BUY (From: HOLD)

Change in Recommendation

TP: Bt 39.00 (From: Bt 31.00)

Upside : 19.1%

27 SEPTEMBER 2021

Minor International Pcl (MINT TB)

Early turnaround play

MINT becomes our top sector pick on its earlier earnings turnaround cycle than peers' from its overseas business which has already enjoyed country reopening benefits. MINT in a full-turnaround year in 2024F is trading at only 23.1x PE vs. 30.8x in 2019.

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Thanachart Securities

MINT is our top sector pick

This report is part of *Hotel Sector – Delated recovery,* dated 27 September 2021. We raise MINT to BUY (from Hold) and assign it as out top sector pick, replacing CENTEL, which remains a BUY. *First*, MINT is turning around faster than peers via its overseas businesses that are already enjoying country re-openings. *Second*, as opposed to CENTEL and ERW which should still make losses next year, we expect MINT to turn a profit in 2022F. We fine-tune MINT's earnings in 2021-23F and raise them by 6% p.a. from 2024-32F to reflect a stronger-than-expected NH Hotel operation. Our DCF-based 12-month TP is rolled over to a 2022F base year and lifted to Bt39.0 (from Bt31.0). *Lastly*, MINT looks inexpensive to us at 23.1x PE in 2024F vs. 30.8x in 2019.

Faster recovery in overseas business

MINT's 2019 revenue was 73% contributed by overseas markets (49% Europe, 7% Oceania, 5% Americas, 3% China, and 2% the Maldives). The recovery has already started in its hotel business in Europe, the Maldives and Australia while its food business has also been improving in China and Australia. We expect the turnaround of its overseas businesses to more than offset the weak business momentum in Thailand. In 2019, Thai hotels accounted for 11% of revenue and food 13%.

To turn a profit next year

Against a delayed turnaround of the tourism recovery in Thailand, we expect MINT to turn from a Bt12.9bn loss in 2021F to a Bt1.6bn profit in 2022F. We also estimate earnings in its full turnaround year in 2024F to surpass 2019's by 31% due to cost cutting during 2020-21. Across all businesses and locations, MINT has negotiated for better terms for its commercial leases, cut staff costs, improved efficiency, reduced capex and seen corporate tax benefits from loss carry forward.

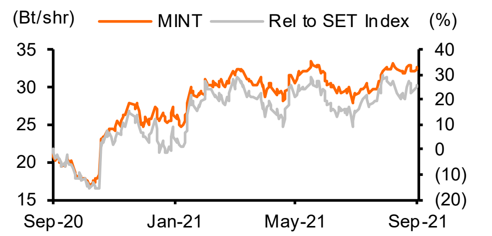
We see no further cash call risk

MINT raised capital in 2020 and its GIBD/E was 2.1x in 2Q21 vs. its covenant 1.75x, which is waived for 2021-22. Despite the expecting a profit in 2022F, MINT plans to sell and lease back or sell and manage back some of its assets. It did that with NH Collection Barcelona Gran Hotel Calderón in 2Q21 and Tivoli Marina Vilamoura and Tivoli Carvoeiro in July 2021 with a total transaction value of Bt10.5bn. We project another Bt4.5bn asset rotation late this year to reach its high target range of Bt10bn-15bn this year. Together with in-the-money warrants (MINT-W7, W8 and W9) that can be exercised, we estimate MINT's GIBD/E to fall to 1.7x and 1.6x in 2021-22F. Note that MINT is the only one of the three stocks we cover that has not yet done a land revaluation. ERW and CENTEL already did theirs in 2Q21.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	55,812	64,294	97,441	117,615
Net profit	(21,407)	(13,372)	1,637	6,936
Consensus NP	—	(13,639)	1,571	6,445
Diff frm cons (%)	—	*na*	*4.2*	*7.6*
Norm profit	(19,388)	(12,935)	1,637	6,936
Prev. Norm profit	—	(13,257)	1,638	6,873
Chg frm prev (%)	—	*na*	*(0.1)*	*0.9*
Norm EPS (Bt)	(4.3)	(2.6)	0.0	1.0
Norm EPS grw (%)	na	na	na	2,158.4
Norm PE (x)	na	na	750.1	33.2
EV/EBITDA (x)	723.7	48.5	14.0	11.2
P/BV (x)	2.6	2.8	2.8	3.0
Div yield (%)	0.0	0.0	0.0	1.1
ROE (%)	na	na	2.4	10.5
Net D/E (%)	144.8	138.8	143.3	156.8

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 23-Sep-21 (Bt)	32.75
Market Cap (US$ m)	5,118.4
Listed Shares (m shares)	5,199.0
Free Float (%)	61.4
Avg Daily Turnover (US$ m)	13.4
12M Price H/L (Bt)	33.50/16.70
Sector	Food
Major Shareholder	Group of Mr. William Heinecke 33%

Sources: Bloomberg, Company data, Thanachart estimates

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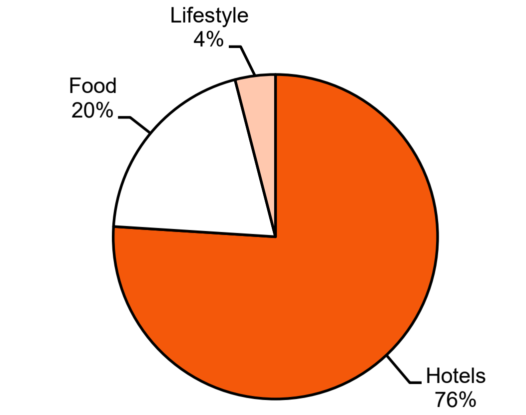
Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2019	2021	2021F	2022F	2023F	2024F
MINT's occupancy rate (%)						
- New	70.9	44.5	46.1	52.0	62.2	66.7
- Old			46.7	58.4	70.3	73.7
- Change (pp)			*(0.6)*	*(6.4)*	*(8.1)*	*(7.0)*
MINT's ARR (Bt/night)						
- New	3,900	2,876	2,394	2,959	3,474	3,752
- Old			2,453	3,078	3,674	3,840
- Change (%)			*(2.4)*	*(3.9)*	*(5.5)*	*(2.3)*
NHH's occupancy rate (%)						
- New	71.6%	25.0%	39.5%	62.7%	69.9%	72.5%
- Old			34.6%	62.6%	66.5%	70.3%
- Change (pp)			*4.9*	*0.0*	*3.4*	*2.2*
NHH's ARR (Euro/night)						
- New	103	82	84	92	103	105
- Old			74	87	102	104
- Change (pp)			*13.9*	*6.5*	*1.5*	*0.8*
# food stores (owned + franchise)						
- New	2,377	2,370	2,370	2,441	2,514	2,565
- Old			2,370	2,441	2,514	2,565
- Change (%)			—	—	—	—
% SSSG						
- New	(4.4)	(14.2)	(0.6)	5.0	3.0	1.0
- Old			(0.6)	5.0	3.0	1.0
- Change (pp)			—	—	—	—
Gross margin (%)						
- New	44.4	15.3	23.3	36.5	40.9	43.2
- Old			22.4	39.8	44.5	45.0
- Change (pp)			*0.9*	*(3.3)*	*(3.5)*	*(1.8)*
SG&A to sales (%)						
- New	39.4	47.3	41.9	32.2	32.0	33.1
- Old			42.4	35.0	35.7	35.3
- Change (pp)			*(0.5)*	*(2.8)*	*(3.7)*	*(2.2)*
Normalized profit (Bt m)						
- New	7,060	(19,388)	(12,935)	1,637	6,936	9,280
- Old			(13,257)	1,638	6,873	9,066
- Change (%)			*n.a.*	*(0.1)*	*0.9*	*2.4*

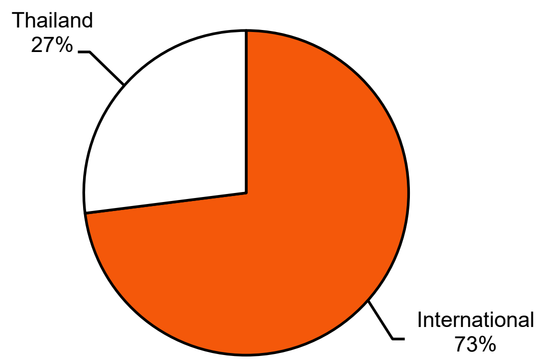
Sources: Company data; Thanachart estimates

Ex 2: Revenue Breakdown By Business In 2019



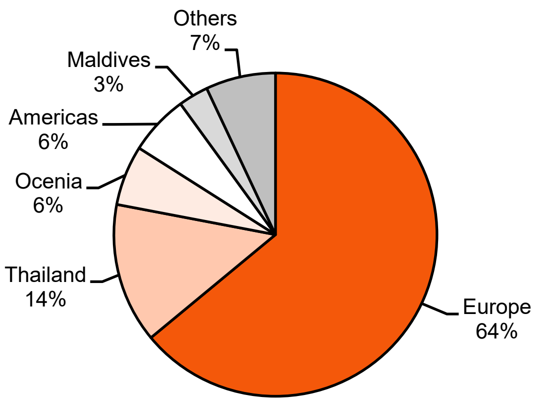
Source: Company data

Ex 3: Revenue Breakdown By Market Presence In 2019



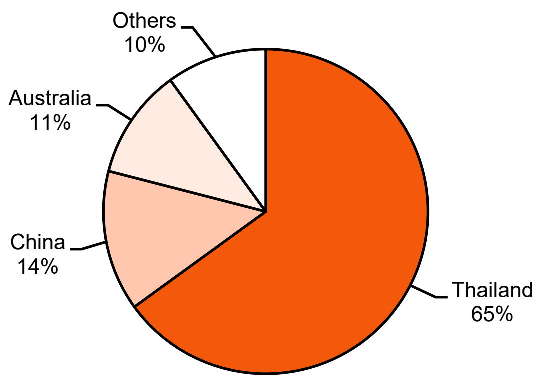
Source: Company data

Ex 4: Geographical Hotel Revenue Breakdown In 2019



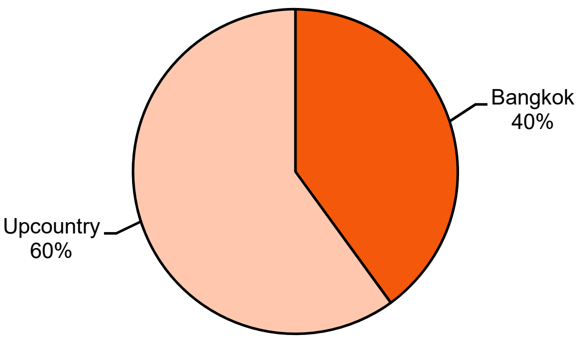
Source: Company data

Ex 5: Geographical Food Revenue Breakdown In 2019



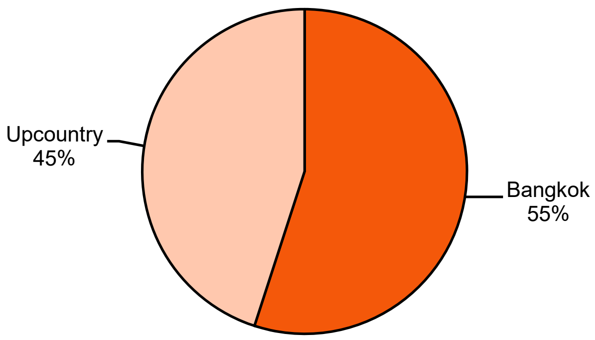
Source: Company data

Ex 6: Geographical Hotel Revenue In Thailand In 2019



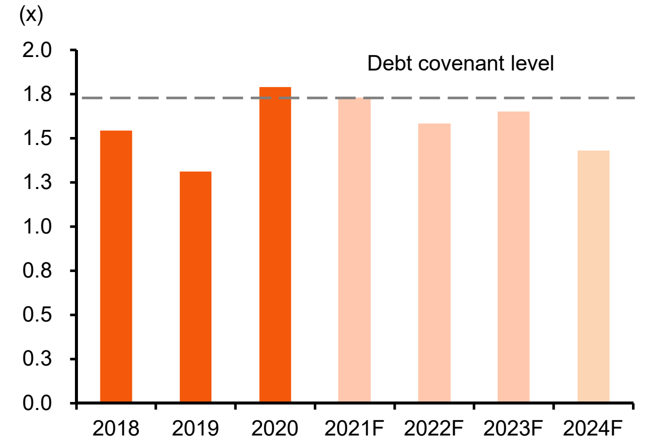
Source: Company data

Ex 7: Geographical Food Revenue In Thailand In 2019



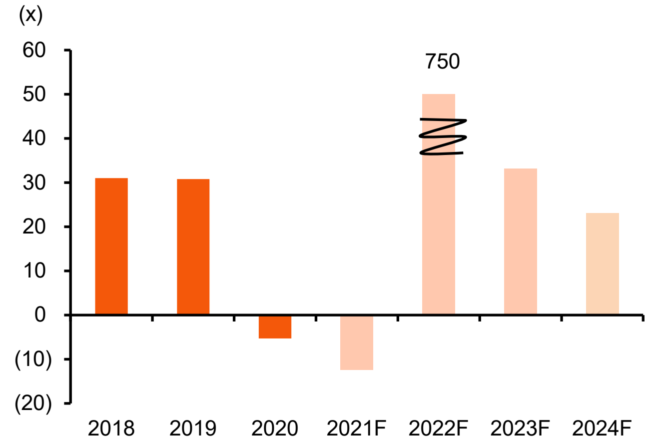
Source: Company data

Ex 8: Gross Interest-Bearing Debt To Equity Ratio



Sources: Company data, Thanachart estimates
Note: Excludes lease liabilities and COVID-19 impairment

Ex 9: Rolling PE



Sources: Company data, Bloomberg, Thanachart estimates

Ex 10: 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 excl. depre from right of use	12,117	18,648	21,263	23,804	25,112	26,772	27,889	28,966	30,094	31,261	32,315	—
Free cash flow	4,756	9,867	11,794	13,949	15,990	18,100	20,220	22,128	23,079	24,050	24,961	483,399
PV of free cash flow	4,743	8,165	9,160	10,031	10,764	11,407	11,927	12,220	11,931	11,115	10,752	208,231
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	6.5											
Terminal growth (%)	2.0											
Enterprise value - add investments	335,915											
Net debt (2021F)	105,135											
Minority interest	7,984											
Equity value	222,797											
# of shares*	5,759											
Target price/share (Bt)	**39.00**											

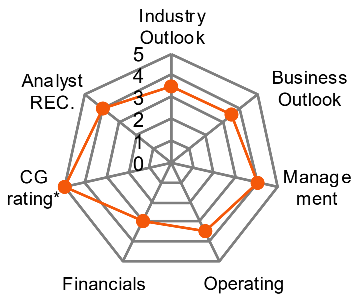
Sources: Company data, Thanachart estimates
Note: * Include MINT-W7, MINT-W8 and MINT-W9 exercise

COMPANY DESCRIPTION

Minor International Pcl (MINT) owns and operates hotels and restaurants in Thailand and abroad. The company is engaged in the international hospitality business including hotels and resorts, spas, restaurant franchises, residence, mixed-use projects and lifestyle brand distributors and contract manufacturers.

Source: Thanachart

COMPANY RATING



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

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Well-received owned hotel brands, i.e. Anantara, Oaks, Avani, Tivoli, NH Hotels, etc.
- MINT's restaurant brands are the leaders in each category.
- Geographical diversification of its hotel footprint.

W — Weakness

- Thailand's upscale hotel oversupply.
- High gearing after the major acquisition in 2018.

O — Opportunity

- Strategic investments and acquisitions around the world.
- Robust growth in global consumption.
- Development of residential projects to maximize profitability.

T — Threat

- Fierce competition among hotel operators leading to obstacles to unlocking its profitability.
- Competition among restaurant operators both at home and abroad.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	35.16	39.00	11%
Net profit 21F (Bt m)	(13,639)	(13,372)	na
Net profit 22F (Bt m)	1,571	1,637	4%
Consensus REC	**BUY: 21**	**HOLD: 3**	**SELL: 2**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our TP is above the Bloomberg consensus number, which we attribute to us having a more bullish view on MINT's business turnaround.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The NH acquisition represents a significant part of MINT's performance. A decline of NH and MINT's operations would be the key downside risk to our call.
- Events that would impact Thailand's and the global political situation, along with natural disasters and pandemic, represent a secondary downside risk to our call.
- Slower domestic and global economic, tourism and consumption growth would also present downside risks.
- A slow recovery in MINT's food business represents a downside risk.

Source: Thanachart

Earnings turnaround in 2022F is mainly driven by overseas businesses

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	117,298	55,812	64,294	97,441	117,615
Cost of sales	65,194	47,254	49,339	61,883	69,453
Gross profit	**52,104**	**8,558**	**14,954**	**35,558**	**48,162**
% gross margin	44.4%	15.3%	23.3%	36.5%	40.9%
Selling & administration expenses	46,268	26,426	26,941	31,355	37,647
Operating profit	**5,836**	**(17,868)**	**(11,987)**	**4,203**	**10,514**
% operating margin	5.0%	-32.0%	-18.6%	4.3%	8.9%
Depreciation & amortization	8,914	18,241	17,846	16,972	16,376
EBITDA	**14,751**	**374**	**5,860**	**21,175**	**26,890**
% EBITDA margin	12.6%	0.7%	9.1%	21.7%	22.9%
Non-operating income	5,296	2,742	4,784	4,804	4,670
Non-operating expenses	0	(625)	(500)	0	0
Interest expense	(4,081)	(7,452)	(8,499)	(7,877)	(7,510)
Pre-tax profit	**7,051**	**(23,204)**	**(16,202)**	**1,129**	**7,674**
Income tax	522	(2,983)	(2,187)	113	767
After-tax profit	**6,529**	**(20,220)**	**(14,015)**	**1,016**	**6,907**
% net margin	5.6%	-36.2%	-21.8%	1.0%	5.9%
Shares in affiliates' Earnings	828	(464)	(280)	158	506
Minority interests	(296)	1,296	1,359	462	(477)
Extraordinary items	3,638	(2,019)	(437)	0	0
NET PROFIT	**10,698**	**(21,407)**	**(13,372)**	**1,637**	**6,936**
Normalized profit	**7,060**	**(19,388)**	**(12,935)**	**1,637**	**6,936**
EPS (Bt)	2.0	(4.7)	(2.7)	0.0	1.0
Normalized EPS (Bt)	1.2	(4.3)	(2.6)	0.0	1.0

Improving balance sheet quality

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	38,599	52,064	58,082	55,236	56,553
Cash & cash equivalent	13,331	26,188	30,000	15,000	10,000
Account receivables	15,554	12,286	14,092	20,022	22,556
Inventories	4,139	3,683	3,785	4,747	5,328
Others	5,575	9,908	10,205	15,466	18,668
Investments & loans	13,844	16,052	18,552	18,552	18,552
Net fixed assets	123,129	122,718	106,775	102,861	101,727
Other assets	78,612	171,492	165,606	157,977	151,178
Total assets	**254,184**	**362,327**	**349,014**	**334,626**	**328,009**
LIABILITIES:					
Current liabilities:	35,592	41,238	50,542	52,458	54,458
Account payables	20,036	15,310	15,545	19,497	21,883
Bank overdraft & ST loans	300	140	6,081	5,537	5,523
Current LT debt	9,912	6,656	9,679	8,814	8,790
Others current liabilities	5,344	19,131	19,237	18,609	18,263
Total LT debt	**102,386**	**129,897**	**119,375**	**108,700**	**108,413**
Others LT liabilities	30,338	114,868	103,337	98,082	93,255
Total liabilities	**168,316**	**286,003**	**273,254**	**259,240**	**256,126**
Minority interest	10,407	9,343	7,984	7,521	7,998
Preferreds shares	0	0	0	0	0
Paid-up capital	4,619	5,182	5,759	5,759	5,759
Share premium	15,018	24,196	38,747	38,747	38,747
Warrants	0	0	0	0	0
Surplus	14,422	21,927	22,439	22,439	14,158
Retained earnings	**41,401**	**15,676**	**832**	**919**	**5,221**
Shareholders' equity	75,461	66,981	67,777	67,864	63,885
Liabilities & equity	**254,184**	**362,327**	**349,014**	**334,626**	**328,009**

Sources: Company data, Thanachart estimates

Improving cash flow stream due to asset rotation

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	7,051	(23,204)	(16,202)	1,129	7,674
Tax paid	(1,361)	1,554	2,565	67	(420)
Depreciation & amortization	8,914	18,241	17,846	16,972	16,376
Chg In w orking capital	(793)	(1,001)	(1,673)	(2,940)	(730)
Chg In other CA & CL / minorities	980	10,654	(849)	(5,911)	(3,390)
Cash flow from operations	**14,791**	**6,244**	**1,687**	**9,317**	**19,510**
Capex	1,004	(7,173)	7,950	(4,000)	(7,000)
Right of use	0	(99,734)	(1,000)	(1,000)	(1,000)
ST loans & investments	0	0	0	0	0
LT loans & investments	2,435	(2,208)	(2,500)	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	3,280	78,706	(14,935)	(5,684)	(5,270)
Cash flow from investments	**6,718**	**(30,409)**	**(10,485)**	**(10,684)**	**(13,270)**
Debt financing	(14,486)	24,095	(1,558)	(12,084)	(325)
Capital increase	4	9,741	15,128	0	0
Dividends paid	(3,160)	(1,455)	(1,473)	(1,549)	(2,634)
Warrants & other surplus	(3,297)	4,641	512	0	(8,281)
Cash flow from financing	**(20,938)**	**37,022**	**12,610**	**(13,633)**	**(11,240)**
Free cash flow	**15,795**	**(929)**	**9,637**	**5,317**	**12,510**

Inexpensive valuation, in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	27.1	na	na	750.1	33.2
Normalized PE - at target price (x)	32.2	na	na	893.2	39.5
PE (x)	16.6	na	na	750.1	33.2
PE - at target price (x)	19.7	na	na	893.2	39.5
EV/EBITDA (x)	17.3	723.7	48.5	14.0	11.2
EV/EBITDA - at target price (x)	19.3	805.3	54.4	15.7	12.5
P/BV (x)	2.1	2.6	2.8	2.8	3.0
P/BV - at target price (x)	2.5	3.1	3.3	3.3	3.5
P/CFO (x)	10.5	25.6	106.2	20.2	9.7
Price/sales (x)	1.5	3.1	2.6	1.7	1.4
Dividend yield (%)	1.5	0.0	0.0	0.0	1.1
FCF Yield (%)	10.1	(0.6)	5.4	2.8	6.6
(Bt)					
Normalized EPS	1.2	(4.3)	(2.6)	0.0	1.0
EPS	2.0	(4.7)	(2.7)	0.0	1.0
DPS	0.5	0.0	0.0	0.0	0.3
BV/share	15.9	12.7	11.8	11.8	11.1
CFO/share	3.1	1.3	0.3	1.6	3.4
FCF/share	3.3	(0.2)	1.8	0.9	2.2

Sources: Company data, Thanachart estimates

Cost reduction enhances margin

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	56.5	(52.4)	15.2	51.6	20.7
Net profit (%)	137.3	na	na	na	323.8
EPS (%)	108.2	na	na	na	2,158.4
Normalized profit (%)	23.3	na	na	na	323.8
Normalized EPS (%)	0.4	na	na	na	2,158.4
Dividend payout ratio (%)	24.6	0.0	0.0	20.0	35.0
Operating performance					
Gross margin (%)	44.4	15.3	23.3	36.5	40.9
Operating margin (%)	5.0	(32.0)	(18.6)	4.3	8.9
EBITDA margin (%)	12.6	0.7	9.1	21.7	22.9
Net margin (%)	5.6	(36.2)	(21.8)	1.0	5.9
D/E (incl. minor) (x)	1.3	1.8	1.8	1.6	1.7
Net D/E (incl. minor) (x)	1.2	1.4	1.4	1.4	1.6
Interest coverage - EBIT (x)	1.4	na	na	0.5	1.4
Interest coverage - EBITDA (x)	3.6	0.1	0.7	2.7	3.6
ROA - using norm profit (%)	2.7	na	na	0.5	2.1
ROE - using norm profit (%)	9.6	na	na	2.4	10.5
DuPont					
ROE - using after tax profit (%)	8.9	na	na	1.5	10.5
- asset turnover (x)	0.4	0.2	0.2	0.3	0.4
- operating margin (%)	9.5	na	na	9.2	12.9
- leverage (x)	3.6	4.3	5.3	5.0	5.0
- interest burden (%)	63.3	147.3	210.3	12.5	50.5
- tax burden (%)	92.6	na	na	90.0	90.0
WACC (%)	6.5	6.5	6.5	6.5	6.5
ROIC (%)	2.9	(10.2)	(5.8)	2.2	5.4
NOPAT (Bt m)	5,404	(17,868)	(10,368)	3,783	9,463
invested capital (Bt m)	174,728	177,485	172,912	175,916	176,611

Sources: Company data, Thanachart estimates

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