MINOR INTERNATIONAL PLC

No. 108/2023
15 June 2023

CORPORATES

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

Last Review Date: 12/05/23

Company Rating History:

Date	Rating	Outlook/Alert
07/06/22	A	Stable
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-	-

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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 ratings on MINT's subordinated capital debentures (hybrid debentures, MINT22PA and MINT23PA) at "BBB+". The rating outlook is "stable".

The ratings continue to reflect MINT's strong business profile, underpinned by its strong brand portfolio and wide geographic coverage in the hospitality and restaurant businesses. The ratings also factor in MINT's improving financial profile as its operating performance continues its post-pandemic recovery. We believe that MINT will be able to grow earnings and continue deleveraging, despite pressure from global economic headwinds and high inflation.

KEY RATING CONSIDERATIONS

Sustained strong hotel performance

We expect MINT to continue delivering satisfactory hotel performance, driven by both rises in occupancy rate (OR) and average daily rate (ADR). Our base-case scenario forecasts MINT's owned and leased hotel revenue per available room (RevPAR) to grow by around 15% year-on-year (y-o-y) in 2023 and then to grow moderately by a mid-single digit percentage annually in 2024-2025.

The forecast is based on our view that a strong rebound in hotel performance can be sustained in 2023 supported by recovery in business travel and increasing long-haul travel activities. These will drive OR higher with it set to return to pre-pandemic level by 2025. Meanwhile, we expect ADR to continue to rise, but at a slower rate compared with last year.

In Europe, we view ongoing solid intra-regional demand and business travel ramping-up as key drivers sustaining RevPAR above pre-pandemic levels despite the recession gloom. Over the longer-term, we expect more normalized travel patterns as flight constraints and cost inflation easing will bring in more long-haul travel demand. In Thailand, RevPAR recovery in the last few quarters was driven mainly by increased ADR while OR still lagged behind pre-pandemic levels. We view that rising demand from long-haul travel alongside increasing flights capacity and number of Chinese tourists should boost OR and support the performance of hotels in Thailand going forward. We also expect the performance of its management letting rights (MLRs) hotels, mainly in Australia, to continue being strong with robust domestic demand. Also, we anticipate intensified competition in the Maldives from both within the islands and other destinations to put pressure on hotels' RevPAR growth.

Growth in restaurant business

Driven by both same-store-sales growth and outlet expansion, we project MINT's revenue from the restaurant business to reach THB30-THB34 billion per annum during 2023-2025.

We expect revenue growth to be driven by its key brands such as "The Pizza Company", "Bon Chon", and "Sizzler". We also expect the performance of Riverside in China to rebound strongly from last year after the lifting of its zero-COVID policy. Improving tourism activity should benefit brands that target tourists such as "Burger King" and "The Coffee Club" in Thailand. We see the company to be more active in outlet expansion compared with the past few years.

We view that MINT's strong market position with well-perceived brands and competitive edge from scale will continue to support its performance in dynamic operating conditions going forward. Most of MINT's key restaurant brands are well-equipped to cater for both dine-in and delivery demand, following changing consumer lifestyle trends. The threat of a sluggish economic recovery and weak consumption sentiment pose a key downside risk that could slowdown MINT's restaurant business. However, we believe that active marketing strategies with menu reengineering, brand revitalization, and promotion campaigns should help keep the brands relevant and alleviate the pressure.

Pressure on profitability from rising costs

Our base-case scenario forecasts MINT's total revenue to be around THB143-THB160 billion per annum during 2023-2025 as we see all MINT's businesses emerge from the pandemic slump. Although increasing business volume will yield some operating leverage, we expect that sustained high inflation tends to compress its profitability. MINT passes on part of its heightened operating expenses to customers via increased hotels' ADR and menu prices. However, it is constrained by vulnerable discretionary spending sentiment amid recessionary threats in major economies. Cost rationalizing measures implemented during the pandemic period might only partially be sustained as businesses expand. As a result, we expect the company's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to stay around 25%-27% in 2023-2025. EBITDA is forecast at THB36-THB42 billion per annum during 2023-2025.

We project the company's funds from operations (FFO) to be THB24-THB30 billion per annum during 2023-2025. Sequential interest rate hikes have impacted MINT's funding cost. During the past 12 months, from the first quarter of 2022, MINT's average cost of debt rose by around 1.5%. MINT's active debt management, including debt prepayment, refinancing, and hedging strategies has helped alleviated the impact of rising interest rates. At the end of March 2023, MINT's debt profile, including perpetual securities, was 57% of fixed interest rates and 43% of floating rates. The debt exposures were mainly in Euro and Thai Baht, accounting for 64% and 27% of total debts, respectively. Going forward, we expect the impact of rising interest rates on FFO to be manageable as we anticipate the rate hike by policy makers to be at a slower pace.

Improving leverage

We expect MINT's leverage to continue declining with an adjusted debt to EBITDA ratio of 5-6 times in 2023-2024 and falling below 5 times in 2025, driven by improving earnings. With a strong recovery in operations, the company will likely focus on growth and investment opportunities, that were put on hold during the pandemic. Our baseline projection incorporates the expected jump in capital expenditures and investment to be around THB19 billion in 2023 and THB11-THB15 billion per annum during 2024-2025.

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 a total of THB23.5 billion domestically distributed perpetual securities but 0% equity content to the entire amount of USD600 million offshore perpetual debt issues.

As of March 2023, MINT had THB44 billion priority debt out of its total interest-bearing debt of THB154 billion. This translated into a priority debt to total debt ratio of 29%.

The main financial covenants on MINT's debt obligations require the net interest-bearing debt to equity ratio to remain below 1.75 times. As of March 2023, the ratio was 0.94 times. We believe the company should have no problem complying with the financial covenants over the forecast period.

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 THB23 billion as of March 2023, working capital facilities of around THB32 billion, and FFO projected to be THB25-THB27 billion. We also expect MINT will receive around THB7 billion from warrants exercised. Primary uses of funds are debt repayments of THB20 billion, redemption of USD300 million offshore perpetual debt issues, lease obligations of around THB13 billion, dividend payment of THB1.3 billion, and capital expenditures of THB15-THB20 billion.

BASE-CASE ASSUMPTIONS

- RevPAR of owned and leased hotels to grow by around 15% y-o-y in 2023 and to grow moderately by mid-single digit percentage per year in 2024-2025.
- Revenue from food business to be THB30-THB34 billion per annum during 2023-2025.
- Total revenue to be THB142-THB159 billion per annum during 2023-2025.
- EBITDA margin to be 25%-27% during 2023-2025.
- Capital expenditures and investments to be THB19 billion in 2023 and THB11-THB15 billion per annum during 2024-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MINT's improving operating and financial performances will continue. We expect the company 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 and adverse changes in operating conditions.

RATING SENSITIVITIES

A rating upgrade could occur as MINT's business and financial profiles continue to improve such that its adjusted debt to EBITDA ratio remains well below 5 times on a sustained basis. Conversely, a rating downgrade could materialize if MINT's financial metrics are materially weaker than forecast either from adverse operating conditions or sizable debt-funded investments.

COMPANY OVERVIEW

MINT was founded in 1978 by Mr. William Ellwood Heinecke. As of March 2023, Group of Mr. Heinecke was the major shareholder, holding a 33% stake. The company has three main lines of business: hotel and mixed-use properties; restaurants; and retail trading, which includes contract manufacturing. For March 2023, the hotel and mixed-use business was the key revenue contributor, comprising 74% of MINT's total revenue, followed by the restaurant business, 24%, and lifestyle business, 2%, respectively.

At the end of March 2023, MINT's hotel portfolio comprised 533 properties, with 78,226 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 288 units in inventory in Bali, Bangkok, Phuket, Samui, Chiang Mai, Khao Lak, Queenstown (New Zealand), and Sanya (China) as of March 2023.

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 2023, MINT had a total of 2,540 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 2023, MINT had 282 retail points of sale, 78% of which were fashion brands including Anello, Bossini, and Charles & Keith. The balance was operated under home and kitchenware and lifestyle brands including Joseph Joseph, Zwilling J.A. Henckels, and BergHOFF.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		--------------Year Ended 31 December --------			
	Jan-Mar 2023	2022	2021	2020	2019
Total operating revenues	31,887	120,523	74,440	58,119	122,001
Earnings before interest and taxes (EBIT)	2,220	13,631	(4,172)	(16,915)	17,627
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,777	33,170	16,177	1,950	33,038
Funds from operations (FFO)	3,826	21,571	6,118	(8,488)	19,880
Adjusted interest expense	2,765	10,131	9,876	8,479	10,865
Capital expenditures	1,692	5,030	5,085	6,745	14,705
Total assets	362,049	358,210	369,633	362,327	254,184
Adjusted debt	208,242	212,055	229,109	234,147	198,163
Adjusted equity	64,734	60,167	56,056	51,707	69,532
Adjusted Ratios					
EBITDA margin (%)	21.25	27.52	21.73	3.35	27.08
Pretax return on permanent capital (%)	5.94	4.50	(1.34)	(5.70)	6.04
EBITDA interest coverage (times)	2.45	3.27	1.64	0.23	3.04
Debt to EBITDA (times)	5.62	6.39	14.16	120.10	6.00
FFO to debt (%)	11.92	10.17	2.67	(3.63)	10.03
Debt to capitalization (%)	76.29	77.90	80.34	81.91	74.03

RELATED CRITERIA

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

Minor International PLC (MINT)

Company Rating:	A
Issue Ratings:	
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
MINT22PA: THB13,000.00 million subordinated capital debentures	BBB+
MINT23PA: THB10,500.00 million subordinated capital debentures	BBB+
Up to THB3,000.00 million senior unsecured debentures and additional greenshoe portion of up to THB1,000 million due within 12 years	A
Rating Outlook:	Stable

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