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## M.K. Real Estate Development Public Company Limited

**Company Rating:**

BBB

**Rating Outlook:**

Stable

**Rating History:****Company Rating****Issue Rating****Secured****Unsecured**

20 Mar 2008

BBB/Stable

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### Rating Rationale

TRIS Rating affirms the company rating of M.K. Real Estate Development PLC (MK) at “BBB”. The rating reflects the company’s long track record in the middle- to low-income residential property market, its ability to sustain construction costs at competitive levels, and its low financial leverage. The rating also takes into consideration the current slowing economy which will cause a downturn in the property development industry, the cyclical nature of the property development industry, and tighter credit policies of commercial banks which limit homebuyers to access mortgage financing.

MK is a medium-sized property developer which has more than 30 years of experience. It was founded in 1973 and listed on the Stock Exchange of Thailand (SET) in 1990. The Tangmatitham family continues to be the major shareholder with a combined stake of 26% as of December 2008. The company has focused on developing low-rise residential projects in the Greater Bangkok. Its products include single detached houses (SDHs) and duplex units with an average price per unit in 2008 at Bt3.5 million, and land plots with prices ranging from Bt15,000 to Bt50,000 per square wah (sq.w.). Revenue from housing sales contributed more than 70% of total revenue from 2005 through the first nine months of 2008. Revenue from sales of land plots constituted approximately 13% of total revenue. MK’s competitive edge stems from its competitive cost structure, which enables the company to achieve favourable profit margins.

The company’s total revenue increased by 9% to Bt1,417 million during the first three quarters of 2008 from the same period of 2007, due partly from government tax incentives for the residential property industry. MK’s profitability during the first three quarters of 2008 improved as the adjusted operating margin was 27.28%, higher than the average of 24.59% during 2006-2007. As operating performance improved and the level of investment remained low during the first nine months of 2008, liquidity remained at an acceptable level. The funds from operations (FFO) to total debt ratio improved to 20.60% (non-annualized), up from 18.11% of the full year of 2007. With undrawn committed credit facilities of around Bt800 million and a low level of financial leverage at 27.36% as of September 2008, the company’s financial flexibility remained at acceptable level.

The residential property market was volatile over the past year as a result of both the domestic political and global financial crisis. Although residential property demand improved in mid-2008 following the launch of the government stimulus packages early in the year, it contracted by year-end as a number of negative factors simultaneously hit the market. Despite the more stable political situation, the slowing economy will negatively impact demand in the residential property market. Moreover, as banks have implemented more stringent credit policies for mortgage loans during the economic downturn, this will limit some homebuyers to access credits for their new house purchases. Although the new tax incentives will allow a new house transaction of up to Bt300,000 to be tax-deductible in personal income tax calculation, it is anticipated that the residential property market in the Greater Bangkok will drop by

around 10%-20%, whereas the gross domestic product is anticipated to grow in the range of 0%-2%, a contraction is also possible in 2009. To maintain their credit quality, developers must prudently manage their liquidity and preserve sufficient flexibility to meet their obligations during a slowing economy.

### **Rating Outlook**

The “stable” outlook reflects TRIS Rating’s expectation that MK will be able to maintain a low level of financial leverage during the unfavourable economic environment. With a healthy balance sheet and a cost advantage, leverage and profitability are expected to be at acceptable levels though there will be more investment for further expansion and a profit margin will be trimmed to boost sales.

For subscription information, contact

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