

MIDA ASSETS PLC

No. 152/2022
31 August 2022

FINANCIAL INSTITUTIONS /CORPORATES

Company Rating: BB
Outlook: Stable

Last Review Date: 31/08/21

Company Rating History:

Date	Rating	Outlook/Alert
31/08/21	BB	Negative
11/08/20	BB+	Negative
10/04/20	BB+	Alert Negative
11/07/17	BBB-	Stable

Contacts:

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Sithakarn Tonghiphat, CFA, FRM

sithakarn@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweetchok Jiamsakunthum

taweetchok@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Mida Assets PLC (MIDA) at “BB”. At the same time, TRIS Rating revises the company’s rating outlook to “stable” from “negative”. The outlook revision reflects the recovery in the company’s hotel operations and alleviated concerns over refinancing and liquidity risk.

The rating continues to reflect MIDA’s small but diversified businesses, expected recoveries in its hotel operations and residential property business, stagnant hire purchase business, moderate level of financial leverage, and tight liquidity.

KEY RATING CONSIDERATIONS

Small but diversified businesses

We view MIDA’s business scale as being relatively small compared with other rated entities with its operating revenue ranging between THB2-THB3 billion per annum over the past five years. Its EBITDA contracted to THB0.2 billion in 2021 from the pre-pandemic level of around THB0.5-THB0.6 billion per annum due to negative impacts from the protracted pandemic.

Nonetheless, the company’s diversified revenue sources from three uncorrelated businesses remain a positive rating factor. For the first six months of 2022, revenue from the hire purchase business, including auto and electrical home appliance hire purchase loans, contributed 44% of total revenue from sales and services. Revenue from sales of merchandise accounted for 17%, while revenue from real estate sales, and hotels and services contributed 20% and 17% respectively.

Expected recovery in hotel operations

We expect MIDA’s hotel operations to continue to recover thanks to the pent-up demand and easing of COVID-19 travel restrictions. Our base case projects MIDA’s hotel revenue per available room (RevPar) in 2022 to be 46% below the 2019 level and revert to the pre-pandemic level by 2024. A slow recovery of revenue from hotel operations is expected in 2022 with hotel revenue set to remain 36% below the 2019 level. We expect revenue to improve to THB400-THB600 million in 2023-2024 driven by the performance recovery of all eight of MIDA’s hotels.

For the first six months of 2022, MIDA’s revenue from hotel operations was THB153 million, compared with THB82 million for the same period last year. Although the company’s RevPar for the first six months of 2022 remained almost 50% below the pre-pandemic level, it improved 1-fold from the same period last year. This recovery was driven by the increase in the occupancy rates of its upcountry hotels and improving average room rates in some of its properties. We anticipate this improving trend of its hotel operations to continue, supporting the company’s earnings over the forecast period.

Revenue from condominium sales to support residential property business

We view MIDA’s residential property business for the remainder of 2022 as potentially being affected by a challenging operating environment. The high household debt level is likely to affect housing sales, especially in the lower-priced housing segment where bank rejection rates are high. High inflation rates may also inflate development and funding costs for developers while lowering the purchasing power of homebuyers. In our base case forecast, we

expect a recovery in MIDA's real estate sales with revenue from real estate sales of THB400-800 million over the forecast period. We anticipate revenue from condominium sales of the Panora Pattaya project which expected to transfer to buyers in 2022, to support revenue growth over the forecast period.

As of June 2022, MIDA's backlog stood at THB544 million. We expect THB250 million of this to be realized in 2022 and the rest in 2023. The company should be able to sustain its gross profit margin from residential projects at around 30%-32% over the forecast period.

Growth of hire purchase business to remain stagnant

We expect MIDA's electrical appliance hire purchase business to remain pressured by the economic slowdown and an intense competition over the next few years. Our base-case forecast projects MIDA's outstanding hire purchase loan portfolio to range between THB3.4-THB3.8 billion in 2022-2024. The gradual portfolio expansion at MIDA and Mida Leasing PLC (ML) is expected to drive the portfolio growth, while the hire purchase portfolio at Mida (Lao) Financing Co., Ltd. (MIDA Lao) is likely to remain stagnant. We expect the loan yield on its hire purchase business to stay around 24% over the forecast period, a decline from the pre-pandemic level of around 28%. This is mainly due to customers' lower purchasing power caused by rising inflation as well as both direct and indirect competitions. All these add pressure to the earnings capacity of MIDA's electrical appliance hire purchase business. For the first six months of 2022, MIDA's loan yield on a consolidated basis was 24.2%.

We expect MIDA to sustain the asset quality of its hire purchase portfolio over the next few years as the company has tightened its underwriting criteria, such as customers screening by National Credit Bureau (NCB) scores for high value purchases. Our base case projects the non-performing loan (NPL) ratio (loans of more than 90 days past due divided by total loans) on a consolidated basis to stay around 9% in 2022-2024. We expect MIDA to maintain its reserve coverage at around 50% over the forecast period. The 50% level is deemed sufficient, in our view, as the company's hire purchase loans have assets pledged as collateral.

During the first quarter of 2022, the company started a motorcycle hire purchase business, leveraging its existing customer base and salesforce to enhance the portfolio expansion. The company plans to start by offering hire purchase loans for new motorcycles to its existing customers and plans to expand through motorbike dealers at a later stage. This business should help strengthen its revenue from sale and interest income. However, progress remains at an early stage, and its success remains to be seen.

Financial leverage to remain moderate

In our base-case forecast, we expect MIDA's financial leverage to remain moderate with a projected debt to capitalization ratio of around 53%-54% in 2022-2024. This is based on our assumption that the company's hire purchase portfolio will continue to expand and that the company will launch new residential projects over the next three years. The budget for land acquisition and rental and service business is expected to be around THB100-THB160 million per annum over the forecast period. Due to an expected increase in earnings from the recovery of hotel operations and real estate sales, MIDA's funds from operations (FFO) to total debt ratio is likely to revert to around 3% by 2024.

The financial covenants on MIDA's debt obligations require the company to maintain its ratio of interest-bearing debt to equity below 2 times. At the end of June 2022, the ratio was 1.1 times. We expect the company to remain compliant with the financial covenants over the next 12 months.

Liquidity to remain tight

We assess MIDA's liquidity to remain tight but manageable over the next 12 months. As of June 2022, MIDA's maturing debts over the next 12 months amounted to TH3.9 billion, comprising THB1.7 billion in short-term borrowings from related parties, THB937 million in short-term borrowings from financial institutions, THB720 million in debentures, and THB540 million in long-term loans. The company's source of liquidity includes cash on hand of THB94 million, principal of hire purchase receivables due within one year of THB1.4 billion, and unencumbered land plots worth THB196 million at book value, which can be used as collateral for additional liquidity. MIDA refinanced its THB1.1 billion debentures due in February and April 2022 with borrowings from related parties, alleviating the company's refinancing risk.

At the end of June 2022, MIDA had total debt excluding lease liabilities of THB5.3 billion. The company's priority debt, including the secured debts of the company and its subsidiaries, was THB3.5 billion, which translates to a priority debt to total debt ratio of 68%. As this ratio exceeds the 50% threshold according to TRIS Rating's "Issue Rating Criteria", we view the company's unsecured creditors as being significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for MIDA's operations during 2022-2024:

- Total operating revenue to range between THB2.1-THB2.6 billion.
- Outstanding hire purchase loans to stay around THB3.4-THB3.8 billion.
- NPL ratio to hover around 9%.
- Credit cost to stay around 3%, and yield on loans around 24%.
- Revenue from hotel operations to range between THB300-THB600 million.
- Annual investment in land acquisition and construction for residential projects to be between THB300-THB400 million.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MIDA's operating performance will continue to recover and the alleviated concerns over its liquidity and refinancing risk.

RATING SENSITIVITIES

MIDAs credit upside would materialize if the company's earnings and cash generation increase significantly, and its financial profile does not deteriorate from the current level. Conversely, the rating and/or outlook could be revised downward if the operating performance and/or financial profile of MIDA, particularly ML, deteriorates significantly from the current level.

COMPANY OVERVIEW

MIDA was established by Mr. Kamol leosivikul and Mr. Thanes Diloksakayavitoon in 1991 and listed on the Stock Exchange of Thailand (SET) in 2003. As of March 2021, the leosivikul family was the largest shareholder, owning a 33% stake, followed by the Diloksakayavitoon family, with 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 125 branches in various provinces. MIDA focuses on hire purchase for medium- to small-scale customers in rural areas. The company has business alliances with several leading brand name electrical appliance manufacturers. Washing machines, refrigerators, and television and audiovisual facilities have been 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 June 2022, outstanding hire purchase loans consisted of vehicle hire purchase loans operated by ML (76%), electrical home appliance hire purchase loans operated by MIDA (14%), and vehicle hire purchase loans operated by MIDA Laos (10%).

MIDA currently operates eight hotels located in Bangkok, Petchaburi, Kanchanaburi, Nakhonpathom, Rayong, and Phuket provinces, with a total of 1,260 rooms. The company manages the hotels under its own brands: "MIDA", "MIDA Grande Resort", "MIDA De Sea", "Ace", "Xen", and "Aksorn". Most hotels target the MICE (meetings, incentive travel, conventions, exhibitions) customer segment.

MIDA's residential property business focuses on developing landed property projects and targets the middle- to low- income segments. The company offers single-detached houses (SDH), Semi-DH, and townhouse units priced between THB1-THB7 million per unit and condominium units with a selling price of THB130,000-THB140,000 per square meter (sq.m.). Most existing projects are located in Nakhonpathom province, while others are located in Petchaburi, Chonburi, Ratchaburi, Prachuapkhirikhan, Khonkaen, and Kanchanaburi provinces.

MIDA's hire purchase business, including hire purchase financing income and electrical home appliance sales, has contributed around 60% of total revenue from sales and services during the past five years. The residential property and hotel businesses have each contributed around 20%. Revenue from rental assets and service income remained insignificant.

KEY OPERATING PERFORMANCE

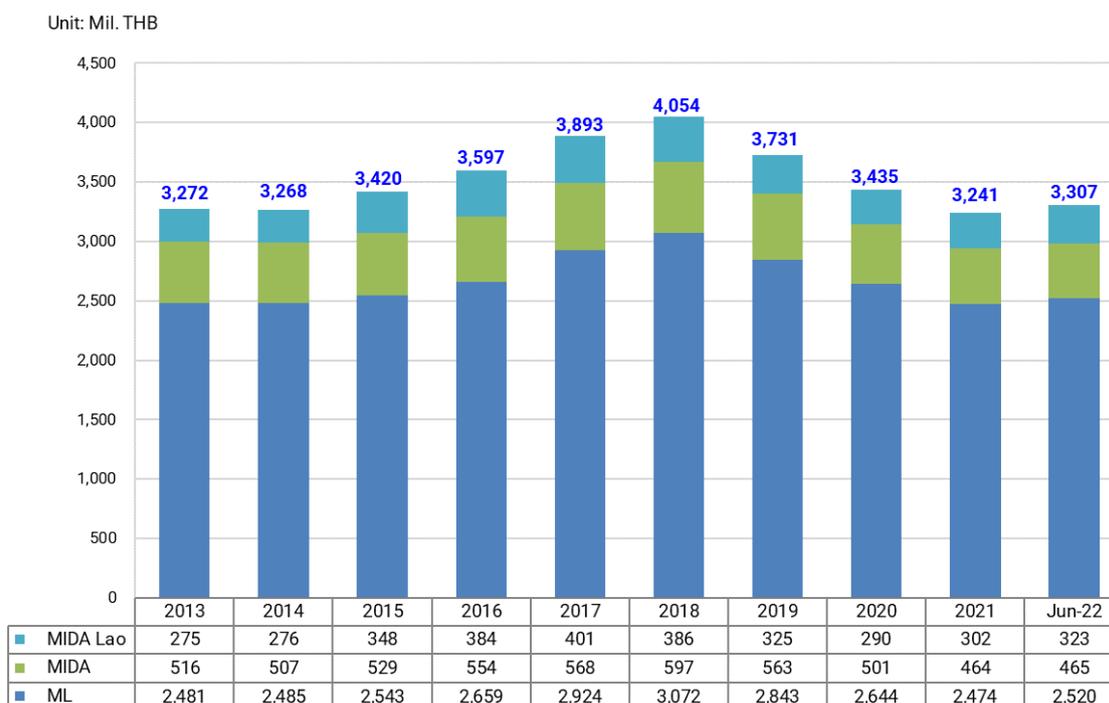
Table 1: MIDA's Revenue Breakdown by Business

Unit: %

Revenue Breakdown	2014	2015	2016	2017	2018	2019	2020	2021	Jan-Jun 2022
Sales of merchandises	19	19	20	19	18	16	14	17	17
Hire purchase financing income	42	42	41	42	42	43	45	48	44
Property sales	29	27	26	20	21	20	24	23	20
Golf course service and rental income	2	1	-	1	-	-	-	-	1
Hotel operations	7	7	10	14	16	19	16	11	17
Services	1	4	3	4	3	2	1	1	1
Revenue from sales and services	100								
Revenue from sales and services (Mil. THB)	2,235	2,356	2,459	2,534	2,649	2,585	2,182	1,771	895

Source: MIDA

Chart 1: MIDA's Hire Purchase Outstanding Loans



Source: MIDA

Table 2: MIDA's Hotel Performance

Hotel	2014	2015	2016	2017	2018	2019	2020	2021	Q2-22
No. of Room	477	480	822	830	942	1,005	1,306	1,283	1,257
ARR (THB/room/night)	1,127	1,059	1,141	1,322	1,352	1,429	1,550	1,530	1,609
OR (%)	48	52	52	52	55	56	27	17	26
RevPar (THB /room/night)	537	550	597	688	750	796	422	254	423

Source: MIDA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	984	1,915	2,311	2,709	2,783
Earnings before interest and taxes (EBIT)	86	76	234	410	454
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	161	229	392	555	595
Funds from operations (FFO)	(6)	(68)	68	226	282
Adjusted interest expense	153	263	289	294	274
Hire purchase receivables (after allowance)	3,155	3,100	3,264	3,538	3,855
Total assets	10,973	10,931	11,218	10,689	10,888
Adjusted debt	5,248	5,130	4,830	4,805	5,095
Adjusted equity	4,763	4,811	5,029	5,096	5,055
Adjusted Ratios					
Operating income as % of total operating revenues (%)	5.61	1.56	7.41	10.73	12.17
Pretax return on permanent capital (%)	1.24 **	0.73	2.26	4.01	4.48
EBITDA interest coverage (times)	1.05	0.87	1.36	1.89	2.17
Debt to EBITDA (times)	19.00 **	22.40	12.32	8.65	8.56
FFO to debt (%)	(0.58) **	(1.33)	1.41	4.71	5.53
Debt to capitalization (%)	52.42	51.60	48.99	48.53	50.19
Interest-Bearing Debt to Equity (times)	1.11	1.10	1.09	0.96	1.03

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Mida Assets PLC (MIDA)

Company Rating:	BB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, 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