

M.K. REAL ESTATE DEVELOPMENT PLC

No. 20/2013

5 April 2013

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	-

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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 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 the cyclical nature of the property development industry and concerns over rising construction costs and the current labor shortage.

MK is a medium-sized property developer with a long presence in the industry. It was established in 1973 and listed on the Stock Exchange of Thailand (SET) in 1990. The Tangmatitham family has continued to be the company's major shareholder, with a combined stake of 26% as of August 2012. The company mainly develops low-rise residential projects in Greater Bangkok. MK's products include single detached houses (SDHs) and duplex units with average price of Bt3.4 million per unit in 2012. 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 2012. As of December 2012, MK had 19 existing projects available for sale, with a remaining value of Bt4,000 million. The company had a backlog worth approximately Bt1,300 million. MK's competitive edge stems from its cost competitiveness, which enables the company to achieve favorable profit margins.

MK's presales decreased to Bt1,784 million in 2012, down by 14% from Bt2,076 million in 2011. The fall in presales was due partly to concerns over a flood during the second half of 2012, plus delays in some new project launches as a result of construction problems. Although total revenue rose to Bt1,724 million in 2012 from Bt1,673 million in 2011, revenue in 2012 was lower than expected due in part to construction delays in the *DEN Vibhavadi* project. Because of the delays, the company had to postpone the transfer of this project from 2012 to the first quarter of 2013.

MK's gross profit margin has remained high, at 38%-40% of sales in 2010 through 2012. The operating profit margin slightly decreased in 2012, falling to 18.44% from 19.62% in 2011. As of December 2012, total debt increased to Bt1,768 million, from Bt1,267 million in 2011. The lower operating performance and higher debt levels lowered MK's cash flow protection in 2011 and 2012. As a result, the ratio of funds from operations (FFO) to total debt was 16.72% in 2011 and 15.75% in 2012, down from 56.91% in 2010. The earnings before interest, taxes, depreciation, and amortization (EBITDA) interest coverage ratio stood at 6.66 times in 2011 and 4.70 times in 2012, down from 24.11 times in 2010. However, MK has undrawn committed credit facilities of around Bt1,000 million and a low level of financial leverage (26.10%) at the end of 2012. Because of these cushions, the company's financial flexibility remained acceptable.

Rating Outlook

The “stable” outlook reflects TRIS Rating’s expectation that the sharp drops in MK’s sales and profitability should be temporary. Annual sales should be back to a normal level of Bt2,000-Bt2,500 million in 2013. Leverage is not expected to rise higher than its current level. However, MK’s rating and/or outlook could be lowered if its operating performance does not recover to normal levels and its financial leverage is higher than expected.

M.K. Real Estate Development PLC (MK)

Company Rating:

BBB+

Rating Outlook:

Stable

Financial Statistics and Key Financial Ratios *

Unit: Bt million

	Year Ended 31 December					
	2012	2011	2010	2009	2008	2007
Sales	1,724	1,673	2,592	2,497	2,158	1,986
Gross interest expense	78	55	29	55	99	100
Net income from operations	260	234	479	540	432	325
Funds from operations (FFO)	278	212	522	569	465	317
Inventory investment	(527)	(471)	(309)	287	229	(81)
Total assets	7,359	6,773	6,443	5,987	6,166	6,413
Total debt	1,768	1,267	917	835	1,255	1,771
Shareholder equity	5,007	4,901	4,942	4,620	4,307	4,023
Operating income before depreciation and amortization as % of sales	18.44	19.62	26.00	30.83	28.05	23.14
Pretax return on permanent capital (%)	5.28	5.66	11.93	13.89	10.90	8.41
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.70	6.66	24.11	14.44	6.42	5.33
FFO/total debt (%)	15.75	16.72	56.91	68.08	37.08	17.88
Total debt/capitalization (%)	26.10	20.54	15.66	15.31	22.56	30.57

* Consolidated financial statements

Note: Revenue recognition has been changed to the transfer method since 2009 onwards.

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