

MIDA ASSETS PLC

No. 173/2023
13 September 2023

FINANCIAL INSTITUTIONS/CORPORATES

Company Rating: BB
Outlook: Stable

Last Review Date: 31/08/22

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|----------------|
| 31/08/22 | BB | Stable |
| 31/08/21 | BB | Negative |
| 11/08/20 | BB+ | Negative |
| 10/04/20 | BB+ | Alert Negative |
| 11/07/17 | BBB- | Stable |

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RATIONALE

TRIS Rating affirms the company rating on Mida Assets PLC (MIDA) at “BB” with a “stable” outlook. The rating reflects the company’s small but diversified business and its improving hotel operations and residential property business. However, the rating is constrained by its stagnant hire purchase business, moderately high level of financial leverage, and tight liquidity.

KEY RATING CONSIDERATIONS

Modest business scale but diversified

We view MIDA’s business scale to remain modest compared with other rated entities with the company’s operating revenue ranging between THB2-THB3 billion per annum over the past five years. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) was around THB200-THB300 million per annum over the past few years, contracting from the pre-pandemic level of around THB500-THB600 million per annum.

Nonetheless, the company’s diversified revenue sources from three uncorrelated businesses remain a positive rating factor. In 2022, revenue from the electrical home appliance hire purchase business contributed around 32% of total revenue from sales and services, the vehicle hire purchase business around 23%, revenue from real estate sales and hotels and services 24% and 19% respectively.

Recovery in hotel performance to continue

We expect the company’s hotel operations to continue improving over the next few years as tourism fully returns to normal. Our base-case forecast projects the company’s revenue per available room (RevPar) in 2023-2025 to surpass the pre-pandemic level. We expect the company’s revenue from hotel operations to be around THB500-THB800 million per year in 2023-2025.

The company’s hotel performance started to revive in 2022, and the trend continued in the first six months of 2023 thanks to increased tourist arrivals since the lifting of COVID-19 entry requirements for international visitors in 2022. The number of tourist arrivals increased significantly, rising to 12.9 million for the first six months of 2023 from around 2 million during the same period last year. For the first six months of 2023, the company’s overall RevPar slightly surpassed the 2019-level with an average hotel occupancy rate (OR) of 47% and an average daily rate (ADR) exceeding the pre-pandemic level as MIDA Grande Resort Phuket started to contribute revenues.

Condominium sales to support residential property business

We view that the residential property business is prone to adverse impacts from the reimposition of the loan-to-value (LTV) rules and interest rate hikes. In our view, rising interest rates will likely and significantly impact the debt servicing capacity of homebuyers as well as affect the funding costs of developers. Rising interest rates could impact the company’s target customers to some extent as customers in the middle- to low-income segment may experience difficulties seeking mortgages in the high interest rate environment.

In our base-case forecast, we expect the company’s revenue from real estate sales to reach THB1 billion in 2023, supported primarily by the transfer of The Panorama Pattaya condominium project. We expect the revenue to then range from THB500-THB700 million in 2024-2025, underpinned by the gradual sales

of its existing projects and the newly launched projects. At the end of June 2023, the company's backlog amounted to THB438 million, around THB341 million of which is expected to be recognized as revenue in 2023 and the rest in 2024. The company's gross profit margin from sales of residential property is expected to be around 32%-33% over the forecast period.

Hire purchase business prospects to remain subdued

We expect the company's loan portfolio of its hire purchase business to slightly contract in 2023 due to pressures from the economic downturn and intense competition in the auto-hire purchase business. The company's loan portfolio should then gradually expand by 3%-7% per annum in 2024-2025, driven mainly by the gradual portfolio expansion of MIDA and Mida Leasing PLC (ML). The company's loan portfolio is, therefore, expected to range from THB3.4-THB3.7 billion per annum over the forecast period. We predict the company's loan yield will remain pressured by the diminishing purchasing power of its electrical appliance hire purchase's customer base. Therefore, the overall loan yield of the company's hire purchase business is expected to remain at around 23% over the forecast period, a decline from around 28% pre-pandemic. For the first six months of 2023, the company's overall loan yield was 22%. Due to pressured loan yields and funding costs on the rise, we do not expect the earnings capacity of its hire purchase business to fully recover to the pre-pandemic level over the forecast period. The interest income from hire purchase business is expected to range from THB700-THB800 million per annum in 2023-2025.

Following the expectation that the economic slowdown will continue for the rest of 2023, we anticipate the asset quality of the company's loan portfolio to soften in 2023 with an expected non-performing loan (NPL) ratio of around 11%. The NPL ratio was around 9% in 2022 and 10.7% at the end of June 2023. The ratio is expected to hover around 11% in 2024-2025. Nonetheless, we expect the company to maintain its prudent underwriting criteria, such as customer screening by National Credit Bureau (NCB) scores for high value purchases to sustain its quality of asset. We expect MIDA to maintain its reserve coverage at around 46% over the forecast period. This level is deemed sufficient, in our view, as the company's hire purchase loans have assets pledged as collateral.

Financial leverage to remain moderate

We predict the company's financial leverage to slightly decline from the current level but to remain moderately high over the forecast period. We expect the company to use the proceeds of around THB650 million from land sales in 2023 to alleviate its debt burden. Therefore, the company's debt to capitalization ratio is expected to stay around 45% in 2023-2025. The ratio was 50% at the end of June 2023. Our base-case assumption projects the company's hire purchase portfolio will continue to expand with the company launching new residential projects over the next three years. The budget for the land acquisition and rental and service business is expected to be around THB25-THB100 million per annum over the forecast period. As we predict interest spread compression to linger over the next few years, the company's funds from operations (FFO) to total debt ratio is expected to remain in negative territory in 2023 before reverting to around 4% by 2025. As of June 2023, the company's priority debt ratio was 74%. 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.

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 2023, the ratio was 1.0 time. We expect the company to remain compliant with the financial covenants over the next 12 months.

Tight but manageable liquidity

We assess MIDA's liquidity to remain tight but manageable over the next 12 months. As of June 2023, MIDA's maturing debts over the next 12 months amounted to TH3.3 billion. This comprised THB1.5 billion in short-term borrowings from related parties, THB1.1 billion in short-term borrowings from financial institutions, THB0.3 billion in debentures, and THB0.3 billion in long-term loans. The company's source of liquidity includes cash on hand of THB0.1 billion, principal of hire purchase receivables due within one year of THB1.4 billion, and unencumbered land plots worth THB145 million at book value, which can be used as collateral for additional liquidity. ML, the company's subsidiary, plans to repay its maturing bond partly from MIDA's land sale proceeds, while MIDA does not currently have outstanding debentures at the parent company level.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for MIDA's operations during 2023-2025:

- Total operating revenue to range from THB2.5-THB2.8 billion.
- Outstanding hire purchase loans to stay around THB3.4-THB3.7 billion.
- NPL ratio to stay around 10%-11%.
- Credit cost to stay around 3%-4%, and yield on loans around 23%.
- Revenue from hotel operations to range between THB500-THB800 million.
- Annual investment in land acquisition and construction for residential projects to range between THB200-THB500 million.

RATING OUTLOOK

The "stable" outlook reflects our expectations that MIDA's operating performance continues to recover and that there are no concerns over liquidity and refinancing risk.

RATING SENSITIVITIES

A 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. Thanee 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 103 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 Laos, a subsidiary in which MIDA holds a 60% stake.

As of June 2023, outstanding hire purchase loans consisted of vehicle hire purchase loans operated by ML (78%), electrical home appliance hire purchase loans operated by MIDA (13%), and vehicle hire purchase loans operated by MIDA Laos (9%).

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 Nakhon Pathom Province, while others are located in Petchaburi, Chonburi, Ratchaburi, Prachuap Khiri Khan, Khon Kaen, 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

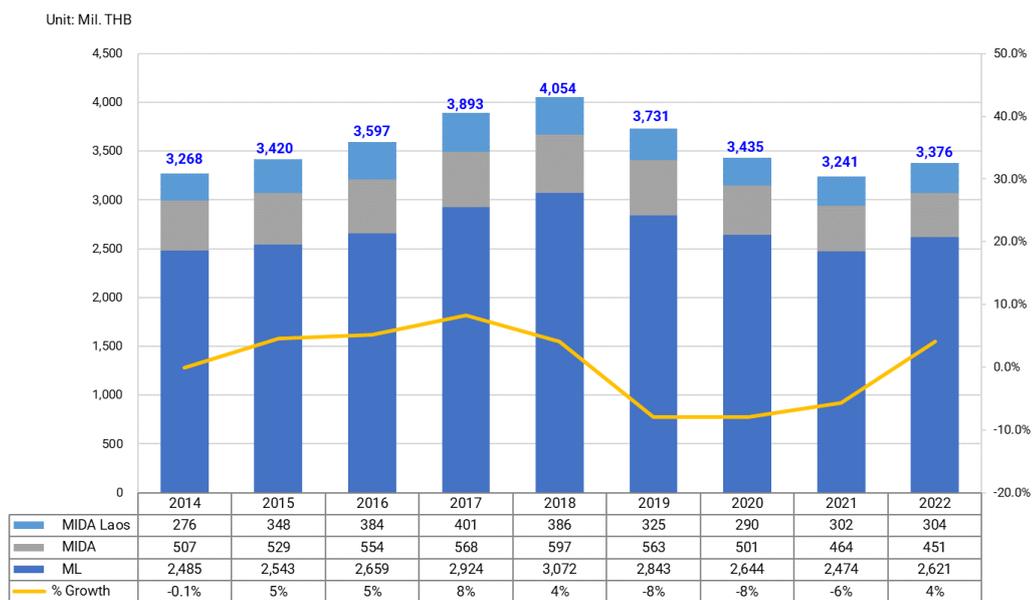
Table 1: MIDA's Revenue Breakdown by Business

Unit: %

| Revenue Breakdown | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Jan-Jun 2023 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales of merchandises | 19 | 20 | 19 | 18 | 16 | 14 | 17 | 15 | 10 |
| Hire purchase financing income | 42 | 41 | 42 | 42 | 43 | 45 | 48 | 40 | 28 |
| Property sales | 27 | 26 | 20 | 21 | 20 | 24 | 23 | 24 | 40 |
| Golf course service and rental income | 1 | - | 1 | - | - | - | - | 1 | 1 |
| Hotel operations | 7 | 10 | 14 | 16 | 19 | 16 | 11 | 19 | 20 |
| Services | 4 | 3 | 4 | 3 | 2 | 1 | 1 | 1 | 1 |
| Revenue from sales and services | 100 |
| Revenue from sales and services (Mil. THB) | 2,356 | 2,459 | 2,534 | 2,649 | 2,585 | 2,182 | 1,771 | 1,934 | 1,357 |

Source: MIDA

Chart 1: MIDA's Hire Purchase Outstanding Loans



Source: MIDA

Table 2: MIDA's Hotel Performance

| Hotel | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 6M-23 |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| No. of Room | 480 | 822 | 830 | 942 | 1,005 | 1,306 | 1,283 | 1,279 | 1,250 |
| ARR (THB/room/night) | 1,059 | 1,141 | 1,322 | 1,352 | 1,429 | 1,550 | 1,530 | 1,627 | 1,743 |
| OR (%) | 52 | 52 | 52 | 55 | 56 | 27 | 17 | 31 | 47 |
| RevPar (THB /room/night) | 550 | 597 | 688 | 750 | 796 | 422 | 254 | 499 | 817 |

Source: MIDA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | Jan-Jun 2023 | -----Year Ended 31 December ----- | | | |
|--|-----------------|-----------------------------------|--------|--------|--------|
| | | 2022 | 2021 | 2020 | 2019 |
| Total operating revenues | 1,439 | 2,105 | 1,915 | 2,311 | 2,709 |
| Earnings before interest and taxes (EBIT) | 176 | 153 | 76 | 234 | 410 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 247 | 305 | 229 | 392 | 555 |
| Funds from operations (FFO) | 61 | (40) | (68) | 68 | 226 |
| Adjusted interest expense | 172 | 322 | 263 | 289 | 294 |
| Hire purchase receivables (after allowance) | 3,180 | 3,231 | 3,100 | 3,264 | 3,538 |
| Total assets | 10,758 | 11,027 | 10,931 | 11,218 | 10,689 |
| Adjusted debt | 4,849 | 5,341 | 5,130 | 4,830 | 4,805 |
| Adjusted equity | 4,849 | 4,644 | 4,811 | 5,029 | 5,096 |
| Adjusted Ratios | | | | | |
| Operating income as % of total operating revenues (%) | 7.90 | 3.84 | 1.56 | 7.41 | 10.73 |
| Pretax return on permanent capital (%) | 2.43 ** | 1.51 | 0.73 | 2.26 | 4.01 |
| EBITDA interest coverage (times) | 1.43 | 0.95 | 0.87 | 1.36 | 1.89 |
| Debt to EBITDA (times) | 12.38 ** | 17.49 | 22.40 | 12.32 | 8.65 |
| FFO to debt (%) | 0.55 ** | 0.76 | (1.33) | 1.41 | 4.71 |
| Debt to capitalization (%) | 50.00 | 53.49 | 51.60 | 48.99 | 48.53 |
| Interest-Bearing Debt to Equity (times) | 1.01 | 1.16 | 1.10 | 1.09 | 0.96 |

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Nonbank Financial Institution Methodology, 17 February 2020

Mida Assets PLC (MIDA)

| | |
|------------------------|--------|
| Company Rating: | BB |
| Rating Outlook: | Stable |

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