Press Release

No. 88/2017
11 May 2017

TRIS Rating Assigns Company Rating of "MM" at "BBB-" with "Stable" Outlook

TRIS Rating has assigned the company rating of Mudman PLC (MM) at "BBB-" with "stable" outlook. The rating reflects the position of MM in the chain restaurant and quick service restaurant (QSR) market segment, as well as its well-recognized brands and improving balance sheet. The rating takes into consideration the growth prospects of the chain restaurant and QSR segment. These strengths are offset by MM's earnings growth challenge amid intense competition, a sluggish economy which limits consumer spending, and looming capital expenditures.

The "stable" outlook is based on the expectation that MM will maintain its market position and keep improving operating performance. The credit rating of MM could be revised upward if the operating performance and ability to generate cash flow improve substantially while maintaining sound balance sheet. The rating downside case would be triggered by the weaker-than-expected operating performance for a prolonged period of time or aggressive debt-funded investments.

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

MM is the master franchisee of the Dunkin' Donuts, Au Bon Pain, and Baskin Robbins brands in Thailand. MM has the exclusive rights to produce and distribute products under these brands in Thailand. In July 2014, MM expanded into the full service dining segment by acquiring the Greyhound Group (Greyhound). Greyhound operates "Greyhound Cafe" (GHC), a chain restaurant, and it also produces and distributes "Greyhound" fashion and lifestyle products. In the markets abroad, MM franchised the GHC restaurant in several countries in Asia. In addition, MM operates a hospital food court, using the M-Kitchen brand, and provides inpatient food services in a private hospital.

As of December 2016, MM operated 427 food outlets and one food court. All stores in Thailand are owned by MM Group. MM's four food brands are well-established in Thailand: Dunkin' Donuts (307 outlets), Au Bon Pain (72), Baskin Robbins (34), and Greyhound Cafe (14). In 2016, the Dunkin' Donuts, Au Bon Pain, and Baskin Robbins brands comprised about 70% of its total revenue in 2016. GHC generated about 24%, followed by the fashion and lifestyle segment (6%).

MM's business profile reflects its position in the restaurant and QSR market segment and its well-known brands. MM's business strength is supported by the growth prospects in the restaurant and QSR market segment. The market is expected to keep growing, driven by changing consumer lifestyles and growing demand for a wider variety of food.

MM's risk profile takes into account the intense competition in the chain restaurant and QSR industry. The industry has low barriers to entry due to low initial capital requirement. Substitution is common. Given fragmented market, MM faces the competition from the wide variety of food providers and rivals' promotional campaigns. Intense competition will drive high level of promotions and discounting, to draw customers. In addition, MM faces the consequences of a sluggish economy. The economic slowdown might cut consumer spending and affect revenue and same-store sales growth.

MM reported sales of Bt2,889 million in 2016, up 3% from 2015. Revenue grew at an average annual rate of 16% during the last four years, mainly due to the consolidation of Greyhound since 2014 and the opening of more outlets, despite the decline in revenue from the fashion and lifestyle segment. The slowdown in domestic economy resulted in falling traffic in the food stores. Same-store sales fell in 2014 and in 2015 but rose only slightly in 2016. MM's scale is relatively small, compared with its rated peers. The market coverage is moderate. Going forward, MM plans to add about 20-25 outlets annually in Thailand. MM faces a challenge in finding good locations for new outlets, while boosting same store sales.

During the last two years, MM has moved to a greater emphasis on GHC, its own restaurant brand. GHC outlets are clustered in Bangkok and big cities. The company plans to add more 2-3 outlets annually in Thailand. As of December 2016, MM had franchised 14 GHC outlets in four Asian countries. MM plans to add more stores abroad and is looking for opportunities in the European market. The company is building a new outlet in London, slated to open in the last quarter of this year. The London outlet will be MM's flagship store in Europe serving as a prototype store for the European market. MM faces challenges

(Continue on page 2)

in building GHC's brand recognition in a new market. If the expansion is fruitful, MM will add more outlets in Europe through franchising.

MM's financial profile reflects its earnings growth challenge in highly competitive market, small but improving cash flow, and acceptable liquidity. The EBITDA margin (the earnings before interest, tax, depreciation, and amortization as a percentage of sales) was relatively low, registering 9% in 2015 and 8.9% in 2016. MM's profitability is challenged by a rise in the raw material cost, plus higher labor cost and area space rental fee. Intense competition has resulted in high selling and administrative expenses (SG&A) because of the marketing promotions to draw customers. MM reported a loss of Bt43 million in 2015 and Bt168 million in 2016 (including a loss of Bt155 million from the asset impairment). Funds from operations (FFO) remain small, but improving. FFO was Bt185 million in 2016, rising from Bt164 million in 2015. The liquidity profile is acceptable. In 2016, the FFO to total debt ratio was 17% and the EBITDA interest coverage ratio was 4.5 times. Total outstanding debt was Bt1,070 million at the end of 2016. The debt to capitalization ratio was 37%.

Going forward, TRIS Rating expects MM's capital structure and liquidity profile to improve. MM was listed on the MAI on 11 April 2017. The company received about Bt1,100 million in cash from the initial public offering (IPO). The proceeds were used to repay about Bt700 million of outstanding debt and add more outlets.

TRIS Rating holds the view that the current slowdown in the domestic economy will continue until late 2017 and squeeze same-store sales growth. During 2017-2019, TRIS Rating's base-case scenario assumes MM's revenues will grow at an average annual growth rate of 10%, driven mainly by increases in the number of outlets and the consolidation of revenue from a new London store. The expansion abroad will boost revenues in the medium term. However, new outlets may take time to ramp up revenue and profit. The company is expected to manage efficiently the SG&A expenses and adopts cost saving initiatives, to improve the profit margin.

During 2017-2019, FFO will range from Bt200-Bt460 million per annum. The liquidity profile is expected to improve. The FFO to total debt ratio is forecast to stay over 45%. During 2017-2019, TRIS Rating forecasts MM's capital investments of about Bt1,400 million in total, mainly to add new food outlets in Thailand and abroad. The debt to capitalization ratio is expected to stay below 20%. MM is seeking opportunities in the food segment. The future investment or acquisition, if any, should be prudently considered to strengthen its business profile.

Mudman PLC (MM)	
Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd./www.trisrating.com
Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand