Small Cap Research

Thanachart Securities

BUY (Unchanged)

Change in Numbers

TP: Bt 63.00 (From: Bt 64.00)

Upside : 21.2%

10 SEPTEMBER 2021

MK Restaurant Group (M TB)

A better post-lockdown play

M stands out among many post-lockdown plays and we reiterate BUY. While its restaurant business turned around swiftly post-lockdown last year, M's valuation looks cheap at 18x PE based on a full-scale turnaround in 2023F vs. its 25x pre-COVID average.

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Reiterate BUY

We reaffirm BUY on M with a DCF-based 12-month TP (2022F base year) of Bt63 (from Bt64). *First*, M, which runs restaurant chains, is a rapid business turnaround play in our view. Similar to the post-lockdown period last year, we expect a substantial earnings swing to a Bt385m profit in 4Q21F vs. a Bt130m loss in 3Q21F. *Second*, given M's swift business turnaround nature, after falling 65% in 2020 and 73% in 2021F, we expect its earnings to surpass its 2019 base by 3% in 2023F. *Third*, M's valuation looks cheap to us trading at 18x PE based on a full-year turnaround in 2023F, or more than 2 STD below its pre-COVID average of 25x. Our TP implies that M trades on a 22x PE in 2023F. We believe M, as a net-cash company with a 47% ROIC and 19% ROE in a normal year in 2023F, should trade comfortably above 20x.

A big swing to profit in 4Q21F

Due to dine-in curbs during July-August, we expect M to make a loss of Bt130m in 3Q21F. However, this shouldn't surprise the market given the Bt247m loss it made during in its first lockdown quarter in 2Q20. On the flip side, we expect M to swiftly turn around and make a Bt385m profit in the post-lockdown quarter in 4Q21F, despite we assume the government will still not fully relax dine-in restaurant restrictions. The Bt385m profit would be up 10% y-y but still 41% below the pre-COVID level in 4Q19. We cut our earnings by 54% this year to reflect the lockdown hit and trim 2022F by 5% but leave our 2023F numbers unchanged.

Potential market share gains

Like many other businesses, the two-year COVID crisis has driven many companies out of business. Restaurants have been one of the hardest-hit sectors from the lockdown and disappearing tourism. This is benefitting deep-pocketed companies, including M, that should gain market share when the turnaround arrives. Research unit Krungthai Compass estimates the recent lockdown to have knocked around 22% off from the Bt450bn restaurant industry. Note that despite some loss-making periods, M was still in a net-cash position of Bt7bn in 2Q21.

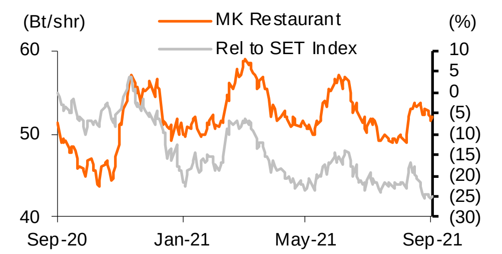
Growth drivers

In 2022-23F, our growth factor assumptions are 25/14% same-store sales growth, branch expansion of 7/3% from 711 in 2021F to 790 in 2023F, and EBIT margin rising from 0.2% in 2021F to 16.9% in 2023F on the operating leverage impact. Note that same-store sales include delivery sales by each branch. Due to COVID, delivery sales rose to Bt1,600m in 2020 and Bt800m in 1H21 vs. Bt1,200m in 2019, when they made up 7% of sales, on our estimate. We project this portion to rise to 13% of sales in 2023F. M plans to invest more in its delivery business to expand its client base.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	13,361	11,659	15,337	18,010
Net profit	907	243	1,707	2,689
Consensus NP	—	340	1,690	2,255
Diff frm cons (%)	—	*(28.6)*	*1.0*	*19.3*
Norm profit	907	243	1,707	2,689
Prev. Norm profit	—	529	1,788	2,687
Chg frm prev (%)	—	*(54.0)*	*(4.5)*	*0.1*
Norm EPS (Bt)	1.0	0.3	1.9	2.9
Norm EPS grw (%)	(65.1)	(73.2)	602.1	57.5
Norm PE (x)	52.8	197.0	28.1	17.8
EV/EBITDA (x)	13.5	20.5	10.6	8.1
P/BV (x)	3.5	3.6	3.4	3.3
Div yield (%)	1.9	0.5	3.6	5.6
ROE (%)	6.5	1.8	12.6	19.0
Net D/E (%)	(55.2)	(61.6)	(60.5)	(61.6)

PRICE PERFORMANCE

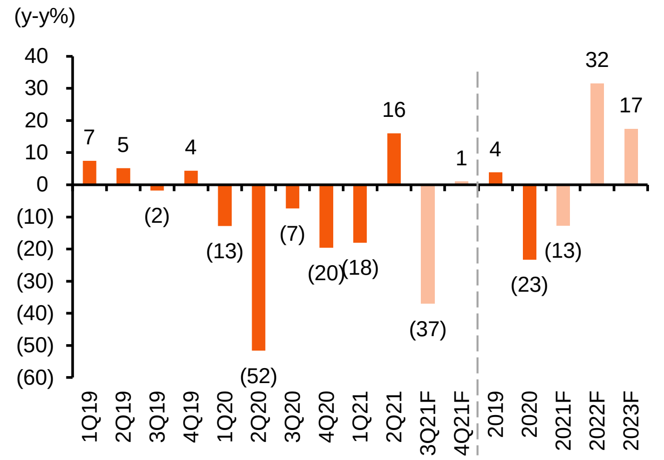


COMPANY INFORMATION

Price *as of* 10-Sep-21 (Bt)	52.00
Market Cap (US$ m)	1,465.8
Listed Shares (m shares)	920.9
Free Float (%)	45.1
Avg Daily Turnover (US$ m)	4.7
12M Price H/L (Bt)	59.00/43.75
Sector	FOOD
Major Shareholder	Group of Thirakomen 70.4%

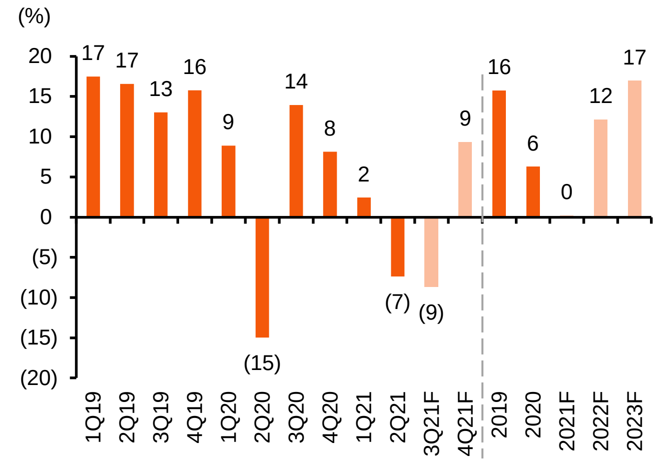
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Sales Momentum



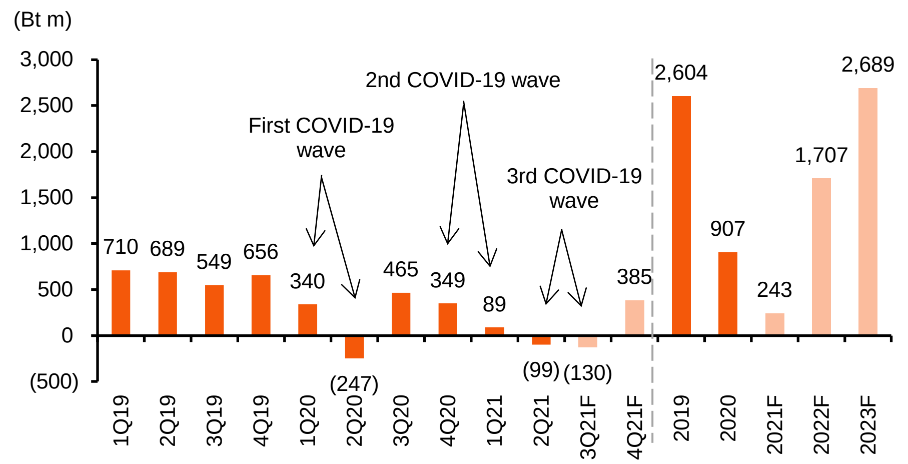
Sources: Company data, Thanachart estimates

Ex 2: EBIT Margin



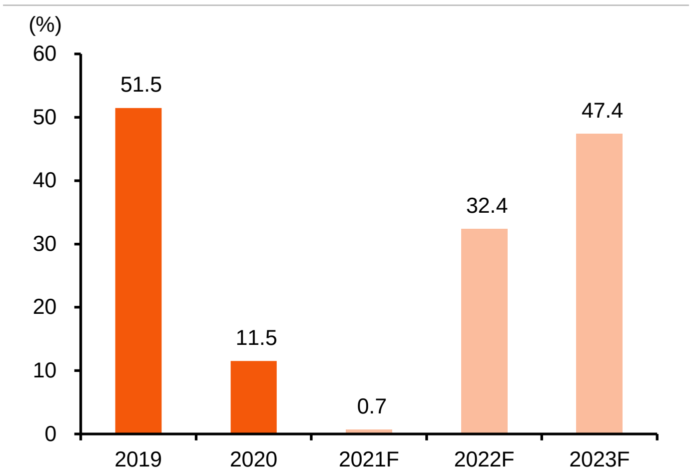
Sources: Company data, Thanachart estimates

Ex 3: A Full-Scale Turnaround Year In 2023F



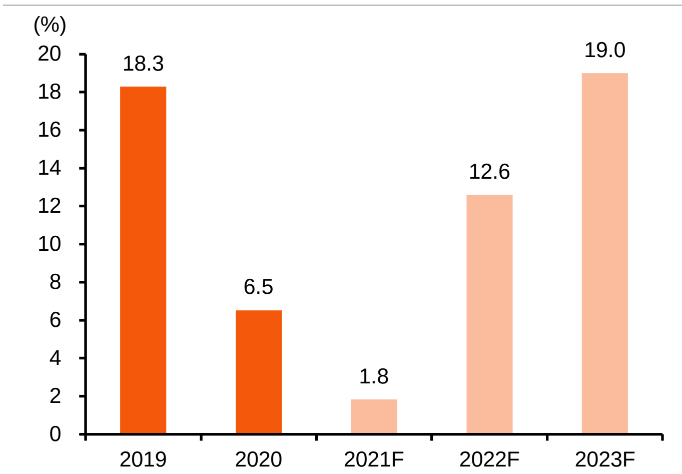
Sources: Company data, Thanachart estimates

Ex 4: A Decent ROIC Company In Normal Year….



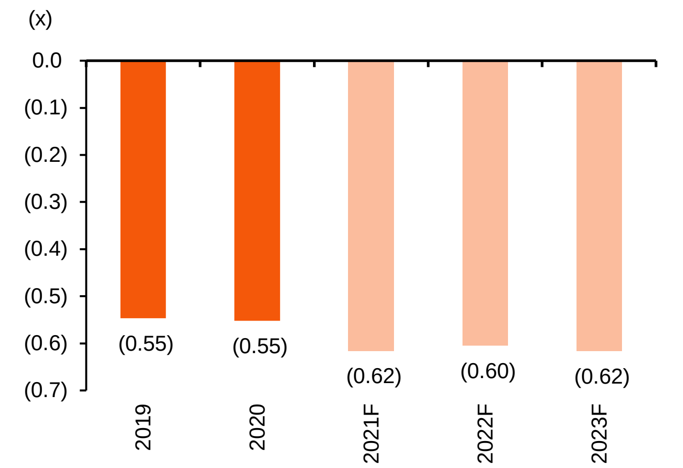
Sources: Company data, Thanachart estimates

Ex 5: … And ROE



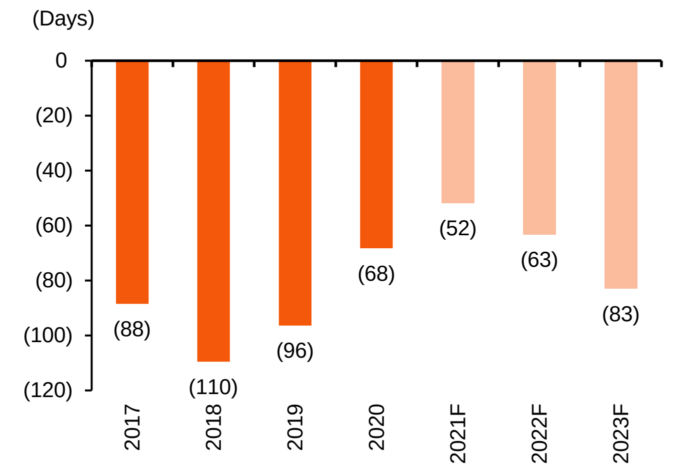
Sources: Company data, Thanachart estimates

Ex 6: Net Cash Remained Negative Even In COVID Years



Sources: Company data, Thanachart estimates

Ex 7: Negative Cash Cycle



Sources: Company data, Thanachart estimates

Ex 8: Our Assumptions

	2019	2020	2021F	2022F	2023F
Same-store-sales growth (%)	(2)	(28)	(11)	25	14
Number of outlets	706	722	711	760	790
Implied sales growth from new outlets (%)	6	5	(2)	7	3
Total sales growth (%)	4	(23)	(13)	32	17
Gross margin (%)	69	66	64	66	67
Sg&A to sales (%)	53	59	64	54	50

Sources: Company data, Thanachart estimates

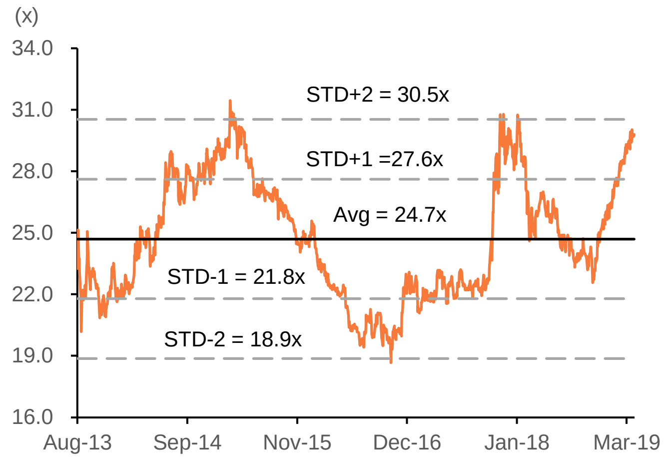
Ex 9: Earnings Revisions

	2019	2020	2021F	2022F	2023F
Sales-store-sales growth (%)					
New	(2)	(28)	(11.00)	25.00	14.0
Old			(1.0)	18.0	15.0
Change (pp)			*(10.0)*	*7.0*	*(1.0)*
Number of outlets					
New	706	722	711	760	790
Old			740	764	790
Change (%)			*(29)*	*(4)*	*0*
Revenues (Bt m)					
New	17,409	13,361	11,659	15,337	18,010
Old			12,860	15,694	18,385
Change (%)			*(9.3)*	*(2.3)*	*(2.0)*
Gross Margin (%)					
New	68.5	65.7	64.3	66.1	67.4
Old			65.2	66.1	66.8
Change (pp)			*(0.9)*	*(0.0)*	*0.6*
SG&A to sales (%)					
New	52.7	59.5	64.1	54.0	50.5
Old			61.7	53.7	50.2
Change (pp)			*2.4*	*0.3*	*0.2*
Normalized profit (Bt m)					
New	2,604	907	243	1,707	2,689
Old			529	1,788	2,687
Change (%)			*(54.0)*	*(4.5)*	*0.1*

Sources: Company data, Thanachart estimates

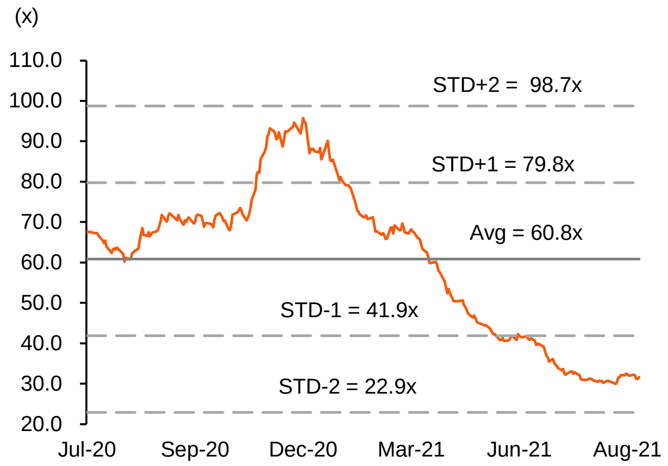
Valuation wise, M now looks cheap to us trading at 18x PE in its full-scale turnaround year in 2023F, in the wake of the recent share price hit after the latest COVID lockdown. During its pre-COVID years, M traded at an average PE of 25x and at 61x during the COVID-19 crisis when the SET was re-rated. Our TP implies that M would trade at 22x PE in 2023F. In our view, M, as a net-cash company with a 47% ROIC and 19% ROE in a normal year in 2023F, should not trade below a 20x PE multiple, in our view.

Ex 10: Pre-COVID PE



Sources: Bloomberg, Thanachart estimates

Ex 11: PE During COVID



Sources: Bloomberg, Thanachart estimates

Ex 12: M's Share Price

Source: Bloomberg

Ex 13: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	2,577	3,774	4,042	4,249	4,683	4,913	5,149	5,519	5,830	6,123	6,433	—
Free cash flow	2,272	3,425	3,172	3,729	3,944	4,201	4,478	4,914	5,182	5,472	5,751	71,606
PV of free cash flow	2,265	2,873	2,436	2,623	2,483	2,411	2,343	2,343	2,253	2,169	1,976	24,607

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.9
WACC (%)	9.2
Terminal growth (%)	2.0
Enterprise value - add investments	50,783
Net debt (2020)	(7,642)
Minority interest	324
Equity value	58,101
# of shares (m)	921
Equity value/share (Bt)	**63**

Sources: Company data, Thanachart estimates

Note: EBITDA excludes the new TFRS16 accounting standard's financial lease impact

Valuation Comparison

Ex 14: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div. yield 21F (%)	Div. yield 22F (%)
Max's Group Inc	MAXS PM	Philippines	na	(28.3)	11.8	16.4	1.0	0.9	13.2	9.3	1.9	1.8
Jollibee Foods Corp	JFC PM	Philippines	na	80.8	67.0	37.1	3.0	3.6	13.8	10.8	0.7	0.9
Kura Corp	2695 JP	Japan	na	59.9	43.7	27.2	3.4	3.0	15.1	11.4	0.6	0.7
Toridoll.corp	3397 JP	Japan	na	54.6	64.1	41.5	5.0	4.6	11.5	10.4	0.3	0.3
Hiday Hidaka Corp	7611 JP	Japan	na	(58.9)	65.7	159.9	na	na	na	na	1.4	1.4
Yoshinoya Holdings	9861 JP	Japan	na	(44.8)	48.2	87.3	3.3	3.1	16.8	14.6	0.0	0.9
Cafe de Coral Holdings	341 HK	Hong Kong	(3.8)	27.0	22.7	17.9	2.5	2.4	11.3	9.6	2.6	3.6
Zen Corporation Group	ZEN TB	Thailand	64.3	na	na	23.8	3.1	2.8	11.2	6.9	0.6	2.0
Central Plaza Hotel*	CENTEL TB	Thailand	na	na	na	138.7	5.1	4.9	25.6	14.6	0.0	0.1
Minor International*	MINT TB	Thailand	na	na	na	na	2.8	2.8	43.1	13.4	0.0	0.0
MK Restaurants Group*	M TB	Thailand	(73.2)	602.1	197.0	28.1	3.6	3.4	20.5	10.6	0.5	3.6
Average			**(4.2)**	**86.6**	**65.0**	**57.8**	**3.3**	**3.2**	**18.2**	**11.2**	**0.8**	**1.4**

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

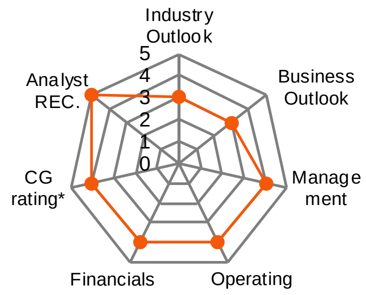
Based on 10-Sep-2021 closing prices

COMPANY DESCRIPTION

MK Restaurant Group Plc. (M) operates the No.1 restaurant chain in Thailand and was established 27 years ago. Its restaurant chain under the “MK Suki” brand was set up in 1986 and it presently has a 52% share of the suki and shabu dining market, No.1 in Thailand. It has more than 476 outlets nationwide. M also runs the “Yayoi” Japanese restaurant franchise in Thailand. As for international expansion, M set up a JV firm with Plenus Co., Ltd. (Japanese firm) to open Yayoi and MK Suki restaurants in Singapore. M also has a franchise business for MK Suki in Japan, Vietnam and Indonesia.

Source: Thanachart

COMPANY RATING



Rating Scale	
Very Strong	5
Strong	4
Good	3
Fair	2
Weak	1
None	0

Source: Thanachart; *Rating

THANACHART’S SWOT ANALYSIS

S — Strength

- Well-recognized and strong MK Suki brand.
- High economies of scale through superior operations and cost control.
- Strategically located countrywide.

W — Weakness

- Weak economy could dampen dining demand.
- Store expansion could result in a shortage of staff or good-quality workers.
- Dependent on retail operators’ expansions.

O — Opportunity

- Growing demand upcountry.
- Growing trend toward out-of-home dining.

T — Threat

- Increasing competition from new brands and franchises, both locally and abroad.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	56.64	63.00	11%
Net profit 21F (Bt m)	340	243	-29%
Net profit 22F (Bt m)	1,690	1,707	1%
Consensus REC	**BUY: 6**	**HOLD: 3**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021F earnings are 29% below the Bloomberg consensus estimate, which we attribute to us factoring in a more significant hit from the latest COVID-19 outbreak.
- However, our DCF-based TP is 11% above the Street’s, likely because we foresee better prospects for M over the longer term.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If retailers’ growth rates are slower than we currently expect because of the economic situation and consumption, this would negatively impact our assumptions for M’s expansion plans, representing the key downside risk to our call.
- If growth in people’s spending is weaker than our current expectations, this would present a secondary downside risk to our SSSG assumptions.

Source: Thanachart

We assume M's earnings to recover from 4Q21F

A net-cash company

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	17,409	13,361	11,659	15,337	18,010
Cost of sales	5,483	4,577	4,160	5,202	5,872
Gross profit	**11,926**	**8,784**	**7,499**	**10,135**	**12,138**
% gross margin	68.5%	65.7%	64.3%	66.1%	67.4%
Selling & administration expenses	9,183	7,947	7,473	8,274	9,086
Operating profit	**2,743**	**837**	**26**	**1,861**	**3,052**
% operating margin	15.8%	6.3%	0.2%	12.1%	16.9%
Depreciation & amortization	777	2,137	1,901	1,830	1,728
EBITDA	**3,520**	**2,974**	**1,927**	**3,691**	**4,780**
% EBITDA margin	20.2%	22.3%	16.5%	24.1%	26.5%
Non-operating income	462	294	285	288	333
Non-operating expenses	0	0	0	0	0
Interest expense	(1)	(73)	(58)	(6)	(4)
Pre-tax profit	**3,205**	**1,058**	**253**	**2,142**	**3,380**
Income tax	553	140	(6)	386	608
After-tax profit	**2,651**	**918**	**258**	**1,757**	**2,772**
% net margin	15.2%	6.9%	2.2%	11.5%	15.4%
Shares in affiliates' Earnings	(41)	(6)	(20)	(20)	(20)
Minority interests	(7)	(4)	5	(30)	(62)
Extraordinary items	0	0	0	0	0
NET PROFIT	**2,604**	**907**	**243**	**1,707**	**2,689**
Normalized profit	**2,604**	**907**	**243**	**1,707**	**2,689**
EPS (Bt)	2.8	1.0	0.3	1.9	2.9
Normalized EPS (Bt)	2.8	1.0	0.3	1.9	2.9

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	8,740	8,310	8,877	9,356	9,851
Cash & cash equivalent	8,033	7,663	8,354	8,654	9,154
Account receivables	158	110	101	129	154
Inventories	358	418	319	437	384
Others	191	119	104	136	160
Investments & loans	0	0	0	0	0
Net fixed assets	3,769	3,254	2,700	2,483	2,261
Other assets	5,432	8,790	7,827	8,144	8,205
Total assets	**17,942**	**20,353**	**19,404**	**19,983**	**20,317**
LIABILITIES:					
Current liabilities:	2,467	2,845	2,345	2,591	2,804
Account payables	1,855	1,312	946	1,382	1,770
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	36	21	32	27	19
Others current liabilities	575	1,512	1,367	1,182	1,016
Total LT debt	**0**	**0**	**0**	**0**	**0**
Others LT liabilities	848	3,661	3,555	3,127	2,694
Total liabilities	**3,315**	**6,506**	**5,900**	**5,718**	**5,498**
Minority interest	320	324	320	349	411
Preferreds shares	0	0	0	0	0
Paid-up capital	921	921	921	921	921
Share premium	8,785	8,785	8,785	8,785	8,785
Warrants	0	0	0	0	0
Surplus	663	660	660	660	660
Retained earnings	**3,937**	**3,157**	**2,818**	**3,550**	**4,041**
Shareholders' equity	14,306	13,523	13,184	13,916	14,407
Liabilities & equity	**17,942**	**20,353**	**19,404**	**19,983**	**20,317**

Sources: Company data, Thanachart estimates

No significant capex requirements

PE looks undemanding, in our view, given M's earnings turnaround

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	3,205	1,058	253	2,142	3,380
Tax paid	(564)	(273)	17	(356)	(564)
Depreciation & amortization	777	2,137	1,901	1,830	1,728
Chg In working capital	(178)	(555)	(258)	290	416
Chg In other CA & CL / minorities	485	1,209	(162)	(267)	(254)
Cash flow from operations	**3,725**	**3,575**	**1,751**	**3,639**	**4,706**
Capex	(808)	(242)	(200)	(500)	(500)
Right of use	0	(5,336)	(800)	(100)	(100)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(2,213)	3,339	510	(1,758)	(1,400)
Cash flow from investments	**(3,022)**	**(2,239)**	**(490)**	**(2,358)**	**(2,000)**
Debt financing	(8)	(15)	11	(6)	(7)
Capital increase	0	0	(0)	0	0
Dividends paid	(2,394)	(1,658)	(582)	(975)	(2,198)
Warrants & other surplus	(79)	(33)	0	0	0
Cash flow from financing	**(2,481)**	**(1,706)**	**(571)**	**(981)**	**(2,206)**
Free cash flow	**2,916**	**3,334**	**1,551**	**3,139**	**4,206**

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	18.4	52.8	197.0	28.1	17.8
Normalized PE - at target price (x)	22.3	63.9	238.6	34.0	21.6
PE (x)	18.4	52.8	197.0	28.1	17.8
PE - at target price (x)	22.3	63.9	238.6	34.0	21.6
EV/EBITDA (x)	11.3	13.5	20.5	10.6	8.1
EV/EBITDA - at target price (x)	14.2	16.9	25.8	13.4	10.2
P/BV (x)	3.3	3.5	3.6	3.4	3.3
P/BV - at target price (x)	4.1	4.3	4.4	4.2	4.0
P/CFO (x)	12.9	13.4	27.4	13.2	10.2
Price/sales (x)	2.8	3.6	4.1	3.1	2.7
Dividend yield (%)	5.0	1.9	0.5	3.6	5.6
FCF Yield (%)	6.1	7.0	3.2	6.6	8.8
(Bt)					
Normalized EPS	2.8	1.0	0.3	1.9	2.9
EPS	2.8	1.0	0.3	1.9	2.9
DPS	2.6	1.0	0.3	1.9	2.9
BV/share	15.5	14.7	14.3	15.1	15.6
CFO/share	4.0	3.9	1.9	4.0	5.1
FCF/share	3.2	3.6	1.7	3.4	4.6

Sources: Company data, Thanachart estimates

We assume an earnings recovery in 4Q21F, continuing into 2022F

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	3.8	(23.3)	(12.7)	31.5	17.4
Net profit (%)	1.2	(65.1)	(73.2)	602.1	57.5
EPS (%)	1.2	(65.1)	(73.2)	602.1	57.5
Normalized profit (%)	(2.7)	(65.1)	(73.2)	602.1	57.5
Normalized EPS (%)	(2.7)	(65.1)	(73.2)	602.1	57.5
Dividend payout ratio (%)	92.0	101.5	100.0	100.0	100.0
Operating performance					
Gross margin (%)	68.5	65.7	64.3	66.1	67.4
Operating margin (%)	15.8	6.3	0.2	12.1	16.9
EBITDA margin (%)	20.2	22.3	16.5	24.1	26.5
Net margin (%)	15.2	6.9	2.2	11.5	15.4
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Interest coverage - EBIT (x)	na	11.4	0.4	289.2	na
Interest coverage - EBITDA (x)	na	40.6	33.2	na	na
ROA - using norm profit (%)	14.8	4.7	1.2	8.7	13.3
ROE - using norm profit (%)	18.3	6.5	1.8	12.6	19.0
DuPont					
ROE - using after tax profit (%)	18.6	6.6	1.9	13.0	19.6
- asset turnover (x)	1.0	0.7	0.6	0.8	0.9
- operating margin (%)	18.4	8.5	2.7	14.0	18.8
- leverage (x)	1.2	1.4	1.5	1.5	1.4
- interest burden (%)	100.0	93.5	81.3	99.7	99.9
- tax burden (%)	82.7	86.8	102.2	82.0	82.0
WACC (%)	9.2	9.2	9.2	9.2	9.2
ROIC (%)	51.5	11.5	0.4	31.4	47.3
NOPAT (Bt m)	2,270	726	26	1,526	2,503
invested capital (Bt m)	6,310	5,881	4,863	5,289	5,273

Sources: Company data, Thanachart estimates

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