

BUY (Unchanged)

TP: Bt 68.00

(From: Bt 63.00)

Change in Numbers

Upside : 27.1%

3 NOVEMBER 2021

MK Restaurant Group (M TB)

Fast turnaround

We like M as a swift post-lockdown turnaround play. Its sales are now back at 75% of the pre-COVID level in 2019 despite there still being some dine-in restrictions in place. The stock price is 26% below its 2019 average and we reaffirm our BUY call with a higher TP of Bt68.



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Reaffirming BUY

We reaffirm our BUY rating on M. *First*, M is a swift turnaround stock in our view as its sales in October have returned to 75% of the 2019 level despite some dine-in restrictions remaining in place. *Second*, we expect a further easing of COVID restrictions in December to allow 75% dine-in seating at restaurants from 50% now and for the company to swing to a profit in 4Q21F. *Third*, the early country reopening from this month, albeit with an expected gradual effect, should be positive for its subsidiary Laem Charoen Seafood, which makes 50% of its sales to foreign tourists. *Fourth*, from the low earnings base of Bt60m this year, we project a strong recovery to Bt2.8bn in 2023, 10% above the pre-COVID level in 2019 on the back of the high operating leverage effect. We cut our 2021F earnings to Bt60m (from Bt240m) because of the COVID hit but upgrade them by 6% over 2022-23F on a faster-than-expected turnaround. As such, we lift our DCF-based 12-month TP (2022F base year) to Bt68 (from Bt63). We see M as inexpensive at 17x PE in its full recovery year in 2023F, vs. its 25x historical average since listing.

4Q21F: big swing in sight

We estimate M to make a Bt350m loss in 3Q21F vs. a Bt100m loss in 2Q21. COVID infections in 3Q21 were far more prevalent than in 2Q21. Most of its 700 restaurants were closed in July and in August only online orders were allowed. Now that the lockdown has ended with an easing of dine-in restrictions, we estimate M to enjoy a big swing to a Bt420m profit in 4Q21F, up 22% y-y and improving from its 3Q21F loss.

Aggressive new restaurant openings

M is looking beyond the COVID crisis and taking the opportunity to gain market share at a time when many independent restaurants have gone out of business and other restaurant chains have put expansion plans on hold. M, the largest restaurant chain in Thailand, plans to open 18 new outlets in 4Q21 (vs. 38/8 stores in 2019-20) and 27 in 2022F. M has the advantage of being in a net cash position of Bt7bn as of 2Q21.

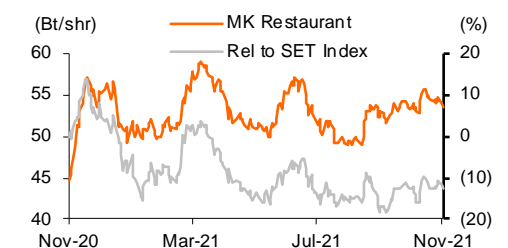
Substantial operating leverage effect

M is a company with high operating leverage and substantial fixed operating costs. Its SG&A-to-sales ratio stood at 53% in 2019 and we estimate it to be at 65% in 2021F. M made a Bt2.6bn profit in 2019 and we estimate a profit of only Bt60m in 2021F. When its turnaround kicks off, we project M to make a Bt1.8bn profit in 2022F and Bt2.8bn in 2023F, surpassing the 2019 level by 10%. The turnaround is on the back of our sales growth assumptions of 39/19% in 2022-23F and EBIT margin assumptions of 12.4/17.0% (from -1.3% in 2021F).

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	13,361	11,467	15,987	19,046
Net profit	907	60	1,811	2,854
Consensus NP	—	35	1,698	2,355
Diff frm cons (%)	—	69.4	6.7	21.2
Norm profit	907	60	1,811	2,854
Prev. Norm profit	—	243	1,707	2,689
Chg frm prev (%)	—	(75.3)	6.1	6.1
Norm EPS (Bt)	1.0	0.1	2.0	3.1
Norm EPS grw (%)	(65.1)	(93.4)	2,915.6	57.5
Norm PE (x)	54.3	820.2	27.2	17.3
EV/EBITDA (x)	14.0	23.4	10.7	8.1
P/BV (x)	3.6	3.8	3.5	3.4
Div yield (%)	1.9	0.1	3.7	5.8
ROE (%)	6.5	0.5	13.4	20.1
Net D/E (%)	(55.2)	(61.8)	(59.7)	(60.5)

PRICE PERFORMANCE



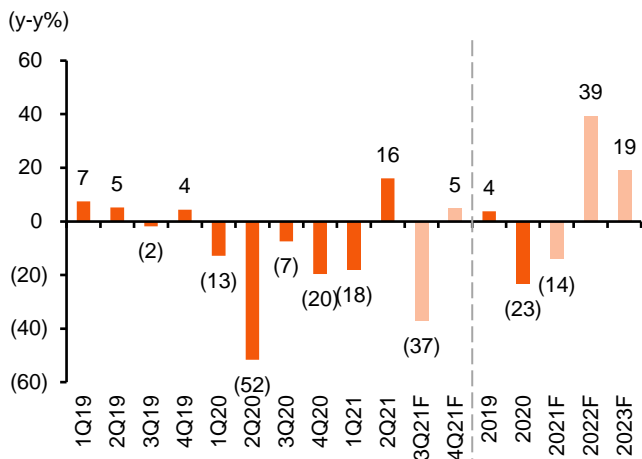
COMPANY INFORMATION

Price as of 3-Nov-21 (Bt)	53.50
Market Cap (US\$ m)	1,478.8
Listed Shares (m shares)	920.9
Free Float (%)	45.1
Avg Daily Turnover (US\$ m)	4.7
12M Price H/L (Bt)	59.00/44.75
Sector	FOOD
Major Shareholder	Group of Thirakomen 70.4%

Sources: Bloomberg, Company data, Thanachart estimates

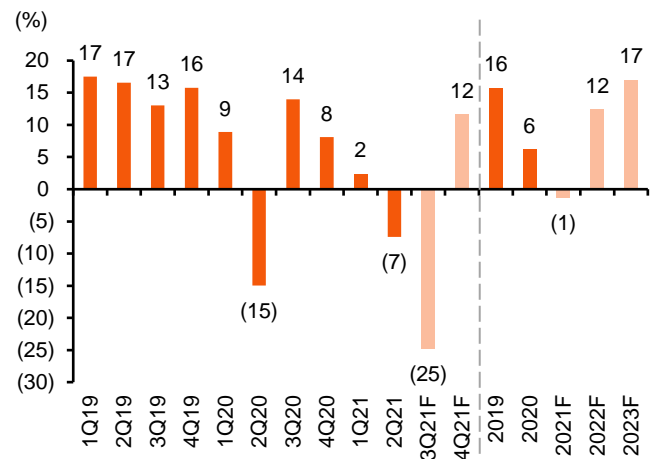
We do not expect our expectation for M to incur a loss of Bt350m in 3Q21F will surprise the market as we believe the impact of the COVID lockdown during the quarter has already been factored in. Moreover, M has seen an immediate turnaround since September with its sales so far recovering to 75% of the pre-COVID October 2019 level. This reaffirms our view that COVID hasn't changed Thai people's dining-out behavior and M's strong business position is maintained. With falling COVID cases and the vaccine roll-out ramping up, we expect a further easing of restrictions in December to allow for 75% restaurant dine-in capacity from 50% now. Therefore, for 4Q21F we estimate M to make a swift turnround to a profit of Bt420m, up by 22% y-y.

Ex 1: Sales Momentum



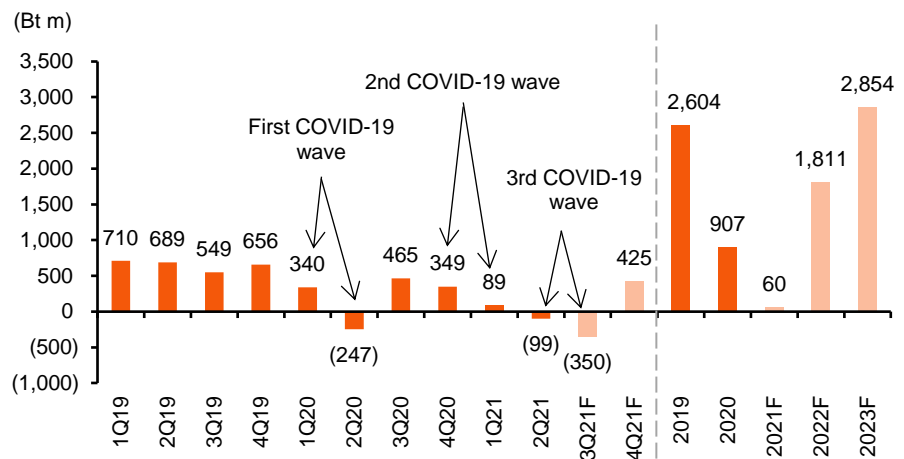
Sources: Company data, Thanachart estimates

Ex 2: EBIT Margin Trend



Sources: Company data, Thanachart estimates

Ex 3: Earnings Recovery



Sources: Company data, Thanachart estimates

Ex 4: Our Key Assumptions

	2019	2020	2021F	2022F	2023F
Same-store-sales growth (%)	(2)	(28)	(14)	35	15
Number of outlets	706	722	720	750	780
Implied sales growth from new outlets (%)	6	5	(0)	4	4
Total sales growth (%)	4	(23)	(14)	39	19
Gross margin (%)	69	66	63	66	67
Sg&A to sales (%)	53	59	65	54	50

Sources: Company data, Thanachart estimates

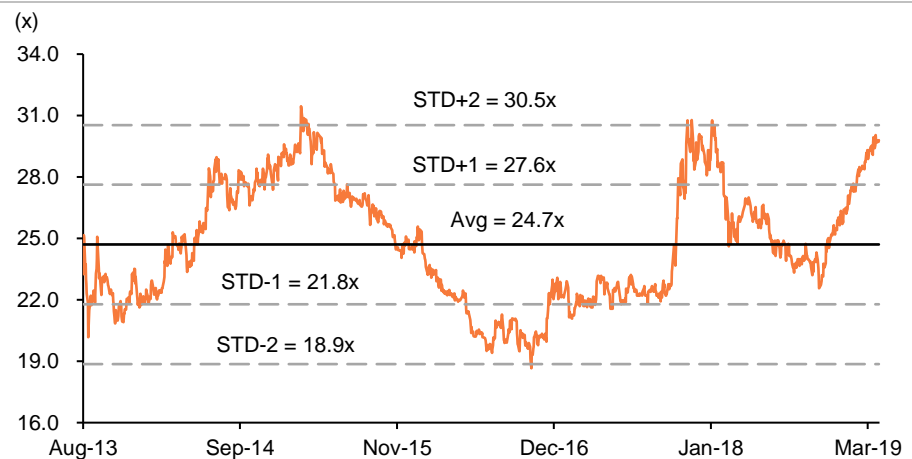
Ex 5: Earnings Adjustments

	2019	2020	2021F	2022F	2023F
Sales-store sales (% growth)					
New	(2)	(28)	(14.0)	35.0	15.0
Old			(11.0)	30.0	14.0
Change (pp)			(3.0)	5.0	1.0
Outlets					
New	706	722	720	750	780
Old			711	739	772
Change			9	11	8
Revenues (Bt m)					
New	17,409	13,361	11,467	15,987	19,046
Old			11,659	15,337	18,010
Change (%)			(1.6)	4.2	5.8
Gross margin (%)					
New	68.5	65.7	63.4	66.0	67.5
Old			64.3	66.1	67.4
Change (pp)			(0.9)	(0.1)	0.1
SG&A to sales (%)					
New	52.7	59.5	64.7	53.6	50.5
Old			64.1	54.0	50.5
Change (pp)			0.6	(0.3)	0.0
Normalized profits (Bt m)					
New	2,604	907	60	1,811	2,854
Old			243	1,707	2,689
Change (%)			(75.3)	6.1	6.1

Sources: Company data, Thanachart estimates

Valuation wise, we see M as a good post-lockdown play that remains inexpensive. We expect a full-scale profit turnaround in 2023F with PE at 17x vs. its 25x historical average pre-COVID.

Ex 6: Pre-COVID PE



Sources: Bloomberg, Thanachart estimates

Ex 7: 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	2,697	3,963	4,261	4,500	4,982	5,252	5,529	5,955	6,318	6,665	7,033	—
Free cash flow	2,410	3,627	3,366	3,973	4,226	4,515	4,835	5,322	5,638	5,979	6,311	78,572
PV of free cash flow	2,403	3,042	2,585	2,795	2,661	2,592	2,529	2,538	2,451	2,370	2,169	27,001
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	9.2											
Terminal growth (%)	2.0											
Enterprise value - add investments	55,135											
Net debt (2021F)	(7,642)											
Minority interest	324											
Equity value	62,453											
# of shares (m)	921											
Equity value/share (Bt)	68											

Sources: Company data, Thanachart estimates

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

Valuation Comparison

Ex 8: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div. yield	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Max's Group Inc	MAXS PM	Philippines	na	(28.3)	12.9	18.0	1.1	1.0	13.9	9.8	1.8	1.6
Jollibee Foods Corp	JFC PM	Philippines	na	78.1	74.2	41.7	4.5	4.2	14.0	11.3	0.6	0.9
Kura Corp	2695 JP	Japan	na	231.8	100.8	30.4	3.2	2.9	48.1	13.2	0.5	0.7
Toridoll.corp	3397 JP	Japan	na	33.1	60.3	45.3	5.7	5.2	12.6	11.4	0.2	0.3
Hiday Hidaka Corp	7611 JP	Japan	na	(58.9)	62.4	151.9	na	na	na	na	1.5	1.5
Yoshinoya Holdings	9861 JP	Japan	na	(78.0)	30.0	136.2	3.2	3.1	17.3	15.4	0.0	0.9
Cafe de Coral Holdings	341 HK	Hong Kong	na	26.8	22.8	18.0	2.5	2.4	11.5	9.8	2.6	3.6
Zen Corporation Group	ZEN TB	Thailand	(14.3)	na	na	25.2	3.2	2.9	14.3	7.4	0.0	2.1
Central Plaza Hotel*	CENTEL TB	Thailand	na	na	na	na	2.8	2.8	42.2	18.8	0.0	0.0
Minor International*	MINT TB	Thailand	na	na	na	755.8	2.8	2.8	48.7	14.1	0.0	0.0
MK Restaurants Group*	M TB	Thailand	(93.4)	2,915.6	820.2	27.2	3.8	3.5	23.4	10.7	0.1	3.7
Average			(53.9)	390.0	148.0	125.0	3.3	3.1	24.6	12.2	0.7	1.4

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

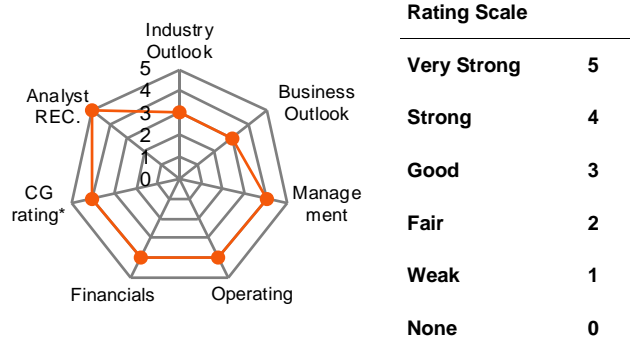
Based on 3-Nov-2021 closing prices

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



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.

O — Opportunity

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

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.

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	59.61	68.00	14%
Net profit 21F (Bt m)	35	60	69%
Net profit 22F (Bt m)	1,698	1,811	7%
Consensus REC	BUY: 8	HOLD: 2	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings and TP are above the Bloomberg consensus estimate, which we attribute to us factoring in a less significant hit from the latest COVID-19 outbreak.

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

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	17,409	13,361	11,467	15,987	19,046
Cost of sales	5,483	4,577	4,197	5,438	6,197
Gross profit	11,926	8,784	7,270	10,549	12,850
% gross margin	68.5%	65.7%	63.4%	66.0%	67.5%
Selling & administration expenses	9,183	7,947	7,419	8,569	9,609
Operating profit	2,743	837	(149)	1,980	3,241
% operating margin	15.8%	6.3%	-1.3%	12.4%	17.0%
Depreciation & amortization	777	2,137	1,901	1,830	1,728
EBITDA	3,520	2,974	1,752	3,810	4,969
% EBITDA margin	20.2%	22.3%	15.3%	23.8%	26.1%
Non-operating income	462	294	281	298	349
Non-operating expenses	0	0	0	0	0
Interest expense	(1)	(73)	(58)	(7)	(5)
Pre-tax profit	3,205	1,058	74	2,271	3,585
Income tax	553	140	(2)	409	645
After-tax profit	2,651	918	75	1,862	2,939
% net margin	15.2%	6.9%	0.7%	11.7%	15.4%
Shares in affiliates' Earnings	(41)	(6)	(20)	(20)	(20)
Minority interests	(7)	(4)	5	(31)	(66)
Extraordinary items	0	0	0	0	0
NET PROFIT	2,604	907	60	1,811	2,854
Normalized profit	2,604	907	60	1,811	2,854
EPS (Bt)	2.8	1.0	0.1	2.0	3.1
Normalized EPS (Bt)	2.8	1.0	0.1	2.0	3.1

We assume M's earnings recover from 4Q21F

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	8,740	8,310	8,877	9,388	9,890
Cash & cash equivalent	8,033	7,663	8,354	8,654	9,154
Account receivables	158	110	99	135	163
Inventories	358	418	322	457	405
Others	191	119	102	142	169
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	7,757	8,379	8,580
Total assets	17,942	20,353	19,334	20,250	20,731
LIABILITIES:					
Current liabilities:	2,467	2,845	2,382	2,750	3,046
Account payables	1,855	1,312	954	1,445	1,867
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	36	21	67	104	132
Others current liabilities	575	1,512	1,361	1,202	1,047
Total LT debt	0	0	0	0	0
Others LT liabilities	848	3,661	3,539	3,180	2,779
Total liabilities	3,315	6,506	5,922	5,931	5,825
Minority interest	320	324	320	351	417
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	2,726	3,602	4,123
Shareholders' equity	14,306	13,523	13,093	13,968	14,489
Liabilities & equity	17,942	20,353	19,334	20,250	20,731

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	3,205	1,058	74	2,271	3,585
Tax paid	(564)	(273)	10	(369)	(596)
Depreciation & amortization	777	2,137	1,901	1,830	1,728
Chg In working capital	(178)	(555)	(251)	320	447
Chg In other CA & CL / minorities	485	1,209	(163)	(260)	(251)
Cash flow from operations	3,725	3,575	1,571	3,793	4,912
<i>No significant capex requirements</i>					
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	564	(1,994)	(1,508)
Cash flow from investments	(3,022)	(2,239)	(436)	(2,594)	(2,108)
Debt financing	(8)	(15)	46	36	28
Capital increase	0	0	(0)	0	0
Dividends paid	(2,394)	(1,658)	(490)	(936)	(2,332)
Warrants & other surplus	(79)	(33)	0	0	0
Cash flow from financing	(2,481)	(1,706)	(444)	(899)	(2,304)
Free cash flow	2,916	3,334	1,371	3,293	4,412

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	18.9	54.3	820.2	27.2	17.3
Normalized PE - at target price (x)	24.1	69.0	1,042.5	34.6	21.9
PE (x)	18.9	54.3	820.2	27.2	17.3
PE - at target price (x)	24.1	69.0	1,042.5	34.6	21.9
EV/EBITDA (x)	11.7	14.0	23.4	10.7	8.1
EV/EBITDA - at target price (x)	15.5	18.5	31.0	14.2	10.8
P/BV (x)	3.4	3.6	3.8	3.5	3.4
P/BV - at target price (x)	4.4	4.6	4.8	4.5	4.3
P/CFO (x)	13.2	13.8	31.4	13.0	10.0
Price/sales (x)	2.8	3.7	4.3	3.1	2.6
Dividend yield (%)	4.9	1.9	0.1	3.7	5.8
FCF Yield (%)	5.9	6.8	2.8	6.7	9.0
(Bt)					
Normalized EPS	2.8	1.0	0.1	2.0	3.1
EPS	2.8	1.0	0.1	2.0	3.1
DPS	2.6	1.0	0.1	2.0	3.1
BV/share	15.5	14.7	14.2	15.2	15.7
CFO/share	4.0	3.9	1.7	4.1	5.3
FCF/share	3.2	3.6	1.5	3.6	4.8

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	3.8	(23.3)	(14.2)	39.4	19.1
Net profit (%)	1.2	(65.1)	(93.4)	2,915.6	57.5
EPS (%)	1.2	(65.1)	(93.4)	2,915.6	57.5
Normalized profit (%)	(2.7)	(65.1)	(93.4)	2,915.6	57.5
Normalized EPS (%)	(2.7)	(65.1)	(93.4)	2,915.6	57.5
Dividend payout ratio (%)	92.0	101.5	100.0	100.0	100.0
Operating performance					
Gross margin (%)	68.5	65.7	63.4	66.0	67.5
Operating margin (%)	15.8	6.3	(1.3)	12.4	17.0
EBITDA margin (%)	20.2	22.3	15.3	23.8	26.1
Net margin (%)	15.2	6.9	0.7	11.7	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	na	283.4	na
Interest coverage - EBITDA (x)	na	40.6	30.1	na	na
ROA - using norm profit (%)	14.8	4.7	0.3	9.2	13.9
ROE - using norm profit (%)	18.3	6.5	0.5	13.4	20.1
DuPont					
ROE - using after tax profit (%)	18.6	6.6	0.6	13.8	20.7
- asset turnover (x)	1.0	0.7	0.6	0.8	0.9
- operating margin (%)	18.4	8.5	1.2	14.3	18.8
- leverage (x)	1.2	1.4	1.5	1.5	1.4
- interest burden (%)	100.0	93.5	55.8	99.7	99.8
- 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	(2.6)	33.8	49.0
NOPAT (Bt m)	2,270	726	(152)	1,624	2,657
invested capital (Bt m)	6,310	5,881	4,806	5,418	5,468

Sources: Company data, Thanachart estimates

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