

M.K. REAL ESTATE DEVELOPMENT PLC

No. 37/2015

11 May 2015

Company Rating: BBB+
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
05/03/10	BBB+	Stable
20/03/08	BBB	Stable

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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 segment of the residential property development market, its ability to keep construction costs at competitive levels, and its conservative financial policies. The rating also takes into consideration MK’s relatively small revenue base, the cyclical nature of the property development industry, and the slowdown in the domestic economy.

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 2014. The company’s main activity is building low-rise residential property projects in the Greater Bangkok area. MK’s product line includes single detached houses (SDHs), townhouses, and condominiums. The sale of housing units remains MK’s major source of revenue. Almost all of MK’s revenue in 2014 came from low-rise housing units. As of December 2014, MK had 18 projects available for sale. The units in these projects have remaining value of Bt5,626 million in total. The company had a backlog worth Bt543 million, including a Bt175 million backlog in the “*august*” condominium project. The backlog of the “*august*” project will be transferred to customers by 2016. 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%-23% during 2011 through 2014. MK’s operating margin was higher than the yearly averages of 14%-17% for 16 rated developers.

MK’s total revenue decreased by 15% year-on-year (y-o-y) to Bt2,347 million in 2014, from Bt2,760 million in 2013. The decline in revenue was due to the lack of new condominium units for sale in 2014. Most of condominium units in the “*DEN Vibhavadi*” project were transferred to customers in 2013. However, the revenue from low-rise housing units increased to Bt2,259 million in 2014 from Bt1,787 million in 2013. Presales in 2014 slightly declined to Bt1,970 million from Bt2,094 million in 2013.

MK’s gross profit margin ranged from 38% to 41%, except for 2013 when its gross profit margin fell to 34% due to a lower gross profit margin for the “*DEN Vibhavadi*” project. In 2014, its gross profit margin rebounded to 41%. Most of its revenue in 2014 came from low-rise housing units which caused higher gross profit margins than condominium units. Thus, MK’s operating profit margin rose to 24% in 2014 from 19.7% in 2013. In order to increase to its revenue base, the company plans to launch one or two condominium projects a year. In 2015, the company plans to launch six projects, worth around Bt5,900 million. This includes two new condominium projects worth around Bt2,700 million.

MK’s financial leverage is expected to rise over the next few years as it develops more condominium projects. However, the company is expected to keep its debt to equity ratio below 0.7 times. At the end of 2014, MK’s total debt stood at Bt1,297 million, rising from Bt920 million in 2013. The debt to capitalization ratio increased slightly to 19.17% in 2014 from 14.83% in 2013. As a result, MK’s liquidity profile weakened in 2014, but remains acceptable. The funds from operations (FFO) to total debt ratio decreased to 36.88% in 2014 from 53.86% in

2013. However, the earnings before interest, taxes, depreciation, and amortization (EBITDA) interest coverage ratio improved to 12.11 times in 2014, up from 8.53 times in 2013. The rise in MK's operating margin boosted the (EBITDA) interest coverage ratio.

Rating Outlook

The "stable" outlook reflects MK's relatively stable operating performance. Going forward, revenue is expected to hold at Bt2,000-Bt2,500 million per year. The debt to capitalization ratio should stay below 40% or the debt to equity ratio should stay below 0.7 times. 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 while maintaining 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					
	2014	2013	2012	2011	2010	2009
Sales	2,347	2,760	1,724	1,673	2,592	2,497
Gross interest expense	49	67	78	55	29	55
Net income from operations	463	430	260	234	479	540
Funds from operations (FFO)	478	495	278	212	522	569
Inventory investment	(624)	761	(527)	(471)	(309)	287
Total assets	7,361	6,783	7,359	6,773	6,443	5,987
Total debt	1,297	920	1,768	1,267	917	835
Shareholders' equity	5,464	5,275	5,003	4,901	4,942	4,620
Operating income before depreciation and amortization as % of sales	24.00	19.73	18.44	19.62	26.00	30.83
Pretax return on permanent capital (%)	8.88	8.39	5.28	5.66	11.93	13.89
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	12.11	8.53	4.70	6.66	24.11	14.44
FFO/total debt (%)	36.88	53.86	15.75	16.72	56.91	68.08
Total debt/capitalization (%)	19.17	14.83	26.10	20.54	15.66	15.31

* Consolidated financial statements

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

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