MINOR INTERNATIONAL PLC

No. 62/2017 13 September 2017

Company Rating: A+

Issue Ratings:

Senior unsecured A+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
28/04/14	A+	Stable
21/02/07	A	Stable
30/07/02	A-	Stable

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Rating Rationale

TRIS Rating affirms the company rating and the ratings of the outstanding senior unsecured debentures of Minor International PLC (MINT) at "A+". At the same time, TRIS Rating assigns a rating of "A+" to MINT's proposed issue of up to Bt2,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance debts coming due and for working capital.

The ratings reflect MINT's solid business profile, underpinned by its strong market position, diversified portfolio of businesses and wide geographical coverage. However, these strengths are partially offset by the cyclical and volatile nature of the hotel industry, the high level of competition in the restaurant and retail trading segments, and high leverage mainly from expanding its hotel portfolio during the past few years.

MINT was founded in 1978 by Mr. William Ellwood Heinecke. As of July 2017, Mr. Heinecke and affiliates are the major shareholders, holding 34% of MINT's total shares. The company has three main lines of business: 1) hospitality and mixed-use real estate, 2) restaurant, and 3) retail trading, which includes contract manufacturing. For the first half of 2017, the hospitality and restaurant segments were the key revenue contributors, comprising 42% and 41% of total sales, respectively. The real estate segments and retail trading generated 9% and 7% of total sales, respectively.

MINT's solid business profile is underpinned by its strong market positions and well-diversified portfolio of businesses. These strengths help MINT withstand the challenges in a particular country or region and sustain its earnings growth. The combination of a resilient restaurant operation with a profitable, yet volatile hotel and mixed-use property business smooths the operating results.

At the end of June 2017, MINT's hotel portfolio comprised 155 properties, with 19,896 keys, in 24 countries spanning the Asia Pacific region, Africa, the Middle East, Europe, and South America. The hotels are managed and operated under well-recognized international brands, such as Four Seasons, JW Marriott, St. Regis, Radisson, and MINT's own brands, including Anantara, Oaks, AVANI, Elewana, Per AQUUM, and Tivoli.

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 four international restaurant brands: Swensen's, Sizzler, Dairy Queen, and Burger King. MFG has its own brands, including The Pizza Company, The Coffee Club, Ribs and Rumps, Thai Express, Beijing Riverside and Courtyard (Riverside) in China, and BreadTalk in Thailand. The company is able to leverage its own brands and some of the franchised brands to franchise business in Thailand and in international markets. At the end of June 2017, MINT had a total of 2,037 restaurant outlets located in 19 countries, of which 1,031 were equity-owned outlets and 1,006 were franchised and sub-franchised outlets. MINT also invested in S&P Syndicate PLC and BreadTalk Group Ltd. in Singapore.

Minor Corporation PLC (MINOR) is responsible for the retail trading segment and contract manufacturing under the MINT umbrella. Within MINOR, the key brands are Esprit, Gap, Bossini, Charles & Keith, Banana Republic, and Anello.

MINT's financial risk profile reflects its growing base of operating cash flow and high leverage from portfolio expansion. In 2016, revenue increased by 21% year-on-year (y-o-y) to Bt51,152 million. The company posted strong growth in the hotel or hospitality segment. Revenue, including hotel management fees, rose by 29% to Bt22,474 million. The rise was mainly driven by the contribution of the newly acquired hotels in Portugal and Zambia. The restaurant segment reported a 24% y-o-y rise in revenue, including the franchise fees, to Bt21,588 million. The growth was supported by three main factors: the full year consolidation of Minor DKL Food Group Pty. Ltd. (Minor DKL), the impressive performance of The Pizza Company, and the opening of more restaurant outlets.

In the first half of 2017, MINT reported an 8% y-o-y increase in revenue to Bt27,172 million, driven by the strong performance of the hotel segment and the recognition of property sales. Operating profit before depreciation and amortization as a percentage of sales was 16.49%, up from around 15% during 2015-2016. The improved profitability was a result of cost control efforts in the restaurant segment and the adjustment of the Anantara Vacation Club (AVC) sales model.

During 2017-2019, MINT expects total revenue will grow at a solid rate supported by organic growth of the existing operations and expansion plans. The base of operating cash flow is expected to grow as revenue grows. TRIS Rating estimates that the operating margin will gradually improve to 17% in 2019 in tandem with MINT's plan to renovate some of its owned-hotel properties, the transformation of the time-share vacation business, and the restructuring of Thai Express food outlets.

MINT's capital structure weakened during the past two years as the company expanded its portfolio by making several large investments especially in hotels and mixed-use property projects. Total debt increased from Bt45,492 million in 2015 to Bt53,545 million in the first half of 2017. The adjusted debt to capitalization ratio was 59.57% at the end of June 2017. In the first six months of 2017, the adjusted debt to core earnings before interest, tax, depreciation, and amortization (EBITDA) ratio was 5.28 times (annualized from the trailing 12 months) and the adjusted ratio of funds from operations (FFO) to debt was 14.80% (annualized from the trailing 12 months). TRIS Rating expects the leverage ratio to improve from growing operating cash flow, scheduled debt repayment, as well as a capital injection from the exercise of warrants worth approximately Bt7,500 million in late 2017. TRIS Rating expects MINT's ratio of FFO to total debt ratio will improve from the current mid-teens percentage to around 20% in 2019.

During the next 12-18 months from June 2017, liquidity will be adequate, considering the sources and uses of funds. The liquidity sources are EBITDA of at minimum Bt12,200 million per annum, cash and cash equivalents on hand of Bt3,532 million at the end of June 2017, and unused bank credit facilities of approximately Bt15,000 million. The uses of funds are the repayment of financial obligations worth approximately Bt9,000-Bt9,500 million and capital expenditures of Bt6,000-Bt8,000 million, excluding any sizable acquisitions made during the period.

Rating Outlook

The "stable" outlook reflects MINT's strong business profile, supported by the diversification of its business, both in terms of market served and geographic coverage. TRIS Rating expects MINT will achieve its plan to reduce leverage. MINT's credit upside is limited in the next 12 months, taking into account its current financial risk profile. The downside case could occur if MINT makes any additional, sizable, debt-funded investments as it has limited headroom for a rise in leverage at the current rating level.

Minor International PLC (MINT)

Company Rating:	A+
Issue Ratings:	
MINT17DA: Bt1,000 million senior unsecured debentures due 2017	A+
MINT17DB: Bt1,500 million senior unsecured debentures due 2017	A+
MINT183A: Bt1,500 million senior unsecured debentures due 2018	A+
MINT18OA: Bt500 million senior unsecured debentures due 2018	A+
MINT193A: Bt4,500 million senior unsecured debentures due 2019	A+
MINT205A: Bt4,000 million senior unsecured debentures due 2020	A+
MINT213A: Bt2,800 million senior unsecured debentures due 2021	A+
MINT21OA: Bt300 million senior unsecured debentures due 2021	A+
MINT228A: Bt2,700 million senior unsecured debentures due 2022	A+

MINT255A: Bt4,000 million senior unsecured debentures due 2025	A+
MINT313A: Bt1,200 million senior unsecured debentures due 2031	A+
Up to Bt2,000 million senior unsecured debentures due within 15 years	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		---------------------- Year Ended 31 December				--------------------
	Jan-Jun 2017	2016	2015	2014	2013	2012
Total revenue	27,172	51,152	42,345	37,228	34,669	31,310
Gross interest expense	866	1,606	1,301	1,145	1,027	1,085
Net income from operations	2,661	3,855	4,872	4,250	4,090	3,078
Funds from operations (FFO)	4,743	7,743	7,061	6,207	6,649	5,334
Capital expenditures	3,061	6,080	7,808	5,911	5,365	4,571
Additional investments	3,763	3,557	5,013	5,282	1,708	1,403
Total assets	110,005	108,453	98,382	74,279	60,124	51,721
Total debt	53,545	49,832	45,492	34,082	23,385	24,163
Guarantees and commitments to related companies	3,153	3,153	2,645	2,805	2,753	437
Annual lease capitalization	2,853	2,616	2,204	2,110	2,019	1,931
Shareholders' equity including minority interest	40,422	40,797	36,711	30,024	26,875	19,062
Operating income before depreciation and amortization as % of sales	16.49	14.89	15.03	17.28	17.78	17.49
Pretax return on permanent capital ** (%)	7.57 ***	7.46	8.65	9.62	11.78	11.80
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) **	6.26	6.16	7.17	7.26	7.77	5.73
FFO/total debt (%) **	14.80 ***	13.93	14.03	15.92	23.61	20.52
Total debt/capitalization (%) **	59.57	57.68	57.83	56.50	51.17	57.69

Note: *All are operating lease adjusted ratios*
*** *Consolidated financial statements*
**** *Including contingent liabilities to related companies and annual lease capitalization*
***** *Annualized from the trailing 12 months*

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