Small Cap Research

BUY (Unchanged) | **TP: Bt 67.00** (Unchanged)

New Information | **Upside : 21.8%** | **29 APRIL 2022**

MK Restaurant Group (M TB)

Limited inflation impact

PATTADOL BUNNAK
662 – 483 8298
pattadol.bun@thanachartsec.co.th

M's business turnaround is continuing without any meaningful impact from inflation. Its 3% price increase has covered its rising costs, and this hasn't deterred traffic flow to its restaurants. Hefty operating leverage benefits should also ensure M enjoys a sharp earnings turnaround over 2022-23F. Reaffirm BUY.

Resilient against inflation

M, the biggest restaurant chain in Thailand, has been resilient to inflation and its business turnaround trend is continuing. M has raised prices by around 3% in 1Q22, which is enough to cover the 10% increase in its food raw material costs, comprising about 90% of COGS and 30% of sales. M's gross margin is 67%. The small price increase hasn't had a negative impact on traffic to its restaurants. According to M, its price hike is much less than for some other smaller players which have raised prices by 10-15% and M should gain some market share. The company also believes it can raise prices further if costs continue to increase.

High operating leverage play

M is a very high operating-leverage play with fixed costs making up around 60% of its total costs. Its 2021 revenue came to 64% of the level in 2019 but profit was at only 5% of the 2019 figure. We therefore expect M to enjoy the same degree of operating leverage benefits when things turn around. This year, we forecast 44% revenue growth which should result in Bt1,600m in profits, vs. Bt131m in 2021. We estimate 19% revenue growth in 2023F which should see another 72% EPS growth.

Strong turnaround momentum

We estimate M's revenue to grow 12% y-y in 1Q22F and profit to rise by 260% y-y to Bt320m. For M, we believe it is better to look at the y-y figure as 4Q is the strongest season due to the long holidays, followed by 2Q with the Songkran holiday. 1Q is the softer season but it still has some small New Year impact and Lunar New Year. 3Q is the weakest season given no special long holidays. Therefore, we estimate M's revenue in 1Q22F to fall by 3% q-q and profit to drop 20% q-q. Business momentum has continued to turn around in both 1Q-2Q22F despite the spread of the Omicron COVID-19 variant and M expects stronger traffic in the following quarters from elderly people and tourists, who used to account for around 10% of revenue.

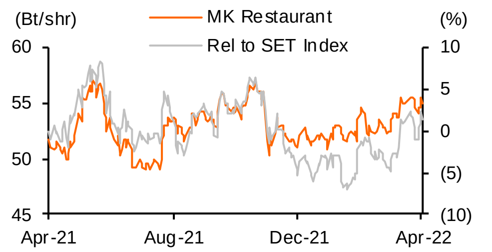
Inexpensive, in our view

We reaffirm our BUY call on shares of M with an unchanged DCF-based 12-month TP, using a 2022F base year, of Bt67. We see M as an inexpensive laggard play with its share price still 29% off its 2019 peak of Bt78. The stock is trading at only 18x PE in its full turnaround year in 2023F, vs. its 25x historical pre-COVID average while we project its ROE to remain at a similar level of near 20%. M also continues to be a net-cash company despite being hit by the COVID-19 crisis over the past two years.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	11,182	16,049	19,109	20,548
Net profit	131	1,600	2,756	3,097
Consensus NP	—	1,735	2,481	2,765
Diff frm cons (%)	—	*(7.8)*	*11.1*	*12.0*
Norm profit	131	1,600	2,756	3,097
Prev. Norm profit	—	1,601	2,751	3,083
Chg frm prev (%)	—	*(0.0)*	*0.2*	*0.5*
Norm EPS (Bt)	0.1	1.7	3.0	3.4
Norm EPS grw (%)	(85.6)	1,121.6	72.3	12.4
Norm PE (x)	386.7	31.7	18.4	16.4
EV/EBITDA (x)	21.4	13.4	9.4	8.8
P/BV (x)	3.8	3.7	3.6	3.5
Div yield (%)	1.5	3.2	5.4	6.1
ROE (%)	1.0	11.9	19.8	21.7
Net D/E (%)	(56.9)	(52.6)	(50.1)	(50.4)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 29-Apr-22 (Bt)	55.00
Market Cap (US$ m)	1,478.7
Listed Shares (m shares)	920.9
Free Float (%)	36.2
Avg Daily Turnover (US$ m)	4.5
12M Price H/L (Bt)	57.00/49.00
Sector	FOOD
Major Shareholder	Group of Thirakomen 70.4%

Sources: Bloomberg, Company data, Thanachart estimates

Thanachart Securities

Reaffirming BUY

We reaffirm our BUY on M

We reaffirm our BUY call on shares of MK Restaurant Group Pcl (M) with an unchanged DCF-based 12-month TP, using a 2022F base year, of Bt67/share. We discuss our investment rationale below.

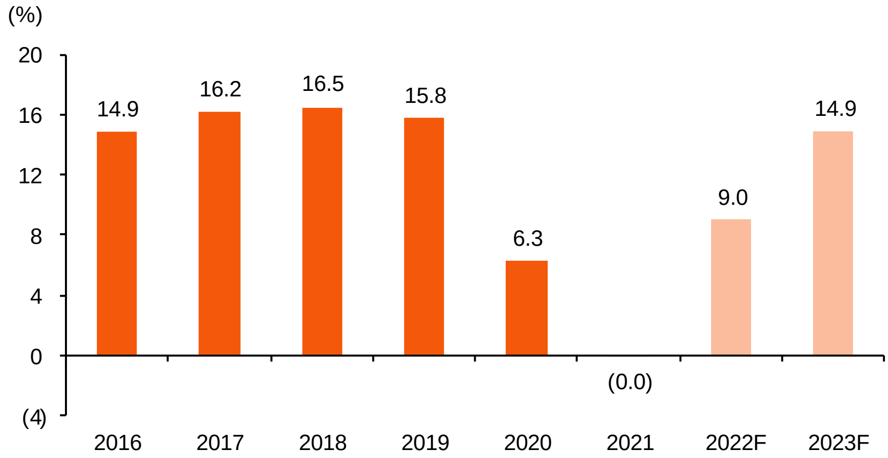
1) M is subject to only a limited impact from inflation

First, M remains resilient depite having to raise prices given the country-wide inflationary trend that has pushed up its raw material costs. M's traffic turnaround has continued and good margins have been kept intact.

1) By nature, demand for food is resilient to inflationary pressure.

2) M also only raised its prices by 3% in 1Q22 despite a 10% increase in raw material costs. M's average bill per head is around Bt300 so the 3% price increase barely had any impact on customers' affordability. The small rise was due to its high gross margin of 67%. Raw materials account for only 30% of sales. According to M, it raised its prices by less than other smaller restaurant chains which lifted theirs by around 10-15% so we expect M to gain market share. As its price hike has been very small so far, M believes it can raise prices further if costs continue to increase. We estimate M's EBIT margin to continue to expand along with a turnaound in volume.

Ex 1: Recovering EBIT Margin



Sources: Company data, Thanachart estimates

2) We expect a strong earnings turnround

Second, we like M's strong turnaround momentum with high operating leverage benefits. Despite the spread of the Omicron COVID variant and inflationary pressure, M's traffic turnaround trend has remained intact in 1Q-2Q22F. M expects stronger traffic in the following quarters from a return of both elderly people and tourists. Amid the rollout of vaccines and the country reopening to tourists (no RT-PCR or ATK tests required), M expects traffic to improve in the remaing quarters. M plans to open 20-plus stores this year.

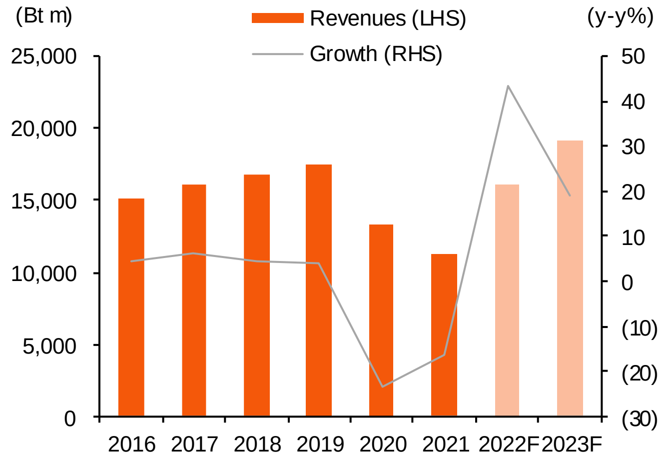
Ex 2: Our Key Assumptions

	2019	2020	2021	2022F	2023F
Same-store-sales growth (%)	(2)	(28)	(16)	40	15
Number of outlets	706	722	703	733	763
Implied sales growth from new outlets (%)	6	5	0	4	4
Total sales growth (%)	4	(23)	(16)	44	19
Gross margin (%)	69	66	64	64	67
Sg&A to sales (%)	53	59	64	55	52

Sources: Company data, Thanachart estimates

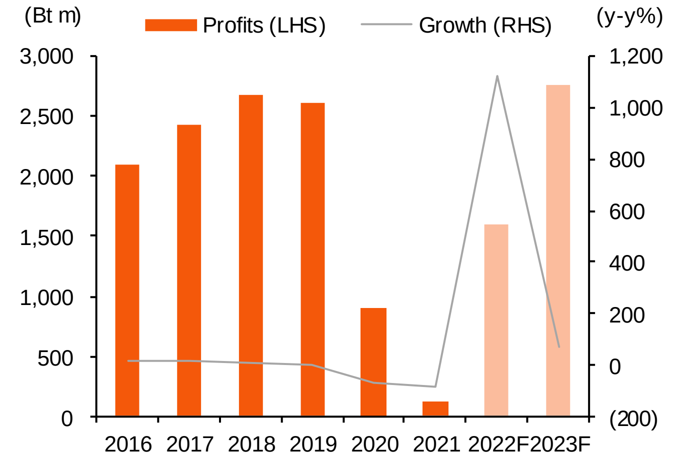
During the COVID-19 years in 2020-21 on top of falling revenues, M suffered from a substantial negative operating leverage impact as 60% of its costs are fixed cost, eg, rental and labor expenses. Now, as we expect M's revenue to recover swiftly, we expect it to enjoy meaningful positive operating leverage benefits. We estimate 44% sales growth this year and expect its earnings surging to Bt1,600m from Bt131m in 2021. We forecast another 19% revenues growth in 2023F and expect for 72% profits growth.

Ex 3: Revenue Growth



Sources: Company data, Thanachart estimates

Ex 4: Profit Growth

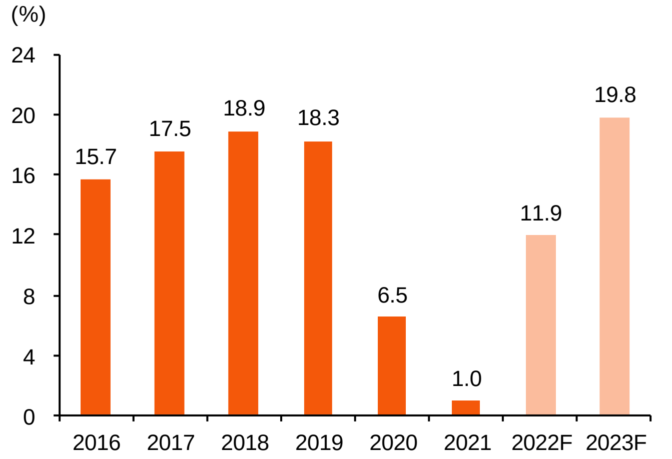


Sources: Company data, Thanachart estimates

M looks inexpensive to us with a healthy balance sheet

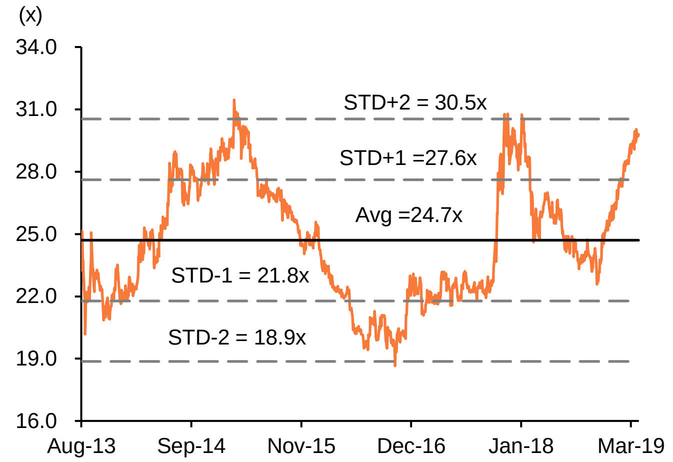
Lastly, M's valuation looks inexpensive to us trading at a PE of 18x in its full turnaround year in 2023F vs. 25x historical pre-COVID past-6-year average level with its ROE staying at a similar level of near 20%. Also, despite the COVID-19 crisis during the past two years, M remains a net-cash company.

Ex 5: ROE Trend



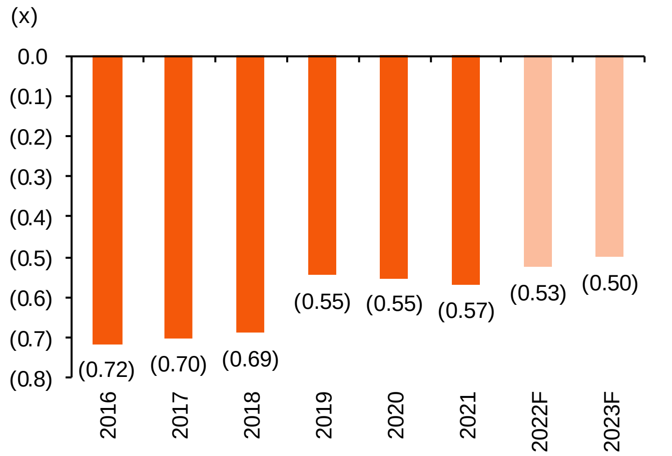
Sources: Company data, Thanachart estimates

Ex 6: Pre-COVID PE



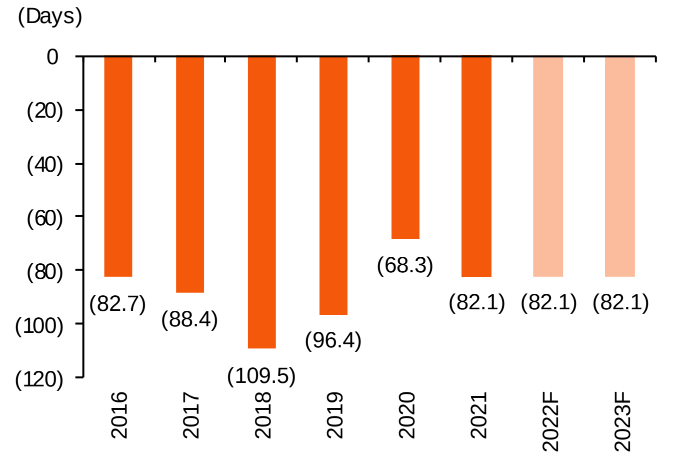
Sources: Bloomberg, Thanachart estimates

Ex 7: A Net Cash Company



Sources: Company data, Thanachart estimates

Ex 8: Negative Cash Cycle



Sources: Company data, Thanachart estimates

Ex 9: 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		2,208	3,583	4,007	4,208	4,774	5,283	5,696	5,992	6,448	6,644	7,010	—
Free cash flow		2,199	2,950	3,373	3,610	4,138	4,512	4,989	5,256	5,762	5,957	6,298	82,880
PV of free cash flow		2,193	2,474	2,590	2,539	2,666	2,590	2,610	2,507	2,505	2,361	2,275	25,847
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.9												
WACC (%)	9.2												
Terminal growth (%)	2.0												
Enterprise value - add investments	55,232												
Net debt (2021)	(7,680)												
Minority interest	314												
Equity value	62,598												
# of shares (m)	921												
Equity value/share (Bt)	**67.0**												

Sources: Company data, Thanachart estimates

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

Valuation Comparison

Ex 10: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div. yield 22F (%)	Div. yield 23F (%)
Max's Group Inc	MAXS PM	Philippines	(23.3)	62.9	13.5	8.3	0.8	0.7	8.5	6.8	1.5	1.7
Jollibee Foods Corp	JFC PM	Philippines	(0.5)	41.1	40.7	28.9	3.9	3.5	14.2	11.9	1.0	1.3
Kura Corp	2695 JP	Japan	107.6	38.7	32.4	23.4	2.5	2.3	12.5	8.7	0.6	0.9
Toridoll.corp	3397 JP	Japan	na	(19.8)	33.1	41.2	4.1	3.9	10.3	10.1	0.3	0.3
Hiday Hidaka Corp	7611 JP	Japan	8.0	(1.6)	na	na	na	na	na	na	0.6	1.3
Yoshinoya Holdings	9861 JP	Japan	(68.1)	2.8	19.7	58.9	3.1	3.0	16.3	15.5	0.1	0.6
Cafe de Coral Holdings	341 HK	Hong Kong	(38.3)	64.5	31.6	19.2	2.4	2.3	12.4	9.6	1.8	3.3
Zen Corporation Group	ZEN TB	Thailand	na	35.9	24.9	18.4	2.8	2.6	7.0	6.5	2.2	3.1
Central Plaza Hotel*	CENTEL TB	Thailand	na	433.0	200.3	37.6	3.4	3.1	19.2	14.2	0.0	0.0
Minor International*	MINT TB	Thailand	na	na	na	36.2	2.4	2.5	14.9	11.2	0.0	0.6
MK Restaurants Group*	M TB	Thailand	1,121.6	72.3	31.7	18.4	3.7	3.6	13.4	9.4	3.2	5.4
Average			**158.1**	**73.0**	**47.5**	**29.1**	**2.9**	**2.8**	**12.9**	**10.4**	**1.0**	**1.7**

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

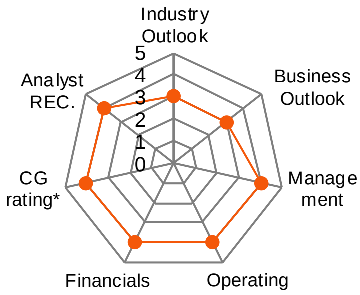
Based on 29-Apr-2022 closing prices

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)	61.63	67.00	9%
Net profit 22F (Bt m)	1,735	1,600	-8%
Net profit 23F (Bt m)	2,481	2,756	11%
Consensus REC	**BUY: 9**	**HOLD: 1**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F profit is 8% 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 9% above the Street's, likely because we expect 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 1Q22F

A net-cash company

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	13,361	11,182	16,049	19,109	20,548
Cost of sales	4,577	4,015	5,712	6,337	6,833
Gross profit	**8,784**	**7,167**	**10,337**	**12,772**	**13,715**
% gross margin	65.7%	64.1%	64.4%	66.8%	66.7%
Selling & administration expenses	7,947	7,170	8,894	9,925	10,449
Operating profit	**837**	**(3)**	**1,443**	**2,847**	**3,266**
% operating margin	6.3%	0.0%	9.0%	14.9%	15.9%
Depreciation & amortization	2,137	2,009	1,799	1,748	1,656
EBITDA	**2,974**	**2,006**	**3,242**	**4,595**	**4,922**
% EBITDA margin	22.3%	17.9%	20.2%	24.0%	24.0%
Non-operating income	294	207	579	623	649
Non-operating expenses	0	0	0	0	0
Interest expense	(73)	(69)	(52)	(44)	(31)
Pre-tax profit	**1,058**	**135**	**1,970**	**3,425**	**3,885**
Income tax	140	(10)	355	617	699
After-tax profit	**918**	**144**	**1,615**	**2,809**	**3,185**
% net margin	6.9%	1.3%	10.1%	14.7%	15.5%
Shares in affiliates' Earnings	(6)	(23)	(20)	(20)	(20)
Minority interests	(4)	10	5	(32)	(68)
Extraordinary items	0	0	0	0	0
NET PROFIT	**907**	**131**	**1,600**	**2,756**	**3,097**
Normalized profit	**907**	**131**	**1,600**	**2,756**	**3,097**
EPS (Bt)	1.0	0.1	1.7	3.0	3.4
Normalized EPS (Bt)	1.0	0.1	1.7	3.0	3.4

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	8,310	8,418	8,434	8,537	8,736
Cash & cash equivalent	7,663	7,689	7,392	7,342	7,492
Account receivables	110	167	239	285	306
Inventories	418	392	558	619	624
Others	119	170	244	291	313
Investments & loans	0	0	0	0	0
Net fixed assets	3,254	2,842	2,577	2,340	2,099
Other assets	8,790	8,308	10,188	10,606	10,416
Total assets	**20,353**	**19,569**	**21,199**	**21,484**	**21,251**
LIABILITIES:					
Current liabilities:	2,845	2,729	3,333	3,356	3,326
Account payables	1,312	1,355	1,928	2,139	2,306
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	21	8	64	60	46
Others current liabilities	1,512	1,366	1,342	1,157	974
Total LT debt	**0**	**0**	**0**	**0**	**0**
Others LT liabilities	3,661	3,331	3,930	3,582	3,139
Total liabilities	**6,506**	**6,060**	**7,263**	**6,938**	**6,466**
Minority interest	324	314	310	342	410
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	660	661	661	661	661
Retained earnings	**3,157**	**2,827**	**3,259**	**3,837**	**4,007**
Shareholders' equity	13,523	13,194	13,626	14,204	14,375
Liabilities & equity	**20,353**	**19,569**	**21,199**	**21,484**	**21,251**

Sources: Company data, Thanachart estimates

No significant capex requirements

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,058	135	1,970	3,425	3,885
Tax paid	(273)	(90)	(280)	(626)	(673)
Depreciation & amortization	2,137	2,009	1,799	1,748	1,656
Chg In w orking capital	(555)	12	334	104	141
Chg In other CA & CL / minorities	1,209	(52)	(193)	(242)	(251)
Cash flow from operations	**3,575**	**2,013**	**3,630**	**4,409**	**4,758**
Capex	(3,002)	(2,915)	(500)	(500)	(500)
Right of use	(2,575)	1,822	(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	3,339	(422)	(1,514)	(1,677)	(1,067)
Cash flow from investments	**(2,239)**	**(1,515)**	**(2,814)**	**(2,277)**	**(1,667)**
Debt financing	(15)	(13)	55	(4)	(14)
Capital increase	0	0	(0)	0	0
Dividends paid	(1,658)	(460)	(1,168)	(2,178)	(2,927)
Warrants & other surplus	(33)	1	0	0	0
Cash flow from financing	**(1,706)**	**(472)**	**(1,113)**	**(2,182)**	**(2,941)**
Free cash flow	**573**	**(902)**	**3,130**	**3,909**	**4,258**

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

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	55.8	386.7	31.7	18.4	16.4
Normalized PE - at target price (x)	68.0	471.0	38.6	22.4	19.9
PE (x)	55.8	386.7	31.7	18.4	16.4
PE - at target price (x)	68.0	471.0	38.6	22.4	19.9
EV/EBITDA (x)	14.5	21.4	13.4	9.4	8.8
EV/EBITDA - at target price (x)	18.2	26.9	16.8	11.8	11.0
P/BV (x)	3.7	3.8	3.7	3.6	3.5
P/BV - at target price (x)	4.6	4.7	4.5	4.3	4.3
P/CFO (x)	14.2	25.2	14.0	11.5	10.6
Price/sales (x)	3.8	4.5	3.2	2.7	2.5
Dividend yield (%)	1.8	1.5	3.2	5.4	6.1
FCF Yield (%)	1.1	(1.8)	6.2	7.7	8.4
(Bt)					
Normalized EPS	1.0	0.1	1.7	3.0	3.4
EPS	1.0	0.1	1.7	3.0	3.4
DPS	1.0	0.8	1.7	3.0	3.4
BV/share	14.7	14.3	14.8	15.4	15.6
CFO/share	3.9	2.2	3.9	4.8	5.2
FCF/share	0.6	(1.0)	3.4	4.2	4.6

Sources: Company data, Thanachart estimates

We assume the earnings recovery in from 1Q22F.

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(23.3)	(16.3)	43.5	19.1	7.5
Net profit (%)	(65.1)	(85.6)	1,121.6	72.3	12.4
EPS (%)	(65.1)	(85.6)	1,121.6	72.3	12.4
Normalized profit (%)	(65.1)	(85.6)	1,121.6	72.3	12.4
Normalized EPS (%)	(65.1)	(85.6)	1,121.6	72.3	12.4
Dividend payout ratio (%)	101.5	562.4	100.0	100.0	100.0
Operating performance					
Gross margin (%)	65.7	64.1	64.4	66.8	66.7
Operating margin (%)	6.3	(0.0)	9.0	14.9	15.9
EBITDA margin (%)	22.3	17.9	20.2	24.0	24.0
Net margin (%)	6.9	1.3	10.1	14.7	15.5
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)
Interest coverage - EBIT (x)	11.4	na	27.8	64.2	106.7
Interest coverage - EBITDA (x)	40.6	29.0	62.6	103.6	160.8
ROA - using norm profit (%)	4.7	0.7	7.8	12.9	14.5
ROE - using norm profit (%)	6.5	1.0	11.9	19.8	21.7
DuPont					
ROE - using after tax profit (%)	6.6	1.1	12.0	20.2	22.3
- asset turnover (x)	0.7	0.6	0.8	0.9	1.0
- operating margin (%)	8.5	1.8	12.6	18.2	19.1
- leverage (x)	1.4	1.5	1.5	1.5	1.5
- interest burden (%)	93.5	66.1	97.4	98.7	99.2
- tax burden (%)	86.8	107.1	82.0	82.0	82.0
WACC (%)	9.2	9.2	9.2	9.2	9.2
ROIC (%)	11.5	(0.1)	21.5	37.1	38.7
NOPAT (Bt m)	726	(3)	1,183	2,334	2,678
invested capital (Bt m)	5,881	5,514	6,298	6,922	6,928

Sources: Company data, Thanachart estimates

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Thanachart Securities Pcl.

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 779-9119

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Sarachada Sornsong
Bank, Finance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant
Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom
Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Siriporn Arunothai
Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Sittichet Rungrassameephat
Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Chak Reungsinpinya
Thematic Research, Paper
Tel: 662-779-9104
chak.reu@thanachartsec.co.th

Pattadol Bunnak
Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Yupapan Polpornprasert
Energy, Petrochemical
Tel: 662-779-9110
yupapan.pol@thanachartsec.co.th

Thaloengsak Kucharoenpaisan
Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th