MINOR INTERNATIONAL PLC

No. 135/2019
23 August 2019

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Hybrid	BBB+
Outlook:	Stable

Last Review Date: 01/02/19

Company Rating History:

Date	Rating	Outlook/Alert
24/07/18	A	Stable
11/06/18	A+	Alert Negative
28/04/14	A+	Stable
21/02/07	A	Stable
19/08/04	A-	Stable
23/12/03	A-	-
05/06/03	A-	Alert Developing
30/07/02	A-	-

Contacts:

Chanaporn Pinphithak

chanaporn@trisrating.com

Tulyawat Chatkam

tulyawat@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Thiti Karoonyanont, Ph. D., CFA

thiti@trisrating.com

RATIONALE

TRIS Rating affirms the company rating on Minor International PLC (MINT) and the ratings on MINT's existing senior unsecured debentures at "A". We also affirm the rating on MINT's subordinated perpetual debentures (hybrid debentures) at "BBB+". The outlook remains "stable".

The ratings take into consideration MINT's strong business profile, underpinned by its strong portfolio of brands and wide geographic coverage in the hotel and restaurant segments. The integration of NH Hotel Group SA (NHH) will further strengthen MINT's business position and enhance its long-term growth prospects. The ratings also incorporate MINT's elevated financial risk profile as a result of the NHH acquisition. TRIS Rating expects MINT to manage its financial profile prudently, with adequate financial flexibility to serve as a cushion against the cyclical and volatile nature of the hotel industry.

KEY RATING CONSIDERATIONS

Strong business risk profile

MINT's business risk profile is strong since it has a range of businesses, covering the hotel, restaurant, retail trading, and mixed-use businesses. The steady operating cash flow from the restaurant business, coupled with the profitable, yet volatile, hotel and mixed-use real estate businesses, smooth out the company's overall operating performance. Its established market position and well-diversified portfolio of brands and geography also help the company withstand challenges in a particular country or region and sustain earnings growth.

The recent NHH acquisition propelled MINT into the ranks of the top 20 hoteliers worldwide. MINT had 523 hotels with 76,466 rooms in 54 countries as of July 2019. TRIS Rating believes the NHH acquisition will raise the company's long-term growth prospects. A substantially larger hotel portfolio will enhance MINT's competitive position and give it more negotiating power with counterparties such as travel agencies and suppliers. The acquisition also brings other benefits such as greater operating efficiencies, an integrated customer loyalty program, cross- selling to a broader base of clients, and new ways to leverage the hotel brands.

With a significantly larger contribution from hotel business, MINT's business risk profile has become more susceptible to the cyclical and volatile nature of the hotel industry. However, the portfolio of hotels is geographically diversified, which helps alleviate the business risk to some degree.

Solid results from NHH support overall performance

NHH's strong performance is expected to support the hotel segment and the overall performance of the company. We believe that NHH will continue delivering sound operating results given the strong fundamentals of the travel and tourism industry in Europe. That should help counter the weak prospects of MINT's hotel operations in some countries that facing unfavorable factors. For example, the appreciation of the Thai baht could make Thailand a less attractive destination compared with neighboring countries. In addition, the Australian economy has been weakening as of late. If the economy stays weak, room rate and margins could remain under pressure.

TRIS Rating projects that MINT's owned hotel revenue per available room (RevPar) to be Bt2,700-Bt2,900 per room per night in 2019, a slight drop from Bt3,117 per room per night in 2018. The drop is due mainly to the consolidation of NHH, which has a lower average room rate. We expect RevPar to grow at a rate in low- to mid-single digits annually during 2020-2021. We also assume that revenue from management letting rights (MLRs) will stay under pressure because of the weak economic conditions in Australia.

TRIS Rating forecasts MINT's revenue from hotel operations, including revenue from MLRs and managed hotels, to range from Bt96 billion to Bt110 billion annually during 2019-2021. The key risk factors are the world economic uncertainties as well as geopolitical risks that could decelerate both business and leisure travel.

Restaurant business continues to face challenges

The restaurant business makes up a smaller portion of sales and profits after the operations of NHH were consolidated into MINT's financial results. The restaurant business constitutes 15%-20% of total revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA). Despite the lesser contribution, TRIS Rating views that the restaurant business remains an important part of MINT's business mix. The restaurant business is less cyclical than the hotel business and produces steady streams of operating cash flows.

We believe MINT's restaurant operations will remain under pressure due to weak domestic consumption, intense competition, and digital disruption from food aggregators in its key markets (Thailand, Australia, and Singapore). We forecast MINT's restaurant same-store-sales growth will continue to be in negative territory in 2019-2020 and then rise at a low-single-digit rate in 2021. Revenue from restaurant business is forecast to grow at a low-to-mid single digit ranging from Bt22 billion to Bt25 billion per annum during 2019-2021, driven mainly by outlet expansion.

Improving financial profile

The NHH acquisition substantially increased MINT's scale of operations and earnings. During 2019-2021, TRIS Rating's base case forecast that MINT total revenue to be Bt129-Bt140 billion annually. We estimate adjusted EBITDA to be Bt36-Bt38 billion per annum while funds from operations (FFO) to be Bt22-Bt24 billion during the period. Capital expenditures and investments are forecast at Bt11-Bt15 billion annually over the next three years.

Leverage is high due to the NHH acquisition. Reported net debt was Bt112.6 billion at the end of June 2019, compared with Bt43 billion in 2017. Adjusted debt rose to Bt221 billion at the end of June 2019, from Bt55 billion in 2017. The calculation of adjusted debt includes guarantee commitments, lease obligations, and debt treatment of perpetual securities. By our methodology, we assign a 50% equity content to the Bt15 billion in perpetual securities but 0% equity content to the US$300 million in outstanding perpetual securities.

We believe that MINT's financial profile will improve because of enlarged scale of operating cash flow. Our base case projection estimates the adjusted ratio of debt to EBITDA to be 5.5-6.5 times in 2019-2020 and will fall below 5.5 times in 2021. The adjusted ratio of FFO to debt is projected at 9%-12% during 2019-2021. We believe MINT's deleveraging plan is on track.

Adequate liquidity

Over the next 12 months, we assess MINT's liquidity to be adequate, considering the sources and uses of funds. Sources are FFO of at least Bt22 billion, cash and cash equivalents on hand of Bt12 billion, plus unused bank credit facilities of B63.9 billion at the end of June 2019. The primary uses of funds are scheduled debt repayments and financial obligations of approximately Bt28 billion, capital expenditures of Bt13-Bt15 billion, and dividend payments of Bt2-Bt2.5 billion.

MINT can support its liquidity needs through asset rotation. For example, in July 2019, MINT completed sale and leaseback transactions for three Tivoli hotels in Portugal, worth Bt10.9 billion. Parts of the net proceeds will be used to repay outstanding debts.

BASE-CASE ASSUMPTIONS

- RevPar of owned hotels will be Bt2,700-Bt2,900 per room per night in 2019, then grow at a low- to mid-single digit rates during 2020-2021.
- Revenue from hotel operations, including revenue from MLRs and managed hotels will be Bt96-Bt110 billion annually during 2019-2021.
- Revenue from the restaurant and retail trading businesses will grow at a low- to mid-single digit rates annually in 2019-2021.
- The adjusted EBITDA margin is forecast at 27%-29% during 2019-2021.
- Capital expenditures will be Bt11-Bt15 billion annually during 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects MINT's strong business profile and diversified portfolio of businesses. The outlook also reflects our expectation that MINT will integrate with NHH successfully and continue to deliver sound operating performance. We also expect MINT to continue deleveraging in order to cushion against the volatility inherent in the hotel industry.

RATING SENSITIVITIES

The chance of a rating upgrade in the next 12-18 months is constrained by MINT's current financial profile and balance sheet. The rating upside case is possible if MINT's financial profile strengthens such that the adjusted debt to EBITDA ratio stays well below 5 times and the adjusted ratio of FFO to total debt stay above 10% on a sustained basis. The rating downside case would be triggered if MINT's financial profile deteriorates materially from our expectation, due to a drop in operating performance or other sizable debt-funded investments.

COMPANY OVERVIEW

MINT was founded in 1978 by Mr. William Ellwood Heinecke. As of March 2019, Mr. Heinecke and affiliates were the major shareholders, holding 34% of MINT's shares. The company has three main lines of business: hotel and mixed-use properties; restaurants; and retail trading, which includes contract manufacturing. For the first half of 2019, the hotel and restaurant segments were the key revenue contributors, comprising 73% and 20% of total revenue, respectively. The retail trading and mixed-use segments generated 4% and 3% of total sales, respectively.

At the end of July 2019, MINT's hotel portfolio comprised 523 properties, with 76,466 keys, in 54 countries in Europe, the Asia Pacific region, Africa, the Middle East, and Latin America. The hotels are managed and operated under well-recognized international brands, such as Four Seasons, JW Marriott, St. Regis, Radisson, and MINT's own brands, including Anantara, AVANI, Oaks, Tivoli, NH Collection, NH Hotels, nhow, and Elewana Collection.

MINT also develops residential property and timeshare business under the mixed-use concept, located close to its hotel properties. MINT has five premium residential development projects in Bangkok, Koh Samui, Phuket, and Chiang Mai in Thailand, Maputo in Mozambique, and two projects under construction in Bali, Indonesia, and Desaru, Malaysia. In the timeshare segment, Anantara Vacation Club has 229 units in inventory in Bali, Bangkok, Phuket, Samui, Chiang Mai, Queenstown (New Zealand), and Sanya (China) as of June 2019.

The Minor Food Group PLC (MFG) is MINT's wholly-owned subsidiary, operating the restaurant business. MFG, established in 1980, is the largest restaurant operator in Thailand. MFG holds franchises for four international restaurant brands: Swensen's, Sizzler, Dairy Queen, and Burger King. MFG has its own brands, including The Pizza Company, The Coffee Club, Ribs and Rumps, Thai Express, Beijing Riverside, and Courtyard in China, and Benihana. MFG is able to leverage its own brands and some of the franchised brands to franchise business in Thailand and in international markets. In June 2019, MINT had a total of 2,268 restaurant outlets located in over 20 countries, of which 1,139 were equity-owned outlets and 1,129 were franchised and sub-franchised outlets. MINT also invested in S&P Syndicate PLC and BreadTalk Group Ltd. in Singapore.

Minor Lifestyle is responsible for the retail trading segment and contract manufacturing under the MINT umbrella. At the end of June 2019, MINT had 496 retail points of sale, 84% of which were fashion brands including Anello, Esprit, Bossini, Charles & Keith, Radley, Etam, OVS, Save My Bag, and Brooks Brothers. The balances were operated under home and kitchenware brands including Joseph Joseph, Zwilling J.A. Henckels, and Bodum.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

		---------------Year Ended 31 December ------------			
	Jan-Jun 2019	2018	2017	2016	2015
Total operating revenues	59,771	76,950	57,029	53,158	43,939
Operating income	15,892	16,593	11,959	11,551	9,733
Earnings before interest and taxes (EBIT)	9,036	12,182	8,583	7,435	7,054
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	16,457	18,032	12,815	12,290	10,597
Funds from operations (FFO)	9,812	11,783	9,853	9,065	8,311
Adjusted interest expense	5,652	4,875	2,176	2,192	1,875
Capital expenditures	7,310	9,724	6,646	6,080	7,808
Total assets	260,552	267,700	119,100	108,453	98,382
Adjusted debt	221,009	223,132	54,980	57,430	52,595
Adjusted equity	64,023	66,748	50,504	40,797	36,711
Adjusted Ratios					
Operating income as % of total operating revenues (%)	26.59	21.56	20.97	21.73	22.15
Pretax return on permanent capital (%)	7.69	5.87	7.99	7.59	8.36
EBITDA interest coverage (times)	2.91	3.70	5.89	5.61	5.65
Debt to EBITDA (times)	8.05	12.37	4.29	4.67	4.96
FFO to debt (%)	7.29	5.28	17.92	15.78	15.80
Debt to capitalization (%)	77.54	76.97	52.12	58.47	58.89

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

Minor International PLC (MINT)

Company Rating:	A
Issue Ratings:	
MINT205A: Bt4,000.00 million senior unsecured debentures due 2020	A
MINT213A: Bt2,800.00 million senior unsecured debentures due 2021	A
MINT213B: Bt480.90 million senior unsecured debentures due 2021	A
MINT213C: Bt1,019.10 million senior unsecured debentures due 2021	A
MINT21OA: Bt300.00 million senior unsecured debentures due 2021	A
MINT223A: Bt4,079.70 million senior unsecured debentures due 2022	A
MINT223B: Bt3,620.30 million senior unsecured debentures due 2022	A
MINT228A: Bt2,700.00 million senior unsecured debentures due 2022	A
MINT243A: Bt4,635.00 million senior unsecured debentures due 2024	A
MINT243B: Bt2,165.00 million senior unsecured debentures due 2024	A
MINT249A: Bt1,000.00 million senior unsecured debentures due 2024	A
MINT255A: Bt4,000.00 million senior unsecured debentures due 2025	A
MINT283A: Bt1,000.00 million senior unsecured debentures due 2028	A
MINT293A: Bt1,815.40 million senior unsecured debentures due 2029	A
MINT293B: Bt5,684.60 million senior unsecured debentures due 2029	A
MINT313A: Bt1,200.00 million senior unsecured debentures due 2031	A
MINT313B: Bt1,570.00 million senior unsecured debentures due 2031	A
MINT313C: Bt2,430.00 million senior unsecured debentures due 2031	A
MINT329A: Bt1,000.00 million senior unsecured debentures due 2032	A
MINT343A: Bt3,070.00 million senior unsecured debentures due 2034	A
MINT343B: Bt2,430.00 million senior unsecured debentures due 2034	A
MINT18PA: Bt15,000.00 million subordinated capital debentures	BBB+
Rating Outlook:	Stable

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