Small Cap Research

BUY (Unchanged)

Change in Numbers

TP: Bt 67.00 (From: Bt 68.00)

Upside : 29.5%

16 FEBRUARY 2022

MK Restaurant Group (M TB)

Earnings turnaround

Thanks to the lockdown easing, M will likely bounce back to its profit-making zone in 4Q21F. We expect the recovery trend to continue to improve. We project M to surpass its pre-COVID 2019 earnings level in 2023F while the current share price implies M is still cheap at 17x PE in its full-turnround year in 2023F vs. its 25x historical average.

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Thanachart Securities

4Q21F profit resumption

Having been hit hard by the COVID lockdown in 3Q21 when it made a loss of Bt257m, M saw its business recover nicely in 4Q21. Sales have rebounded monthly with December being the strongest month. Total sales were flat vs. 4Q20 when Thailand's first COVID wave was subsiding though they were still around 20% lower than the pre-COVID level in 4Q19. Also helping M's recovery are 10-plus new stores opened during the quarter to take advantage of traffic resuming at shopping malls. We estimate M's earnings to turn back to profit of Bt320m in 4Q21F, down 8% y-y.

Recovery path in 2022F

In January, M's sales rose sharply by 30% y-y from the COVID-led low base in 1Q21 though they were still over 20% below the pre-COVID 1Q19 level. The decent recovery to us implies the two-year pandemic hasn't altered Thai people's dining-out behavior. This year, on top of 20-plus new store openings for its main MK Sukiyaki and Yaoi Japanese restaurants (a 4% rise), M plans to open six new outlets of Laem Charoen Seafood (LCS), a premium seafood restaurant chain (from 29). LCS earlier focused on Chinese tourists (50% of sales) but M is adjusting its strategy to serve more higher-income Thais. Given still low penetration, M sees an opportunity to double LCS outlets by 2024. Besides more stores, M is eyeing many areas to improve LCS's margins, mainly via better cost management. Note that M said it is ready to open more stores if it sees an improving market trend. In all, we forecast M's total sales this year to increase by 39% to 90% of its pre-COVID 2019 level.

Inflation pressure

Like other restaurants, M is being pressured by rising food prices. However, thanks to its highly diversified food menu, highflyers such as pork account for only around 10% of raw materials (see breakdown in Exhibit 5). In all, M is now seeing nearly a 10% increase in raw material costs (90% COGS). That said, M plans to raise its selling prices by only 2-3% to keep customers thanks to its deep pockets of being the largest restaurant chain. From our observations, the hike is lower than many smaller restaurants. We believe this will help M gain some market share.

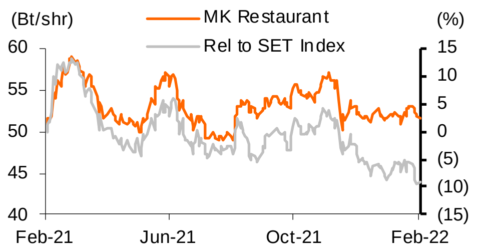
Reaffirming BUY

Despite cutting our earnings by 12/4% in 2022-23F on higher food cost assumptions, we still project M to make Bt1.6bn in profit this year (from profit of Bt60m in the 2021F COVID year) before growing by 72% in 2023F to surpass its pre-COVID 2019 level. This makes M's current share price of Bt51.75/share look cheap, in our view, trading at 17x PE in its full-recovery year in 2023F vs. around Bt70/share in 2019. We reaffirm BUY.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	13,361	11,467	15,987	19,046
Net profit	907	60	1,601	2,751
Consensus NP	—	(32)	1,718	2,377
Diff frm cons (%)	—	*na*	*(6.8)*	*15.8*
Norm profit	907	60	1,601	2,751
Prev. Norm profit	—	60	1,811	2,854
Chg frm prev (%)	—	*0.0*	*(11.6)*	*(3.6)*
Norm EPS (Bt)	1.0	0.1	1.7	3.0
Norm EPS grw (%)	(65.1)	(93.4)	2,564.9	71.9
Norm PE (x)	52.5	793.4	29.8	17.3
EV/EBITDA (x)	13.5	22.5	11.0	8.0
P/BV (x)	3.5	3.6	3.4	3.3
Div yield (%)	1.9	0.1	3.4	5.8
ROE (%)	6.5	0.5	11.9	19.4
Net D/E (%)	(55.2)	(61.8)	(59.7)	(60.6)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 15-Feb-22 (Bt)	51.75
Market Cap (US$ m)	1,472.8
Listed Shares (m shares)	920.9
Free Float (%)	45.1
Avg Daily Turnover (US$ m)	4.8
12M Price H/L (Bt)	59.00/49.00
Sector	FOOD
Major Shareholder	Group of Thirakomen 70.4%

Sources: Bloomberg, Company data, Thanachart estimates

Reaffirming BUY

We reaffirm our BUY rating on M

We reaffirm our BUY call on shares of MK Restaurant Group (M) with DCF-based 12-month TP , using a 2022F base year of Bt67/share (from Bt68).

Ex 1: Our 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	64	67
SG&A to sales (%)	53	59	65	54	50

Sources: Company data, Thanachart estimates

Ex 2: Assumption Revisions

	2019	2020	2021F	2022F	2023F
Sales-store sales (% growth)					
New	(2)	(28)	(14.0)	35.0	15.0
Old			(14.0)	35.0	15.0
Change (pp)			—	—	—
Outlets					
New	706	722	720	750	780
Old			720	750	780
Change			—	—	—
Revenues (Bt m)					
New	17,409	13,361	11,467	15,987	19,046
Old			11,467	15,987	19,046
Change (%)			—	—	—
Gross margin (%)					
New	68.5	65.7	63.4	64.4	66.8
Old			63.4	66.0	67.5
Change (pp)			—	*(1.6)*	*(0.7)*
SG&A to sales (%)					
New	52.7	59.5	64.7	53.6	50.5
Old			64.7	53.6	50.5
Change (pp)			—	—	—
Normalized profits (Bt m)					
New	2,604	907	60	1,601	2,751
Old			60	1,811	2,854
Change (%)			—	*(11.6)*	*(3.6)*

Sources: Company data, Thanachart estimates

Supporting our investment thesis are:

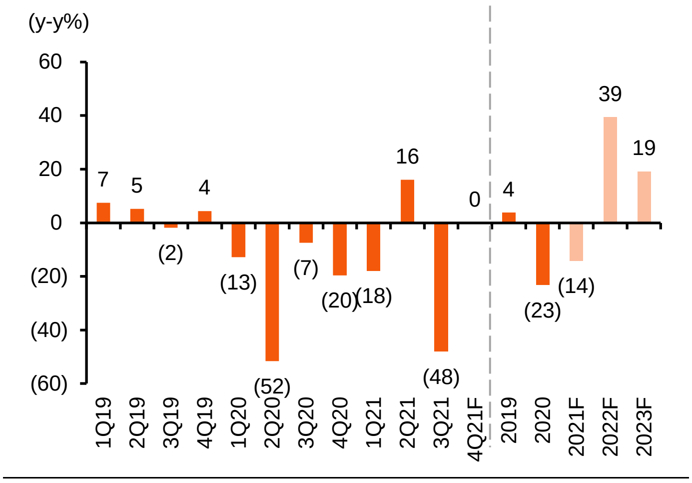
1) We foresee factors for a decent earnings turnaround

First, we expect a continued improvement in traffic at M's restaurants. We recap here that M was one of the main COVID lockdown victims during 3Q21. However, traffic resumed nicely after the lockdown was eased with M's sales in 4Q21 recovering to around 75% of the pre-COVID level in 2019. So far in January, sales have risen by 30% y-y from the low base while remaining at nearly 80% of the 1Q19 level. Aside from benefitting from people's love of dining out, M is planning to open more than 20 outlets this year. That said, M said it is ready to be more aggressive in opening new resturants if it sees improved market prospects.

On top of this, M plans to open around six outlets of Laem Charoen Seafood (LCS), a premium seafood restaurant (4% increase). LCS previously focused mainly on Chinese tourissts (50% of clients) but M is adjusting its strategy to serve more higher-income Thais, seeing many successful seafood restaurants in Thailand. M belives it can double the number of its LCS restaurants by around 2024 from the 29 outlets. Not only does LCS still have very low penetration, but M has good, long-standing relationships with leading shopping malls in Thailand. Also, M sees areas where it can reduce LCS's costs while improving quality thanks to its decades of experience in the restaurant business.

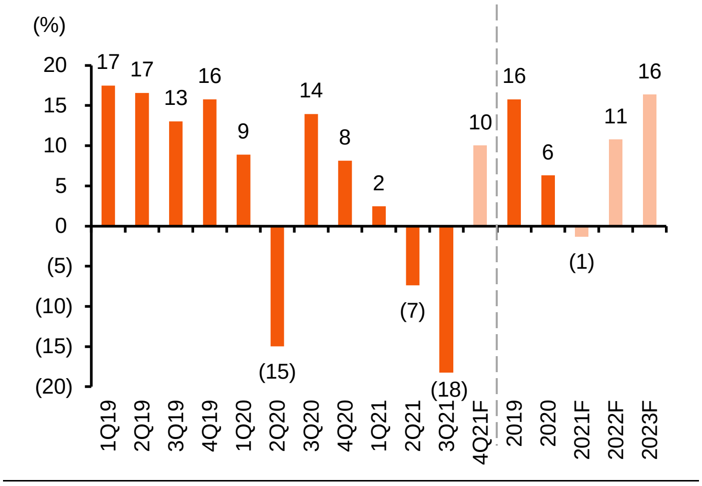
In all, we forecast M's sales to grow by 39% this year from the low base, rising EBIT margin mainly from meaningful operating leverage benefits. We estimate M's earnings to surpass its 2019 level in 2023F.

Ex 3: Sales Growth



Sources: Company data, Thanachart estimates

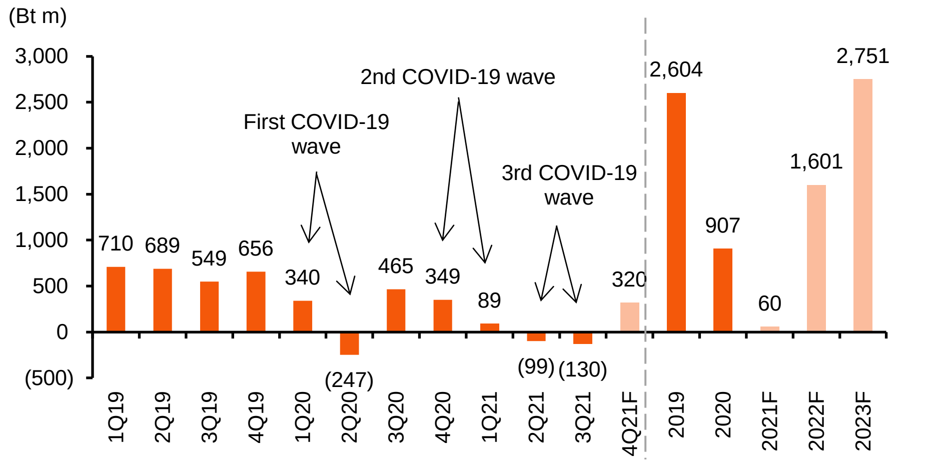
Ex 4: EBIT Expansion



Sources: Company data, Thanachart estimates

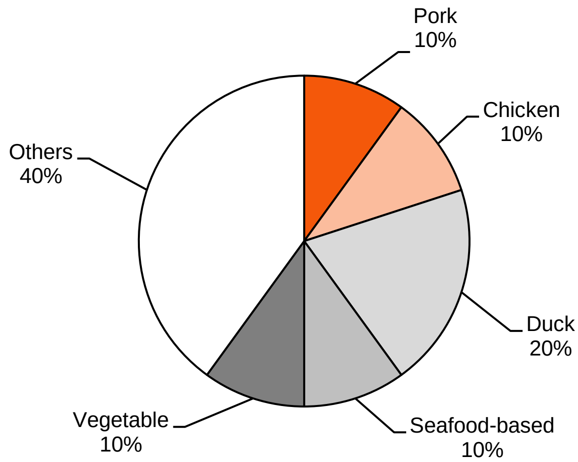
Note that our assumptions already take into account increasing raw material prices. However, thanks to M's highly diversified menu, highflyers such as pork account for only around 10% of raw materials (see Exhibit 5). M also plans to increase its selling prices by 2-3%. We believe the hike is lower than for other smaller resataurants, so M could therefore gain market share.

Ex 5: Earnings Trend



Sources: Company data, Thanachart estimates

Ex 6: Raw Materials

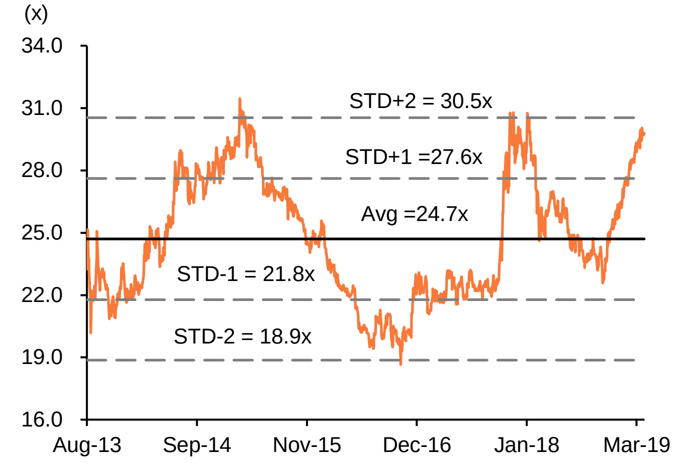


Sources: Company data, Thanachart estimates

2) M remains cheap in our view

Second, we believe that M, trading at Bt51.75/share, is cheap for a COVID turnaround play at 17x PE in its full-turnaround year in 2023F vs. its 25x historical average. Note that M traded at around Bt70/share in its pre-COVID year in 2019. Quality wise, M remains a high-quality company with a rock-solid brand, a strong management team, a negative cash cycle and a net-cash position. We see its core MK Suki brand as a highly sustainable brand given its family-focused dining giving it lasting appeal among various generations. Its mass and family-affordable prices have made it the largest restaurant chain by number of branches in Thailand (excluding fast-food kiosks).

Ex 7: Pre-COVID PE

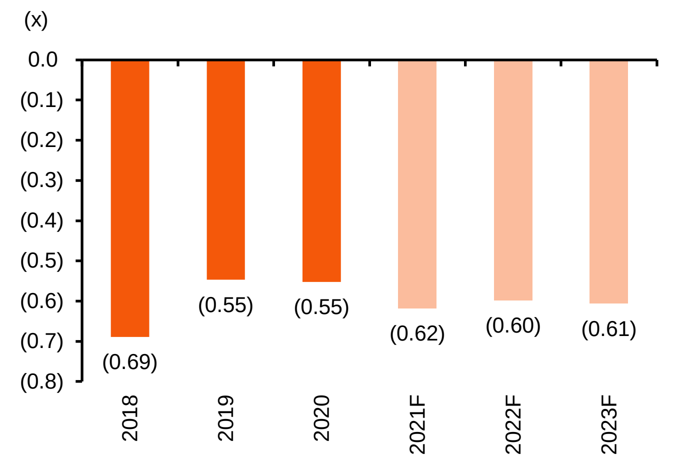


Sources: Bloomberg, Thanachart estimates

Ex 8: Share Price

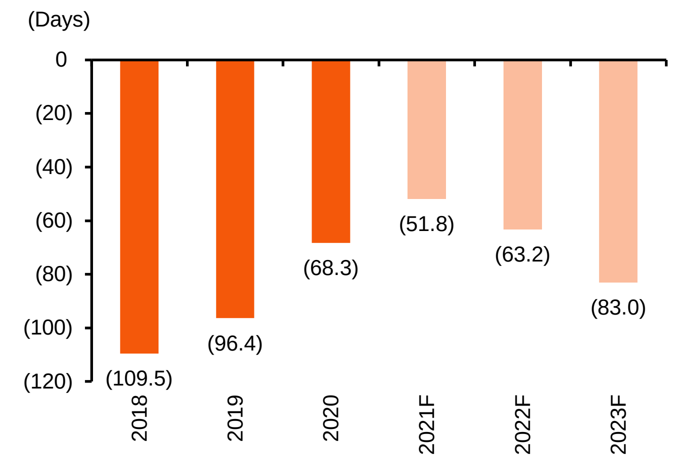
Source: Bloomberg

Ex 9: A Net Cash Company Despite The COVID Years



Sources: Company data, Thanachart estimates

Ex 10: Negative Cash Cycle



Sources: Company data, Thanachart estimates

Ex 11: 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		2,440	3,838	4,219	4,456	4,935	5,202	5,476	5,899	6,258	6,602	6,966	—
Free cash flow		2,246	3,507	3,310	3,938	4,188	4,474	4,792	5,277	5,544	5,880	6,206	77,274
PV of free cash flow		2,240	2,942	2,542	2,770	2,637	2,568	2,507	2,516	2,410	2,331	2,133	26,555
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.9												
WACC (%)	9.2												
Terminal growth (%)	2.0												
Enterprise value - add investments	54,151												
Net debt (2021F)	(8,287)												
Minority interest	320												
Equity value	62,118												
# of shares (m)	921												
Equity value/share (Bt)	**67**												

Sources: Company data, Thanachart estimates

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

Valuation Comparison

Ex 12: 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	39.4	18.5	13.3	0.9	0.9	14.0	8.8	0.8	1.7
Jollibee Foods Corp	JFC PM	Philippines	na	15.8	47.4	34.0	3.9	3.9	14.5	12.2	0.8	1.1
Kura Corp	2695 JP	Japan	24.5	11.6	37.8	26.3	2.9	2.7	13.1	9.5	0.6	0.8
Toridoll.corp	3397 JP	Japan	15.1	7.4	64.8	52.3	4.9	4.7	12.5	11.2	0.2	0.3
Hiday Hidaka Corp	7611 JP	Japan	(8.7)	30.4	38.3	69.9	na	na	na	na	0.7	0.7
Yoshinoya Holdings	9861 JP	Japan	7.8	1.4	7.9	7.7	0.7	0.7	6.6	6.4	2.3	2.5
Cafe de Coral Holdings	341 HK	Hong Kong	14.9	10.3	32.9	19.6	2.5	2.4	13.4	10.2	1.7	3.3
Zen Corporation Group	ZEN TB	Thailand	(14.3)	na	na	26.0	3.2	2.9	14.1	7.5	0.0	2.0
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	738.6	2.7	2.7	48.0	13.9	0.0	0.0
MK Restaurants Group*	M TB	Thailand	(93.4)	2,564.9	793.4	29.8	3.6	3.4	22.5	11.0	0.1	3.4
Average			**(7.7)**	**335.2**	**130.1**	**101.8**	**2.8**	**2.7**	**20.1**	**11.0**	**0.7**	**1.4**

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

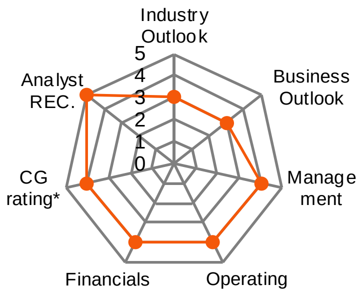
Based on 15-Feb-2022 closing prices

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)	60.00	67.00	12%
Net profit 21F (Bt m)	(32)	60	na
Net profit 22F (Bt m)	1,718	1,601	-7%
Consensus REC	**BUY: 8**	**HOLD: 2**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021F profit is 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 12% 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 weak 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 recover from 4Q21F

A net-cash company

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	17,409	13,361	11,467	15,987	19,046
Cost of sales	5,483	4,577	4,197	5,694	6,321
Gross profit	**11,926**	**8,784**	**7,270**	**10,292**	**12,725**
% gross margin	68.5%	65.7%	63.4%	64.4%	66.8%
Selling & administration expenses	9,183	7,947	7,419	8,569	9,609
Operating profit	**2,743**	**837**	**(149)**	**1,723**	**3,116**
% operating margin	15.8%	6.3%	-1.3%	10.8%	16.4%
Depreciation & amortization	777	2,137	1,901	1,830	1,728
EBITDA	**3,520**	**2,974**	**1,752**	**3,554**	**4,844**
% EBITDA margin	20.2%	22.3%	15.3%	22.2%	25.4%
Non-operating income	462	294	281	298	349
Non-operating expenses	0	0	0	0	0
Interest expense	(1)	(73)	(58)	(7)	(6)
Pre-tax profit	**3,205**	**1,058**	**74**	**2,014**	**3,460**
Income tax	553	140	(2)	363	623
After-tax profit	**2,651**	**918**	**75**	**1,652**	**2,837**
% net margin	15.2%	6.9%	0.7%	10.3%	14.9%
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**	**1,601**	**2,751**
Normalized profit	**2,604**	**907**	**60**	**1,601**	**2,751**
EPS (Bt)	2.8	1.0	0.1	1.7	3.0
Normalized EPS (Bt)	2.8	1.0	0.1	1.7	3.0

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	8,740	8,310	8,877	9,409	9,898
Cash & cash equivalent	8,033	7,663	8,354	8,654	9,154
Account receivables	158	110	99	135	163
Inventories	358	418	322	479	413
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**	**20,271**	**20,739**
LIABILITIES:					
Current liabilities:	2,467	2,845	2,382	2,877	3,106
Account payables	1,855	1,312	954	1,513	1,905
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	36	21	67	162	154
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**	**6,057**	**5,885**
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**	**3,497**	**4,072**
Shareholders' equity	14,306	13,523	13,093	13,863	14,438
Liabilities & equity	**17,942**	**20,353**	**19,334**	**20,271**	**20,739**

Sources: Company data, Thanachart estimates

No significant capex requirements

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	3,205	1,058	74	2,014	3,460
Tax paid	(564)	(273)	10	(322)	(573)
Depreciation & amortization	777	2,137	1,901	1,830	1,728
Chg In w orking capital	(178)	(555)	(251)	367	430
Chg In other CA & CL / minorities	485	1,209	(163)	(260)	(251)
Cash flow from operations	**3,725**	**3,575**	**1,571**	**3,629**	**4,793**
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	95	(9)
Capital increase	0	0	(0)	0	0
Dividends paid	(2,394)	(1,658)	(490)	(830)	(2,176)
Warrants & other surplus	(79)	(33)	0	0	0
Cash flow from financing	**(2,481)**	**(1,706)**	**(444)**	**(735)**	**(2,185)**
Free cash flow	**2,916**	**3,334**	**1,371**	**3,129**	**4,293**

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

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	18.3	52.5	793.4	29.8	17.3
Normalized PE - at target price (x)	23.7	68.0	1,027.2	38.5	22.4
PE (x)	18.3	52.5	793.4	29.8	17.3
PE - at target price (x)	23.7	68.0	1,027.2	38.5	22.4
EV/EBITDA (x)	11.3	13.5	22.5	11.0	8.0
EV/EBITDA - at target price (x)	15.3	18.2	30.5	15.0	10.9
P/BV (x)	3.3	3.5	3.6	3.4	3.3
P/BV - at target price (x)	4.3	4.6	4.7	4.5	4.3
P/CFO (x)	12.8	13.3	30.3	13.1	9.9
Price/sales (x)	2.7	3.6	4.2	3.0	2.5
Dividend yield (%)	5.0	1.9	0.1	3.4	5.8
FCF Yield (%)	6.1	7.0	2.9	6.6	9.0
(Bt)					
Normalized EPS	2.8	1.0	0.1	1.7	3.0
EPS	2.8	1.0	0.1	1.7	3.0
DPS	2.6	1.0	0.1	1.7	3.0
BV/share	15.5	14.7	14.2	15.1	15.7
CFO/share	4.0	3.9	1.7	3.9	5.2
FCF/share	3.2	3.6	1.5	3.4	4.7

Sources: Company data, Thanachart estimates

We assume an earnings recovery in 2H21F, continuing into 2022F

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)	2,564.9	71.9
EPS (%)	1.2	(65.1)	(93.4)	2,564.9	71.9
Normalized profit (%)	(2.7)	(65.1)	(93.4)	2,564.9	71.9
Normalized EPS (%)	(2.7)	(65.1)	(93.4)	2,564.9	71.9
Dividend payout ratio (%)	92.0	101.5	100.0	100.0	100.0
Operating performance					
Gross margin (%)	68.5	65.7	63.4	64.4	66.8
Operating margin (%)	15.8	6.3	(1.3)	10.8	16.4
EBITDA margin (%)	20.2	22.3	15.3	22.2	25.4
Net margin (%)	15.2	6.9	0.7	10.3	14.9
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	236.8	na
Interest coverage - EBITDA (x)	na	40.6	30.1	488.3	na
ROA - using norm profit (%)	14.8	4.7	0.3	8.1	13.4
ROE - using norm profit (%)	18.3	6.5	0.5	11.9	19.4
DuPont					
ROE - using after tax profit (%)	18.6	6.6	0.6	12.3	20.0
- asset turnover (x)	1.0	0.7	0.6	0.8	0.9
- operating margin (%)	18.4	8.5	1.2	12.6	18.2
- leverage (x)	1.2	1.4	1.5	1.5	1.4
- interest burden (%)	100.0	93.5	55.8	99.6	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)	29.4	47.6
NOPAT (Bt m)	2,270	726	(152)	1,413	2,555
invested capital (Bt m)	6,310	5,881	4,806	5,372	5,438

Sources: Company data, Thanachart estimates

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