TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

MINOR INTERNATIONAL PLC

No. 104/2020
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CORPORATES

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

Last Review Date: 27/03/20

Company Rating History:

Date	Rating	Outlook/Alert
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 removes the “CreditAlert” with “negative” implication on Minor International PLC (MINT) and affirms the company rating on MINT and the ratings on its existing senior unsecured debentures at “A” and the rating on its subordinated perpetual debentures (hybrid debentures, MINT18PA) at “BBB+”. At the same time, TRIS Rating assigns a “negative” outlook to the ratings.

The “negative” outlook reflects our view that MINT will continue to face operational challenges through 2020-2021, as we expect hospitality businesses will continue to be affected by travel restrictions for an extended period of time. The social distancing norms that have evolved from the fear of contracting the coronavirus (COVID-19) could also be a negative factor hindering the revival of hospitality businesses. The uncertainty on the pace of business recovery means MINT’s credit profile will remain under pressure in the medium term.

The ratings continue to reflect MINT's strong business profile, underpinned by its strong portfolio of brands and wide geographic coverage in the hospitality and restaurant businesses. We project MINT’s operating revenue to drop drastically in 2020, before gradually recovering in 2022, closer to pre-COVID-19 levels. The company has implemented various aggressive cost-cutting measures to minimize operating losses during this extended period of weak demand. The company has also taken decisive steps to halt dividend payments and inject THB10 billion in fresh capital to alleviate the impact of the expected deep operating losses in 2020 on its balance sheet. MINT has secured various funding sources to strengthen its liquidity position and mitigate short-term liquidity risk.

KEY RATING CONSIDERATIONS

Hotel operations to take at least 24 months to recover to pre-COVID-19 levels

Hospitality is one of the sectors severely affected by the fallout of the COVID-19 pandemic. Travel restrictions imposed across countries have caused a deep slump in the hospitality sector worldwide, particularly in the second quarter of 2020. Although many countries have begun easing lockdown measures and reopened their borders to some extent, some forms of travel restrictions will likely remain for an extended period of time. The concern on air-travel safety may also deter the resumption of long-haul international travel for the next several quarters. Apart from health concerns, the drop in air transport capacity could also be a deterring factor as the harshly hit aviation industry could take some time to recover. Adding the impact of the global recession on travel demand, we assess it will take at least 24 months for the demand for hospitality services to recover to pre-COVID-19 levels.

Our base-case scenario assumes MINT’s owned and leased hotel revenue per available room (RevPAR) to drop by around 60% in 2020. Despite the improving trend, we project RevPAR in 2021 to stay around 30% below the 2019 level and RevPAR in 2022 to be around 10% below the 2019 level. Our forecast is based on the assumption that MINT’s owned and leased hotels will fully reopen in the fourth quarter of 2020 or the first quarter of 2021. We expect the revival of operations during the period from the reopening until mid-2021 will be driven mainly by domestic and regional travelers, especially its hotel operations in Europe by NH Hotels Group SA (NHH). For MINT’s owned and leased hotels in Thailand and Asia, we expect a slower pace of recovery compared with Europe as most of MINT's hotels in this region are in the upscale and luxury segment catering more to international travelers than domestic travelers. We also expect the RevPAR of its management letting rights (MLRs) hotels to be on a slow recovery path but at a faster pace than in other regions as it relies mainly on domestic demand.

Ongoing challenges for food business

MINT's restaurant business has also been hit hard by the pandemic and lockdown measures, particularly in its key hubs -- Thailand, Australia, and China. MINT has strengthened its delivery platforms during the past few years which helps mitigate the negative impact. However, we view that MINT's restaurant operations will continue to be under pressure due to sobering consumer sentiment post-COVID-19 and the intense competition by nature in the restaurant business.

Our base-case assumption projects MINT's revenue from the restaurant business to decline by about 20% in 2020 and improve in 2021, but still be about 10% lower than the 2019 level. We expect MINT's restaurant business to restore to the pre-pandemic level in 2022. Our revenue assumption takes into account ongoing subdued same-store-sales and some outlet rationalizations while outlet expansion is expected to be at a slow pace considering the unsupportive macroeconomic conditions.

Cost cutting to drive operating cash flows

With the drastic drop in revenue, we expect MINT to rely on cost cutting to alleviate the impact on operating performance. The company targets to reduce operating expenses by 25%-30% year-on-year (y-o-y) in 2020. However, despite its cost cutting efforts, especially in the hotel business, the majority of MINT's hotels are owned and leased with high operating leverage, which amplifies the effect on profitability in times of weak sales.

Our base-case forecast projects a y-o-y revenue drop of around 50% in 2020, and a rebound to around THB97 billion in 2021, which would still be about 20% lower than the 2019 level, and a continued rise to THB118 billion in 2022 – a level close to that of 2019. We expect the company's earnings before interest, tax, depreciation, and amortization (EBITDA) to drop at a larger extent compared with revenue in 2020, because of the high operating leverage. Our base-case forecast projects EBITDA to drop over 70% y-o-y in 2020 and rebound in 2021 but to still be about 20% lower compared with 2019. EBITDA is forecast to rise to around THB32 billion in 2022, which is close to pre-COVID-19 levels as revenues continue along a recovery path alongside tight cost controls.

Capital injection to alleviate the impact on financial metrics

The abrupt drop in operating cash flow has weakened MINT's financial metrics considerably and protracted its deleveraging plan. We view MINT's capital injection plan of around THB10 billion and the recently issued USD300 million perpetual securities as important steps to support its capital structure and increase headroom for the financial covenants of its debt obligations.

We forecast MINT's adjusted ratio of debt to EBITDA to spike in 2020 and stay elevated well over 7 times in 2021 before declining to around 6.5 times in 2022. Our forecast incorporates assumptions on executions of some asset divestments/recycles, in accordance with the company's plan to manage its balance sheet. 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 securities.

Cash preservation supports liquidity position

In addition to the capital increase and issuance of perpetual securities, MINT has taken steps to preserve cash and strengthen its liquidity position which will help provide it with a sufficient cushion to withstand short-term liquidity risk through 2021.

At the end of April 2020, MINT had cash on hand of around THB22.2 billion and working capital facilities of around THB27 billion. NHH also secured EUR250 million in loans in May 2020. MINT's funds from operations (FFO) are expected to be slightly negative in 2020 and expected to be about THB17 billion in 2021.

For 2020, MINT has scaled down its capital expenditure plan by THB7-THB10 billion and canceled dividend payments of THB2.3 billion. The primary uses of funds through the remainder of 2020 are debts maturing around THB9.6 billion, lease obligations of approximately THB5-THB6 billion, and capital expenditures of THB6-THB7 billion. In 2021, its primary uses of funds will include debt repayments of approximately THB15-THB16 billion, lease obligations of about THB12-THB13 billion, and capital expenditures of THB10-THB12 billion.

If the recovery proceeds as forecast, we expect the company to be able to weather this industry downturn particularly in 2020-2021. Additionally, as MINT owns sizable hotel assets, asset rotation can also help support its liquidity needs. We expect the company to prudently preserve cash and maintain sufficient liquidity during this period of high operating risk and adequate headroom for its financial flexibility.

BASE-CASE ASSUMPTIONS

- RevPAR of owned and leased hotels to drop by about 60% in 2020, rebound in 2021, but still be around 30% below the 2019 level, and continue rebounding in 2022 to around 10% below the 2019 level.
- Revenue from the restaurant business to decline by about 20% in 2020, rebound in 2021 to about 10% below the 2019 level, and restore to the pre-pandemic level in 2022.
- Total revenue to drop by 50% y-o-y in 2020 before rebounding to around THB97 billion in 2021, and around THB118 billion in 2022.
- EBITDA to drop over 70% y-o-y in 2020, rebound in 2021 but still about 20% lower compared to 2019, and rise to around THB32 billion in 2022.
- Capital expenditures of THB10-THB13 billion annually during 2020-2022.

RATING OUTLOOK

The “negative” outlook reflects our view that MINT’s credit metrics will continue to be under pressure, as there is still a high degree of uncertainty with respect to the pace of business recovery driven by the pandemic situation and economic conditions.

RATING SENSITIVITIES

The outlook could be revised to “stable” if the company’s operating performance steadily recovers and the company maintains sufficient liquidity to weather adverse operating conditions. A rating downgrade could happen if the effect of the COVID-19 fallout turns out to be more severe than expected or the deterioration in MINT’s credit metrics materially exceeds our expectation, or MINT’s liquidity position deteriorates materially.

COMPANY OVERVIEW

MINT was founded in 1978 by Mr. William Ellwood Heinecke. As of May 2020, Group of Mr. Heinecke was the major shareholders, holding 33% 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 2019, the hotel and mixed-use business was the key revenue contributor, comprising 76% of total revenue, followed by the restaurant business, 20%, and retail and lifestyle business, 4%, respectively.

As of March 2020, MINT’s hotel portfolio comprised 530 properties, with 76,320 keys, across 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 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 241 units in inventory in Bali, Bangkok, Phuket, Samui, Chiang Mai, Queenstown (New Zealand), and Sanya (China) as of March 2020.

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, Thai Express, Riverside, Benihana, and Bonchon. MFG is able to leverage its own brands and some of the franchised brands to franchise businesses in Thailand and in international markets. In March 2020, MINT had a total of 2,362 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 the MINT umbrella. At the end of March 2020, MINT had 473 retail points of sale, 83% of which were fashion brands including Anello, Esprit, Bossini, Charles & Keith, Radley, Etam, OVS, and Brooks Brothers. The balance was operated under home and kitchenware brands including Joseph Joseph, Zwilling J.A. Henckels, and Bodum.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil.THB

		----------------Year Ended 31 December ------------			
	Jan-Mar 2020	2019	2018	2017	2016
Total operating revenues	22,298	121,835	77,070	57,029	53,158
Earnings before interest and taxes (EBIT)	(544)	17,461	11,474	8,583	7,435
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,426	32,872	17,324	12,815	12,290
Funds from operations (FFO)	2,737	19,714	11,161	9,853	9,065
Adjusted interest expense	2,027	10,865	4,875	2,176	2,192
Capital expenditures	2,897	14,705	9,724	6,646	6,080
Total assets	360,514	254,184	268,081	119,100	108,453
Adjusted debt	223,544	198,163	223,588	54,980	57,430
Adjusted equity	63,899	69,532	65,975	50,504	40,797
Adjusted Ratios					
EBITDA margin (%)	19.85	26.98	22.48	22.47	23.12
Pretax return on permanent capital (%)	4.40	5.99	5.54	7.99	7.59
EBITDA interest coverage (times)	2.18	3.03	3.55	5.89	5.61
Debt to EBITDA (times)	7.39	6.03	12.91	4.29	4.67
FFO to debt (%)	8.28	9.95	4.99	17.92	15.78
Debt to capitalization (%)	77.77	74.03	77.22	52.12	58.47

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:	
MINT213A: THB2,800.00 million senior unsecured debentures due 2021	A
MINT213B: THB480.90 million senior unsecured debentures due 2021	A
MINT213C: THB1,019.10 million senior unsecured debentures due 2021	A
MINT21OA: THB300.00 million senior unsecured debentures due 2021	A
MINT223A: THB4,079.70 million senior unsecured debentures due 2022	A
MINT223B: THB3,620.30 million senior unsecured debentures due 2022	A
MINT228A: THB2,700.00 million senior unsecured debentures due 2022	A
MINT243A: THB4,635.00 million senior unsecured debentures due 2024	A
MINT243B: THB2,165.00 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
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:	Negative

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