

MBK PLC

No. 168/2022
30 September 2022

CORPORATES

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

Last Review Date: 03/09/21

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 base, its strong financial flexibility, and our expectation that MBK's operating results will recover from 2022 onwards. The ratings continue to reflect the reliable cash flows from the commercial property business and its close linkage with the Thanachart Group.

KEY RATING CONSIDERATIONS

Diversified revenue base eases COVID-19 impacts

MBK's diversified revenue base has alleviated the impacts of COVID-19. During 2017-2019, before the COVID-19 outbreak, MBK had average earnings before interest, taxes, depreciation, and amortization (EBITDA) (after financial cost of financial service business and excluding operating leased adjusted and dividend income) 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, the company's EBITDA from shopping centers substantially declined by 37% in 2020 and 46% in 2021 while EBITDA from the hotel business turned negative. In contrast, EBITDA from the finance business continued to grow by around 10% per annum during 2020-2021. In addition, the company recorded solid performance in the residential property development business and auction business in 2021, which contributed 11% and 15% of total EBITDA, respectively. With its business diversification and the sound performance of its non-related tourism businesses, MBK was able to generate EBITDA in the range of THB1.8-THB2.2 billion per year during 2020-2021.

Commercial property to gradually improve

During 2020 through the first half of 2022, the commercial property business has also been significantly affected by the COVID-19 pandemic but is expected to gradually recover from 2022 onwards. During the outbreak, the company temporarily closed its shopping malls according to the government restrictions and supported its tenants by providing discounts on rental fees. However, with the strong recovery of customer traffic following the relaxation of lockdown measures, the company gradually reduced discounts on rental fees in the second half of 2022. We believe the performance of its commercial properties will continue to revive supported by both strong domestic traffic and rising foreign tourist clients after the lifting of travel restrictions in July 2022. We anticipate MBK's revenue from commercial properties will increase by around 23% in 2022, 50% in 2023 and 15% in 2024.

MBK operates five shopping centers and three office buildings in Bangkok. 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 shopping malls and office buildings have been less affected as their main customers are Thais. The company also has a 48% stake in Siam Piwat Co., Ltd., which owns and operates several shopping centers in Bangkok. In 2021, the commercial property segment contributed about 19% to MBK's total revenue and 30% to its total EBITDA.

Moderate recovery of hotel business

The company's hotel operating performance showed clear signs of recovery in 2022 after being hit hard by COVID-19. MBK's hotel revenue jumped by 258% in the first half of 2022. The rise was supported by the relaxation of lockdown measures and travel restrictions, and government stimulus packages for tourism industry. We believe the tourism industry will continue to recover as demonstrated by continually increasing foreign tourist arrivals to about 40,000 persons per day during August 2022. Under our base-case scenario, we project MBK's hotel revenue in 2022 to improve to around 67% of the 2019 level, in 2023 to around 77% of the 2019 level, and close to the 2019 level in 2024.

Improved revenue from residential property business

In 2021, revenue from its residential property business increased by 40% to THB1 billion, thanks to the transfer of sold units of the condominium project, Quinn Sukhumvit 101. In the first half of 2022, MBK's revenue from the residential property business continued to grow by 9% year-on-year (y-o-y) from the same period last year. The rise was supported by its sales of single-detached houses and townhouses. As of June 2022, the company has a backlog of around THB639 million which will be recognized as revenue in 2022. The company's unsold units in the active projects are around THB3.1 billion as of June 2022. Our projections assume MBK will recognize revenue from residential property projects of around THB1.3 billion in 2022 and around THB800 million per annum during 2023-2024.

MBK's residential property consists of condominium, single-detached houses, and townhouses. MBK has a condominium project 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. MBK's other residential property projects are single-detached houses located in or near its golf courses and its shopping mall. The company also offers townhouses in Chonburi province which target medium- to low-income customers.

Financial service business continues to provide reliable cash flow

MBK's financial service business has generated an EBITDA of THB700-THB900 million per year over the past three years. As of June 2022, the value of outstanding motorcycle loans was THB6.6 billion while asset financing loan portfolio was at THB7.9 billion.

The company has been able to manage its non-performing loans (NPLs) in the motorcycle loan segment, by adopting more prudent lending policies and stringent collection procedures. As of June 2022, the NPL ratio to total motorcycle loans continued to improve to 2.2%, compared with 2.4% in 2021. However, NPLs for asset financing loans were significantly increased mainly due to the default from one large borrower affected by COVID-19. The NPL ratio to total mortgage loans increased to 25.3% as of June 2022 from 15.8% in 2021. The company's stringent loan-to-value (LTV) ratio policy would limit losses in events of payment default. In the first half of 2022, the company's average LTV ratio of asset financing loans was relatively low at 39%.

We project MBK's loan portfolio to drop by 2% in 2022, before expanding by around 5% annually in 2023 and 2024. Our projections assume revenue from financial service business to be around THB2.4 billion in 2022, and to gradually increase to THB2.6 billion in 2024.

Satisfactory liquidity profile

MBK's liquidity position remains satisfactory. As of June 2022, sources of funds comprised THB5.5 billion in cash on hand and THB4.1 billion in undrawn credit facilities available from commercial banks. We project funds from operations (FFO) to amount to THB2.6 billion for the next 12 months. MBK has scheduled principal repayments of THB4.5 billion and repayments of outstanding short-term obligations of THB1 billion coming due in the next 12 months. The company's investment budget for 2022 is approximately THB580 million. As of June 2022, the market value of MBK's investments in listed firms was worth THB5.1 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 debt to equity ratio to stay below 2 times. The company has complied with the covenant on the debt to equity ratio. However, due to the impact of COVID-19 on the company's financial performance, MBK breached the EBITDA interest coverage covenant in the fourth quarter of 2021. However, the company has obtained waivers from the debenture holders on the financial ratio covenants for the period 2021-2023.

As of June 2022, MBK's total debt stood at THB18.4 billion (excluding lease obligations), including THB3.6 billion in priority debt. The priority debt was unsecured debt at the subsidiary level, which translates to a priority debt to total debt ratio of 19%.

BASE-CASE ASSUMPTIONS

- Revenues to gradually increase from around THB9.0 billion in 2022 to THB11 billion in 2024.
- EBITDA margin to improve to 42%-45% during 2022-2024.
- Total capital expenditure, excluding the financial service segment, to be THB2.1 billion over 2022-2024
- Outstanding loans in the financial service segment to range between THB15-THB17 billion.
- Adjusted debt to capitalization ratio to stay around 50%-55%.
- Adjusted debt to EBITDA ratio to gradually improve from around 7-8 times in 2022 to around 5-6 times in 2023-2024.

RATING OUTLOOK

The “stable” outlook reflects our expectation that MBK’s operating results will recover in line with our projections. We expect the company’s tourism-related businesses will gradually recover based on the expected timeline of the tourism revival. We also assume other business units will continue to achieve satisfactory operating results. The company’s diversified revenue base and strong financial position underpin the ratings.

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 further or if the company makes any aggressive debt-funded investments that significantly weaken its financial profile.

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 as of March 2022. MBK has many lines of business: retail properties for rent, hotels, golf courses, residential property development, food, financial services, and auction. In 2021, the commercial property segment (retail properties and office buildings) contributed about 19% of its total revenue and 30% of its total EBITDA. The financial service and hotel segments contributed around 32% and 3% of its total revenue, respectively, and 48% and (-)6% 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 16% of its total revenue and 14% of EBITDA. The revenue and EBITDA contributions from the food segment were 22% and (-)1%, respectively. Lastly, the revenue and EBITDA contributions from the auction segment were 8% and 15%, respectively.

KEY OPERATING PERFORMANCE
Table 1: MBK's Revenue Breakdown
Unit: %

Revenue Breakdown	Unit	2016	2017	2018	2019	2020	2021
Total revenue	Mil. THB	10,415	9,734	10,548	10,287	8,636	7,630
Commercial properties	%	39	41	38	38	27	19
Hotels	%	12	13	13	13	6	3
Golf courses	%	4	5	4	5	4	3
Food	%	18	16	21	19	20	22
Residential properties	%	14	7	3	3	8	13
Financial services	%	13	18	21	22	29	32
Auction	%	0	0	0	0	6	8
Total revenue	%	100	100	100	100	100	100

Source: MBK
Table 2: MBK's Shopping Center Portfolio as of 30 Jun 2022

	Property Name	Location	Rental Space (Sq.m.)	Holding (%)	Equity Rental Space (Sq.m.)
1	MBK Center	Bangkok	81,032	100	81,032
2	Paradise Park	Bangkok	88,351	100	88,351
3	The Nine Rama 9	Bangkok	15,119	100	15,119
4	Paradise Place	Bangkok	21,171	100	21,171
4	The Nine Tiwanon	Bangkok	11,799	100	11,799
5	Siam Center	Bangkok	23,436	48	11,249
6	Siam Discovery	Bangkok	28,982	48	13,911
7	Siam Paragon	Bangkok	202,523	24	49,578
8	ICONSIAM	Bangkok	178,036	24	43,583
9	SIAM Premium Outlet	Bangkok	24,577	24	6,017
	Total		675,026		341,810

Source: MBK
Table 3: MBK's Office Building Portfolio as of 30 Jun 2022

	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	33,264	48	15,966
	Total		65,588		48,291

Source: MBK

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

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	3,979	7,731	8,734	10,449	10,613
Earnings before interest and taxes (EBIT)	798	744	1,601	4,433	3,261
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,687	3,004	4,053	5,311	4,780
Funds from operations (FFO)	947	1,515	2,612	3,608	2,787
Adjusted interest expense	606	1,281	1,185	1,371	1,294
Capital expenditures	604	776	712	649	661
Total assets	55,283	55,257	57,142	52,443	49,096
Adjusted debt	24,581	25,973	27,898	28,391	27,164
Adjusted equity	21,304	21,058	21,385	24,706	22,684
Adjusted Ratios					
EBITDA margin (%)	42.39	38.86	46.40	50.83	45.04
Pretax return on permanent capital (%)	1.64 **	1.42	2.99	8.49	6.65
EBITDA interest coverage (times)	2.78	2.35	3.42	3.87	3.69
Debt to EBITDA (times)	8.52 **	8.65	6.88	5.35	5.68
FFO to debt (%)	5.79 **	5.83	9.36	12.71	10.26
Debt to capitalization (%)	53.57	55.23	56.61	53.47	54.49

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

MBK PLC (MBK)

Company Rating:	A-
Issue Rating:	
MBK27NA: THB1,500 million senior unsecured debentures due 2027	A-
Rating Outlook:	Stable

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