

# MUD & HOUND PLC

No. 34/2023  
21 March 2023

**CORPORATES**

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

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**Last Review Date:** 29/03/22

**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 Mud & Hound PLC (MUD) at “BBB–” with a “negative” outlook. The company rating incorporates our assessment of MUD’s status as a “core subsidiary” of Sub Sri Thai PLC (SST, rated “BBB-/negative”), and MUD’s stand-alone credit profile (SACP) of “bb+”. The company rating on MUD continues to reflect MUD’s market position in the highly competitive and fragmented chain restaurant and quick service restaurant (QSR) businesses. The rating is weighed down by MUD’s elevated financial leverage due to continued investment for expansion. The “negative” outlook reflects our concerns over the company’s planned investment for expansion in the restaurant business, both in Thailand and overseas, which could heighten debt burdens and financial leverage above expected levels.

**KEY RATING CONSIDERATIONS**

**Restaurant business to continue recovery**

TRIS Rating expects MUD’s operating performance to continue recovering as people resume their normal lives and more tourists come to Thailand. Under our base-case forecast, we expect MUD’s revenue to increase to THB3.8 billion in 2023 and THB4.1–THB4.3 billion per annum in 2024–2025. We expect “Dunkin’ Donuts” revenue to increase via kiosk expansion and Greyhound Café (GHC) and Au Bon Pain (ABP) revenues to continue their recovery thanks to increased tourists.

We anticipate pressure on MUD’s profitability to remain in 2023 due to prolonged rising raw material, utility, and transportation costs, while competition in the restaurant industry remains intense. We believe to remain competitive, restaurant operators may need to keep offering sales promotions and spending more on marketing activities. MUD’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is forecast to stay around 16% during 2023–2025.

MUD’s restaurant business performance started to recover in 2022, thanks to the easing of the Coronavirus Disease 2019 (COVID-19) situation. MUD’s revenue grew 41% year-on-year (y-o-y) to THB3.1 billion in 2022. GHC revenue recovered 64% y-o-y in 2022 as dine-in activity resumed after being hit hardest during the COVID-19 pandemic. ABP also recovered by 31% y-o-y as more tourists came to Thailand and office workers returned to offices. Dunkin’ revenue grew 30% y-o-y in 2022 thanks to the company’s strategy to expand more outlets in the kiosk format in gas stations, hypermarkets, and local markets. The kiosk format increases market penetration while requiring lower investment per outlet and providing more flexibility for relocation. MUD’s profitability softened due to rising raw material costs and utility costs, yet remained in line with our expectations. The company’s EBITDA margin fell to 15.9% in 2022, compared to 18.3% in 2021.

**Expanded overseas restaurant business remains a challenge**

The company started to expand its restaurant business overseas in 2017 by acquiring a well-known French restaurant, Le Grand Vefour, in Paris and opening its first owned GHC restaurant outside of Thailand in London. The company later opened another four restaurants in Paris: Pasco, Augustin, and A-Noste in 2020, and La Mere Lachaise in early 2022. Revenue from MUD’s restaurants in France and the UK improved in 2022; however, the

performance of both restaurants fell short of company expectations, and most of MUD's restaurants overseas contributed negative EBITDA in 2022, even after the COVID-19 situation improved. The company views rising costs and operational difficulties as the reasons for suboptimal restaurant performance, and the company aims to improve its overseas restaurant operations. The company still plans to acquire more restaurants in France and potentially convert them to GHC restaurants as the company aims to penetrate the European market with its GHC brand. TRIS Rating holds 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.

### **Elevated financial leverage**

MUD's financial leverage remained moderately high in 2022, despite recovering operating performance, as the company continued to invest in outlet expansion. MUD's debt to EBITDA ratio was 4.5 times in 2022, about the same level as in 2021, compared with 2-3 times pre-COVID-19. Under our base-case forecast, we expect MUD's capital expenditures to be around THB370 million in 2023, THB210 million in 2024, and THB170 million in 2025. We expect the capital spendings to be used mainly for the expansion of the Dunkin' and GHC brands, and investments in restaurants overseas. We expect MUD's debt to EBITDA ratio to improve to 4.1–4.2 times during 2023–2025 as its earnings grow thanks to continued recovery from COVID-19.

As of December 2022, MUD had consolidated debt of THB1.5 billion, of which around THB900 million was considered priority debt. MUD's priority debt consisted of secured loans and debentures at the company level and secured and unsecured loans at its subsidiaries. As its priority debt ratio was 64%, higher than the threshold of 50%, according to TRIS Rating's "Issue Rating Criteria", we view MUD's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

MUD's debentures have a key financial covenant requiring the company to maintain its interest-bearing debt to equity ratio below 3 times. As of December 2022, the ratio was 0.59 times. The company's long-term bank loan also has key financial covenants that require the company to maintain the total liabilities to equity ratio below 2 times, the debt service coverage ratio above 1.2 times, and the net debt to EBITDA ratio below 3 times. As of December 2022, the ratios were 1.47 times, 0.64 times, and 4.86 times, respectively. The company received a waiver from lenders on the debt service ratio and debt to EBITDA ratio thresholds for 2022. We view that the company may breach the covenants and need to seek waivers again in 2023 should its performance recover in line with or below expectations.

### **Tight liquidity**

We assess MUD's liquidity to remain tight during the next 12 months. The company's sources of funds comprised cash and cash equivalents of around THB220 million as of December 2022, projected cash flow from operations of around THB420 million in 2023, and available credit lines of around THB30 million. The company's uses of funds include debt repayments of around THB880 million, expected lease payments of around THB330 million, and expected capital expenditures of THB370 million. MUD may need to refinance a major portion of its debts coming due and secure additional funding to meet its investment plan.

### **BASE-CASE ASSUMPTIONS**

- Revenue to range upward from THB3.8-THB4.3 billion annually during 2023-2025.
- EBITDA of THB620-THB690 million per annum during 2023-2025.
- Capital spending to be THB370 million in 2023, THB210 million in 2024, and THB170 million in 2025.

### **RATING OUTLOOK**

The "negative" outlook reflects our concern over the company's planned investment for expansion in the restaurant business which could heighten the company's debt level and financial leverage above expected levels.

### **RATING SENSITIVITIES**

Any change in SST's credit profile or change in our assessment of MUD's core status within the SST Group could affect the company rating on MUD.

We could revise the SACP on MUD downward if its credit metrics turn out to be weaker than our expectations, either from deteriorating operating performance or aggressive debt-funded investments. On the other hand, we could revise the SACP on MUD upward if the company's operating performance and credit metrics turn out to be significantly better than our expectations.

A change in SACP on MUD does not necessarily translate into a change in the company rating. However, as MUD is a key contributor to SST, a change in SACP on MUD could potentially lead to a corresponding change in SST's credit profile, thereby leading to a change in the company rating on MUD.

## COMPANY OVERVIEW

MUD was established in 2006 and listed on the Market for Alternative Investment (MAI) on 11 April 2017. As of March 2022, SST, a warehouse and document storage service provider, was the major shareholder, owning 67% of MUD'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 and Au Bon Pain 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. MUD also operates a hospital food court under the M-Kitchen brand and provides in-patient food services in a private hospital. Additionally, MUD has five restaurants in France including Le Grand Vefour, Pasco, Augustin, A-Noste, and La Mere Lachaise.

## KEY OPERATING PERFORMANCE

**Table 1: Sales Contribution**

Business Line	2019		2020		2021		2022	
	Million THB	%						
Dunkin' Donuts	957	33	873	40	1,013	47	1,320	43
Au Bon Pain	621	21	401	19	333	15	435	14
Baskin Robbins	101	3	63	3	51	2	24	1
Greyhound Cafe	944*	32	579*	27	405*	19	663	22
Greyhound Fashion and Lifestyle	147	5	149	7	165	8	252	8
Le Grand Vefour	131	5	43	2	103	5	129	4
Simon Says Shabu							33	1
Funky Fries							51	2
Others	20	1	59	2	98	4	157	5
Eliminations	-8	0	-1	0	-2	0	-2	0
<b>Total sales</b>	<b>2,913</b>	<b>100</b>	<b>2,166</b>	<b>100</b>	<b>2,166</b>	<b>100</b>	<b>3,062</b>	<b>100</b>

\* Including GHC London

Source: MUD

**Table 2: Number of Outlets**

Food Outlets	Outlet Number	Type of Restaurant
Dunkin' Donuts	562	QSR
Au Bon Pain	65	QSR
Greyhound Café	37*	Full service restaurant
Simon Says Shabu	2	Buffet Shabu
Funky Fries	33	QSR
Le Grand Vefour	1	French restaurant
Pasco	1	French restaurant
Augustin	1	French restaurant
A-Noste	1	Tapas restaurant
La Mere Lachaise	1	French restaurant
<b>Total outlets</b>	<b>704</b>	

\* Including GHC London and Beanhound

Source: MUD

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	3,168	2,316	2,316	3,060	3,233
Earnings before interest and taxes (EBIT)	90	(17)	(147)	64	75
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	503	425	354	552	523
Funds from operations (FFO)	382	321	266	449	423
Adjusted interest expense	113	99	85	89	81
Capital expenditures	314	233	245	154	174
Total assets	5,252	4,897	4,792	4,210	4,301
Adjusted debt	2,282	1,925	1,796	1,470	1,355
Adjusted equity	2,128	2,110	2,236	2,696	2,788
<b>Adjusted Ratios</b>					
EBITDA margin (%)	15.87	18.33	15.28	18.03	16.18
Pretax return on permanent capital (%)	2.01	(0.40)	(3.46)	1.48	1.75
EBITDA interest coverage (times)	4.45	4.29	4.14	6.22	6.49
Debt to EBITDA (times)	4.54	4.53	5.07	2.67	2.59
FFO to debt (%)	16.72	16.66	14.84	30.51	31.22
Debt to capitalization (%)	51.75	47.70	44.54	35.29	32.70

**RELATED CRITERIA**

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

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**Mud & Hound PLC (MUD)**

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**Company Rating:**

BBB-

**Rating Outlook:**Negative

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**TRIS Rating Co., Ltd.**

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