

MUD & HOUND PLC

No. 235/2024
23 December 2024

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 25/03/24

Company Rating History:

Date	Rating	Outlook/Alert
25/03/24	BBB-	Stable
21/04/20	BBB-	Negative
11/05/17	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Mud & Hound PLC (MUD) to “BB+” from “BBB-” with a “stable” outlook. The downgrade follows the downgrade of the company rating on Sub Sri Thai PLC (SST, rated “BB+/Stable”), its parent company. The company rating on MUD is equal to the company rating on SST as we maintain our assessment of MUD’s group status as a “core subsidiary” of SST. We expect MUD will continue to contribute significant EBITDA to the group.

KEY RATING CONSIDERATIONS

A core subsidiary of SST Group

We assess MUD to be a core subsidiary of SST group as we view the company as integral to SST as a restaurant business operator of the group. As of March 2024, SST held a controlling stake of 67% in MUD. SST actively guides MUD’s business direction and financial targets through its board of directors and management, while MUD contributes a significant proportion of the group’s earnings. In the first nine months of 2024, MUD contributed around 77% of SST group’s overall EBITDA and we expect the contribution to remain at around 70% throughout the forecast period.

Weakening restaurant business

MUD’s revenue declined by 13% year-on-year (y-o-y) to THB2.3 billion. This reversal of the 2023 recovery trend is primarily attributable to a revenue decline in Dunkin’ (-17%), Greyhound Café (-14%), and overseas restaurants, while being partially offset by a 5% (y-o-y) increase in Au Bon Pain revenue. The weak performance of Dunkin’ kiosks, hastily opened during the 2020-2023 period, is largely the result of sluggish consumer spending and intense competition. Greyhound Café’s revenue decline stems from falling same-store-sales and the closure of underperforming branches.

To address these challenges, MUD plans to prioritize existing store efficiency, close underperforming locations, enhance product quality and offerings, and reduce reliance on heavy promotions. TRIS Rating forecasts MUD’s revenue to decline by 15% to THB3 billion in 2024 and by a further 4% to THB2.9 billion in 2025 due to the expected closures of underperforming Dunkin’ kiosks and potential closures of certain Greyhound Café, Au Bon Pain, and overseas restaurant outlets. However, a marginal revenue growth is projected for 2026-2027. Its EBITDA margin is anticipated to decrease to 13% in 2024 due to weak sales and closure-related expenses, before improving to 17% in 2025-2027 as the company implements its restructuring efforts and phases out loss-making operations.

International restaurant ventures face challenges

MUD’s international restaurant ventures have continued to underperform expectations, with a notable deterioration in 2024. Overseas restaurant revenue declined by 11% (like-for-like) in the first nine months of 2024, accompanied by a deeper year-on-year negative EBITDA. Performance of the recently opened Thai Hey by Greyhound Café in Nancy, France, has also fallen short of the company’s expectations. In response to these challenges, MUD plans to divest some underperforming restaurants in 2024-2025. The success of these divestiture plans remains uncertain.

TRIS Rating views MUD's overseas expansion as adding uncertainty to its business risk profile. The diverse operating environments of the restaurant industry across different countries, coupled with the company's lack of managerial capacity for efficient operations in unfamiliar markets, have hindered its international ventures. To address these issues, the company has appointed new management with industry experience to oversee its overseas restaurants. The success of these turnaround efforts remains to be seen.

Tight liquidity

We assess MUD's liquidity to be tight over the next 12 months. The company's sources of funds comprised cash and cash equivalents of around THB90 million as of September 2024 and projected cash flow from operations of around THB350 million in 2025. The company's uses of funds include debt repayments of around THB860 million, expected lease payments of around THB350 million, and expected capital expenditures of THB110 million. MUD may need to refinance a major portion of its debts coming due and secure additional funding to meet its investment plan.

BASE-CASE ASSUMPTIONS

- Revenue to drop to THB3.0 billion in 2024 and to around THB2.9 billion per annum in 2025-2027.
- EBITDA margin of 13% in 2024 and 17% in 2025-2027.
- Capital spending of around THB100-THB110 million per annum in 2024-2027.

RATING OUTLOOK

The "stable" outlook is based on the rating outlook assigned to SST. We expect MUD to remain a core subsidiary of SST group.

RATING SENSITIVITIES

Any change in SST's credit profile or in our assessment of MUD's core status within the SST group could affect the company rating on MUD.

COMPANY OVERVIEW

MUD was established in 2006 and listed on the Market for Alternative Investment (MAI) on 11 April 2017. As of March 2024, SST, a warehouse and document storage service provider, was the major shareholder, owning 67% of MUD's paid-up shares. The company has two lines of business: food and beverage and fashion apparel. The company is the master franchisee of the Dunkin' Donuts and Au Bon Pain 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. MUD also operates a hospital food court under the M-Kitchen brand and provides in-patient food services in a private hospital. Additionally, MUD has six restaurants in France including Le Grand Vefour, Pasco, Augustin, A-Noste, La Mere Lachaise, and Thai Hey by Greyhound Cafe.

KEY OPERATING PERFORMANCE

Table 1: Sales Contribution

Business Line	2020		2021		2022		2023		9M24	
	Million THB	%	Million THB	%	Million THB	%	Million THB	%	Million THB	%
Dunkin' Donuts	873	40	1,013	47	1,320	43	1,543	45	994	42
Au Bon Pain	401	19	333	15	435	14	515	15	398	18
Baskin Robbins	63	3	51	2	24	1	0	0	0	0
Greyhound Cafe	579*	27	405*	19	663	22	725	21	438	19
Greyhound Fashion and Lifestyle	149	7	165	8	252	8	284	8	201	9
Le Grand Vefour	43	2	103	5	129	4	122	4	82	4
Simon Says Shabu					33	1	48	1	13	1
Funky Fries					51	2	61	2	37	2
Others	59	2	98	4	157	5	155	4	96	5
Eliminations	-1	0	-2	0	-2	0	-4	0	-3	0
Total sales	2,166	100	2,166	100	3,062	100	3,449	100	2,256	100

* Including GHC London

Source: MUD

Table 2: Number of Outlets as of September 2024

Food Outlets	Outlet Number	Type of Restaurant
Dunkin' Donuts	670	QSR
Au Bon Pain	72	QSR
Greyhound Café	34*	Full service restaurant
Simon Says Shabu	-	Buffet Shabu
Funky Fries	33	QSR
Le Grand Vefour	1	French restaurant
Pasco	1	French restaurant
Augustin	1	French restaurant
A-Noste	1	Tapas restaurant
La Mere Lachaise	1	French restaurant
Thai Hey by Greyhound Cafe	1	Thai street food restaurant
Total outlets	815	

* Including GHC London and Beanhound

Source: MUD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	2,315	3,552	3,168	2,316	2,316
Earnings before interest and taxes (EBIT)	(66)	112	90	(17)	(147)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	300	594	503	425	354
Funds from operations (FFO)	198	450	382	321	266
Adjusted interest expense	97	126	113	99	85
Capital expenditures	74	214	314	233	245
Total assets	4,878	5,183	5,252	4,897	4,792
Adjusted debt	2,372	2,328	2,282	1,925	1,796
Adjusted equity	1,906	2,078	2,128	2,110	2,236
Adjusted Ratios					
EBITDA margin (%)	13.0	16.7	15.9	18.3	15.3
Pretax return on permanent capital (%)	(1.2)	2.4	2.0	(0.4)	(3.5)
EBITDA interest coverage (times)	3.1	4.7	4.4	4.3	4.1
Debt to EBITDA (times)	5.4	3.9	4.5	4.5	5.1
FFO to debt (%)	12.8	19.3	16.7	16.7	14.8
Debt to capitalization (%)	55.4	52.8	51.7	47.7	44.5

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Mud & Hound PLC (MUD)

Company Rating:	BB+
Rating Outlook:	Stable

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