

M.K. REAL ESTATE DEVELOPMENT PLC

No. 3/2015

24 June 2015

Company Rating: **BBB+**
CreditAlert Designation: **Negative**

Company Rating History:

Date	Rating	Outlook/Alert
17/06/15	BBB+	Negative
05/03/10	BBB+	Stable
20/03/08	BBB	Stable

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Rating Rationale

TRIS Rating places the “BBB+” company rating of M.K. Real Estate Development PLC (MK) on CreditAlert, with a “negative” implication. The rating action follows the company’s announcement on 22 June 2015 that it plans to acquire 120 million ordinary shares, or a 100% of the equity of Prospect Development Co., Ltd. (PROSPECT). The transaction cost is around Bt1,200 million. MK plans to pay for the acquisition with a share swap and cash. The acquisition announcement was made one week after the new shareholders of MK stepped in, and TRIS Rating revised down the outlook of MK to “negative” from “stable”.

The “negative” alert reflects concerns over the business and financial positions of MK after it completes the takeover of PROSPECT. Currently, PROSPECT’s financial position is weaker than MK’s position. Although the acquisition will help MK generate recurring income in the long term, it is likely to burden MK’s balance sheet in the short term. The “negative” implication continues to reflect concerns over the unproven track record of MK’s new management team in the property development industry. The rapid change in MK’s business has raised concerns over the team’s management style, which is more aggressive compared with the previous management team.

PROSPECT is a developer of ready-built factories (RBFs) and warehouses for rent in the Bangkok Free Trade Zone. It is currently held by Finansa PLC (36.38%), Mr. Chernchai Niyamanusorn (21.06%), Ms. Prapassara Sirichotikunakorn (19.98%), BCH Property Co., Ltd. (12.50%), and other individuals (10.08%). From 2012-2014, PROSPECT’s revenues ranged from Bt80-Bt430 million. The company suffered net losses of Bt176 million in 2012 and Bt27 million in 2014 as it was in the early stage of its business. At the end of 2014, PROSPECT’s debt to capitalization ratio stood at 55.1%, while MK’s stood at 19.2%.

MK plans to acquire all of PROSPECT’s shares at a price of Bt10 per share, for a total value of Bt1,200 million. At the end of 2014, PROSPECT’s net tangible assets were Bt939 million. MK expects to fund the transaction through a capital increase of about Bt810 million, and a cash payment of Bt390 million. MK will offer approximately 132 million of its shares to PROSPECT’s existing shareholders. After the share swap, MK will hold 100% of PROSPECT, and the existing shareholders of PROSPECT will hold 13.27% of MK. The acquisition and the capital increase are expected to be completed by late September 2015. However, these transactions are subject to shareholders’ approval at an extraordinary general meeting (EGM) of MK’s shareholders on 26 August 2015. Therefore, TRIS Rating will resolve the CreditAlert once the transactions have been finalized.

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

BBB+

CREDITALERT DESIGNATION:

Negative

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