BUALUANG SECURITIES

COMPANY UPDATE

MK Restaurant Group M TB / M.BK

25 December 2014

Merry SSS turnaround!

Investment thesis

We have upgraded our M rating from HOLD to BUY with a new DCF-derived YE15 target price of Bt64 (unchanged WACC of 10.8% and a 2% terminal growth rate) to factor in higher earnings forecasts. SSS will turn around in 4Q14 for MK Restaurant and Yayoi after a series of quarters of slippage. Higher profits could make for bigger dividend payout rates than we have modeled (annualized yields of 3.4% for 2H14 and 3.8% for FY15). The stock trades at an FY15 PER of 22.5x, a little below the global mean of 23.1x.

SSS will turn around in 4Q14

M will post YoY SSS growth for two key brands for 4Q14—MK Restaurant and Yayoi—following consecutive quarters of SSS falls since last year. MK Restaurant's SSS slipped during 2Q13-4Q14 and Yayoi's SSS dived during 4Q13-3Q14 (Figure 2). MK Restaurant's SSS turned around from a 5% YoY drop in October 2014 to growth of 4% YoY in November. Yayoi's SSSG rose 3% YoY in Oct and 4% YoY in Nov. In Dec 2014, SSS will surely increase YoY for both MK Restaurant and Yayoi, driven by the festive season, new marketing promotions and new menus.

Outlet expansion is on-track

The firm opened 15 new outlets in 4Q14 (8 MK Restaurants; 6 Yayois and 1 Miyazaki branch). Thus, M has rolled out 57 new outlets for FY14 (29 MK Restaurants, 19 Yayois and 9 others—mainly Miyazaki). In FY15, M plans to open 60-65 new branches (30 MK Restaurants and 20 Yayois), implying 11% outlet growth for the year.

Expanded expectation for 4Q14 earnings

Our expectation for 4Q14 earnings has expanded from flattish YoY and QoQ to good YoY and QoQ growth. We estimate a core profit of Bt587m for the quarter, up by 8% YoY and 12% QoQ. Sales growth of 12% YoY and 4% QoQ to Bt3.9bn is assumed, due to the SSS turnaround and new outlets. GM should rise from 65.3% in 3Q14 (down 1.9% YoY) to 66.0% in 4Q14 (66.7% in 4Q13). Core margin will be the best of the year at 15.0% for the quarter.

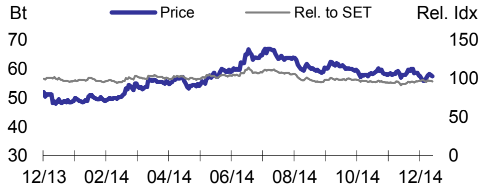
Earnings forecast upgrades and potential upside to dividend payout

We have upgraded our core earnings forecasts by 2% for FY14-15, based on optimism over 4Q14 numbers. Our model conservatively assumes SSSG of 2% for both MK Restaurant and Yayoi for FY15. Core margin is expected to rise by 90 bps to 14.4% in FY15 (a one-time Bt167m provision for ESOP was set in 2Q14). There is scope for upside to the dividend payout rate (our model assumes 82% for FY14 and 85% for FY15), given M's clean balance sheet. If the payout rate were 90%, we would expect DPSs of Bt2.0 for FY14 (only Bt1.79 in our current model) and Bt2.3 for FY15 (Bt2.17 in our current model).

Sector: Food Neutral

Rating: BUY
Target Price: Bt64.00
Price (24 December 2014): **Bt57.50**

Price chart

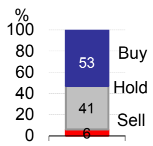


Share price perf. (%)	1M	3M	12M
Relative to SET	3.2	(0.8)	1.8
Absolute	(1.3)	(5.0)	16.8

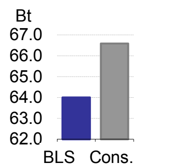
Key statistics

Market cap	Bt52.2bn	USD1.6bn
12-mth price range	Bt47.5/Bt67.3	
12-mth avg daily volume	Bt60m	USD1.8m
# of shares (m)	907	
Est. free float (%)	24.6	
Foreign limit (%)	49.0	

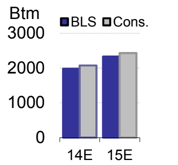
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	13,969	14,677	16,188	17,813
Net profit (Btm)	2,046	1,980	2,328	2,640
EPS (Bt)	2.26	2.18	2.55	2.85
EPS growth (%)	-20.0%	-3.4%	+17.1%	+11.7%
Core profit (Btm)	2,039	1,980	2,328	2,640
Core EPS (Bt)	2.25	2.18	2.55	2.85
Core EPS growth (%)	-20.2%	-3.1%	+17.1%	+11.7%
PER (x)	25.5	26.4	22.5	20.2
PBV (x)	4.2	4.1	4.0	3.9
Dividend (Bt)	1.6	1.8	2.2	2.6
Dividend yield (%)	-	3.1	3.8	4.5
ROE (%)	29.2	15.6	17.8	19.7

CG rating N/A

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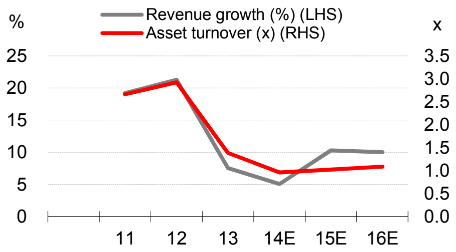
BUALUANG SECURITIES

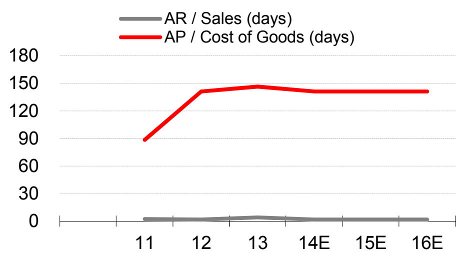
M : Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014E	2015E	2016E
Revenue	13,969	14,677	16,188	17,813
Cost of sales and services	(4,627)	(5,088)	(5,525)	(6,086)
Gross profit	**9,342**	**9,589**	**10,662**	**11,728**
SG&A	(7,066)	(7,588)	(8,226)	(8,901)
EBIT	**2,276**	**2,001**	**2,436**	**2,827**
Interest expense	(21)	0	0	0
Other income/exp.	271	474	474	474
EBT	**2,526**	**2,475**	**2,910**	**3,300**
Corporate tax	(487)	(495)	(582)	(660)
After-tax net profit (loss)	**2,039**	**1,980**	**2,328**	**2,640**
Minority interest	0	0	0	0
Equity earnings from affiliates	0	0	0	0
Extra items	7	0	0	0
Net profit (loss)	**2,046**	**1,980**	**2,328**	**2,640**
Reported EPS	2.26	2.18	2.55	2.85
Fully diluted EPS	**2.26**	**2.18**	**2.55**	**2.85**
Core net profit	**2,039**	**1,980**	**2,328**	**2,640**
Core EPS	2.25	2.18	2.55	2.85
EBITDA	**3,146**	**3,183**	**3,676**	**4,108**
KEY RATIOS				
Revenue growth (%)	7.6	5.1	10.3	10.0
Gross margin (%)	66.9	65.3	65.9	65.8
EBITDA margin (%)	22.5	21.7	22.7	23.1
Operating margin (%)	16.3	13.6	15.0	15.9
Net margin (%)	14.6	13.5	14.4	14.8
Core profit margin (%)	14.6	13.5	14.4	14.8
ROA (%)	20.4	13.0	14.7	16.1
ROCE (%)	27.6	15.6	17.8	19.7
Asset turnover (x)	1.4	1.0	1.0	1.1
Current ratio (x)	2.2	1.9	1.8	1.8
Gearing ratio (x)	0.0	0.0	0.0	0.0
Interest coverage (x)	107.2	n.m.	n.a.	n.a.
BALANCE SHEET (Btm)				
Cash & Equivalent	4,209	3,816	4,075	4,373
Accounts receivable	160	67	74	82
Inventory	226	243	264	291
PP&E-net	4,286	5,280	5,568	5,801
Other assets	6,125	6,125	6,125	6,125
Total assets	**15,006**	**15,531**	**16,106**	**16,673**
Accounts payable	1,858	1,968	2,137	2,354
ST debts & current portion	0	0	0	0
Long-term debt	0	0	0	0
Other liabilities	624	661	726	781
Total liabilities	**2,482**	**2,629**	**2,863**	**3,135**
Paid-up capital	906	908	912	926
Share premium	8,785	8,786	8,789	8,802
Retained earnings	2,788	3,144	3,493	3,757
Shareholders equity	**12,524**	**12,884**	**13,240**	**13,531**
Minority interests	0	0	0	0
Total Liab.&Shareholders' equity	**15,006**	**15,513**	**16,103**	**16,666**
CASH FLOW (Btm)				
Net income	2,046	1,980	2,328	2,640
Depreciation and amortization	598	708	766	808
Change in working capital	(290)	185	141	182
FX, non-cash adjustment & others	(106)	(548)	(31)	(6)
Cash flows from operating activities	**2,248**	**2,325**	**3,204**	**3,624**
Capex (Invest)/Divest	(9,818)	(1,646)	(994)	(993)
Others	0	0	0	0
Cash flows from investing activities	**(9,818)**	**(1,646)**	**(994)**	**(993)**
Debt financing (repayment)	0	0	0	0
Equity financing	8,937	3	7	27
Dividend payment	(439)	(1,623)	(1,979)	(2,376)
Others	0	0	0	0
Cash flows from financing activities	**7,648**	**(1,601)**	**(1,950)**	**(2,333)**
Net change in cash	77	(922)	259	299
Free cash flow (Btm)	**(7,570)**	**679**	**2,210**	**2,632**
FCF per share (Bt)	**(8.36)**	**0.75**	**2.42**	**2.84**
KEY ASSUMPTIONS	**2013**	**2014E**	**2015E**	**2016E**
MK restaurant: no. of outlets	381	411	436	461
MK restaurant: SSSG	-3.0%	-4.0%	2.0%	2.0%
MK restaurant: TSSG	6.0%	3.6%	8.2%	7.8%
Yayoi: no. of outlets	113	131	151	171
Yayoi: SSSG	1.0%	-6.0%	2.0%	4.0%
Yayoi: TSSG	24.0%	9.0%	17.6%	17.8%

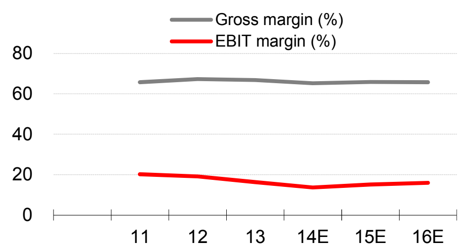
Revenue growth and asset turnover



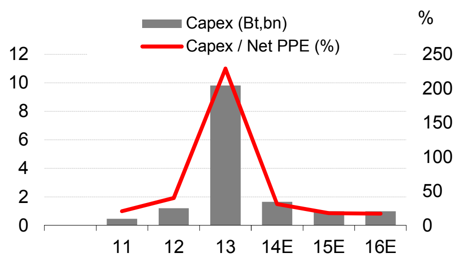
A/C receivable & A/C payable days



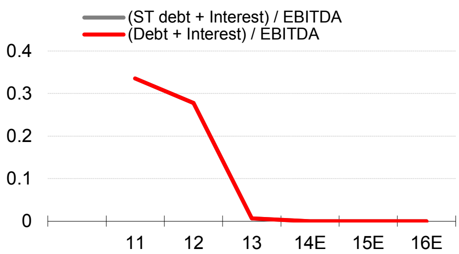
Profit margins



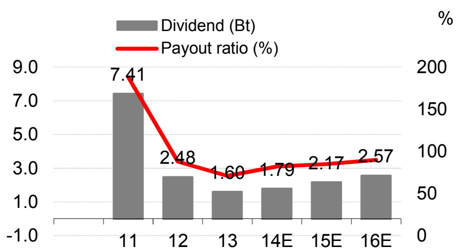
Capital expenditure



Debt serviceability



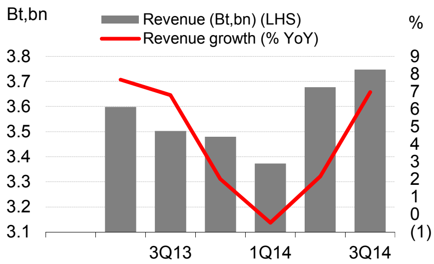
Dividend payout



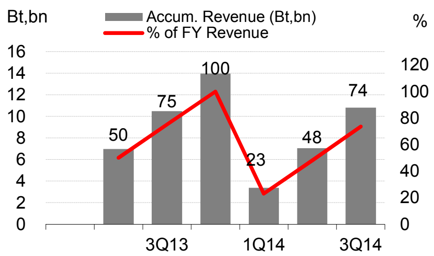
M : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q13	4Q13	1Q14	2Q14	3Q14
Revenue	3,503	3,479	3,373	3,677	3,746
Cost of sales and services	(1,149)	(1,158)	(1,137)	(1,302)	(1,299)
Gross profit	2,354	2,321	2,236	2,376	2,448
SG&A	(1,770)	(1,778)	(1,777)	(1,990)	(1,911)
EBIT	**583**	**543**	**459**	**385**	**537**
Interest expense	(3)	0	0	0	0
Other income/exp.	72	133	123	112	110
EBT	**653**	**676**	**581**	**497**	**647**
Corporate tay	(123)	(133)	(114)	(95)	(124)
After-tay net profit (loss)	529	543	468	403	522
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	1	3	(0)	0	0
Net profit (loss)	**531**	**546**	**468**	**403**	**522**
Reported EPS	0.59	0.60	0.52	0.44	0.58
Fully diluted EPS	**0.57**	**0.59**	**0.50**	**0.43**	**0.56**
Core net profit	**529**	**543**	**468**	**403**	**522**
Core EPS	0.58	0.60	0.52	0.44	0.58
EBITDA	**810**	**835**	**755**	**682**	**850**
KEY RATIOS					
Gross margin (%)	67.2	66.7	66.3	64.6	65.3
EBITDA margin (%)	23.1	24.0	22.4	18.5	22.7
Operating margin (%)	16.7	15.6	13.6	10.5	14.3
Net margin (%)	15.2	15.7	13.9	10.9	13.9
Core profit margin (%)	15.1	15.6	13.9	10.9	13.9
BV (Bt)	13.2	13.8	14.4	13.4	13.2
ROE (%)	17.8	17.4	14.4	13.3	17.4
ROA (%)	15.2	14.6	12.5	11.4	15.0
Current ratio (x)	n.a.	2.2	2.7	2.2	2.1
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	180.1	n.m.	n.m.	n.m.	n.m.
QUARTERLY BALANCE SHEET (Btm)					
Cash & Equivalent	3,910	4,209	4,336	3,344	3,062
Accounts receivacle	85	160	233	263	267
Inventory	159	226	178	171	192
PP&E-net	3,972	4,286	4,420	4,462	4,531
Other assets	5,857	6,125	5,844	5,892	5,912
Total assets	**13,982**	**15,006**	**15,011**	**14,132**	**13,964**
Accounts payacle	1,524	1,858	1,225	1,295	1,314
ST debts & current portion	0	0	0	0	0
Long-term debt	0	0	0	0	0
Other liacilities	502	624	777	695	660
Total liabilities	**0**	**0**	**3,018**	**3,615**	**2,968**
Paid-up capital	906	906	906	906	906
Share premium	8,785	8,785	8,785	8,785	8,785
Retained earnings	2,245	2,788	3,256	2,209	2,007
Shareholders equity	**11,955**	**12,524**	**13,009**	**12,143**	**11,990**
Minority interests	0	0	0	0	0
Total Liac.&Shareholders' equity	**13,982**	**15,006**	**15,011**	**14,132**	**13,964**
MK Restaurant					
SSS	2%	-4%	-4%	-6%	-9%
TSS	13%	6%	3%	-1%	1%
Yayoi					
SSS	-4%	5%	7%	-2%	-5%
TSS	24%	27%	32%	16%	12%

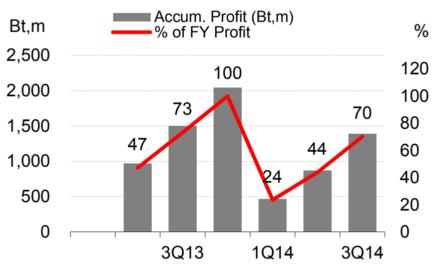
Revenue trend



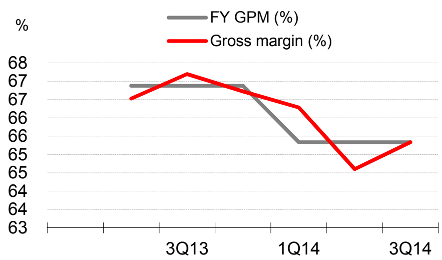
Revenue trend (accumulated)



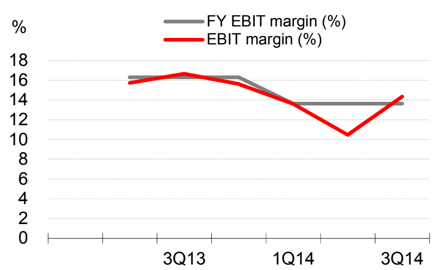
Net profit trend (accumulated)



Gross profit margin



EBIT margin



Company profile

M is a leading Thai chain restaurant operator offering sukiyaki (MK Restaurant and MK Gold restaurant) and Japanese food (Yayoi). The firm has a 27-year track record in the business. The founding managers will continue to run the company after the IPO. Members of the Thirakomen and Harnjitkasem families will still control 74% of the shares following the IPO (93% pre-IPO). At YE13, M had 539 restaurants combined MK Restaurant and Yayoi (outlets in Thailand and 37 overseas). The firm has its own processing and distribution centers. M also has a training center in order to build “MK culture” and maintain a high standard of service.

Figure 1 : Changes to forecasts

	2014e			2015e		
	Old	New	Chg.	Old	New	Chg.
Net profit (Btm)	1,937	1,980	2%	2,278	2,328	2%
Net EPS (Bt)	2.13	2.18	2%	2.50	2.55	2%
Core profit (Btm)	1,937	1,980	2%	2,278	2,328	2%
Core EPS (Bt)	2.13	2.18	2%	2.50	2.55	2%
Total revenues (Btm)	14,562	14,677	1%	16,048	16,188	1%
Gross margin	65.3%	65.3%	0.0%	65.9%	65.9%	0.0%
Core margin	13.3%	13.5%	0.2%	14.2%	14.4%	0.2%
SG&A/Revenue	52.0%	51.7%	-0.5%	51.1%	50.8%	-0.5%
Dividend payout	82.0%	82.0%	0%	85%	85%	0%
DPS (Bt)	1.75	1.79	2%	2.12	2.17	2%
Didivend yield	3.0%	3.1%	0.1%	3.7%	3.8%	0.1%
SSSG						
MK Restaurant	-4.5%	-4.0%	0.5%	2.0%	2.0%	0.0%
Yayoi	-8.0%	-6.0%	2.0%	2.0%	2.0%	0.0%

Sources: Company data, Bualuang Research

Figure 2 : M's same-store sales (SSS)

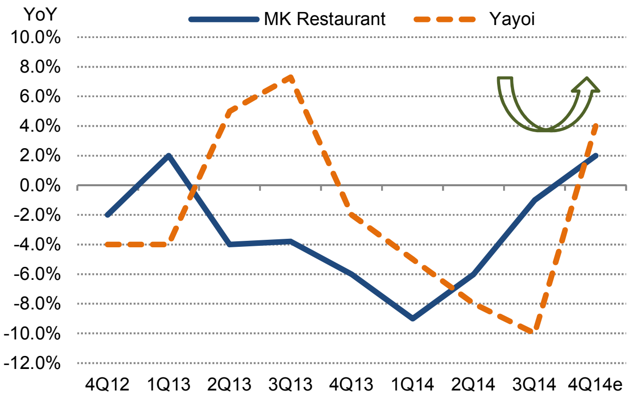
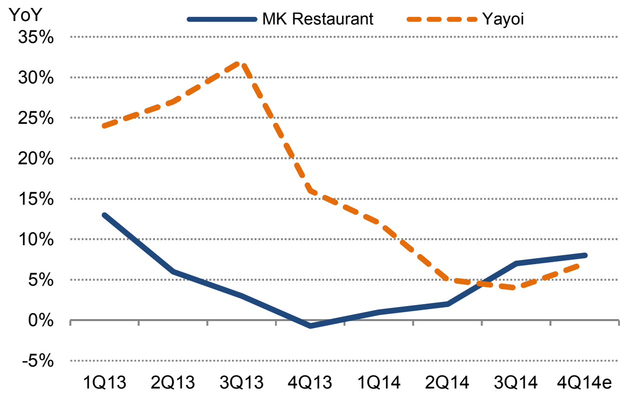


Figure 3 : M's total system sales (TSS)



Sources: Company data, Bualuang Research

Figure 4 : New outlets, by brand and by quarter

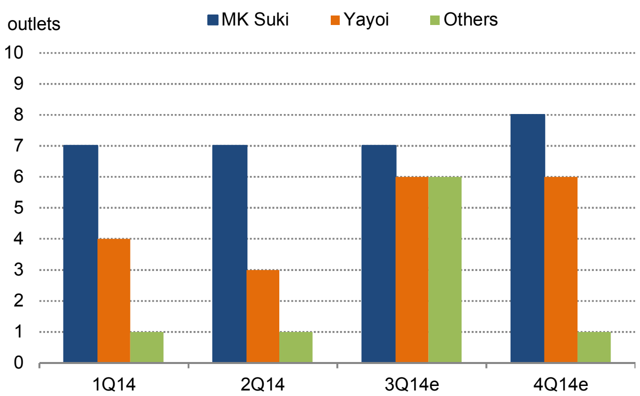
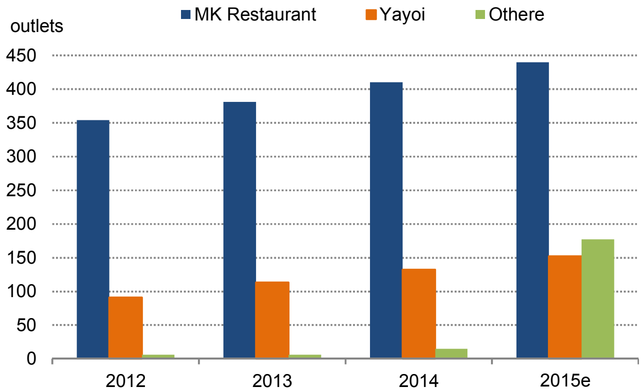


Figure 5 : Total outlets, by brand

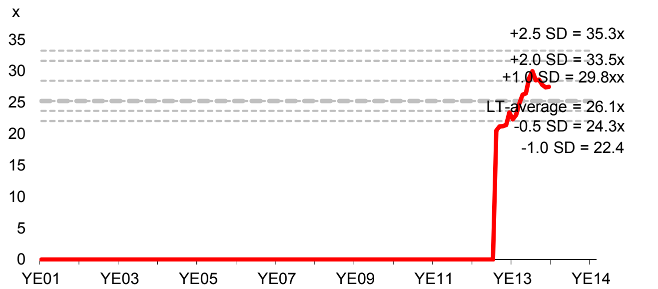


Sources: Company data, Bualuang Research

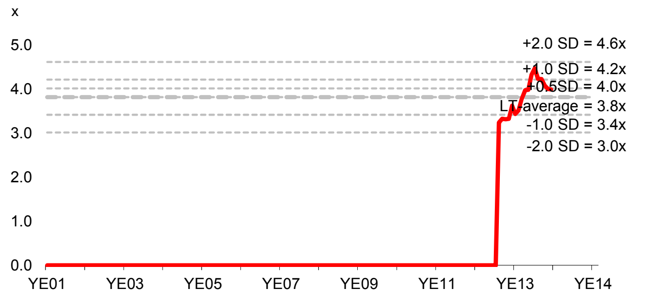
Regional Comparisons

	Bloomberg	Price	Market Cap (US$	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	equivalent)	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Jollibee Foods Corporation	JFC PM	PHP208.0	4,966	41.4	35.5	13.4	17.3	7.8	7.3	24.5	22.3	1.1	1.4
China Quanjude Group	002186 CH	CNY18.4	910	39.2	32.4	23.8	20.7	4.8	4.3	15.8	13.4	n.a.	n.a.
Beijing Xiangeqing	002306 CH	CNY5.3	685	73.3	45.1	-111.3	62.5	n.a.	n.a.	19.1	4.7	n.a.	n.a.
Xiao Nan Guo Restaurants	3666 HK	HKD1.0	191	89.0	15.4	n.a.	733.3	1.4	1.3	9.6	1.6	0.2	2.0
Cafe De Coral Holdings	341 HK	HKD26.2	1,960	24.5	21.8	119.0	15.0	3.7	3.5	17.6	16.1	2.9	3.3
Ajisen China Holdings	538 HK	HKD5.8	813	21.8	18.4	n.a.	16.5	1.7	1.6	10.0	8.8	2.8	3.3
Tsui Wah Holdings	1314 HK	HKD2.6	471	20.5	16.6	n.a.	28.1	2.6	2.3	17.9	15.2	2.9	3.6
Tao Heung	573 HK	HKD3.7	490	15.3	12.7	n.a.	15.4	1.9	1.7	15.3	14.2	3.3	3.7
Japan Foods Holding	JFOOD SP	SGD0.5	69	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Thai Beverage	THBEV SP	SGD0.7	13,167	19.5	17.8	17.6	10.1	3.7	3.4	22.1	22.7	2.6	2.9
Mcdonald's Holdings	2702 JP	JPY2,687.0	2,960	n.a.	n.a.	-441.4	-87.1	2.5	2.5	-0.7	-7.1	1.1	1.1
Zensho Holdings	7550 JP	JPY977.0	1,203	n.a.	n.a.	-659.9	-81.7	2.4	2.4	-2.3	-10.7	0.0	0.0
Ichibanya	7630 JP	JPY5,030.0	665	25.5	23.9	31.5	6.7	n.a.	n.a.	n.a.	11.6	1.5	1.5
Collins Foods	CKF AU	AUD2.3	170	9.4	8.6	-176.3	-332.2	1.2	1.1	13.5	12.2	5.1	5.5
Domino's Pizza Enterprises	DMP AU	AUD25.2	1,761	37.8	31.0	31.5	20.6	7.0	6.3	23.7	21.2	1.8	2.2
Retail Food Group	RFG AU	AUD5.9	750	17.6	14.6	18.5	26.1	2.3	2.2	16.1	14.4	4.3	4.9
Bravo Brio Restaurant Group	BBRG US	USD12.8	240	20.3	18.1	59.5	12.1	0.2	0.1	12.5	11.7	n.a.	n.a.
Diversified Restaurant	BAGR US	USD5.0	130	n.a.	n.a.	-300.0	-300.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Famous Dave's	DAVE US	USD28.5	203	30.7	26.9	40.0	13.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yum! Brands	YUM US	USD72.7	31,797	23.0	20.4	31.4	13.4	11.9	9.9	60.6	64.0	2.1	2.3
OISHI Group Plc	OISHI TB	THB74.00	422	30.2	20.9	-6.2	23.4	3.5	3.6	17.9	13.8	1.7	2.6
Central Plaza Hotel	CENTEL TB	THB32.75	1,344	39.5	29.4	-16.1	34.6	3.7	3.4	10.4	13.0	1.0	1.4
MK Restaurant Group	M TB	THB58.00	1,599	26.4	22.5	-3.4	17.1	4.1	4.0	15.6	17.8	3.1	3.8
Minor International	MINT TB	THB33.75	4,106	29.4	25.7	10.2	14.6	4.4	3.9	17.0	17.3	1.2	1.4
Sub Sri Thai	SST TB	THB24.70	212	26.3	29.9	n.m.	-12.1	3.3	2.9	17.8	12.4	0.0	0.0
Simple average				**31.5**	**23.2**	**-69.4**	**12.0**	**3.7**	**3.4**	**16.9**	**14.1**	**2.0**	**2.5**

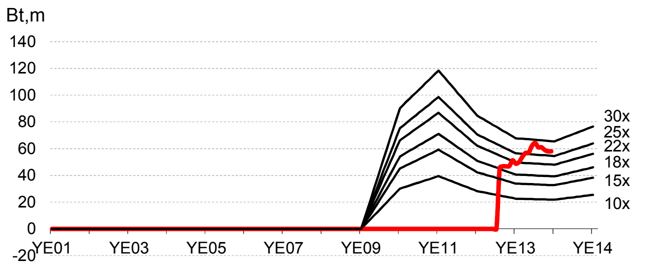
PER band versus SD (next 12 months)



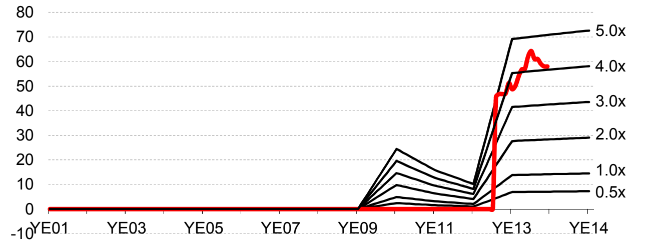
PER band versus SD (next 12 months)



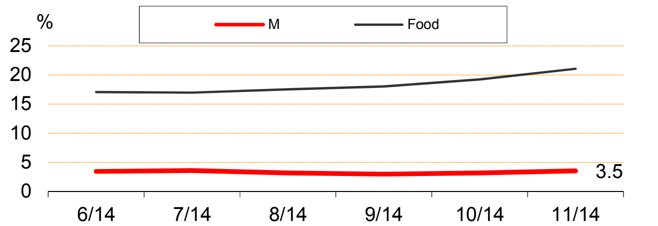
PER band and share price



PBV band and share price



Foreign holding



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	EPG

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.
HOLD: Expected total returns of between -15% and +15% over the next 12 months.
SELL: Expected negative total returns of 15% or more over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.