

MINOR INTERNATIONAL PLC

No. 75/2021
11 May 2021

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Hybrid	BBB+
Outlook:	Negative

Last Review Date: 10/07/20

Company Rating History:

Date	Rating	Outlook/Alert
10/07/20	A	Negative
27/03/20	A	Alert Negative
24/07/18	A	Stable
11/06/18	A+	Alert Negative
28/04/14	A+	Stable
21/02/07	A	Stable
19/08/04	A-	Stable
23/12/03	A-	-
05/06/03	A-	Alert Developing
30/07/02	A-	-

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RATIONALE

TRIS Rating affirms the company rating on Minor International PLC (MINT) and the ratings on its existing senior unsecured debentures at “A” and the rating on its subordinated capital debentures (hybrid debentures, MINT18PA) at “BBB+”. At the same time, we assign the rating of “A” to MINT’s proposed issue of up to THB6 billion in senior unsecured debentures. The proceeds from the new debentures will be used for refinancing its debt coming due.

The ratings continue to reflect MINT’s strong business fundamental, supported by its strong portfolio of brands and wide geographic coverage in the hospitality and restaurant businesses. We expect MINT’s credit metrics to remain under pressure over the next 12-24 months from the COVID-19 fallout. However, we expect to see a gradual improvement in MINT’s operating performance, particularly in its hotel business in Europe, from the second half of 2021 onward, considering the pace of vaccine rollouts in key European countries. We view that MINT’s cost reduction efforts, liquidity and balance sheet management, and extended waiver of financial covenant testing should allow the company the time and flexibility to manage through a gradual recovering over the next several quarters.

The “negative” outlook reflects our view of MINT’s business recovery prospects to remain fragile given the fluidity of the pandemic situation. The timing and extent of easing on travel restrictions remain highly uncertain, pending on the pace of global vaccine rollouts and efficacy.

KEY RATING CONSIDERATIONS

Hotel business to be under continued pressure for extended period

We expect MINT’s hotel operation to continue to be under immense pressure for another 12-24 months. Our base-case forecast projects MINT’s owned and leased hotel revenue per available room (RevPAR) in 2021 to stay around 45% below the 2019 level and RevPAR in 2022 to be around 15% below the 2019 level, before returning close to pre-COVID-19 levels in 2023

In Europe, the main exposure of MINT’s hotel operation, the extended lockdown periods and slower-than-expected vaccine rollouts in many countries have delayed business resumption, most likely until the second half of 2021. Despite some pent-up demand and potentially high volume of cross-border travel, we do not expect a strong rebound in hotel demand in 2021 considering the absence of long-haul international travel and business travel and events. We view that hotel demand in Europe will likely start gaining momentum in 2022 and approach pre-COVID-19 levels in 2023 when a certain degree of herd immunity is expected to materialize in many regions and social and economic normality to resume.

For Thailand and Latin America that together contribute around 20% of MINT’s hotel revenue, the third wave of infections in Thailand and the surging numbers of infection cases in Latin America with slow pace of vaccine rollouts will delay the lifting of border restrictions. We expect the demand for hotels to remain subdued, and clearer signs of recovery to begin in the second half of 2022. We also expect the RevPAR of its management letting rights (MLRs) hotels, mainly in Australia, to continue recovering and possibly return close to pre-COVID-19 levels faster than other regions as the business relies mainly on domestic demand.

Resilient food business

Thanks to MINT's strong market position in the restaurant business, particularly in Thailand, its strengthened delivery platforms, as well as respective cost optimization, the company's restaurant business is proved to be more resilient and remain profitable during adverse operating conditions. MINT's restaurant businesses in China and Australia also performs well with a trend of improving sales. We view the company's restaurant business in Thailand, contributing over 65% of food revenue, will continue to be affected by the lingering impact of COVID-19 with restrained consumer sentiment for several upcoming quarters.

Our base-case forecast projects MINT's revenue from its restaurant business to grow by around 10% y-o-y to THB21-THB22 billion in 2021. The scale and length of the third wave of COVID-19 infections in Thailand remain a key downside risk to the top-line projection. We forecast the revenue from restaurant business to improve to THB23-THB25 billion per annum during 2022-2023, based on our expectation of more effective containment measures and vaccine distribution in Thailand. We expect many brands in MINT's portfolio to continue experiencing depressed same-store-sales for the next several quarters, especially brands that rely on tourist traffic such as Burger King and The Coffee Club. We also view that outlet expansion, particularly in Thailand, could take time to regain traction amid persistently weak macroeconomic conditions.

Depressed earnings expected in 2021 before a gradual recovery

Our baseline projection forecasts MINT's revenue to be around THB78 billion in 2021 and THB106 billion in 2022, about 35% and 15% lower than the 2019 level, respectively. We forecast the revenue to return to pre-COVID-19 levels in 2023 at THB123 billion. We expect the company's earnings to remain subdued in 2021 but improve from the 2020 level following several cost cutting measures. Our base-case forecast projects earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to improve to a mid-teens percentage in 2021, compared to a low single digit percentage in 2020. MINT claims to be saving around THB3 billion of operating expenses, mainly on payroll, on a sustained basis from cost saving measures taken in 2020. The company also implemented additional cost cutting from the NH Hotel Group SA's restructure in the first quarter of 2021 which will be fully reflected in 2022 with expected savings of THB1.5-THB2 billion. The company also looks to implement further cost optimization measures according to the pace of business recovery. This should help improve MINT's profitability. Based on the expected revenue improvement, our-base-case scenario projects MINT's EBITDA margin to be 26%-28% during 2022-2023., translating to EBITDA of THB11-THB12 billion in 2021 before improving to THB28 billion in 2022 and THB33 billion in 2023.

Prolonged elevated leverage

With an extended period of depressed earnings, we expect MINT's leverage to stay elevated for at least another 12 months. Our base-case forecast projects MINT's adjusted debt to EBITDA ratio to be close to 20 times in 2021 before declining to around 7-8 times in 2022, and below 7 times in 2023.

The base-case scenario assumes MINT's capital expenditures to be THB4.5-THB6.5 billion per annum during 2021-2022 and THB13-THB14 billion in 2023. In accordance with the company's plan to manage its balance sheet, our forecast incorporates assumptions on asset divestments/rotations of THB10-THB15 billion in 2021 and a total of THB10-THB15 billion during 2022-2023.

The calculation of adjusted debt includes guarantee commitments, lease obligations, and debt treatment of perpetual securities. Based on our rating criteria, we assign a 50% equity content to the THB15 billion domestically distributed perpetual securities but 0% equity content to the entire amount of USD600 million offshore perpetual debt issues.

Cash preservation supports liquidity position

MINT has taken steps to preserve cash and strengthen its liquidity position over the next 12 months. MINT's primary sources of funds comprise cash on hand of around THB26 billion as of December 2020, working capital facilities of around THB28 billion. Funds from operations (FFO) are expected to be positive but remain small in 2021. Primary uses of funds are debt repayments of THB6.3 billion, lease obligations of around THB13 billion, and capital expenditures of THB4.6 billion. We expect the company to continue its prudent liquidity management to preserve cash and maintain sufficient liquidity to weather operating headwinds until business recovery is on a firm sustainable path.

BASE-CASE ASSUMPTIONS

- RevPAR of owned and leased hotels in 2021 to stay around 45% below the 2019 level and RevPAR in 2022 to be around 15% below the 2019 level, before returning to pre-COVID-19 level in 2023.
- Revenue from the restaurant business to be THB21-THB22 billion in 2021 and THB23-THB25 billion per annum during 2022-2023.

- MINT's revenue to be THB78 billion in 2021, THB106 billion in 2022, and THB123 billion in 2023.
- EBITDA margin to be in mid-teens percentage in 2021 and improve to 26%-28% in 2022-2023.
- Capital expenditures to be THB4.5-THB6.5 billion per annum during 2021-2022 and THB13-THB14 billion in 2023.
- Asset divestments/recycles projected at THB10-THB15 billion in 2021 and a total of THB10-THB15 billion during 2022-2023.

RATING OUTLOOK

The "negative" outlook reflects our view that MINT's credit metrics will continue to be under pressure due to fragile business recovery prospects as the COVID-19 situation remains fluid with uncertainty surrounding the timing and extent of potential easing on global travel restrictions, that are largely dictated by the pace of vaccine rollouts and efficacy.

RATING SENSITIVITIES

Rating downgrade pressure could arise for a prolonged COVID-19 crisis that potentially results in further delays in MINT's business recovery and deleveraging plan. A rating downward could also occur if MINT's liquidity position materially deteriorates. The outlook could be revised to "stable" if the COVID-19 situation continues to improve leading toward social and economic normality, and MINT demonstrates clear signs of operating recovery and a sustainable path to restore its credit metrics.

COMPANY OVERVIEW

MINT was founded in 1978 by Mr. William Ellwood Heinecke. As of December 2020, Group of Mr. Heinecke was the major shareholders, holding 34% of MINT's shares. The company has three main lines of business: hotel and mixed-use properties; restaurants; and retail trading, which includes contract manufacturing. For 2020, the hotel and mixed-use business was the key revenue contributor, comprising 58% of total revenue, followed by the restaurant business, 36%, and retail and lifestyle business, 6%, respectively.

At the end of December 2020, MINT's hotel portfolio comprised 532 properties, with 75,638 keys, across Europe, the Asia Pacific region, Africa, the Middle East, and Latin America. The hotels are managed and operated under MINT's own brands, including Anantara, AVANI, Oaks, Tivoli, NH Collection, NH Hotels, nhow, and Elewana Collection, and well-recognized international brands, such as Four Seasons, JW Marriott, St. Regis, Radisson.

MINT also develops residential property and timeshare businesses under the mixed-use concept, located close to its hotel properties. MINT has five premium residential development projects in Bangkok Koh Samui, Phuket, and Chiang Mai in Thailand, Maputo in Mozambique, and two projects under construction in Bali, Indonesia, and Desaru, Malaysia. In the timeshare segment, Anantara Vacation Club has 250 units in inventory in Bali, Bangkok, Phuket, Samui, Chiang Mai, Queenstown (New Zealand), and Sanya (China) as of March 2020.

The Minor Food Group PLC (MFG) is MINT's wholly-owned subsidiary, operating the restaurant business. MFG, established in 1980, is the largest restaurant operator in Thailand. MFG holds franchises for six international restaurant brands: Swensen's, Sizzler, Dairy Queen, Burger King, Benihana, and Bonchon. MFG has its own brands, including The Pizza Company, The Coffee Club, Thai Express, and Riverside. MFG is able to leverage its own brands and some of the franchised brands to franchise businesses in Thailand and in international markets. At the end of December 2020, MINT had a total of 2,370 restaurant outlets located in over 20 countries, of which 50% were equity-owned and the remaining 50% were franchised and sub-franchised outlets. MINT also invested in S&P Syndicate PLC and BreadTalk Group Ltd. in Singapore.

Minor Lifestyle is responsible for the retail trading segment and contract manufacturing under the MINT umbrella. At the end of December 2020, MINT had 459 retail points of sale, 78% of which were fashion brands including Anello, Esprit, Bossini, Charles & Keith, Radley, Etam, and OVS. The balance was operated under home and kitchenware and lifestyle brands including Joseph Joseph, Zwilling J.A. Henckels, Bodum, and Scmadi.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	58,119	122,001	77,070	57,029	53,158
Earnings before interest and taxes (EBIT)	(16,915)	17,627	11,474	8,583	7,435
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,950	33,038	17,324	12,815	12,290
Funds from operations (FFO)	(4,084)	19,880	11,161	9,853	9,065
Adjusted interest expense	8,479	10,865	4,875	2,176	2,192
Capital expenditures	6,745	14,705	9,724	6,646	6,080
Total assets	362,327	254,184	268,081	119,100	108,453
Adjusted debt	234,147	198,163	223,588	54,980	57,430
Adjusted equity	51,707	69,532	65,975	50,504	40,797
Adjusted Ratios					
EBITDA margin (%)	3.35	27.08	22.48	22.47	23.12
Pretax return on permanent capital (%)	(5.70)	6.04	5.54	7.99	7.59
EBITDA interest coverage (times)	0.23	3.04	3.55	5.89	5.61
Debt to EBITDA (times)	120.10	6.00	12.91	4.29	4.67
FFO to debt (%)	(1.74)	10.03	4.99	17.92	15.78
Debt to capitalization (%)	81.91	74.03	77.22	52.12	58.47

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

Minor International PLC (MINT)

Company Rating:	A
Issue Ratings:	
MINT210A: THB300.00 million senior unsecured debentures due 2021	A
MINT223A: THB4,079.70 million senior unsecured debentures due 2022	A
MINT223B: THB3,620.30 million senior unsecured debentures due 2022	A
MINT228A: THB2,700.00 million senior unsecured debentures due 2022	A
MINT243A: THB4,635.00 million senior unsecured debentures due 2024	A
MINT243B: THB2,165.00 million senior unsecured debentures due 2024	A
MINT249A: THB1,000.00 million senior unsecured debentures due 2024	A
MINT255A: THB4,000.00 million senior unsecured debentures due 2025	A
MINT283A: THB1,000.00 million senior unsecured debentures due 2028	A
MINT293A: THB1,815.40 million senior unsecured debentures due 2029	A
MINT293B: THB5,684.60 million senior unsecured debentures due 2029	A
MINT313A: THB1,200.00 million senior unsecured debentures due 2031	A
MINT313B: THB1,570.00 million senior unsecured debentures due 2031	A
MINT313C: THB2,430.00 million senior unsecured debentures due 2031	A
MINT329A: THB1,000.00 million senior unsecured debentures due 2032	A
MINT343A: THB3,070.00 million senior unsecured debentures due 2034	A
MINT343B: THB2,430.00 million senior unsecured debentures due 2034	A
MINT18PA: THB15,000.00 million subordinated capital debentures	BBB+
Up to THB6,000.00 million senior unsecured debentures due within 4 years	A
Rating Outlook:	Negative

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