BUY	(Unchanged)	TP: Bt 71.00	(From: Bt 67.00)
Change in Numbers		Upside : 39.9%	22 JUNE 2022

Small Cap Research

MK Restaurant Group (M TB)

Swift recovery

M has seen its sales recover to nearly 90% of its pre-COVID level in 2Q22. M has also managed to pass on costs via price hikes, so there is no margin pressure. As its share price has yet to recover to reflect its operational turnaround, we reaffirm our BUY call on the stock.

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Thanachart Securities

Strong traffic

M's operational turnaround momentum has continued to improve and the company saw its sales recover to 87% of its pre-COVID 2019 level during May-June this year. This compares to less than 80% during January to April when stricter COVID restrictions were in place. The recovery has been faster than M's expectation despite concerns over rising inflation affecting consumers' spending power. We believe this has been due to strong pent-up demand for dining out and M's market share gains which we discuss below. We project M to make profits of Bt380m in 2Q22F, improving from a Bt100m loss in 2Q21 and growing by 42% q-q.

Fully passing on higher costs

Like many companies in Thailand, M faces higher raw material costs (e.g. pork and chicken for M) due to inflation. However, M raised its selling prices by 3% in 1Q22 and another 3% in June. The price hikes more than offset the 14% increase in its food raw material costs, which account for about 90% of cost of goods sold. M's gross margin stood at 65% in 1Q21 and we expect it to remain about the same in 2Q22F. M continues to see traffic to its restaurants increasing and it believes its small price increments are not impacting consumers' affordability. Also, M raised prices by less than its smaller peers who upped theirs by 15-20% so M has gained some market share as well.

Cost-saving strategy

M is replacing some of its waiters/waitresses with serving robots. This plan was initiated in early 2021. M has so far added more than 700 robots. M intends to have another 200-300 robots in place this year. Each robot can replace a waiter/waitress. The breakeven period is 1.5 years and M can then enjoy savings from not having to pay wages after that. We estimate the 200-300 new robots will help M save Bt20/30m p.a. in 2023-24F.

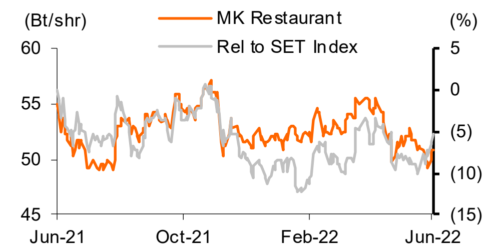
Still one of our top picks

We reaffirm our BUY call on M for its turnaround story and its ability to raise prices to pass on the inflation impact. We estimate M's revenue to rise by 44% this year and 19% in 2023F. And thanks to its very high operating leverage impact by nature (fixed costs at 60% of the total), we forecast M's earnings to rise to Bt1,600m in 2022F from Bt131m in 2021. We estimate another 72% growth in 2023F. Valuation wise, M is still trading on 17x PE in its full-turnaround year in 2023F vs. its 25x pre-COVID historical average while we project its ROE to remain at a similar level of nearly 20% and it to stay in a net-cash position despite being hit by COVID over the past two years. M is still one of our country top picks. We roll over our valuation base year to 2023F and our new DCF-based 12-month TP is Bt71/share (from Bt67).

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	—	1,809	2,492	2,756
Diff frm cons (%)	—	*(11.5)*	*10.6*	*12.4*
Norm profit	131	1,600	2,756	3,097
Prev. Norm profit	—	1,600	2,756	3,097
Chg frm prev (%)	—	*0.0*	*0.0*	*(0.0)*
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)	356.8	29.2	17.0	15.1
EV/EBITDA (x)	19.5	12.2	8.6	8.0
P/BV (x)	3.5	3.4	3.3	3.3
Div yield (%)	1.6	3.4	5.9	6.6
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* 22-Jun-22 (Bt)	50.75
Market Cap (US$ m)	1,317.1
Listed Shares (m shares)	920.9
Free Float (%)	36.2
Avg Daily Turnover (US$ m)	4.4
12M Price H/L (Bt)	57.00/49.00
Sector	FOOD
Major Shareholder	Group of Thirakomen 70.4%

Sources: Bloomberg, Company data, Thanachart estimates

Reaffirming BUY

We reaffirm BUY on M and raise our TP to Bt71/share

We reaffirm our BUY rating on shares of MK Restaurant Group Pcl (M) and raise our DCF-based 12-month TP to Bt71/share (from Bt67) as we roll over our base year to 2023F. We discuss our reasons below:

Traffic is now back to nearly 90% of its pre-COVID level in 2019

First, we like M for being a highly leverage play on its COVID turnaround trend. M saw its revenues in May-June return to 87% of its pre-COVID level in the same period in 2019, thanks to the easing of COVID restrictions in Thailand. This marks an improvement from less than 80% during January to April when curbs were stricter. Despite inflation having a negative impact on consumers' purchasing ability, we believe M's strong turnaround has been due to robust pent-up demand for dining out and market share gains. As Thailand is now easing in-bound tourism restrictions, we expect another wave of stronger traffic for M. Tourism accounts for nearly 10% of M's revenues. M intends to open 20-plus stores this year but it may open them faster than planned if traffic continues to be stronger than expected.

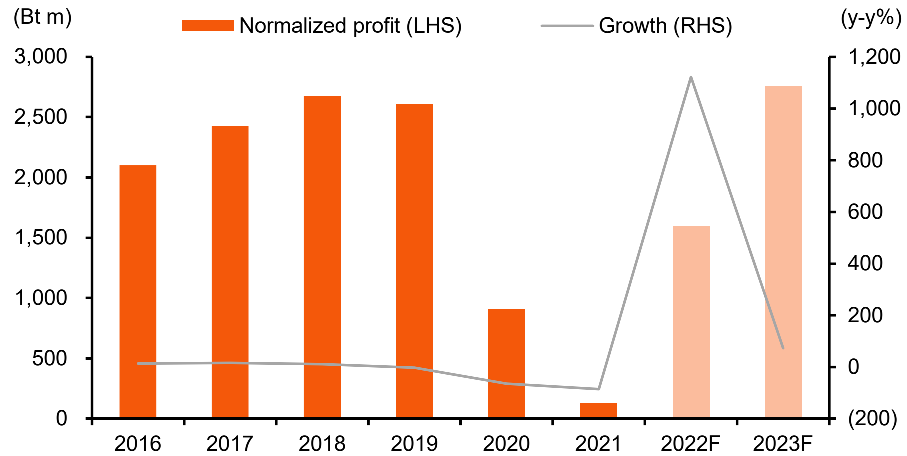
M is a very high operating-leverage play with fixed costs accounting for 60% of its total costs. In 2021, revenues came to 64% of its 2019 level but its profits were at only 5%. We therefore expect the same degree of operating-leverage benefits when its revenues turn around this year. This year we estimate 44% sales growth and forecast profits of Bt1,600m vs. only Bt131 in 2021. In 2023F, we project 19% sales growth and 72% profit growth.

Ex 1: 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

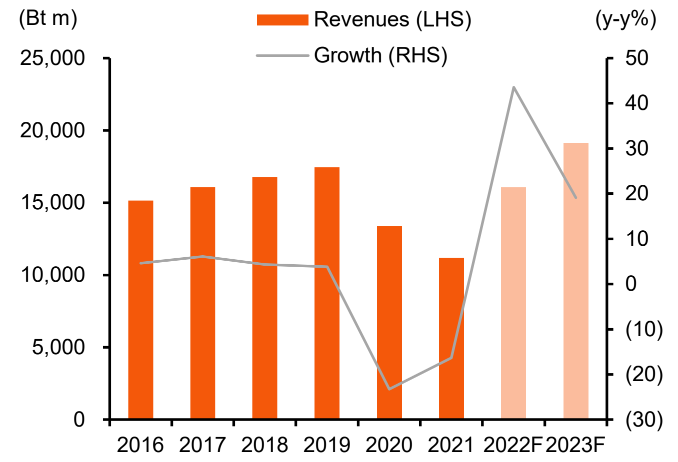
Sources: Company data, Thanachart estimates

Ex 2: Earnings Trend



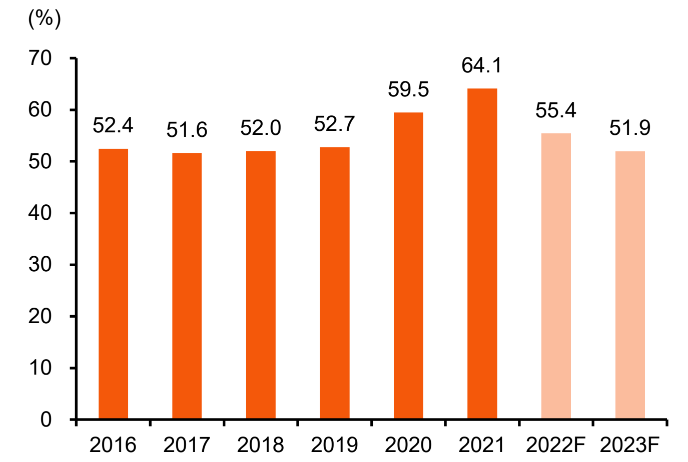
Sources: Company data, Thanachart estimates

Ex 3: Rising Sales



Sources: Company data, Thanachart estimates

Ex 4: Falling SG&A to Sales



Sources: Company data, Thanachart estimates

M is passing on higher costs to deal with the inflation impact

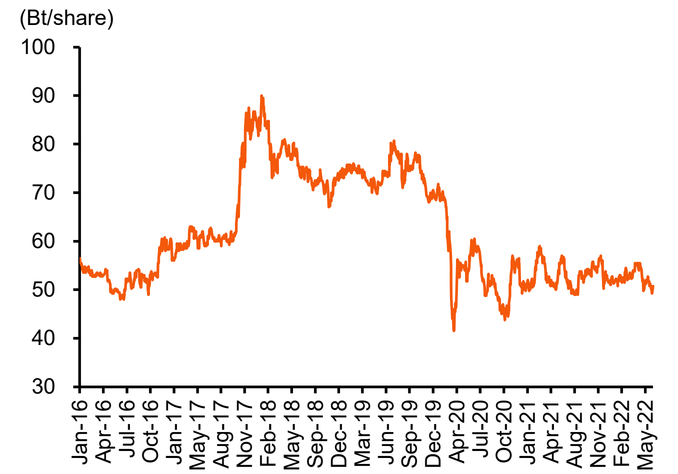
Second, M can raise its selling prices to pass on higher raw material prices (e.g., pork and chicken), which have been caused by global inflation. M lifted its prices by 3% in 1Q22 and another 3% in June. The price hikes more than offset the 14% increase in its food raw material costs as M wants to keep some buffer if raw material prices continue to increase. Food raw material costs account for 90% of cost of goods sold. M's gross margin stood at 65% in 1Q21 and we expect it to remain the same in 2Q22F. M believes its small price hikes haven't hurt consumers' affordability as traffic to its restaurants remains strong.

We believe the reason for the strong traffic despite its higher selling prices is robust pent-up demand while most of M's customers are mid- to high-income consumers who are affected less by inflation. Another reason is that M has gained market share as it has raised prices by a lesser degree than its smaller peers who have hiked theirs by around 15-20%. This is thanks to M's superior business scale.

M looks cheap to us

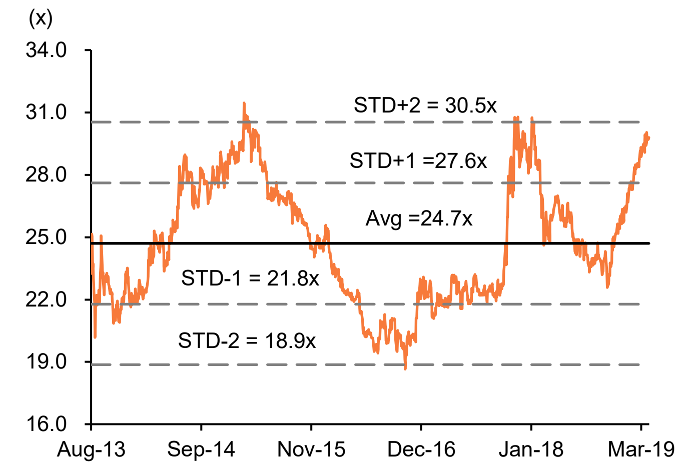
Lastly, M looks cheap to us trading on 17x PE in its full-turnaround year in 2023F vs. its 25x historical pre-COVID six-year average level with ROE remaining at the same level of 20% and its net-cash position also maintained despite the COVID hit for the past two years.

Ex 5: M's Share Price



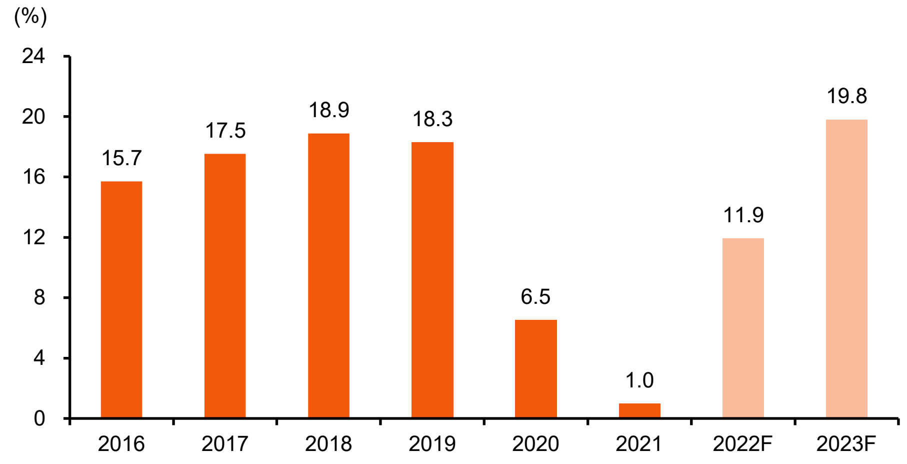
Sources: Company data, Thanachart estimates

Ex 6: Pre-COVID PE



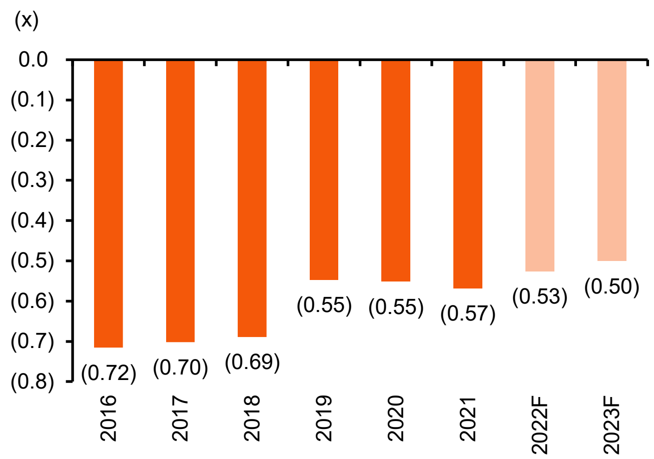
Sources: Bloomberg, Thanachart estimates

Ex 7: ROE Trend



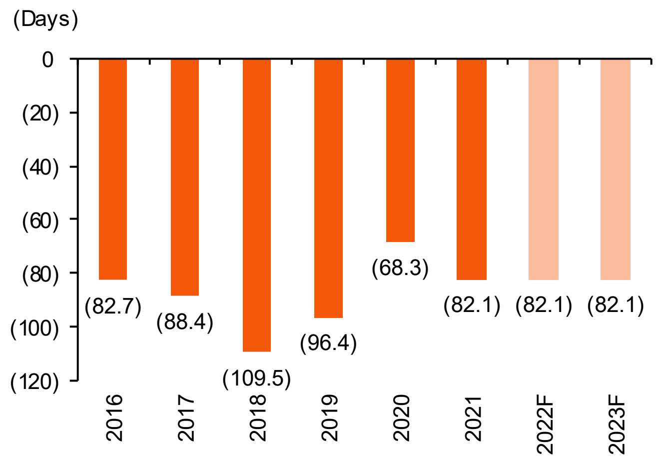
Sources: Company data, Thanachart estimates

Ex 8: A Net Cash Company



Sources: Company data, Thanachart estimates

Ex 9: Negative Cash Cycle



Sources: Company data, Thanachart estimates

Ex 10: 12-month DCF-based TP Calculation Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA	3,583	4,007	4,208	4,774	5,283	5,696	5,992	6,448	6,644	7,010	7,396	—
Free cash flow	2,950	3,373	3,610	4,138	4,512	4,989	5,256	5,762	5,957	6,298	6,657	82,880
PV of free cash flow	2,942	2,829	2,735	2,858	2,841	2,863	2,750	2,748	2,590	2,495	2,287	28,481

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.9
WACC (%)	9.2
Terminal growth (%)	2.0
Enterprise value - add investments	58,419
Net debt (2022F)	(7,329)
Minority interest	310
Equity value	65,438
# of shares (m)	921
Equity value/share (Bt)	**71.0**

Sources: Company data, Thanachart estimates

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

Valuation Comparison

Ex 11: 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	(14.7)	36.4	9.1	6.7	0.6	0.5	7.9	6.2	2.0	2.2
Jollibee Foods Corp	JFC PM	Philippines	5.1	36.8	35.4	25.9	3.4	3.1	12.8	10.5	1.1	1.4
Kura Corp	2695 JP	Japan	80.7	44.5	36.1	25.0	2.5	2.3	14.5	9.0	0.6	0.8
Toridoll.corp	3397 JP	Japan	(44.1)	27.5	39.8	31.2	3.0	2.8	9.8	9.1	0.4	0.4
Hiday Hidaka Corp	7611 JP	Japan	8.0	(1.6)	44.9	45.6	na	na	na	na	1.2	1.2
Yoshinoya Holdings	9861 JP	Japan	(68.1)	2.8	61.4	59.7	3.1	3.0	16.1	13.6	0.5	0.5
Cafe de Coral Holdings	341 HK	Hong Kong	na	57.5	25.3	16.0	4.0	3.8	10.5	9.0	2.4	3.8
Zen Corporation Group	ZEN TB	Thailand	na	42.7	28.5	20.0	2.9	2.7	7.6	6.8	1.7	2.7
Central Plaza Hotel*	CENTEL TB	Thailand	na	678.6	286.3	36.8	3.2	3.0	18.8	13.7	0.0	0.0
Minor International*	MINT TB	Thailand	na	na	811.3	34.6	2.4	2.5	14.7	11.0	0.0	0.6
MK Restaurants Group*	M TB	Thailand	1,121.6	72.3	29.2	17.0	3.4	3.3	12.2	8.6	3.4	5.9
Average			**155.5**	**99.8**	**127.9**	**29.0**	**2.9**	**2.7**	**12.5**	**9.8**	**1.2**	**1.8**

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

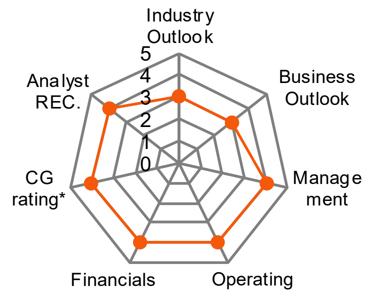
Based on 22-Jun-2022 closing prices

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 700 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	71.00	15%
Net profit 22F (Bt m)	1,809	1,600	-12%
Net profit 23F (Bt m)	2,492	2,756	11%
Consensus REC	**BUY: 8**	**HOLD: 2**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F profit is 12% below the Bloomberg consensus estimate, which we attribute to us factoring in a more significant hit from the most recent COVID-19 outbreak.
- However, our DCF-based TP is 15% 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 in 2022F

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)	51.5	356.8	29.2	17.0	15.1
Normalized PE - at target price (x)	72.1	499.2	40.9	23.7	21.1
PE (x)	51.5	356.8	29.2	17.0	15.1
PE - at target price (x)	72.1	499.2	40.9	23.7	21.1
EV/EBITDA (x)	13.1	19.5	12.2	8.6	8.0
EV/EBITDA - at target price (x)	19.4	28.8	17.9	12.6	11.8
P/BV (x)	3.5	3.5	3.4	3.3	3.3
P/BV - at target price (x)	4.8	5.0	4.8	4.6	4.5
P/CFO (x)	13.1	23.2	12.9	10.6	9.8
Price/sales (x)	3.5	4.2	2.9	2.4	2.3
Dividend yield (%)	2.0	1.6	3.4	5.9	6.6
FCF Yield (%)	1.2	(1.9)	6.7	8.4	9.1
(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 an earnings recovery in 2022F

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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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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