

# MBK PLC

No. 105/2017

23 August 2017

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

### Company Rating History:

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

### Contacts:

Pramuansap Phonprasert  
pramuansap@trisrating.com

Jutamas Bunyawanchkul  
jutamas@trisrating.com

Wajee Pitakpaibulkij  
wajee@trisrating.com

Wiyada Pratoomsuwan, CFA  
wiyada@trisrating.com

[WWW.TRISRATING.COM](http://WWW.TRISRATING.COM)

### Rating Rationale

TRIS Rating affirms the company rating of MBK PLC (MBK) and the ratings of MBK's senior unsecured debentures at "A". The ratings reflect the stable cash flows from MBK's retail property business, the close relationship with the Thanachart Group, and a high level of financial flexibility from its sizable investment portfolio. These strengths are partially offset by the expansion into other lines of business, financial service segment, which has higher risk.

MBK was established in 1974. Thanachart Capital PLC (TCAP) and other companies in the Thanachart Group currently continue to be MBK's major shareholders, holding a combined 20% stake. MBK has many lines of business: retail property for rent, hotels, golf courses, residential property development, food, and financial services. MBK owns and operates the "MBK Center", a well-known shopping center located on leasehold land close to the Siam Square shopping district in downtown Bangkok. Despite its diverse portfolio of businesses, the company's financial performance remains reliant on two core properties, MBK Center and the "Pathumwan Princess Hotel". In 2016, these two properties generated approximately 33% of MBK's revenue and 47% of cash flow.

To mitigate its business concentration risk, MBK opened three retail properties during 2010-2014. "Paradise Park" and "HaHa Market" are shopping malls. "The Nine Neighborhood Center" is positioned as a community mall. The company also has a 31% stake in Siam Piwat Co., Ltd., which owns and operates several shopping centers in the Siam Square area. As of June 2017, MBK's portfolio of retail property totaled 217,250 square meters (sq.m.) while the portfolio of office space totaled 57,368 sq.m.

In the hotel segment, the company owns and operates six hotels, with 979 rooms, located in key tourist destinations throughout Thailand. In the first six months of 2017, the number of foreign tourist arrivals continued to increase, rising by 4.4% year-on-year (y-o-y) to 17.32 million persons. The average occupancy rate (OR) of MBK's hotels remained high at 85% in the first quarter of 2017, compared with 84% in the same period of the previous year. The average room rate dropped slightly by 1.3% to Bt3,474 per night in the first quarter of 2017. Thus, MBK's average revenue per available room (RevPAR) stayed at Bt2,936 per night in the first quarter of 2017.

In the financial service segment, MBK provides motorcycle hire-purchase loans via T Leasing Co., Ltd. (TLS) and asset financing loans through MBK Guarantee Co., Ltd. (MBK-G). The value of outstanding motorcycle loans increased from Bt2,284 million as of December 2015 to Bt3,657 million as of June 2017. The ratio of non-performing loans (NPLs) to total motorcycle loans improved from 3.3% in 2015 to 2.8% as of June 2017. The portfolio of asset financing loans also rose, jumping from Bt3,611 million as of December 2015 to Bt6,432 million as of June 2017. The ratio of NPLs to total mortgage loans also improved, slipping from 3.8% in 2015 to 2.7% as of June 2017.

MBK's revenue dropped by 10% in 2016 and 14% in the first half of 2017. The declines were due mainly to lower rice exports and a decrease in revenue from the "Quinn" condominium project. The operating profit margin remained high at 41.1% in 2016 and increased to 44% in the first half of 2017. Improvements in

the hotel and the finance segments were the key drivers for the rise.

During the past few years, MBK's total debt stayed around Bt16,000 million. Thanks to the strong net profits which enhanced MBK's equity base, the total debt to capitalization ratio improved from 55.3% as of December 2015 to 51.3% as of June 2017.

The company's liquidity position remains satisfactory. Funds from operations (FFO) increased from Bt2,650 million in 2015 to Bt3,052 million in 2016. The FFO to total debt ratio improved to 14.8% in 2016 from 12.8% in 2015. For the first half of 2017, FFO stood at Bt1,555 million and the FFO to total debt ratio stood at 12.5% (annualized, from the trailing 12 months). As of June 2017, the company had cash on hand of Bt527 million and marketable securities worth Bt2,957 million. MBK has short-term debts of Bt1,955 million and long-term debts of Bt1,051 million, which will due over the next 12 months.

TRIS Rating expects MBK's total revenue will be around Bt10,000 million yearly during the next three years. The operating profit margin is forecast to stay at around 40%. During the next three years, MBK plans capital expenditures totaling Bt4,000 million, financed mainly through operating cash flow. The debt to capitalization ratio is expected to be approximately 50% over the next three years.

### Rating Outlook

The "stable" outlook reflects the expectation that MBK will continue to receive reliable cash flow streams from its rental properties. MBK's ratings could be upgraded, should cash flow enlarge substantially while leverage remains at the current level. In contrast, the rating downside case may occur if its operating performance deteriorates significantly for a prolonged period or if the company makes an aggressive debt-funded investment.

### MBK PLC (MBK)

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
MBK188A: Bt300 million senior unsecured debentures due 2018	A
MBK188B: Bt400 million senior unsecured debentures due 2018	A
MBK207A: Bt1,700 million senior unsecured debentures due 2020	A
MBK207B: Bt300 million senior unsecured debentures due 2020	A
MBK227A: Bt500 million senior unsecured debentures due 2022	A
MBK229A: Bt400 million senior unsecured debentures due 2022	A
MBK229B: Bt1,000 million senior unsecured debentures due 2022	A
MBK27NA: Bt1,500 million senior unsecured debentures due 2027	A
<b>Rating Outlook:</b>	Stable

**Financial Statistics and Key Financial Ratios\***
*Unit: Bt million*

	----- Year Ended 31 December -----					
	Jan-Jun 2017	2016	2015	2014	2013	2012
Sales	4,808	10,416	11,550	9,114	9,272	8,344
Gross interest expense	300	672	693	679	675	336
Net income from operations	976	1,964	1,815	1,591	4,108	1,895
Funds from operations (FFO)	1,555	3,052	2,650	2,786	6,249	2,815
Capital expenditures	195	928	990	914	1,578	679
Total assets	43,746	42,518	40,549	37,909	37,922	31,943
Total debt	16,172	15,704	15,931	14,026	14,741	9,988
Total adjusted debt	22,421	22,012	22,164	20,245	20,507	9,988
Shareholders' equity	21,330	20,352	17,941	16,877	15,951	15,706
Operating income before depreciation and amortization as % of sales	43.96	41.12	36.55	39.93	33.51	35.30
Pretax return on permanent capital (%)	7.02 **	8.26	8.46	8.32	16.77	11.76
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.72	4.55	4.39	4.13	9.17	11.10
FFO/total debt (%)	12.46 **	14.77	12.81	14.01	30.47	28.18
Total debt/capitalization (%)	51.25	51.96	55.27	54.54	56.25	38.87

*Note: All ratios are operating leased adjusted ratios.*

*\* Consolidated financial statements*

*\*\* Annualized from the trailing 12 months*

**TRIS Rating Co., Ltd.**

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand [www.trisrating.com](http://www.trisrating.com)

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