MUDMAN PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 24/05/18

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

RATIONALE

TRIS Rating affirms the company rating on Mudman PLC (MM) at "BBB-". The rating reflects the company's market position in the chain restaurant and quick service restaurant (QSR) market segments and moderate financial leverage. However, the rating is constrained by weak profitability, intense competition in restaurant segment, and uncertainty surrounding the company's expansion efforts abroad.

KEY RATING CONSIDERATIONS

Well-known restaurant brands

MM's market position is underpinned by its well-known restaurant brands and moderate level of market coverage. The company's restaurant portfolio features three franchised brands ("Dunkin' Donuts", "Au Bon Pain", and "Baskin Robbins") and an owned brand "Greyhound Café" (GHC). GHC leverages its strong brand name through a brand extension strategy. In 2018, it introduced a new restaurant~~,~~ called "Kin-Hey by Greyhound", serving street food in the unique style of GHC. The company also operates a Greyhound Café restaurant in London and "Le Grand Vefour", a two Michelin-star fine-dining restaurant in Paris. GHC contributed around 41% of the company's earnings before interest, tax, depreciation and amortization (EBITDA) in 2018 while the three franchised brands accounted for 55%.

MM has a restaurant network of 418 stores nationwide: 284 Dunkin' Donuts outlets, 78 Au bon Pain outlets, 36 Baskin Robbins outlets, and 20 Greyhound Café locations. Dunkin' Donut's outlets cover Thailand while the remaining brands are mainly located in the Bangkok metropolitan area where customers have higher spending power.

In addition to restaurants, the company has a fashion and lifestyle segment called "Greyhound Original" and "Smiley Hound". The fashion and lifestyle segment generated around 4% of EBITDA.

Seeking opportunities abroad

As part of an effort to diversify internationally, the company in late 2017 acquired a well-known two Michelin-star French restaurant in Paris. MM bought Le Grand Vefour from celebrity chef, Mr. Guy Martin. In 2018, EBITDA at Le Grand Vefour was slightly negative due to higher staff expense.

The company sees two benefits from the acquisition. The purchase gave MM an international presence in the restaurant business, and a mean to collaborate with Mr. Martin. These benefits will help MM expand into European and international markets. The company and Mr. Martin plan to open several new restaurants in France. The first is expected to open in late 2019. The company will need time to prove the expansion a success.

MM opened its first owned GHC restaurant outside Thailand in late 2017. The restaurant is located in London. Although the restaurant is well received among Thai expats and locals, EBITDA was negative in 2018. Performance was weaker than expected because the store's outdoor area was underutilized. Personnel expenses and marketing expenses were high as well. The company is promoting the store as a flagship for further expansion in Europe.

The company initially planned to open more branches in London and other cities in Europe under its own investment. However, the strategy has changed. MM now plans to expand through a franchise model. Franchising requires minimal investment while yielding upfront fees and recurring royalty fees. The franchise model could boost profitability. The company has awarded GHC franchises to operators in several countries. As of December 2018, there were 17 franchised GHC restaurants in Hongkong, China, Malaysia, Singapore, and Indonesia.

Small revenue base and thin profitability

MM's revenue base is small and profitability is lower than peers. In 2018, revenue was Bt3,233 million. Adjusted EBITDA was Bt523 million, with an EBITDA margin of 16.2%.

Revenue grew 8.9% in 2018 as the GHC London branch operated for a first full year and MM consolidated the full year performance of Le Grand Vefour. However, overall same store sales fell 2.5% in 2018 as a result of intense competition. For the first quarter of 2019, the company posted Bt759 million in revenue and adjusted EBITDA of Bt134 million, with an EBITDA margin of 17.6%.

The GHC in domestic market generated revenue of Bt870 million in 2018, a slight increase of 3% from the previous year. The slow growth stems from lower same store sales, offsetting the rise in the number of stores. Profitability remained satisfactory, as measured by an EBITDA margin of 14%. Revenue from Dunkin' Donuts, Au Bon Pain, and Baskin Robbins together grew less than 1% in 2018 while the EBITDA margin was around 8.9%. Dunkin Donuts saw flat same store sales while same store sales at Au Bon Pain and Baskin Robbins fell in 2018.

TRIS Rating expects MM's revenue will grow by around 5% per annum during 2019-2021. The growth factors are: more GHC branches in the domestic market, greater international revenue through the GHC's franchise model, and new restaurants in France. The EBITDA margin should remain around 16%-17%.

Strong balance sheet

MM's capital structure remains strong. The debt to capitalization ratio was 31% as of March 2019. Liquidity was acceptable, as measured by the ratio of funds from operations (FFO) to total debt of 36% and EBITDA interest coverage ratio of around 7 times as of March 2019.

Going forward, we forecast capital spending of MM will be around Bt150-Bt250 million per annum during 2019-2021. The funds will be used to expand and relocate QSR and restaurant branches, and open new restaurants in France. The debt to capitalization ratio will range at 32%-34%. We forecast MM's FFO of around Bt500 million per annum, and the FFO to total debt ratio will stay around 38%.

The company has sufficient liquidity. Sources of liquidity include cash on hand of Bt186 million as of March 2019 and operating cash flow forecast at around Bt220 million per annum. Uses of liquidity consist financial obligations coming due in the next 12 months of around Bt130 million and capital expenditures of around Bt240 million.

BASE-CASE ASSUMPTIONS

- MM's revenues will grow around 5% per annum over the next three years, driven by new store openings and new restaurants in France.
- The gross profit margin will stay around 60%; the EBITDA margin will stay around 16%-17%.
- Total capital spending will be around Bt240 million in 2019, Bt260 million in 2020, and Bt150 million in 2021.

RATING OUTLOOK

The "stable" outlook reflects the expectation of TRIS Rating that MM can maintain its market position, and its operating performances will gradually improve, both in the domestic market and markets abroad.

RATING SENSITIVITIES

A rating upgrade would occur if the company's operating performance improves substantially for a sustained period and financial leverage remains sound. 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 Market for Alternative Investment (MAI) on 11 April 2017. As of December 2018, Sub Sri Thai PLC (SST), a warehouse and document storage service provider, was the major shareholder, owning 64% of the paid-up shares. The company has two lines of businesses: food and beverages and fashion apparel. The company is the master franchisee of the Dunkin' Donuts, Au Bon Pain, and Baskin Robbins brands in Thailand. In 2014, the company expanded to the full service restaurant segment by acquiring the Greyhound Group, which owns and operates the GHC chain and also produces and distributes fashion and lifestyle products under the Greyhound brand. MM also operates a hospital food court under the “M-Kitchen” brand and provides in-patient food service in a private hospital.

KEY OPERATING PERFORMANCE

Table 1: Sales Contribution by Product Line

Business Line	2015		2016		2017		2018	
	Bt illion	%	Bt Million	%	Bt Million	%	Bt Million	%
Dunkin' Donuts	1,144	41	1,152	40	1,020	36	1,048	34
Au Bon Pain	696	25	724	25	698	25	683	22
Baskin Robbins	103	4	105	4	108	4	108	3
Greyhound Cafe	602	22	704	24	844	30	947*	31
Greyhound Fashion and Lifestyle	236	8	181	6	139	5	150	5
Le Grand Vefour							137	4
Others	20	1	25	1	23	1	22	1
Eliminations	-4	0	-2	0	-1	0	-13	0
Total sales	2,797	100	2,889	100	2,832	100	3,082	100

* *Including GHC London*

Source: MM

Table 2: Number of Outlets as of Dec 2018

Food Outlets	Outlet Number	Type of Restaurant
Dunkin' Donuts	284	QSR
Au Bon Pain	78	QSR
Baskin Robbins	36	QSR
Greyhound Café	21*	Full service restaurant
Greyhound Café (franchised)	17	Full service restaurant
Le Grand Vefour	1	Fine dining French Restaurant
Total outlets	**437**	

* *Including GHC London*

Source: MM

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

		--------------Year Ended 31 December -----------			
	Jan-Mar 2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	759	3,233	2,962	2,992	2,889
Operating income	134	523	510	502	447
Earnings before interest and taxes (EBIT)	13	71	36	66	66
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	134	523	510	502	447
Funds from operations (FFO)	112	440	424	422	338
Adjusted interest expense	20	77	80	100	97
Capital expenditures	21	174	266	154	181
Total assets	4,242	4,301	4,338	3,815	4,057
Adjusted debt	1,222	1,204	1,152	1,715	1,645
Adjusted equity	2,777	2,788	2,845	1,815	2,144
Adjusted Ratios					
Operating income as % of total operating revenues (%)	17.62	16.18	17.23	16.79	15.47
Pretax return on permanent capital (%)	1.66	1.70	0.91	1.76	1.69
EBITDA interest coverage (times)	6.74	6.78	6.37	5.04	4.61
Debt to EBITDA (times)	2.31	2.30	2.26	3.42	3.68
FFO to debt (%)	36.44	36.52	36.84	24.63	20.53
Debt to capitalization (%)	30.57	30.17	28.82	48.59	43.42

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Mudman PLC (MM)

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