

M.K. REAL ESTATE DEVELOPMENT PLC

No. 36/2015

17 June 2015

Company Rating: BBB+
Outlook: Negative

Company Rating History:

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

Contacts:

Rapeepol Mahapant
rapeepol@trisrating.com

Auyporn Vachirakanjanaporn
Auyporn@trisrating.com

Jutamas Bunyanichkul
jutamas@trisrating.com

Suchada Pantu, Ph. D.
suchada@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating of M.K. Real Estate Development PLC (MK) at “BBB+”, and revises downward MK’s rating outlook to “negative” from “stable”. The rating action follows MK’s announcement on 15 June 2015 that the Tangmatitham family, the former major shareholders and the key managers of MK, sold their stake in MK. The “negative” outlook reflects concerns over the smoothness of the transition to the new major shareholders and the new management team during the current slowdown in the residential property development industry. In addition, the new management team has an unproven track record in the industry.

The rating continues to reflect 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 strong capital base. The rating also takes into consideration MK’s relatively small revenue base, the cyclical nature of the property development industry, and the current slowdown in the domestic economy.

The Tangmatitham family sold its 20.64% stake in MK to Castle Peak Developments Limited and CPD Holding Ltd. at a price of Bt6.75 per share, for a total value of approximately Bt1,200 million. Castle Peak Developments Limited and CPD Holding Ltd are 100% owned by Mr. Suthep Wongvorazathe, who is currently Executive Chairman of KT ZMICO Securities Co., Ltd. He is also a director of other companies. After the transaction, Castle Peak Developments Limited and CPD Holding Ltd hold 12.15% and 8.49%, respectively, of MK. The Tangmatitham family’s stake in MK is reduced to 5.80% from 26.44%. All members of the Tangmatitham family resigned as directors and managers of MK. Mr. Suthep Wongvorazathe was appointed as Chairman of the Board; Mr. Philipvira Bunnag and Mrs. Sutida Suriyodorn were appointed as Executive Directors. The new top management team is in place but not all positions have been filled. Although the middle and lower management ranks have not changed, the new top management team has an unproven track record in the residential property development industry. The unproven track record has raised concerns over the smoothness of the transition amid the current slowdown in the industry.

MK’s financial performance deteriorated in the first quarter of 2015. Revenue rose slightly, climbing 3.1% year-on-year (y-o-y) to Bt435 million, but the gross profit margin dropped to 33.4%, from 40.7% in 2014. The decline resulted from higher revenue from townhouses, which typically yield a lower gross profit margin than single detached houses or SDHs. In addition, some nearly-completed projects offered special discounts and promotions. As a result, the operating profit margin decreased to 11.1% in the first quarter of 2015, from 24% in 2014. The debt to capitalization ratio increased slightly to 21.3% at the end of March 2015. MK’s

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liquidity profile weakened in the first quarter of 2015, but remained acceptable. The funds from operations (FFO) to total debt ratio decreased to 30.7% from 36.9% in 2014. The earnings before interest, taxes, depreciation, and amortization (EBITDA) interest coverage ratio fell to 2.9 times from 12.1 times in 2014.

Rating Outlook

The “negative” outlook reflects the concerns over the change in MK’s major shareholders and key managers. The unproven track record of the new management team in the residential property development industry has also raised concerns over the smoothness of the transition during the current industry slowdown. The rating/outlook could be revised upward if the new management team makes significant improvements in MK’s operating performance and maintains its conservative financial policy. Any significant deterioration in operating performance or financial performance, such as a higher-than-expected rise in leverage, will negatively affect its rating/outlook.

M.K. Real Estate Development PLC (MK)

Company Rating:	BBB+
Rating Outlook:	Negative

Financial Statistic and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December					
	Jan-Mar 2015	2014	2013	2012	2011	2010
Sales	435	2,347	2,760	1,724	1,673	2,592
Gross interest expense	16	49	67	78	55	29
Net income from operations	31	463	430	260	234	479
Funds from operations (FFO)	47	478	495	278	212	522
Inventory investment	(64)	(624)	761	(527)	(471)	(309)
Total assets	7,561	7,361	6,783	7,359	6,773	6,443
Total debt	1,492	1,297	920	1,768	1,267	917
Shareholders’ equity	5,495	5,464	5,275	5,003	4,901	4,942
Operating income before depreciation and amortization as % of sales	11.08	24.00	19.73	18.44	19.62	26.00
Pretax return on permanent capital (%)	7.89 **	8.88	8.39	5.28	5.66	11.93
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.85	12.11	8.53	4.70	6.66	24.11
FFO/total debt (%)	30.69 **	36.88	53.86	15.75	16.72	56.91
Total debt/capitalization (%)	21.34	19.17	14.83	26.10	20.54	15.66

* Consolidated financial statements

** Annualized with trailing 12 months

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

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

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