

# MUDMAN PLC

No. 34/2021  
22 March 2021

## CORPORATES

**Company Rating:** BBB-  
**Outlook:** Negative

**Last Review Date:** 21/04/20

### Company Rating History:

Date	Rating	Outlook/Alert
21/04/20	BBB-	Negative
11/05/17	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Mudman PLC (MM) at “BBB-” with a “negative” outlook. The rating reflects MM’s market position in the highly competitive and fragmented chain restaurant and quick service restaurant (QSR) business. The rating also takes into account MM’s heightened leverage led by its overseas expansions and depressed earnings affected by the Coronavirus Disease 2019 (COVID-19) pandemic. The “negative” outlook mirrors our view that the COVID-19 situation, despite several positive developments, remains evolving and highly uncertain. This will continue to pressure MM’s operating performance and financial risk profile.

## KEY RATING CONSIDERATIONS

### Operating performance severely hit by COVID-19

MM’s operating performance was severely affected by the COVID-19 pandemic. In Thailand, the operational disruption during the lockdown period and the urge of social distancing has massively impacted MM’s business, particularly on its chain restaurants, “Greyhound” Café (GHC) and affiliate brands, which comprise mainly dine-in restaurants. The absence of tourists due to travel restrictions and work-from-home adaptation also impacted the performance of “Au Bon Pain” (ABP). The combined sales of GHC and ABP accounted for about half of MM’s total sales. The company’s restaurant outlets in England and France also suffered a great deal from a series of lockdowns and restaurant closures following the governments’ pandemic control measures.

MM’s revenue contracted by 24% year-on-year (y-o-y) to THB2.3 billion in 2020, down from THB3.1 billion in 2019. The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) declined by 36% (y-o-y) to THB354 million, down from THB552 million in 2019. MM’s several cost control efforts, rental waiver by landlords, and supports from governments in England and France have helped alleviate the impacts on its earnings.

### Revenue and earnings to gradually recover

As concerns over the second wave of the COVID-19 in Thailand eased, we expect MM’s operating performance to gradually improve. In England and France, we expect its restaurant operations to resume in the beginning of the second half of 2021 after vaccines have been widely rolled out.

Our base-case assumption projects MM’s revenue to be THB2.6-THB2.7 billion in 2021 and THB3-THB3.3 billion annually during 2022-2023. We project MM’s profitability, measured by EBITDA margin, to be in a mid-teen percentage during the forecast period which translates into EBITDA of THB350-THB400 million in 2021 and THB450-THB550 million per annum during 2022-2023. Intense competition and the vulnerable macroeconomic backdrop remain a key downside risk to earnings recovery. We view that restaurant operators may need to spend more on marketing activities and offer sales promotions to stay competitive. We also view the rising popularity of delivery platforms as a threat to MM as competition further intensifies while MM’s presence on delivery channels is limited.

## Overseas growth ambition

As part of an effort to diversify internationally, the company in late 2017 acquired a well-known two Michelin-star French restaurant, “Le Grand Vefour”, in Paris. Also, the company opened its first owned GHC restaurant outside of Thailand in London in the same period. However, the performance of both restaurants fell short of expectation and worsened due to the COVID-19 situation. The company, together with business partner, Mr. Guy Martin, the head chef of Le Grand Vefour, opened another three new restaurants in Paris last year, namely, “Pasco”, “Augustin”, and “A-Noste”, with plans to open two more restaurants this year.

MM remains positive on its operation in overseas markets where it sees greater growth potential when business normalizes after COVID-19. We hold the view that the overseas expansion adds uncertainty to the company’s business risk profile as the operating environments of the restaurant industry vary widely from country to country, while the headwinds caused by the pandemic are also intensifying the challenges. However, if the overseas expansion is successful, it will provide the company with more diversified sources of revenue and better growth prospects.

## Heightened leverage

MM’s leverage rose significantly in 2020 mainly from investment abroad made in the past few years coupled with depressed earnings caused by the COVID-19 pandemic. The company’s adjusted debt to EBITDA ratio rose to 5.1 times in 2020, compared with 2.7 times in 2019. Our base-case scenario forecasts MM’s leverage ratio to stay elevated above 5 times in 2021 due to the ongoing challenges on its earnings capabilities brought about by the COVID-19. The leverage ratio is expected to improve to 3.5-4.2 times in 2022-2023 when operations become normalized. The projection incorporates our assumption on MM’s capital expenditures of around THB100-THB120 million per annum during 2021-2023.

At the end of 2020, MM had reported debts, excluding lease liabilities, of THB1.1 billion. The majority of the debts are secured and, as a result, unsecured creditors could be in an inferior position compared with the company’s secured creditors.

MM’s debentures have a key financial covenant that requires the company to maintain its interest-bearing debt to equity ratio below 3 times. As of December 2020, the ratio was 1.14 times. Also, the company’s long-term bank loan has key financial covenants that require the company to maintain the total liabilities to equity ratio at below 2 times, the debt service coverage ratio at above 1.2 times, and the net debt to EBITDA ratio at below 3 times. As of December 2020, the ratios were 1.14 times, 0.2 times, and 4.33 times, respectively. The company received a waiver from lenders on the debt service ratio and debt to EBITDA ratio thresholds for 2020. The company may breach the covenants and need to seek waiver consents again in 2021 should its performance recovery fall below expectation.

## Tight liquidity

We assess MM’s liquidity to be tight but manageable during the next 12 months. The company’s uses of funds include debt repayments of around THB600 million, lease obligations of around THB240 million, and capital expenditures of THB100-THB120 million. Primary sources of funds are cash and cash equivalent as of December 2020 of around THB165 million, projected funds from operations (FFO) of around THB260 million, and available revolving credit lines of around THB80 million. MM needs to refinance a major portion of its debts coming due.

## BASE-CASE ASSUMPTIONS

- Revenue to be around THB2.6-THB2.7 billion in 2021 and THB3-THB3.3 billion annually during 2022-2023.
- EBITDA of THB350-THB400 million in 2021 and THB450-THB550 million per annum during 2022-2023.
- Total capital spending to be around THB100-THB120 million per annum in 2021-2023.

## RATING OUTLOOK

The “negative” outlook reflects our view that the COVID-19 situation, despite several positive developments, remains evolving and uncertain and therefore will continue to pressure MM’s operating performance and financial risk profile.

## RATING SENSITIVITIES

We could downgrade the rating if MM’s credit metrics are weaker than our expectation either from a prolonged negative impact of the COVID-19 or aggressive debt-funded investments so that its adjusted debt to EBITDA ratio stays over 5 times on a sustained basis. We could revise the outlook to “stable” if the company’s operating performance demonstrates signs of sustainable recovery such that the credit metric outperforms or tracks our base-case projection.

Based on our “Group Rating Methodology”, MM is a core subsidiary of Sub Sri Thai PLC (SST). Any change in SST’s credit rating will affect MM’s rating.

## COMPANY OVERVIEW

MM was established in 2006 and listed on the Market for Alternative Investment (MAI) on 11 April 2017. As of December 2018, SST, a warehouse and document storage service provider, was the major shareholder, owning 64% of MM’s paid-up shares. The company has two lines of business: food and beverages and fashion apparel. The company is the master franchisee of the “Dunkin’ Donuts”, “Au Bon Pain”, and “Baskin Robbins” brands in Thailand. In 2014, the company expanded to the full-service restaurant segment by acquiring the Greyhound Group, which owns and operates the GHC chain and also produces and distributes fashion and lifestyle products under the Greyhound brand. MM also operates a hospital food court under the “M-Kitchen” brand and provides in-patient food services in a private hospital. Additionally, MM has four restaurants in France including Le Grand Vefour, Pasco, Augustin, and A-Noste.

## KEY OPERATING PERFORMANCE

**Table 1: Sales Contribution**

Business Line	2017		2018		2019		2020	
	Million THB	%						
Dunkin' Donuts	1,020	36	1,048	34	957	33	873	40
Au Bon Pain	698	25	683	22	621	21	401	19
Baskin Robbins	108	4	108	3	101	3	63	3
Greyhound Cafe	844	30	947*	31	944*	32	579*	27
Greyhound Fashion and Lifestyle	139	5	150	5	147	5	149	7
Le Grand Vefour			137	4	131	5	43	2
Others	23	1	22	1	20	1	59	2
Eliminations	-1	0	-13	0	-8	0	-1	0
<b>Total sales</b>	<b>2,832</b>	<b>100</b>	<b>3,082</b>	<b>100</b>	<b>2,913</b>	<b>100</b>	<b>2,166</b>	<b>100</b>

\* Including GHC London

Source: MM

**Table 2: Number of Outlets**

Food Outlets	Outlet Number	Type of Restaurant
Dunkin' Donuts	282	QSR
Au Bon Pain	72	QSR
Baskin Robbins	23	QSR
Greyhound Café	27*	Full service restaurant
Greyhound Café (franchised)	15	Full service restaurant
Le Grand Vefour	1	Fine dining French restaurant
Pasco	1	French restaurant
Augustin	1	French restaurant
A-Noste	1	Tapas restaurant
<b>Total outlets</b>	<b>423</b>	

\* Including GHC London

Source: MM

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	2,316	3,060	3,233	2,962	2,992
Earnings before interest and taxes (EBIT)	(147)	64	75	36	66
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	354	552	523	510	502
Funds from operations (FFO)	281	462	436	424	422
Adjusted interest expense	85	89	81	80	100
Capital expenditures	245	154	174	266	154
Total assets	4,792	4,210	4,301	4,338	3,815
Adjusted debt	1,796	1,470	1,355	1,152	1,715
Adjusted equity	2,236	2,696	2,788	2,845	1,815
<b>Adjusted Ratios</b>					
EBITDA margin (%)	15.28	18.03	16.18	17.23	16.79
Pretax return on permanent capital (%)	(3.46)	1.48	1.75	0.91	1.76
EBITDA interest coverage (times)	4.14	6.22	6.49	6.37	5.04
Debt to EBITDA (times)	5.07	2.67	2.59	2.26	3.42
FFO to debt (%)	15.66	31.43	32.20	36.84	24.63
Debt to capitalization (%)	44.54	35.29	32.70	28.82	48.59

**RELATED CRITERIA**

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Mudman PLC (MM)**
**Company Rating:**

BBB-

**Rating Outlook:**

Negative

**TRIS Rating Co., Ltd.**

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