt to EBITDA (times)	8.45**	6.88	5.35	5.68	5.26
FFO to debt (%)	6.29**	9.36	12.67	10.60	12.86
Debt to capitalization (%)	56.92	56.61	53.47	54.49	52.79

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

**RELATED CRITERIA**

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**MBK PLC (MBK)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
MBK227A: THB500 million senior unsecured debentures due 2022	A-
MBK229A: THB400 million senior unsecured debentures due 2022	A-
MBK229B: THB1,000 million senior unsecured debentures due 2022	A-
MBK27NA: THB1,500 million senior unsecured debentures due 2027	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2021, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)