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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 upgrades the company rating of M.K. Real Estate Development PLC (MK) to “BBB+” from “BBB”. The upgrade reflects the continuous improvement of the company’s financial profile. The rating also reflects MK’s long track record in the middle- to low-income segments of the residential property development market, ability to continuously manage construction costs at competitive levels, and conservative financial policies. The rating also takes into consideration an uncertain political situation in Thailand and the cyclical nature of the property development industry.

MK is a medium-sized property developer with a long presence in the industry. It was founded in 1973 and listed on the Stock Exchange of Thailand (SET) in 1990. The Tangmatitham family has continued to be the major shareholder with a combined stake of 26% as of August 2009. The company mainly develops low-rise residential projects in Greater Bangkok. Its products include single detached houses (SDH) and duplex units with an average price per unit of Bt3.5 million in 2009. The company also sells land plots with prices ranging from Bt15,000 to Bt50,000 per square wah (sq.w.). Housing unit sales has been the major source of revenue, contributing more than 79% of total revenue during 2007-2009; revenue from land plots sales has been around 12%. MK’s competitive edge is derived from its cost competitiveness, which enables the company to achieve favourable profit margins.

Presales slightly improved to Bt2,271 million in 2008, an 8% increase from Bt2,111 million in 2007. The company’s presales in 2009 grew at a slow pace, rising to Bt2,295 million, up by 1% from 2008. MK’s total revenue increased by 9% to Bt2,158 million in 2008 from Bt1,986 million in 2007. In 2009, total revenue reached Bt2,497 million, 16% growth from 2008. The gross profit margin held at a satisfactory level of 39%-41% during 2008-2009. The adjusted operating margin was 28.1% in 2008 and 30.7% in 2009, rising from 26.0% in 2006 and 23.1% in 2007 due primarily to the benefits from the tax incentive packages and efficient cost management. Its profitability was considered strong and has been higher than most listed property developers. Better operating performance and a lower debt level helped strengthen cash flow protection. The company’s funds from operations (FFO) to total debt ratio increased from 17.9% in 2007 to 37.1% in 2008 and sharply improved to 71.1% in 2009. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio improved significantly to 14.2 times in 2009 from 5-6 times during 2007-2008. With undrawn committed credit facilities of around Bt1,300 million and a low level of financial leverage at 14.2% at the end of 2009, the company’s financial flexibility was at an acceptable level.

The residential property market was volatile over the past year, reflecting the national political instability and the global financial crisis. Although it recovered in the second half of 2009, the market remained relatively slow and has become increasingly dominated by major developers. Government tax incentives that allowed homebuyers to get a personal income tax deduction of up to Bt300,000 for the purchase of a new residence expired in December 2009. Therefore, demand for residential property in 2010 will depend heavily on consumer confidence and the pace of economic recovery. TRIS Rating expects to see demand for residential property in 2010 to be in line with demand in 2009.

Rating Outlook

The “stable” outlook reflects TRIS Rating’s expectation that MK will be able to maintain a low level of financial leverage despite higher spending for land acquisition and more new projects in 2010 compared with recent years. Profitability and liquidity are expected to be acceptable even though the company plans to pursue a growth strategy after signs of an economic recovery.

For subscription information, contact

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