TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

MINOR INTERNATIONAL PLC

No. 95/2022
7 June 2022

CORPORATES

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

Last Review Date: 13/01/22

Company Rating History:

Date	Rating	Outlook/Alert
10/07/20	A	Negative
27/03/20	A	Alert Negative
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
tulyawatc@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 on Minor International PLC (MINT) and the ratings on its existing senior unsecured debentures at "A", and the rating on its subordinated capital debentures (hybrid debentures, MINT18PA) at "BBB+". The ratings reflect MINT's strong business fundamentals, underpinned by its strong portfolio of brands and wide geographic coverage in the hospitality and restaurant businesses, as well as its high but declining financial leverage.

We revise the rating outlook on MINT to "stable" from "negative". The outlook revision reflects the easing concerns over the impact from the Coronavirus Disease 2019 (COVID-19) pandemic and our expectation of strong recovery in MINT's operating results over the coming quarters despite macroeconomic and geopolitical uncertainties. The lifting of the pandemic-led travel restrictions and gradual return to social and economic normalcy support a firmer operational revival. We expect MINT to steadily restore its credit metrics, with its adjusted debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio falling below 7 times by 2023.

KEY RATING CONSIDERATIONS

Strong pent-up demand drives performance recovery

We expect MINT's hotel operations to continue reviving driven by pent-up demand and broad easing of COVID-19 restrictions worldwide. Our base-case scenario projects MINT's owned and leased hotel revenue per available room (RevPAR) in 2022 to be 5%-10% below pre-pandemic levels and grow by around 10% per annum during 2023-2024.

MINT's hotel operations in Europe are poised to lead the recovery. We project a 15%-20% year-on-year (y-o-y) rise in average daily rate (ADR) in 2022 due mainly to the inflationary pressure and strong pent-up demand. Recent labor shortages have also contributed to hotel operators focusing more on maintaining high ADR, rather than competing for higher occupancy. We expect room rate growth to be more normalized in 2023-2024 and RevPAR growth to be supported by increasing long-haul travels and the return of some group and business travelers.

We also anticipate hotel demand in Thailand to gain momentum in the second half of 2022 as COVID-19 restrictions are lifted. RevPAR recovery of hotels in Thailand could be slower than in Europe due, in part, to the subdued demand from Chinese and Russian tourists but the situation should gradually improve in 2023-2024. Meanwhile, we expect the performance of its management letting rights (MLRs) hotels, mainly in Australia, to continue delivering strong results exceeding 2019 levels during 2022-2024.

Food business to remain resilient

Our baseline projection forecasts MINT's food business revenue to be THB23-THB26 billion per year during 2022-2024. The revenue forecast includes revenue from its contract manufacturing business of around THB1 billion per annum after MINT's internal business restructuring. The projection reflects our view of business revival in Thailand with normalization of operating hours and tourism activities. On the other hand, food operations in China have been materially impacted by the country's Zero-COVID policy as most of the company's restaurants are in Shanghai and Beijing that recently faced strict

COVID-19 lockdowns. However, we expect the situation to improve and the business there to rebound strongly in the second half of 2022 as seen before in China.

Macroeconomic and geopolitical headwinds

We see the prolonged Russia-Ukraine conflict and inflationary pressure on global economy as the key downside risks. The higher cost of travel, resulting from the elevated fuel prices, is likely to dampen the recovery pace of the demand for hospitality services especially from long-haul travelers. Rising input cost and other negative impacts on global supply chain from the Russia-Ukraine conflict also pressure profitability, especially the food business. Efforts by major central banks to curb inflation by tightening monetary conditions have heightened the risk of recession in major economies in 2023.

Despite these headwinds, we believe the pent-up demand for leisure travel will be strong enough to pull forward the recovery of MINT's hotel operations at least over the next few quarters. Business travel, which may not return to pre-COVID-19 levels as virtual meetings could replace some of the demand, is also likely to start picking up later this year. As pent-up demand from Europe and other developed economies fades, demand could still come from China, which will be one of the last major economies to reopen, hopefully by next year.

In the food business, MINT has various measures to alleviate impacts on profit margins including active supply chain management, menu rationalization, and price increases. However, we view that MINT's ability to preserve the margin could be constrained by the inflationary pressure amid a weakening macroeconomic environment which could limit its ability to fully pass on the rising costs to consumers.

Improving financial profile

Under our base-case scenario, we project MINT's revenue to be around THB114 billion in 2022 and THB125-THB135 billion per annum during 2023-2024. Despite MINT's efforts to increase prices to absorb the rising costs, we still expect some pressure on MINT's profitability. Our base-case forecast projects the EBITDA margin to be around 23%-24% in 2022 and around 25%-27% in 2023-2024. This should translate into EBITDA of THB27 billion in 2022 before improving to THB31-THB35 billion per annum during 2023-2024. We will revisit our base-case assumptions if we see significantly slower-than-expected recovery pace.

We expect MINT's leverage to continue declining and stay at levels commensurate with the current ratings by 2023 as its operations improve. We project MINT's adjusted debt to EBITDA ratio to be around 8-8.5 times in 2022 before declining to below 7 times in 2023 and remaining at 5-6 times in 2024. The projection incorporates an assumption on MINT's capital expenditures of around THB6.5 billion in 2022 and THB10-THB11 billion per annum during 2023-2024. We also project that the company will have asset divestments/rotations of around THB2-THB2.5 billion in 2022 and a total of THB7-THB7.5 billion in 2023.

The calculation of adjusted debt includes guarantee commitments, lease obligations, and debt treatment of perpetual securities. Based on our rating criteria, we assign a 50% equity content to the THB15 billion domestically distributed perpetual securities but 0% equity content to the entire amount of USD600 million offshore perpetual debt issues.

As of March 2022, MINT had THB57 billion priority debt out of its total interest-bearing debt of THB167 billion. This translated into a priority debt to total debt ratio of 34%.

The main financial covenants on MINT's bank loans and debentures require the company's interest-bearing debt to equity ratio to remain below 1.75 times. MINT has received waivers from lenders on covenant testing until year-end 2022.

Adequate liquidity

We assess MINT to have adequate liquidity over the next 12 months. MINT's primary sources of funds comprise cash on hand of around THB18 billion as of March 2022, working capital facilities of around THB37 billion, and funds from operations (FFO) expected at around THB20 billion. Primary uses of funds are debt repayments of THB9 billion, lease obligations of around THB13 billion, and capital expenditures of THB5-THB8 billion. We expect the company to continue its prudent policy of preserving cash and maintaining sufficient liquidity to weather adverse operating conditions.

BASE-CASE ASSUMPTIONS

- RevPAR of owned and leased hotels in 2022 to be 5%-10% below pre-pandemic levels and grow by around 10% per annum during 2023-2024.
- Revenue from food business to be THB23-THB26 billion per annum during 2022-2024.
- Total revenue to be THB114 billion in 2022 and THB125-THB135 billion per annum during 2023-2024.
- EBITDA margin to be 23%-24% in 2022 and around 25%-27% in 2023-2024.
- Capital expenditures to be THB6.5 billion in 2022 and THB10-THB11 billion per annum during 2023-2024.
- Asset divestments/recycles projected at THB2-THB2.5 billion in 2022 and a total of THB7-THB7.5 billion in 2023.

RATING OUTLOOK

The “stable” outlook reflects our expectation of MINT’s continuing business recovery and improving credit metrics supported by the gradual revival of hospitality industry and return of social and economic normalcy despite pressure from macroeconomic uncertainty.

RATING SENSITIVITIES

Rating downward pressure could arise if MINT’s business recovery is significantly weaker than forecasts, or if the company makes additional sizable debt-funded investments. A rating upside is limited in the near term. However, a rating upgrade could occur when MINT’s business and financial profiles continue to improve such that its adjusted debt to EBITDA ratio stays well below 5 times on a sustained basis.

COMPANY OVERVIEW

MINT was founded in 1978 by Mr. William Ellwood Heinecke. As of March 2022, Group of Mr. Heinecke was the major shareholder, holding a 34% stake. The company has three main lines of business: hotel and mixed-use properties; restaurants; and retail trading, which includes contract manufacturing. For March 2022, the hotel and mixed-use business was the key revenue contributor, comprising 68% of MINT’s total revenue, followed by the restaurant business, 28%, and retail and lifestyle business, 4%, respectively.

At the end of March 2022, MINT’s hotel portfolio comprised 527 properties, with 75,805 keys, across Europe, the Asia Pacific region, Africa, the Middle East, and Latin America. The hotels are managed and operated under MINT's own brands, including Anantara, AVANI, Oaks, Tivoli, NH Collection, NH Hotels, nhow, and Elewana Collection, as well as well-recognized international brands, such as Four Seasons, JW Marriott, St. Regis, and Radisson.

MINT also develops residential property and timeshare businesses 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 250 units in inventory in Bali, Bangkok, Phuket, Samui, Chiang Mai, Queenstown (New Zealand), and Sanya (China) as of March 2022.

The Minor Food Group PLC (MFG) is MINT’s wholly-owned subsidiary operating in the restaurant business. MFG, established in 1980, is the largest restaurant operator in Thailand. MFG holds franchises for six international restaurant brands: Swensen’s, Sizzler, Dairy Queen, Burger King, Benihana, and Bonchon. MFG has its own brands, including The Pizza Company, The Coffee Club, Thai Express, Riverside, and Coffee Journey. MFG is able to leverage its own brands and some of the franchised brands to franchise businesses in Thailand and in international markets. At the end of March 2022, MINT had a total of 2,410 restaurant outlets located in over 20 countries, of which 50% were equity-owned and the remaining 50% 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 MINT’s umbrella. At the end of March 2022, MINT had 339 retail points of sale, 73% of which were fashion brands including Anello, Esprit, Bossini, Charles & Keith, and Radley. The balance was operated under home and kitchenware and lifestyle brands including Joseph Joseph, Zwilling J.A. Henckels, Bodum, and BergHOFF.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2022	--------------Year Ended 31 December			-------------
		2021	2020	2019	2018
Total operating revenues	20,132	74,440	58,119	122,001	77,070
Earnings before interest and taxes (EBIT)	(1,824)	(4,172)	(16,915)	17,627	11,474
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,910	16,177	1,950	33,038	17,324
Funds from operations (FFO)	577	6,118	(8,488)	19,880	11,445
Adjusted interest expense	2,406	9,876	8,479	10,865	4,875
Capital expenditures	1,165	5,085	6,745	14,705	9,724
Total assets	363,431	369,633	362,327	254,184	268,081
Adjusted debt	229,160	229,109	234,147	198,163	223,588
Adjusted equity	52,227	56,056	51,707	69,532	65,975
Adjusted Ratios					
EBITDA margin (%)	14.45	21.73	3.35	27.08	22.48
Pretax return on permanent capital (%)	(0.46)	(1.34)	(5.70)	6.04	5.54
EBITDA interest coverage (times)	1.21	1.64	0.23	3.04	3.55
Debt to EBITDA (times)	12.14	14.16	120.10	6.00	12.91
FFO to debt (%)	3.57	2.67	(3.63)	10.03	5.12
Debt to capitalization (%)	81.44	80.34	81.91	74.03	77.22

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Minor International PLC (MINT)

Company Rating:	A
Issue Ratings:	
MINT228A: THB2,700.00 million senior unsecured debentures due 2022	A
MINT237A: THB3,059.00 million senior unsecured debentures due 2023	A
MINT243A: THB4,635.00 million senior unsecured debentures due 2024	A
MINT243B: THB2,165.00 million senior unsecured debentures due 2024	A
MINT247A: THB3,501.00 million senior unsecured debentures due 2024	A
MINT249A: THB1,000.00 million senior unsecured debentures due 2024	A
MINT255A: THB4,000.00 million senior unsecured debentures due 2025	A
MINT255B: THB2,769.03 million senior unsecured debentures due 2025	A
MINT257A: THB3,440.00 million senior unsecured debentures due 2025	A
MINT267A: THB2,000.00 million senior unsecured debentures due 2026	A
MINT277B: THB2,230.97 million senior unsecured debentures due 2027	A
MINT283A: THB1,000.00 million senior unsecured debentures due 2028	A
MINT293A: THB1,815.40 million senior unsecured debentures due 2029	A
MINT293B: THB5,684.60 million senior unsecured debentures due 2029	A
MINT313A: THB1,200.00 million senior unsecured debentures due 2031	A
MINT313B: THB1,570.00 million senior unsecured debentures due 2031	A
MINT313C: THB2,430.00 million senior unsecured debentures due 2031	A
MINT329A: THB1,000.00 million senior unsecured debentures due 2032	A
MINT343A: THB3,070.00 million senior unsecured debentures due 2034	A
MINT343B: THB2,430.00 million senior unsecured debentures due 2034	A
MINT18PA: THB15,000.00 million subordinated capital debentures	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000