TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

MUDMAN PLC

No. 69/2018
24 May 2018

CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
11/05/17	BBB-	Stable

Contacts:

Tulyawat Chatkam
tulyawat@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Thiti Karoonyanont, Ph. D., CFA
thiti@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating of Mudman PLC (MM) at "BBB-". The rating reflects the company's well recognized brands and market position in the quick service restaurant (QSR) and chain restaurant segments. However, the rating is constrained by MM's weak profitability, earnings growth pressure from intense competition and the slow economic recovery, and looming capital expenditures from domestic and overseas expansion.

KEY RATING CONSIDERATIONS

Well-recognized restaurant and QSR brands

MM's QSR and restaurant brands are all well-known in Thailand. The company operates three franchised QSR brands including "Dunkin' Donuts", "Au Bon Pain", and "Baskin Robbins", and also runs its own full service restaurants under the "Greyhound Café" (GHC) and "Anotherhound Café" brands. In addition, the company engages in fashion and lifestyle businesses under the Greyhound brand.

MM's market position is defined by its moderate market coverage. As of December 2017, MM had 420 food outlets in Thailand. Of all brands in MM's portfolio, Dunkin' Donuts has the broadest network of branches with 293 stores nationwide. On the other hand, 74 Au Bon Pain stores, 36 Baskin Robbins stores, and 17 GHC stores are mainly located in Bangkok and vicinity where customers have relatively high spending power.

Small revenue base and low profitability

In 2017, MM registered revenue of Bt2,832 million and earnings before interest, tax, depreciation, and amortization (EBITDA) of Bt238 million, with an EBITDA margin of 8.4%. The company's revenue base is relatively small and its profitability is lower compared with peers. Despite an increase in the number of outlets in 2017, revenue dropped 2% year-on-year (y-o-y). Overall traffic in food stores dropped and same store sales fell by 2.7% in 2017. The drop was due to the slow economic recovery and intense competition among food and beverage operators as the QSR and restaurant industries are fragmented and subject to risk from new entrants due to the low initial capital requirement.

Among all brands in MM's portfolio, GHC performed the best. GHC posted Bt844 million in revenue in 2017, an increase of 20% from last year, mainly driven by the 8% same store sales growth and the addition of more branches. GHC recorded satisfactory profitability with 14% EBITDA margin. Baskin Robbins showed slight improvement as sales increased by 2% and EBITDA turned positive in 2017. On the other hand, Dunkin' Donuts and Au Bon Pain registered weaker sales as competition became more intense.

Restaurant expansion overseas

GHC has expanded its restaurants into many overseas markets using the franchise model. As of 2017, there were 17 franchised branches overseas, including eight branches in Hong Kong, five branches in Mainland China, two branches in Malaysia, one in Singapore, and one in Indonesia. The expansion via franchise model requires few additional costs while providing MM upfront fees and recurring royalty fees which enhance its profitability. However, expansion under the franchise model poses a challenge regarding branch quality control.

Apart from expansion through the franchise model, in late 2017 GHC opened its first owned restaurant outside Thailand. The 192-seat GHC restaurant, located in London, is well received among Thai expats and locals. The company plans to open more branches in London and other cities in Europe under its own investment rather than through the franchise model.

In addition to GHC's overseas expansion, the company, in December 2017, acquired a 100% stake worth about Bt360 million in a historic restaurant in Paris, "Le Grand Vefour", from French celebrity chef Mr. Guy Martin. Le Grand Vefour is a well-known two Michelin-star fine dining restaurant and is regarded as a historical treasure, having been in operation for more than 230 years. The company believes that having an international presence in the restaurant business through this acquisition along with the collaboration with renowned chef, Mr. Martin, will help further expand into European and international markets. Further overseas expansion success remains to be seen.

Strengthened balance sheet after the IPO

After being listed on the Market for Alternative Investment (MAI) in April 2017, MM received cash from the initial public offering (IPO) of about Bt1,100 million. Most of the proceeds was used for repaying debt and the remainder was for outlet expansion. As a result, the company's capital structure improved with an adjusted debt to capitalization ratio of 32% in the first quarter of 2018, down from 49% in 2016. The company's liquidity was acceptable with the adjusted fund from operations (FFO) to total debt ratio of 33% and the adjusted EBITDA interest coverage of 7 times in the first quarter of 2018.

Going forward, TRIS Rating expects MM to have capital expenditures of Bt300-Bt400 million per year during 2018-2020. The capital spending will fund the expansion of QSR and restaurant branches and maintenance of existing branches. TRIS Rating expects the company's adjusted debt to capitalization ratio to range between 35%-40% during 2018-2020. TRIS Rating's base-case scenario assumes MM's average annual revenue growth rate of 9%, contributed mainly by branch expansion and the consolidation of GHC in London and Le Grand Vefour restaurant in Paris. The selling, general, and administrative expense (SG&A) efficiency is expected to improve as a result of benefit from the economies of scale gained by the increase number of branches. The debt to capitalization ratio is forecast to be 35%-40%. The FFO will range from Bt220-Bt280 million per annum during 2018-2020, with adjusted FFO to total debt ratio between 28%-30%.

RATING OUTLOOK

The "stable" outlook reflects the expectation that MM can maintain its market position and gradually improve operating performance over time, both in domestic and overseas markets.

RATING SENSITIVITIES

A rating upgrade would occur if the company's operating performance improves substantially for a sustained period, while maintaining sound financial leverage. A rating downgrade, on the other hand, would come from weaker-than-expected operating performance for a prolonged period of time or overly aggressive debt-funded investments.

COMPANY OVERVIEW

MM was established in 2006 and listed on the MAI on 11 April 2017. As of December 2017, Sub Sri Thai PLC (SST), a warehouse and document storage provider, was the major shareholder, owning 64.3% of MM's paid-up shares.

The company's core businesses are in the food and beverage segment and the lifestyle business (fashion apparel). The company is the master franchisee of the Dunkin' Donuts, Au Bon Pain, and Baskin Robbins brands in Thailand. The company was granted exclusive rights to produce and distribute products under these brands in Thailand. In 2014, the company expanded to the full service restaurant segment by acquiring a 100% stake in the Greyhound Group, which owns and operates the GHC chain and also produces and distributes fashion and lifestyle products under the Greyhound brand. MM franchises GHC restaurants in many countries in Asia.

MM also operates a hospital food court under the M-Kitchen brand and provides in-patient food service in a private hospital. In December 2017, the company added a high-end restaurant to its portfolio by acquiring Le Grand Vefour, a Paris-based, two Michelin star, 230 years-old restaurant.

KEY OPERTING PERFORMANCE

Table 1: Sales Contribution by Product Line

Business Line	2015		2016		2017	
	Bt Million	%	Bt Million	%	Bt Million	%
Dunkin' Donuts	1,144	41	1,152	40	1,020	36
Au Bon Pain	696	25	724	25	698	25
Baskin Robbins	103	4	105	4	108	4
Greyhound Cafe	602	22	704	24	844	30
Greyhound Fashion and Lifestyle	236	8	181	6	139	5
Others	20	1	25	1	23	1
Eliminations	(4)	(0)	(2)	(0)	(1)	(0)
Total sales	2,797	100	2,889	100	2,832	100

Source: MM

Table 2: Number of Outlets as of Dec 2017

Food Outlets	Outlet Number	Type of Restaurant
Dunkin' Donuts	293	QSR
Au Bon Pain	74	QSR
Baskin Robbins	36	QSR
Greyhound Cafe	17	Full service restaurant
Total outlets	**420**	

Source: MM

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		------------- Year Ended 31 December -------------			
	Jan-Mar 2018	2017	2016	2015	2014
Revenue	771	2,832	2,889	2,797	2,184
Gross interest expense	7	34	56	63	68
Net income from operations	(8)	(50)	(13)	(43)	(35)
Funds from operations (FFO)	70	195	185	164	132
Capital expenditures	40	266	154	181	122
Total assets	4,236	4,311	3,815	4,057	4,161
Total debts	713	706	1,070	1,204	1,248
Total adjusted debts	1,305	1,323	1,756	1,720	1,668
Shareholders' equity	2,837	2,845	1,815	2,144	2,187
Operating income before depreciation and amortization as % of sales	11.3	13.1	13.8	12.7	14.6
Pretax return on permanent capital (%)	0.8**	0.9	1.7	1.7	2.6
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.0	6.4	5.1	4.7	4.0
FFO/total debt (%)	32.5**	31.8	22.1	18.8	15.6
Total debt/capitalization (%)	31.5	31.8	49.2	44.5	43.3

Note: All ratios have been adjusted by operating leases.
** Consolidated financial statements*
*** Annualized with trailing 12 months*

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000