BUALUANG SECURITIES

COMPANY UPDATE

MK Restaurant Group M TB / M.BK

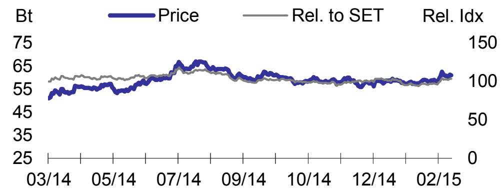
10 March 2015

Reaffirmed SSSG and expansion

Sector: Food Neutral

Rating: BUY
Target Price: Bt64.00
Price (9 March 2015): **Bt61.00**

Price chart

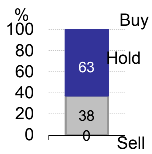


Share price perf. (%)	1M	3M	12M
Relative to SET	9.2	4.3	5.8
Absolute	6.6	4.3	21.4

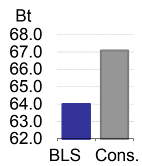
Key statistics

Market cap	Bt55.3bn	USD1.7bn
12-mth price range	Bt50.3/Bt67.3	
12-mth avg daily volume	Bt58m	USD1.8m
# of shares (m)	907	
Est. free float (%)	24.6	
Foreign limit (%)	49.0	

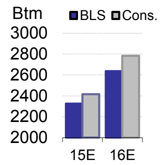
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	14,637	16,177	17,807	19,508
Net profit (Btm)	2,042	2,325	2,638	3,055
EPS (Bt)	2.25	2.55	2.85	3.30
EPS growth (%)	+0.0%	+13.3%	+11.7%	+15.8%
Core profit (Btm)	2,042	2,325	2,638	3,055
Core EPS (Bt)	2.25	2.55	2.85	3.30
Core EPS growth (%)	+0.0%	+13.3%	+11.7%	+15.8%
PER (x)	27.1	23.9	21.4	18.5
PBV (x)	4.4	4.3	4.2	4.1
Dividend (Bt)	1.8	2.2	2.6	3.0
Dividend yield (%)	-	3.6	4.2	4.9
ROE (%)	16.2	18.1	20.0	22.7

CG rating N/A

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Investment thesis

We retain our BUY rating based on a FY15 earnings recovery after FY13-14 delivered unattractive, flattish profits, driven by a FY15 SSS U-turn and outlet expansion. SSS for *MK Restaurant* and *Yayoi* is on the growth path after its turnaround in 4Q14. A healthy balance sheet would provide scope for a dividend upside to our model. The stock trades at a FY15 PER of 23.9, discount to 25.2x of the global mean. Our DCF-derived YE15 target price stands at Bt64 (WACC of 10.8% and a 2% terminal growth rate).

SSSG to continue rising

In Jan-Feb 2015, SSS for two key brands has served up YoY growth of 2% for MK Restaurant and 3% for Yayoi following the SSS turnaround in 4Q14 (a 1% SSSG for the former in 4Q14 and 7% for the latter against YoY slippage for both brands during 1Q14-3Q14). SSSG in 2M15 comes courtesy of new marketing campaigns and the low base set by political turmoil in 2014. We reiterate that SSSG YoY for both restaurant chains in 1Q15 led to strong profit growth YoY (a slight dip QoQ on the high base set by the all-time high quarterly profit in 4Q14).

Double-digit earnings growth forecast for FY15

Management targets 10-15% sales growth for FY15 based on 3-4% SSSG for MK Restaurant (comprising 80% of total sales) and Yayoi (15% of total sales). It aims to sustain its net margin YoY at 14% for FY15. In our model, we forecast good core earnings growth of 13% to Bt2.3bn driven by an 11% top-line expansion and 40bps fattened net margin to 14.4%. If FY15 sales hit the best-case scenario of 15% growth, there is a 4% earnings upside to our FY15 profit model.

New outlet expansion reaffirmed

M plans to open 62 new outlets in FY15 (30 MK Restaurant; 20 Yayoi, 10 Miyazaki and two other branches). Thus, the firm will develop from 557 total outlets at YE14 to 619 outlets at YE15, amounting to an 11% outlet expansion for the year. Our take is more conservative than that of the company, as we assume that 25 new MK outlets and 20 for Yayoi will open in FY15. The expansion strategy will increase economy-of-scale benefits, as M will use its central kitchen to bolster the expansion plans for the next five years (to 1,000 outlets). Management intends to improve efficiency in FY15 through controllable SG&A expenses to sales as well.

Excess cash would lead to new M&A or higher payout rate

The company's financial status is very healthy, as M has Bt8bn cash on hand at YE14. The excess cash prompts M to acquire new brands (at least Bt1bn of sales for new acquisition), invest overseas (looking for opportunities in AEC countries such as Vietnam) and increase the dividend payout rate (potential above 80% in FY14). If that rate were 90% for FY15 (our model assumes 85%), we would expect DPSs Bt2.30 for FY15 (Bt2.17 in our current model).

M : Financial Tables – Year

PROFIT & LOSS (Btm)	2014	2015E	2016E	2017E
Revenue	14,637	16,177	17,807	19,508
Cost of sales and services	(5,021)	(5,523)	(6,084)	(6,671)
Gross profit	**9,616**	**10,655**	**11,723**	**12,836**
SG&A	(7,549)	(8,216)	(8,893)	(9,509)
EBIT	**2,067**	**2,439**	**2,830**	**3,328**
Interest expense	0	0	0	0
Other income/exp.	467	467	467	491
EBT	**2,534**	**2,906**	**3,298**	**3,818**
Corporate tax	(492)	(581)	(660)	(764)
After-tax net profit (loss)	**2,042**	**2,325**	**2,638**	**3,055**
Minority interest	0	0	0	0
Equity earnings from affiliates	0	0	0	0
Extra items	0	0	0	0
Net profit (loss)	**2,042**	**2,325**	**2,638**	**3,055**
Reported EPS	2.25	2.55	2.85	3.30
Fully diluted EPS	**2.25**	**2.55**	**2.85**	**3.30**
Core net profit	**2,042**	**2,325**	**2,638**	**3,055**
Core EPS	2.25	2.55	2.85	3.30
EBITDA	**3,297**	**3,672**	**4,106**	**4,676**

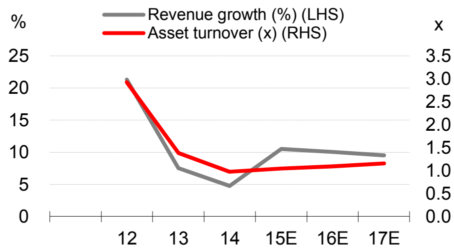
KEY RATIOS				
Revenue grow th (%)	4.8	10.5	10.1	9.5
Gross margin (%)	65.7	65.9	65.8	65.8
EBITDA margin (%)	22.5	22.7	23.1	24.0
Operating margin (%)	14.1	15.1	15.9	17.1
Net margin (%)	14.0	14.4	14.8	15.7
Core profit margin (%)	14.0	14.4	14.8	15.7
ROA (%)	13.7	15.1	16.2	18.2
ROCE (%)	16.2	18.1	20.0	22.7
Asset turnover (x)	1.0	1.0	1.1	1.2
Current ratio (x)	4.7	3.6	3.4	3.2
Gearing ratio (x)	0.0	0.0	0.0	0.0
Interest coverage (x)	n.m.	n.m.	n.a.	n.a.

BALANCE SHEET (Btm)				
Cash & Equivalent	8,732	8,890	9,187	9,622
Accounts receivable	100	74	82	90
Inventory	283	264	291	319
PP&E-net	4,630	5,568	5,801	5,932
Other assets	1,158	1,158	1,158	1,158
Total assets	**14,903**	**15,954**	**16,518**	**17,121**
Accounts payable	1,461	2,136	2,353	2,580
ST debts & current portion	0	0	0	0
Long-term debt	0	0	0	0
Other liabilities	761	782	838	908
Total liabilities	**2,222**	**2,918**	**3,191**	**3,488**
Paid-up capital	907	911	925	925
Share premium	8,785	8,788	8,801	8,801
Retained earnings	2,656	3,005	3,269	3,574
Shareholders equity	**12,681**	**13,036**	**13,327**	**13,633**
Minority interests	0	0	0	0
Total Liab.&Shareholders' equity	**14,903**	**15,954**	**16,518**	**17,121**

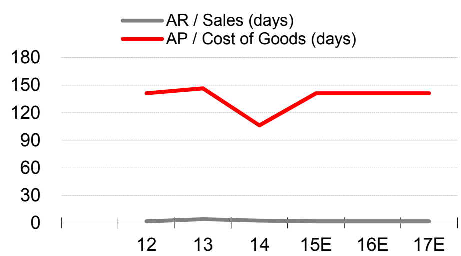
CASH FLOW (Btm)				
Net income	2,042	2,325	2,638	3,055
Depreciation and amortization	763	766	808	857
Change in w orking capital	(158)	720	183	191
FX, non-cash adjustment & others	384	(592)	(10)	1
Cash flows from operating activities	**3,031**	**3,219**	**3,619**	**4,104**
Capex (Invest)/Divest	(1,354)	(1,644)	(993)	(937)
Others	0	0	0	0
Cash flows from investing activities	**(1,354)**	**(1,644)**	**(993)**	**(937)**
Debt financing (repayment)	0	0	0	0
Equity financing	1	7	27	0
Dividend payment	(2,174)	(1,976)	(2,374)	(2,749)
Others	0	0	0	0
Cash flows from financing activities	**(2,173)**	**(1,948)**	**(2,331)**	**(2,731)**
Net change in cash	(496)	(372)	296	436
Free cash flow (Btm)	**1,677**	**1,575**	**2,627**	**3,167**
FCF per share (Bt)	**1.85**	**1.73**	**2.84**	**3.42**

KEY ASSUMPTIONS	2014	2015E	2016E	2017E
MK restaurant: no. of outlets	411	436	461	481
MK restaurant: SSSG	-4.0%	1.5%	2.0%	3.0%
MK restaurant: TSSG	3.0%	7.7%	7.8%	7.5%
Yayoi: no. of outlets	131	151	171	191
Yayoi: SSSG	-4.0%	2.0%	4.0%	4.0%
Yayoi: TSSG	10.0%	17.6%	17.8%	16.2%

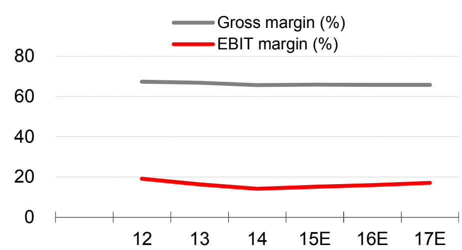
Revenue growth and asset turnover



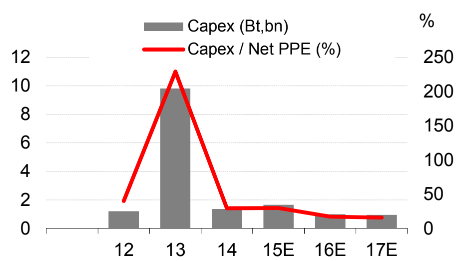
A/C receivable & A/C payable days



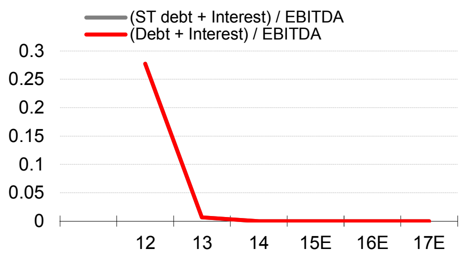
Profit margins



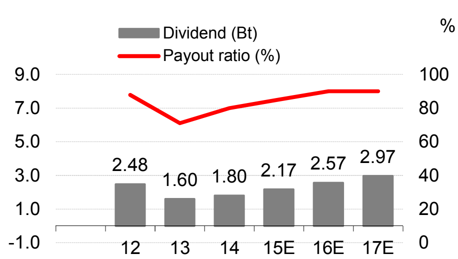
Capital expenditure



Debt serviceability



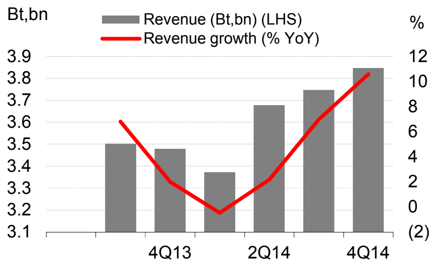
Dividend payout



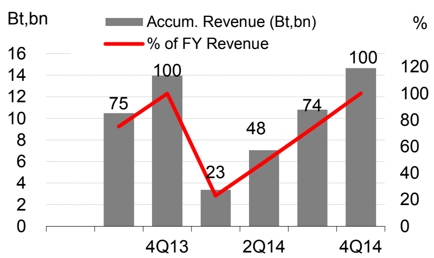
M : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	3,479	3,373	3,677	3,746	3,847
Cost of sales and services	(1,158)	(1,137)	(1,302)	(1,299)	(1,253)
Gross profit	2,321	2,236	2,376	2,448	2,593
SG&A	(1,778)	(1,777)	(1,990)	(1,911)	(1,901)
EBIT	**543**	**459**	**385**	**537**	**693**
Interest expense	0	0	0	0	0
Other income/exp.	133	123	112	110	116
EBT	**676**	**581**	**497**	**647**	**809**
Corporate tay	(133)	(114)	(95)	(124)	(159)
After-tay net profit (loss)	543	468	403	522	650
Minority interest	0	0	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	(4)	(0)	0	0	0
Net profit (loss)	**540**	**468**	**403**	**522**	**650**
Reported EPS	0.60	0.52	0.44	0.58	0.72
Fully diluted EPS	**0.58**	**0.51**	**0.44**	**0.56**	**0.70**
Core net profit	**543**	**468**	**403**	**522**	**650**
Core EPS	0.60	0.52	0.44	0.58	0.72
EBITDA	**835**	**755**	**682**	**850**	**1,004**
KEY RATIOS					
Gross margin (%)	66.7	66.3	64.6	65.3	67.4
EBITDA margin (%)	24.0	22.4	18.5	22.7	26.1
Operating margin (%)	15.6	13.6	10.5	14.3	18.0
Net margin (%)	15.5	13.9	10.9	13.9	16.9
Core profit margin (%)	15.6	13.9	10.9	13.9	16.9
BV (Bt)	13.8	14.4	13.4	13.2	14.0
ROE (%)	17.2	14.4	13.3	17.4	20.5
ROA (%)	14.4	12.5	11.4	15.0	17.4
Current ratio (x)	n.a.	2.7	2.2	2.1	4.7
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	n.m.	n.m.	n.m.	n.m.	n.m.
QUARTERLY BALANCE SHEET (Btm)					
Cash & Equivalent	4,209	4,336	3,344	3,062	8,732
Accounts receivace	160	233	263	267	100
Inventory	226	178	171	192	283
PP&E-net	4,286	4,420	4,462	4,531	4,630
Other assets	6,125	5,844	5,892	5,912	1,158
Total assets	**15,006**	**15,011**	**14,132**	**13,964**	**14,903**
Accounts payacle	1,858	1,225	1,295	1,314	1,461
ST debts & current portion	0	0	0	0	0
Long-term debt	0	0	0	0	0
Other liacilities	624	777	695	660	761
Total liabilities	**0**	**0**	**3,018**	**3,615**	**2,968**
Paid-up capital	906	906	906	906	907
Share premium	8,785	8,785	8,785	8,785	8,785
Retained earnings	2,788	3,256	2,209	2,007	2,656
Shareholders equity	**12,524**	**13,009**	**12,143**	**11,990**	**12,681**
Minority interests	0	0	0	0	0
Total Liac.&Shareholders' equity	**15,006**	**15,011**	**14,132**	**13,964**	**14,903**
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%

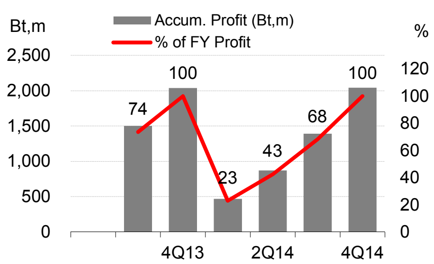
Revenue trend



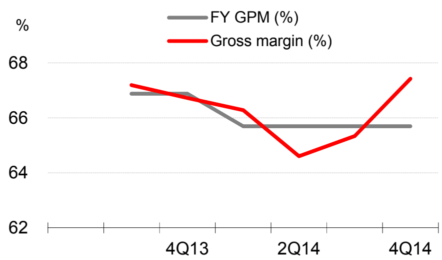
Revenue trend (accumulated)



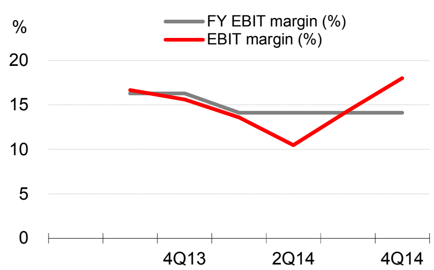
Net profit trend (accumulated)



Gross profit margin



EBIT margin



Company profile

M is a major Thai chain restaurant operator offering sukiyaki (MK Restaurant and MK Gold restaurants) 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 YE14, M had 557 restaurants combining MK Restaurant and Yayoi (514 outlets in Thailand and 43 overseas). The firm has its own processing and distribution centers and a training center to build its "MK culture" and maintain high standards of service.

Figure 1 : M's same-store sales (SSS)

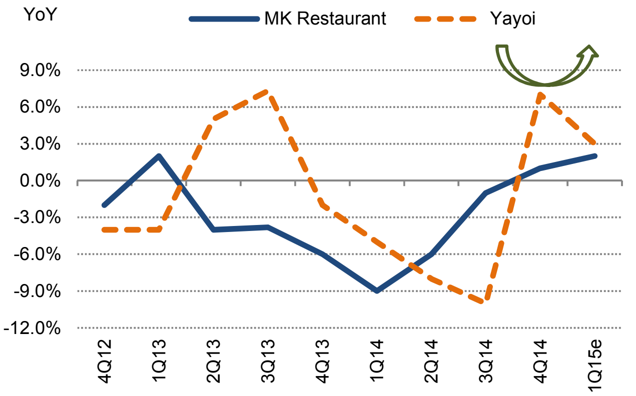


Figure 2 : M's total system sales (TSS)

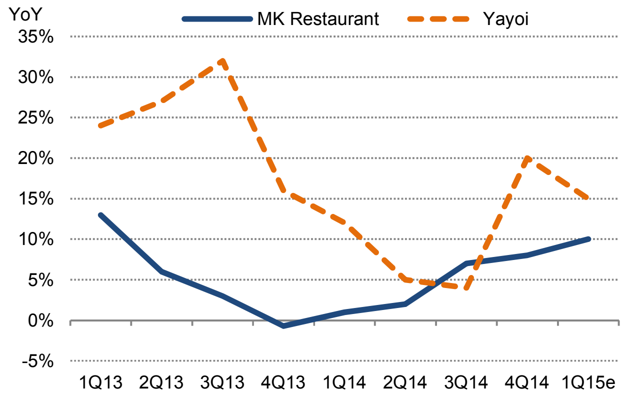


Figure 3 : SSSG profile

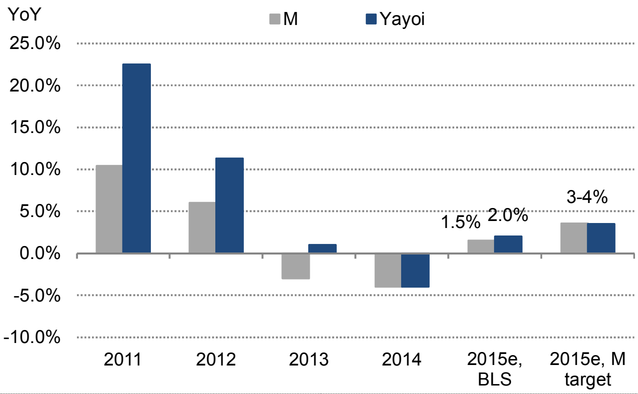


Figure 4 : Total sales profile

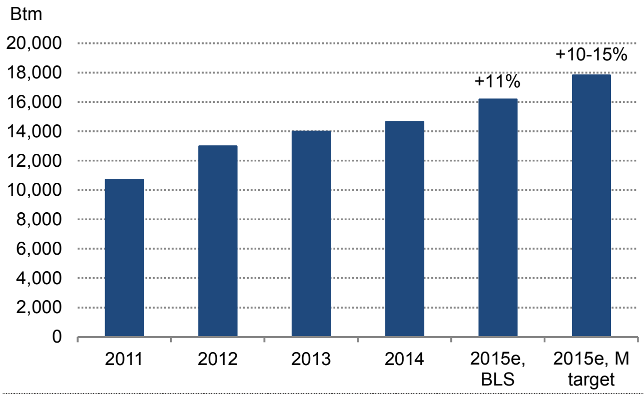


Figure 5 : New outlets, by brand and by quarter

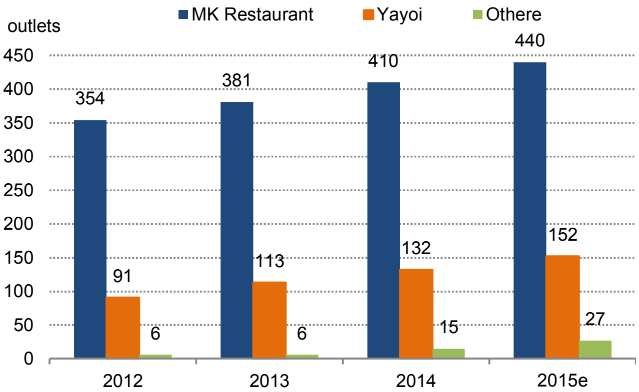


Figure 6 : Total outlets, by location

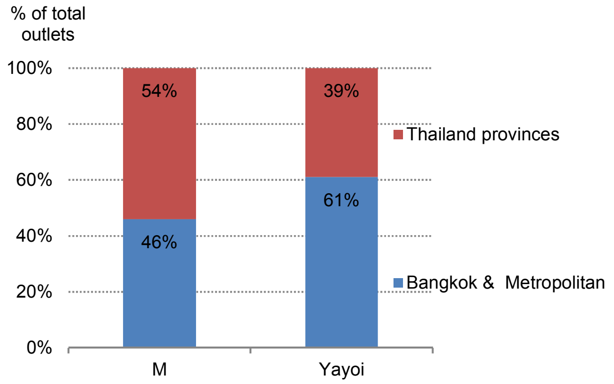


Figure 1 : M's GM and SGA/sales

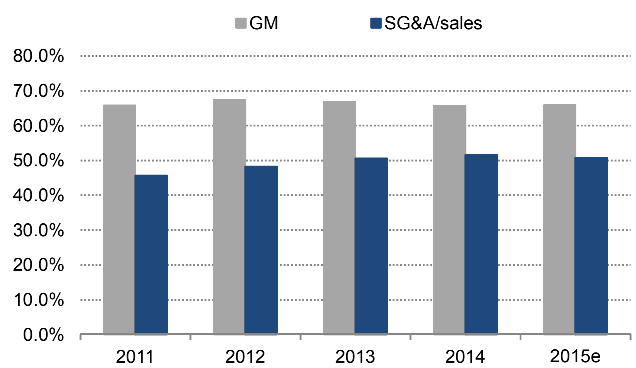
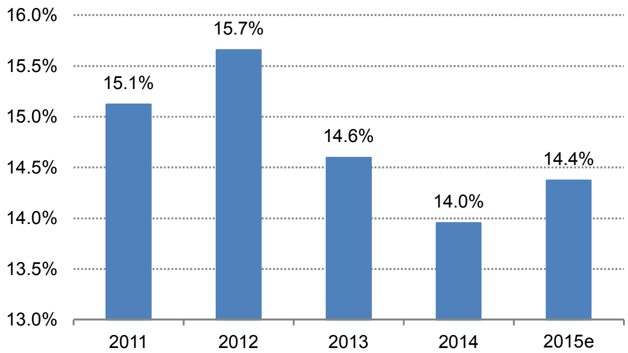


Figure 2 : M's core margin

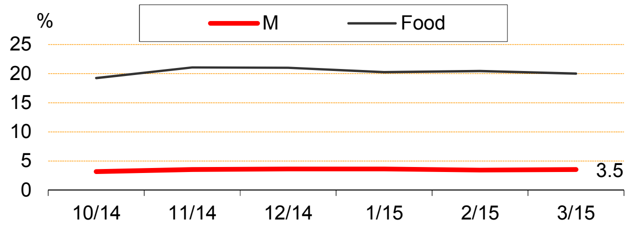


Sources: Company data, Bualuang Research

Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US$ equivalent)	PER (x) 2015E	PER (x) 2016E	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PBV (x) 2015E	PBV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E	Div Yield (%) 2015E	Div Yield (%) 2016E
Jollibee Foods Corporation	JFC PM	PHP216.8	5,225	36.4	31.3	35.8	16.4	8.0	7.1	23.9	24.9	1.3	1.5
China Quanjude Group	002186 CH	CNY20.3	999	39.0	32.2	33.3	21.2	n.a.	n.a.	12.0	n.a.	n.a.	n.a.
Beijing Xiangeqing	002306 CH	CNY8.7	1,107	18.6	66.7	-165.5	-72.0	n.a.	n.a.	4.7	19.1	n.a.	n.a.
Xiao Nan Guo Restaurants	3666 HK	HKD1.0	184	97.9	14.5	n.a.	700.0	1.5	1.4	1.7	10.1	0.0	1.7
Cafe De Coral Holdings	341 HK	HKD28.7	2,147	26.7	23.7	124.2	10.1	4.3	4.0	16.2	17.6	2.7	3.1
Ajisen China Holdings	538 HK	HKD4.1	582	16.4	14.6	n.a.	13.2	1.3	1.3	8.3	9.1	3.9	4.3
Tsui Wah Holdings	1314 HK	HKD2.4	428	18.1	14.3	n.a.	27.8	2.6	2.3	15.3	17.1	3.4	4.0
Tao Heung	573 HK	HKD3.7	481	15.9	12.6	n.a.	n.a.	2.0	1.7	13.5	14.8	3.3	3.6
Japan Foods Holding	JFOOD SP	SGD0.5	64	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	13,290	17.7	16.6	13.4	6.8	3.9	3.5	22.6	21.8	3.5	3.7
Mcdonald's Holdings	2702 JP	JPY2,650.0	2,904	n.a.	504.8	-304.3	-106.6	2.5	2.6	-3.5	0.4	1.1	1.1
Zensho Holdings	7550 JP	JPY1,103.0	1,351	n.a.	n.a.	-514.5	-96.0	2.6	2.5	-8.0	1.9	0.0	0.0
Ichibanya	7630 JP	JPY5,290.0	696	29.7	27.2	18.9	9.5	n.a.	n.a.	11.4	n.a.	1.4	1.4
Collins Foods	CKF AU	AUD2.5	179	10.4	9.5	-176.3	-332.2	1.4	1.3	12.2	13.5	4.6	5.0
Domino's Pizza Enterprises	DMP AU	AUD34.9	2,329	49.1	39.8	41.0	23.2	10.6	9.6	22.5	25.4	1.4	1.7
Retail Food Group	RFG AU	AUD7.6	937	22.0	18.2	26.0	19.5	3.2	3.0	15.5	16.5	3.3	3.8
Bravo Brio Restaurant Group	BBRG US	USD13.8	208	21.3	18.3	68.7	18.2	0.2	0.2	17.1	19.4	n.a.	n.a.
Diversified Restaurant	BAGR US	USD4.8	124	n.a.	n.a.	-300.0	-250.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Famous Dave's	DAVE US	USD30.9	221	35.1	28.1	35.4	25.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yum! Brands	YUM US	USD79.4	34,407	22.9	19.7	45.9	15.9	20.6	17.8	86.0	79.4	2.1	2.4
OISHI Group Plc	OISHI TB	THB76.00	437	23.1	27.0	15.8	36.2	3.7	3.8	18.2	n.a.	2.2	1.2
Central Plaza Hotel	CENTEL TB	THB29.50	1,222	26.7	23.2	29.3	15.0	3.1	2.9	13.1	13.9	1.5	1.7
MK Restaurant Group	M TB	THB61.00	1,698	23.9	21.4	13.3	11.7	4.3	4.2	18.1	20.0	3.6	4.2
Minor International	MINT TB	THB34.50	4,236	26.7	22.9	17.7	16.2	4.0	3.6	17.2	17.5	1.3	1.5
Sub Sri Thai	SST TB	THB28.00	243	101.6	63.6	-72.5	59.7	2.9	2.7	4.3	6.5	0.0	0.0
Simple average				**32.3**	**47.7**	**-50.7**	**8.2**	**4.3**	**4.0**	**15.6**	**18.4**	**2.1**	**2.4**

Foreign holding



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
PLANB, JASIF	PLANB, JASIF

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.