M.K. REAL ESTATE DEVELOPMENT PLC

No. 23/2014 8 April 2014

Company Rating: BBB+

Outlook: Stable

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-income segments of the residential property development market, ability to keep construction costs at competitive levels, and conservative financial policies. The rating also takes into consideration MK’s relatively small revenue base, the cyclical nature of the property development industry, concerns over rising construction costs and the current labour shortage, and the expected slowdown in demand for residential property due to political instability.

MK 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 27% as of December 2013. The company’s main activity is building low-rise residential property projects in the Greater Bangkok area. MK’s products include single detached houses (SDHs), townhouses, and condominiums. The company also sells land plots, with prices ranging from Bt15,000 to Bt50,000 per square wah (sq.w.). The housing units remain the major source of revenue, contributing 90% of total revenue in 2013. As of December 2013, MK had 18 projects available for sale. The units in these projects have a remaining value of Bt5,145 million in total. The company had a backlog worth Bt772 million. MK’s competitive edge stems from its cost competitiveness, which enables the company to achieve favorable profit margins. MK’s operating margin, as measured by operating income before depreciation and amortization as a percentage of sales, ranged from 18%-20% during 2011 through 2013, higher than the yearly averages of 14%-17% for 16 rated developers.

In 2013, MK’s revenue reached a record level. Total revenue increased 60% to Bt2,760 million from Bt1,724 million in 2012. The leap in revenue was due to the transfer of units in the *DEN Vibhavadi* project worth Bt851 million. Presales in 2013 also increased, climbing to Bt2,094 million from Bt1,784 million in 2012. Presales rose as sales of its low rise projects increased. Buyers now have less concern over flooding than in the immediate after-math of the 2011 flood.

MK’s gross profit margin dropped to 34% in 2013 from 38% in 2012. The fall in the gross profit margin was due to a lower gross profit margin for the *DEN Vibhavadi* project. The gross profit margin of the *DEN Vibhavadi* project was around 30%. The sharp increase in revenue in 2013 caused MK’s operating profit margin to increase to 19.73% from 18.44% in 2012. MK’s financial leverage also improved. As of December 2013, total debt decreased to Bt920 million, from Bt1,768 million in 2012. The debt to capitalization ratio decreased from 26.10% in 2012 to 14.83% in 2013. As a result, MK’s liquidity profile improved significantly from the prior year. The funds from operations (FFO) to total debt ratio increased to 53.86% in 2013 from 15.75% in 2012. The earnings before interest, taxes, depreciation, and amortization (EBITDA) interest coverage ratio stood at 8.53 times in 2013, up from 4.70 times in 2012.

Rating Outlook

The “stable” outlook reflects the fact that MK’s operating performance rebounded to a normal level in 2013. Going forward, the company’s revenue is expected to hold at Bt2,000-Bt2,500 million per year. The debt to capitalization ratio should be kept below 30%. MK’s rating and/or outlook could be lowered if the company’s operating performance drops significantly from the current level. On the other hand, the rating could be upgraded if the company can increase its market share and maintain its sound financial status.

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 -------------------------------------					
	2013	**2012**	**2011**	**2010**	**2009**	**2008**
Sales	2,760	1,724	1,673	2,592	2,497	2,158
Gross interest expense	67	78	55	29	55	99
Net income from operations	430	260	234	479	540	432
Funds from operations (FFO)	495	278	212	522	569	465
Inventory investment	761	(527)	(471)	(309)	287	229
Total assets	6,783	7,359	6,773	6,443	5,987	6,166
Total debt	920	1,768	1,267	917	835	1,255
Shareholders’ equity	5,275	5,003	4,901	4,942	4,620	4,307
Operating income before depreciation and amortization as % of sales	19.73	18.44	19.62	26.00	30.83	28.05
Pretax return on permanent capital (%)	8.39	5.28	5.66	11.93	13.89	10.90
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.53	4.70	6.66	24.11	14.44	6.42
FFO/total debt (%)	53.86	15.75	16.72	56.91	68.08	37.08
Total debt/capitalization (%)	14.83	26.10	20.54	15.66	15.31	22.56

* *Consolidated financial statements*

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

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