TRIS RATING

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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	Issue Rating Unsecured
5 Mar 2010	BBB+/Stable	-	-
20 Mar 2008	BBB/Stable	-	-

Rating Rationale

TRIS Rating affirms the company rating of M.K. Real Estate Development PLC (MK) at “BBB+”. The rating reflects MK’s long track record in the middle- to low-income segments of the residential property development market, its ability to continuously manage construction costs at competitive levels, and its conservative financial policies. The rating also takes into consideration an uncertain political situation in Thailand, the cyclical nature of the property development industry, and the expectation of more intense competition as many large developers have aggressively acquired land since the second half of 2010.

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 2010. The company mainly develops low-rise residential projects in Greater Bangkok. Its products include single detached houses (SDHs) and duplex units with an average price per unit of Bt3.3 million in 2010. The company also sells land plots with prices ranging from Bt15,000 to Bt50,000 per square wah (sq.w.). MK resumed the development of townhouse and condominium projects in 2010. The average prices for townhouses were Bt2.2 million for a two-storey unit and Bt3.6 million for a three-storey unit. The average selling price for its condominium was Bt40,000 per square meter (sq.m.). Housing unit sales remained the major source of revenue, contributing 87% of total revenue in the first three quarters of 2010, while the revenue from land plots sales was 8%. MK’s competitive edge stems from its cost competitiveness, which enables the company to achieve favorable profit margins.

MK’s presales stood at nearly Bt2,300 million per year during 2008-2010. Although housing presales decreased by 5% to Bt2,179 million in 2010, condominium presales worth Bt121 million pushed the company’s total presales to Bt2,299 million compared with Bt2,295 million in 2009. Total revenue during the first nine months of 2010 was Bt1,776 million, down 5% from Bt1,869 million during the same period of 2009. The drop was caused by declining land plot sales. Profitability in the first three quarters of 2010 deteriorated due mainly to the expiration of the special business tax reduction scheme and partly from marketing campaigns to boost sales after the government tax incentives expired. The adjusted operating margin was 24.15% in the first nine months of 2010, falling from 30.69% in 2009 and 28.05% in 2008. However, MK’s profitability was higher than most listed property developers. Despite lower operating performance, the low level of debt helped strengthen its cash flow protection. The funds from operations (FFO) to total debt ratio increased to 44.19% (non-annualized) during the first three quarters of 2010 from 41.04% during the same period of 2009. With undrawn committed credit facilities of around Bt1,000 million and a low level of financial leverage (15.12%) at the end of September 2010, the company’s financial flexibility was strong.

The Thai residential property market recovered in the second half of 2009; the momentum was sustained throughout 2010. However, the market in 2010 was partly affected by the local political turmoil during the second quarter of 2010 and the government tax incentives which ended in June 2010. Major developers continued to increase market share at the expense of smaller developers. Almost all large developers have set aggressive expansion plans for the next few years. The prices of land at appropriate locations will likely be more expensive. After the government tax incentives expired, demand for residential property will depend heavily on consumer confidence and the pace of economic recovery. The changes in loan-to-value policy (LTV ratio) announced by the Bank of Thailand and upward trend of interest rates are expected to reduce speculative demand and promote a healthier growth for residential property from 2011 onwards.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that MK will be able to sustain a low level of financial leverage even though the company plans to pursue growth. Profitability will be under pressure due to the expiration of the government tax incentives and a highly competitive market. Cash flow protection should be maintained at an acceptable level.