TRIS RATING
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CreditNews ข่าวเครดิต

MINOR INTERNATIONAL PLC

No. 106/2018
24 July 2018

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
11/06/18	A+	Alert Negative
28/04/14	A+	Stable
21/02/07	A	Stable
03/09/03	A-	Stable
05/06/03	A-	Alert Negative
30/07/02	A-	Stable

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RATIONALE

TRIS Rating removes the "CreditAlert" with a "negative" implication placed on the company rating and issue ratings of Minor International PLC (MINT) since 11 June 2018. At the same time, TRIS Rating downgrades the company rating and the ratings on MINT's outstanding senior unsecured debentures to "A" from "A+" with "stable" outlook.

The downgrade reflects our expectation that MINT's leverage will rise as a result of a large debt-funded acquisition. MINT is in the execution stage of acquiring NH Hotel Group SA (NHH). We forecast that MINT's financial leverage as measured by adjusted debt to earnings before interest, tax, depreciation and amortization (EBITDA) will rise to around 5-6 times for the next few years, a level that not support an "A+" rating.

The ratings reflect MINT's strong market positions in the hotel and restaurant segments plus its diversified sources of income both from a strong portfolio of brands and wide geographic coverage. If the acquisition of NHH succeeds as planned, MINT will further strengthen its business position by expanding its reach in Europe, adding more hotels in more locations and broadening its customer base. The ratings also take into consideration the cyclical and susceptible to event risks nature of hotel industry. However, geographic diversification mitigates these concerns to some extent.

KEY RATING CONSIDERATIONS

Impact from NHH acquisition debt

TRIS Rating expects MINT's adjusted debt, excluding extra items, to EBITDA ratio to jump from around 4 times to 5-6 times because of the NHH acquisition. Our base-case scenario is built on key assumptions: MINT ends up owning 51%-55% of NHH shares by the end of 2018; share acquisition costs EUR1.3-EUR1.4 billion, and share purchases are funded with new borrowings.

MINT's reported debt is projected to rise from Bt48 billion as of March 2018 to approximately Bt120-Bt125 billion post-acquisition. NHH's lease obligations are significant. As a result, adjusted debts (including guarantee commitments and lease obligations) will rise from Bt60.5 billion to Bt210-220 billion on a consolidation basis.

We also consider other scenarios where the final NHH shareholding is lower or higher than the level in our base case. We incorporate in each scenario the funding plan MINT has announced. The leverage outcomes of the other scenarios are similar to the level in the base case.

Strengthened hotel business profile

TRIS Rating views that the NHH acquisition complements MINT's hotel portfolio in several ways. NHH is the sixth-largest European hotel chain, operating 382 hotels, with 59,350 rooms, in 30 markets. NHH has hotels in good locations in a number of European cities. The supply of hotel rooms in many of these cities is limited. NHH's target market segment is business travelers, with rooms priced in the middle to upper end of the price range. NHH's hotels complement MINT's hotel portfolio with little or no overlap. MINT's existing hotels are primarily in tourist destinations in Thailand, Australia, Middle East, other countries in Asia, and Portugal. Once the acquisition is completed, the substantially larger portfolio of hotels will strengthen MINT's ability to weather the cyclical and volatile nature of hotel industry.

TRIS Rating believes the acquisition will bring greater synergies and raise long-term growth prospects to a new level. A substantially larger hotel portfolio will enhance MINT's competitive position and give it more negotiating power with counterparties such as travel agencies. Other benefits may include greater operating efficiencies, an integrated customer loyalty program, cross- selling to a broader base of clients, and new ways to leverage the brand.

Restaurant segment continues to face challenges

We see MINT's restaurant operations will remain under pressure. A weak economy and intense competition in its key markets (Thailand, Singapore, Australia, and China) are the main causes. The company is tackling the operational challenges by revising menus, product innovation, new promotions and marketing campaigns, rationalizing the number of outlets, and controlling costs. Our base case assumes MINT's same-store-sales will be flat or grow at a low single digit rate in 2018-2019. Revenue from restaurant segment is forecast at a single-digit growth rate during the same period.

After the operations of NHH are consolidated into MINT's financial results, the restaurant segment will make up a smaller portion of sales and profits. The restaurant segment made up 40% of revenue and 35% of EBITDA annually before the NHH acquisition. These contributions are projected to fall to 15%-20% of total revenue and EBITDA post-acquisition, assuming 51%-55% shareholding. Despite the drop, we believe the restaurant segment remains an important part of MINT's business mix. The restaurant segment is less cyclical than the hotel segment and produces steady stream of operating cash flows.

NHH acquisition to double earnings

The NHH acquisition will substantially increase MINT's scale of operations and earnings. TRIS Rating's base case forecast, excluding the effects of the acquisition, assumes MINT's total revenue will grow by 6%-8%, pushing revenue to Bt58-Bt59 billion in 2018. Solid results in the hotel segment, especially at hotels in Thailand and Portugal, will drive the improvement. RevPAR (revenue per available room) at hotels MINT owns outright is forecast to grow at a high-single-digit rate of around 7%-9%. Revenue in the hotel segment will grow by mid-teens percentage. We project modest growth in the restaurant and retail businesses due to lingering weakened consuming environment. EBITDA is forecast to be Bt12-Bt13 billion in 2018.

Revenue will double after NHH is fully consolidated in 2019. Revenue is forecast to reach Bt126-Bt132 billion during 2019-2020. We also projects MINT's EBITDA on a consolidated basis to be Bt24-Bt26 billion in 2019-2020.

Sound liquidity

Over the next 12 months, MINT's liquidity is assessed to be adequate, considering the sources and uses of funds. Sources are EBITDA of at minimum Bt12-Bt13 billion, cash and cash equivalents on hand of Bt5.6 billion, plus unused bank credit facilities of Bt21.7 billion at the end of March 2018. The uses of funds are the repayment of financial obligations worth approximately Bt7 billion and capital expenditures of Bt8-Bt10 billion. The acquisition of NHH will be funded by bridge loans.

RATING OUTLOOK

The "stable" outlook reflects MINT's strong business profile and diversified portfolio of businesses. The outlook also reflects our expectation that MINT will successfully integrate NHH and continue to deliver sound operating performance.

RATING SENSITIVITIES

MINT's credit upside case could emerge if the company delivers operating performance that is better-than expectations, so that the ratio of adjusted debt to EBITDA falls and sustains at the level prior to the NHH acquisition. The downside case is limited over the next 12-18 months but could occur if operating performance deteriorates significantly or if MINT makes other sizable debt-funded investments.

COMPANY OVERVIEW

MINT was founded in 1978 by Mr. William Ellwood Heinecke. As of April 2018, Mr. Heinecke and affiliates were the major shareholders, holding 34% of MINT's shares. The company has three main lines of business: hotel and mixed-use real estate; restaurant; and retail trading, which includes contract manufacturing. In 2017, the hotel and restaurant segments were the key revenue contributors, comprising 45% and 40% of total sales, respectively. The real estate and retail trading segments generated 8% and 7% of total sales, respectively.

At the end of May 2018, MINT's hotel portfolio comprised 161 properties, with 20,384 keys, in 26 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, AVANI, Oaks, Elewana, Tivoli, Niyama, Cheli&Peacock, Naladhu, and Serendib.

MINT also develops residential property and timeshare business 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, and Maputo in Mozambique. In the timeshare segment, MINT had Anantara Vacation Club with 195 units in inventory in Bali, Bangkok, Phuket, Samui, Chiang Mai, Queenstown (New Zealand), and Sanya (China) as of March 2018.

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 in China, BreadTalk in Thailand, and Benihana. MFG is able to leverage its own brands and some of the franchised brands to franchise business in Thailand and in international markets. In May 2018, MINT had a total of 2,104 restaurant outlets located in over 20 countries, of which 1,082 were equity-owned outlets and 1,022 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 March 2018, MINT had 416 retail trading points of sales, 90% of which were fashion brands including Anello, Banana Republic, Bossini, Brooks Brothers, Charles & Keith, Esprit, Etam, GAP, OVS, Pedro and Radley, and 10% were operated under home and kitchenware brands including Joseph Joseph and Zwilling J.A. Henckels.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		--------------- Year Ended 31 December -----------			
	Jan-Mar 2018	2017	2016	2015	2014
Revenue	15,337	55,001	51,152	42,345	37,228
Gross interest expense	422	1,757	1,606	1,301	1,145
Net income from operations	1,719	5,217	3,855	4,872	4,250
Funds from operations (FFO)	2,587	8,261	7,782	7,061	6,207
Capital expenditures	1,894	6,542	6,080	7,808	5,911
Additional investments	77	4,806	3,557	5,013	5,282
Total assets	116,785	118,444	108,453	98,382	74,279
Total debts	47,922	50,163	49,832	45,492	34,082
Guarantees and commitments to related companies	2,581	2,581	3,153	2,645	2,805
Annual lease capitalization	8,951	9,454	8,489	8,081	8,141
Shareholders' equity including minority interest	50,701	50,021	40,797	36,711	30,024
Operating income before depreciation and amortization as % of sales	21.03	19.69	18.38	19.20	21.39
Pretax return on permanent capital (%)**	7.65 ***	8.01	7.47	8.64	9.50
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.92	5.99	5.71	6.22	6.11
FFO/total debt (%)**	15.41 ***	15.78	14.83	14.83	16.12
Total debt/capitalization (%)**	53.97	55.43	60.11	60.50	59.99

Note: All ratios have been adjusted by operating leases.
** Consolidated financial statements*
*** Including contingent liabilities to related companies*
**** Annualized from the trailing 12 months*

Company Rating:	A
Issue Ratings:	
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
MINT249A: Bt1,000 million senior unsecured debentures due 2024	A
MINT255A: Bt4,000 million senior unsecured debentures due 2025	A
MINT283A: Bt1,000 million senior unsecured debentures due 2028	A
MINT313A: Bt1,200 million senior unsecured debentures due 2031	A
MINT329A: Bt1,000 million senior unsecured debentures due 2032	A
Rating Outlook:	Stable

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