

# MIDA ASSETS PLC

No. 138/2021  
31 August 2021

## FINANCIAL INSTITUTIONS /CORPORATES

**Company Rating:** BB  
**Outlook:** Negative

**Last Review Date:** 11/08/20

### Company Rating History:

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

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## RATIONALE

TRIS Rating downgrades the company rating on MIDA Assets PLC (MIDA) to “BB” from “BB+”, with a “negative” rating outlook. The rating action reflects our concern over a likely deepening deterioration in its hotel operating results caused by the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which further hurt MIDA’s consolidated earnings for an extended period, and heightened refinancing risk of its maturing debenture obligations.

The rating continues to reflect MIDA’s small but diversified businesses, as well as the weakening operating performance of MIDA’s electrical appliance hire purchase business and auto hire purchase business of MIDA Lao Financing Co., Ltd. (MIDA Lao), resulting from a shrinking portfolio and rising non-performing loans (NPLs).

## KEY RATING CONSIDERATIONS

### Severe impact from COVID-19 on hotel operations to continue for an extended period

We view the hospitality industry in Thailand to continue under a severely adverse condition induced by the COVID-19 pandemic for the remainder of 2021, as successive outbreaks of the disease combined with slow vaccine rollouts hinder plans to ease travel restrictions. We foresee demand for hotels targeting the meetings, incentive travel, conventions, and exhibitions (MICE) customer segment and local travelers to slightly revive in early 2022, followed by a gradual recovery for hotels situated in tourist destinations and those targeting foreign travelers. Our base case forecast projects a significant revival for the hospitality industry in 2023 and a return to the pre-pandemic level in 2024.

Our base-case forecast projects the occupancy rate (OR) of MIDA’s hotels to remain weak throughout 2021. We project the revenue per available room (RevPar) in 2021 to be 80% below the 2019 level, before rebounding to around 35% below the 2019 level in 2022 and approaching pre-COVID-19 levels in 2024. We forecast revenue from hotel operations to shrink to 70% below the 2019 level this year. Revenue should improve to THB400-THB500 million per annum during 2022-2023, by which time we expect to see signs of recovery from MICE customers and local tourists. Due to high fixed costs and depreciation at the time of industry downturn, we believe the company’s hotel business will record a huge loss this year, which will remain on the books during 2022-2023. This will adversely affect MIDA’s consolidated earnings over the forecast period.

### Residential property revenue to be topped up by condominium transfers

We expect the residential property industry will continue to be affected by the prolonged COVID-19 pandemic during the remainder of 2021. Demand for residential properties from local homebuyers will remain sluggish, while demand from foreign buyers is likely to remain non-existent for a longer period. In our base-case forecast, we project presales from residential projects of THB400 million in 2021, mainly from landed property projects. Presales should revive to around THB500-THB700 million per annum during 2022-2023, topped up by the sale of MIDA’s existing condominium project, The Panorama Pattaya, which will be completed next year. However, as this project targets foreign customers, we anticipate presales of just 10%-15% per year or THB200-

THB300 million per annum during the next two years.

MIDA's backlog as of June 2021 was THB500 million. We expect MIDA to deliver backlog worth THB200 million during the remainder of 2021 and the rest in 2022. Revenue from residential projects is expected to drop by 20% year-on-year (y-o-y) to THB400 million in 2021. Revenue from residential sales should reach THB800-THB900 million per annum during 2022-2023, based on our assumption of condominium transfers at the beginning of 2022. We project that MIDA will be able to sustain its gross profit margin from residential projects at 30%-32% over the forecast period.

#### **Contraction in electrical appliance hire purchase loan portfolio, with weak asset quality**

A slowdown in the domestic economy from the lengthy COVID-19 outbreak coupled with intense competition will continue to pressure MIDA's hire purchase business. We forecast MIDA's outstanding hire purchase loan portfolio to shrink to THB3.2-THB3.4 billion during 2021-2023, mainly due to the drop in loans for electrical appliances and auto hire purchase business of MIDA Lao. We expect MIDA maintain yields on its hire purchase loans at a minimum of 26% during 2021-2023. Interest income will likely decline to THB800-THB900 million annually over the next three years, from the THB1.0-THB1.1 billion level during the past five years.

Despite the NPLs of Mida Leasing PLC (ML) is improving, the deteriorating in asset quality of MIDA's electrical appliances hire purchase business and MIDA Lao is expected to cause the NPLs of MIDA to hang at a high level. We project the NPL ratio (loans of more than 90 days past due divided by total loans) on a consolidated basis to be 10% over the next few years. MIDA's reserve coverage for all hire purchase businesses is relatively low at around 50%. However, we believe this level is adequate as the company's hire purchase loans have assets pledged as collateral. A further deterioration in asset quality will result in higher loan loss provisioning, which will hurt the bottom line of the company.

#### **Small but diversified businesses**

MIDA has a relatively small business scale compared with other rated entities. We project MIDA's total operating revenue to soften by 20% y-o-y to THB1.8 billion in 2021, before recovery to THB2.6-THB2.7 billion annually during 2022-2023. We expect the revenue contribution from the hire purchase financing business, including auto and electrical home appliance, to account for around 50% of total operating revenue in 2021, and 30% during 2022-2023. The revenue contribution from the residential property business will be around 20% this year, increasing to 30% in the next couple years. The contribution from hotel operations will scale down to around 10% in 2021 before increasing to 20% in 2023. Revenue from electrical home appliance sales will account for 15%, while revenue from rental property and service income will remain minimal.

We project MIDA's consolidated earnings before interest, tax, depreciation, and amortization (EBITDA) to plunge to THB80-THB100 million in 2021, from THB400 million in 2020 and THB600 million per annum during 2016-2019. MIDA reported a consolidated net loss of THB150 million during the first six months of 2021. We forecast the 2021 full-year net loss to be around THB400 million. We believe that MIDA will continue to carry a consolidated net loss until the revival of hotel operations.

#### **Increasing financial risk**

Under TRIS Rating's base case, the weakening of MIDA's operations, especially in hotel business, may cause MIDA's funds from operations (FFO) to fall into negative territory in 2021 and probably in 2022. MIDA's FFO to total debt ratio is expected to be around 2% in 2023. We project MIDA's debt burden to be THB5.1-THB5.2 billion over the next three years as we forecast a slow pace of growth in the company's hire purchase loan portfolio during 2022-2023. We assume capital expenditures for hire-purchase branch expansion and for the hotel business to be THB80 million per annum during 2021-2023. We expect MIDA to spend THB400-THB500 million annually in land purchase and construction for residential projects. As a result, we forecast MIDA's debt to capitalization ratio to increase slightly to 53%, from 49% in 2020, or interest-bearing debt to equity ratio to stay 1.1-1.2 times over the forecast period. Most of MIDA's debts are secured. As of June 2021, its priority debt ratio was 78%. Its unsecured creditors are therefore considered in a significantly disadvantaged position to its secured creditors with respect to the claim against the company's assets.

The financial covenants on MIDA's debentures require the company's interest-bearing debt to equity ratio (based on its consolidated financial statements) to remain below 2 times. As of June 2021, the ratio was 1.05 times. We expect the company should have no problem keeping the ratio in compliance with the bond covenants.

#### **Tight liquidity**

MIDA's liquidity is tight. Although the company has obtained approvals from some lenders to reschedule principal repayment for hotel project loans until December 2021, it has debt due over the next 12 months of THB4 billion, or around 80% of reported total debt as of June 2021. Debt obligations coming due within 1 year consisted of THB2.2 billion in debentures, THB0.8 billion in short-term loans from banks, THB0.3 billion in short-term borrowings from related parties, and THB0.6 billion in long-term project loans. MIDA's sources of liquidity comprised cash on hand of THB0.2 billion,

undrawn committed project loan facilities from banks of THB0.6 billion, and principal of hire purchase receivables due within 1 year of THB1.5 billion. In addition, MIDA had unencumbered land plots worth THB0.3 billion at book value, which can be used as collateral for new loans, if needed.

MIDA and its subsidiary's maturing debentures over the next 12 months include THB700 million due on 13 November 2021, THB500 million due on 9 February 2022, THB450 million due on 7 April 2022, and THB582 million due on 24 April 2022. MIDA plans to replace the maturing debentures with bank loans and new debenture issuance. Due to the concentration of debt maturity, we view MIDA to have high level of refinancing risk.

#### BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for MIDA's operations during 2021-2023:

- Total operating revenue to drop by 20% y-o-y to THB1.8 billion in 2021 before reviving to THB2.6-THB2.7 billion per annum during 2022-2023.
- Outstanding hire purchase loans to shrink in the THB3.2-THB3.4 billion range at the end of each year.
- NPL ratio to be around 10%.
- Credit cost to be in the range of 5.0%-5.5%, while yield on loans to be 26%.
- Hotel RevPar in 2021 to be 80% below the 2019 level, recovering to around 35% below the 2019 level in 2022. It should come close to the pre-COVID-19 level in 2024.
- Annual investment in land acquisition and construction for residential projects to be THB400-THB500 million.

#### RATING OUTLOOK

The "negative" outlook reflects our view of a deepening deterioration in MIDA's operating results over the next 12 months amid a drawn-out pandemic and our concern over the heightened refinancing risk of the group's maturing debentures.

#### RATING SENSITIVITIES

MIDA's rating could be revised further downward should the prolonged pandemic situation lead to a deeper-than-expected deterioration in MIDA's operating performance and/or financial profile. A rating downgrade could also occur if the liquidity risk is heightened to a critical level. On the contrary, a rating and/or outlook upward revision would materialize if MIDA's operations recover materially and there are no concerns over refinancing risk.

#### 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 105 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 2021, outstanding hire purchase loans consisted of vehicle hire purchase loans operated by ML (77%), electrical home appliance hire purchase loans operated by MIDA (14%), and vehicle hire purchase loans operated by MIDA Lao (9%).

MIDA currently operates eight hotels located in Bangkok, Petchaburi, Kanchanaburi, Nakhonpathom, Rayong, and Phuket provinces, with a total of 1,306 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 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 with a price range of 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 negligible.

**KEY OPERATING PERFORMANCE**
**Table 1: MIDA's Revenue Breakdown by Business**

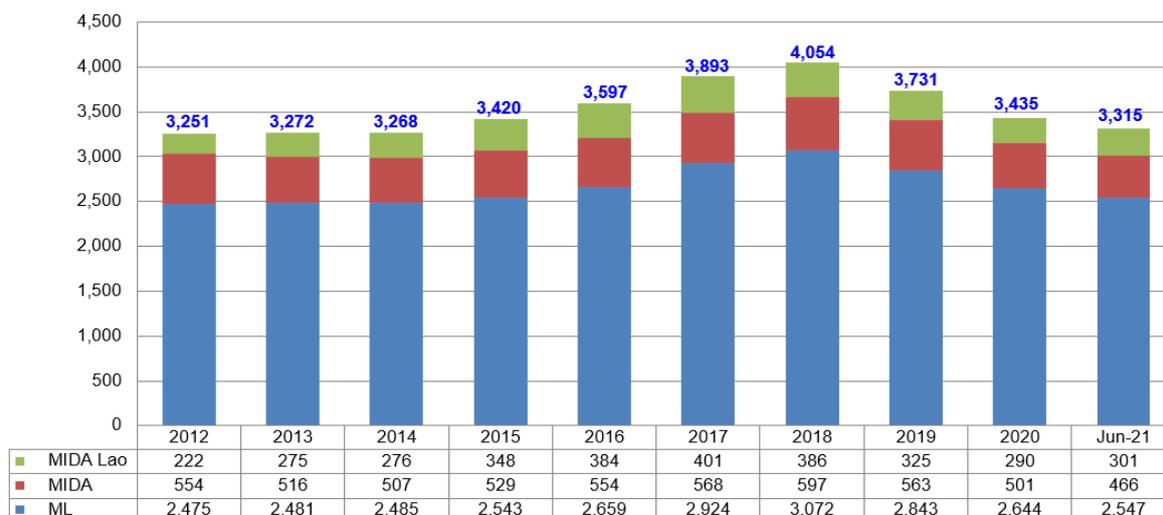
Unit: %

Revenue Breakdown	2013	2014	2015	2016	2017	2018	2019	2020	Jan-Jun 2021
Sales of merchandises	20	19	19	20	19	18	16	14	17
Hire purchase financing income	40	42	42	41	42	42	43	45	50
Property sales	32	29	27	26	20	21	20	24	22
Golf course service and rental income	2	2	1	-	1	-	-	-	1
Hotel operations	6	7	7	10	14	16	19	16	9
Services	-	1	4	3	4	3	2	1	1
<b>Revenue from sales and services</b>	<b>100</b>								
<b>Revenue from sales and services (Mil. THB)</b>	<b>2,249</b>	<b>2,235</b>	<b>2,356</b>	<b>2,459</b>	<b>2,534</b>	<b>2,649</b>	<b>2,585</b>	<b>2,182</b>	<b>877</b>

Source: MIDA

**Chart 1: MIDA's Hire Purchase Outstanding Loans**

Unit: Mil. THB



Source: MIDA

**Table 2: MIDA's Hotel Performance**

Hotel	2013	2014	2015	2016	2017	2018	2019	2020	Q2-21
No. of Room	470	477	480	822	830	942	1,005	1,306	1,306
ARR (THB/room/night)	875	1,127	1,059	1,141	1,322	1,352	1,429	1,550	1,279
OR (%)	53	48	52	52	52	55	56	27	15
RevPar (THB /room/night)	464	537	550	597	688	750	796	422	195

Source: MIDA

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

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	961	2,310	2,709	2,783	2,675
Earnings before interest and taxes (EBIT)	37	234	410	454	413
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	114	392	555	595	597
Funds from operations (FFO)	(42)	84	215	274	307
Adjusted interest expense	138	289	294	274	240
Financial lease receivables (after allowance)	3,144	3,264	3,538	3,855	3,729
Total assets	10,842	11,218	10,689	10,888	10,392
Adjusted debt	4,965	4,830	4,805	5,095	4,654
Adjusted equity	4,905	5,029	5,096	5,055	4,961
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	1.04	7.36	10.73	12.17	14.88
Pretax return on permanent capital (%)	1.45 **	2.26	4.01	4.48	4.23
EBITDA interest coverage (times)	0.82	1.36	1.89	2.17	2.48
Debt to EBITDA (times)	16.45 **	12.32	8.65	8.56	7.79
FFO to debt (%)	(0.20) **	1.73	4.47	5.38	6.59
Debt to capitalization (%)	50.30	48.99	48.53	50.19	48.40
Interest-Bearing Debt to Equity (times)	1.05	1.09	0.96	1.03	0.97

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institutions Rating Methodology, 17 February 2020
- Corporate Rating Methodology, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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**Mida Assets PLC (MIDA)**

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**Company Rating:**

**BB**

**Rating Outlook:**

**Negative**

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**TRIS Rating Co., Ltd.**

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