

M.K. REAL ESTATE DEVELOPMENT PLC

Announcement no. 858

9 March 2012

Company Rating: BBB+

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
05/03/10	BBB+/Sta	-
20/03/08	BBB/Sta	-

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 the cyclical nature of the property development industry and increasing raw material and labor costs.

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 2011. 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 of Bt3.4 million per unit in 2011. The average prices for townhouses were Bt2.2 million for a two-storey unit and Bt3.8 million for a three-storey unit. The average selling price for MK’s condominium was Bt1.15 million per unit. The company also sells land plots, with prices ranging from Bt15,000 to Bt50,000 per square wah (sq.w.). Housing unit sales remained the major source of revenue, contributing 86% of total revenue in 2011. MK’s competitive edge stems from its cost competitiveness, which enables the company to achieve favorable profit margins.

The company’s presales dropped to Bt2,076 million in 2011, down by 10% from Bt2,299 million in 2010. The drop was mainly due to the severe flood in Bangkok and the vicinity in October and November 2011. Total revenue sharply decreased to Bt1,673 million in 2011 from Bt2,592 million in 2010. The drop was mainly caused by fewer transfers of finished units to customers, especially during the last quarter of 2011. Profitability in 2011 deteriorated due mainly to the expiration of government tax incentives in mid-2010 and lower sales. The operating profit margin was 19.62% in 2011, falling from 26.00% in 2010. Lower operating performance and a higher debt level deteriorated its cash flow protection. The funds from operations (FFO) to total debt ratio decreased to 17.15% in 2011 from 56.91% in 2010. Debt due in the next 12 months will be only Bt215 million. With undrawn committed credit facilities of around Bt1,200 million and a low level of financial leverage (20.13%) at the end of December 2011, the company’s financial flexibility remained acceptable.

Due to the heavy flooding in late 2011, the sale of residential properties is expected to slow down, especially in the heavy flooded areas. MK had three projects which were directly affected by the flood. The remaining value of the unsold units in these three projects was Bt568 million as of December 2011, or around 13% of the total remaining value of unsold units across all MK’s projects. In addition, the company booked flood-related expenses of Bt6.44 million in the fourth quarter of 2011.

Several developers, especially those who focused on low-rise projects, saw significant drops in revenues and profits in the last quarter of 2011. The government’s tax incentive scheme and zero-rate mortgage financing plans may not have a significant effect on the demand for residential property in the coming quarters, due to the negative consumer sentiment. Global economic uncertainties, the threat of rising costs from the enactment of the minimum-wage hike, and the

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elevated leverage levels of most property developers are the key downside risks for the industry.

Rating Outlook

The “stable” outlook reflects TRIS Rating’s expectation that the recent sharp drop in MK’s sales and profitability should be temporary. The company’s annual sales should be back to the normal levels of around Bt2,000-Bt2,500 million in 2012 and financial leverage should be maintained at the current level. However, a further deterioration in operating performance and cash flow protection will negatively impact the rating outlook.

M.K. Real Estate Development PLC (MK)**Company Rating:**

BBB+

Rating Outlook:

Stable

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