RELATIVE VALUATION OF MK RESTAURANT GROUP PUBLIC COMPANY LIMITED

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ABSTRACT

This thematic paper intends to value the stock price of MK Restaurant Group PCL (M) by using relative valuation methods. PE band, PBV band, EV to EBITDA band, PE multiple, PBV multiple, EV to EBITDA multiple were applied to value this company. From the comparison with peers (OISHI, SNP, ZEN, HAIDILAO and XIABUXIABU), it is showed that M's forward P/E ratio is close to median forward P/E of peers. Forward P/E multiple is applied to this stock as the company focuses on growing its earnings per share from low base in last year from COVID-19.

Finally, the target price of M is 57.13 baht, it provides 12.5% upside from current price at 50.75 baht. So, the recommendation is "BUY".

KEY WORDS: M/ Relative Valuation/ Forward P/E/ Food Sector

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CHAPTER I
INTRODUCTION

MK Restaurant Group PCL (M) operates over 700 restaurant outlets for Suki, Thai, and Japanese restaurants in Thailand under brands MK, Yayoi, Miyazaki, Hakata and Laem Chareon. M also has franchise agreements with partners to operate franchised restaurants in Japan, Vietnam, Laos and Singapore.

More than 90% of the M's revenue comes from Thailand. There are three major brand contributions which is MK Suki's 74%, Yayoi's 18% and Leam Chareon 5% approximately. M has robust strategies to encourage sales improvement and operation efficiency. The key success strategy comprises of branding and marketing, products and services, customer retention, branch locations selection, diversifying distribution and cost management.

Since COVID-19 Thailand's first outbreak, M has been adversely affected from government control measures. Restaurant business was mandated for temporary closure and operation restriction. Though, M adapted its marketing strategy to focus more heavily on selling through online and delivery channels. This can boost some increasing in sales and compensate partly for the sales loss. That resulted M's revenue declined for 23.25% from 2019 and the earnings per share (EPS) fall by 65% in 2020.

However, Thailand's economic recovery in the period ahead based on a coverage of vaccination in Thailand, no government restriction and relaxation in all economic activities. This is driven GDP growth and domestic spending arise.

According to relative analysis, M has low EPS compare in five years historical from sharp drop in EPS from spread of COVID-19. It's peer also have low historical EPS as well. However, the recovery outlook for company pushes the projected earnings increase by 88.44% for next years. (Refinitiv, 2021) To compare with its peers, forward price to earnings per share (P/E) is apply to compute the value of M. Price from forward multiple is more suitable for compute as it's reflected the future of the company performance.

The target price for company is 57.13 THB for year-end of 2022, while the recent price as of 9 July 2022 is 50.75 provide 12.5% upside. The recommendation for M is "BUY"

CHAPTER II
MK RESTAURANT GROUP PCL

MK Restaurant Group Public Company Limited ("company", "M"), Thai-based company operates multi oriental chained-restaurant. The Company is principally engaged in sales of foods and beverages through restaurants, under the trademark "MK Restaurants".

2.1 Business

MK Restaurant Group Public Company Limited operates two business segments as chained restaurant business (multi-brands) and other business. The restaurant businesses comprise many types of restaurants as Suki restaurant, Japanese restaurant, Thai and seafood restaurant, including coffee shop and bakery business. In 2021, the company operates 713 outlets nationwide and 46 overseas outlets in Japan, Singapore, Vietnam and Indonesia. Another business segment includes home delivery and catering services and training center services. The overseas businesses operate by its subsidiaries who get the company's franchise right.

The company has been in Thailand restaurant business for over 50 years since 1962 with successive milestones. In 2013, the company listed on the Stock Exchange of Thailand.

Table 2.1 Company Timeline

Year	Key success
1962	The beginning of MK at Siam Square Soi 3 managed by Aunty Thongkam Mekto.
1986	First Branch of MK at Central Ladprao
1987 - 1996	Growth state
1994	MK has opened its first branch in Japan
1996	All branches have changed the gas operated pot to electronic ones

Table 2.1 Company Timeline (cont.)

Year	Key success
2006	First franchised "Yayoi" Japanese restaurant opened in Thailand
2009	MK celebrated the opening of the 300th branch
2010	MK has opened its first branch in Vietnam
2012	Opening "Hakata" and "Miyazaki" Japanese restaurant and "La Petit" coffee shop and bakery
2013	MK celebrated the opening of the 400th branch in Thailand, Japan, Singapore, Indonesia and Vietnam Listed in SET, IPO with a par value of Baht 1 each
2015	First MK Restaurant in Laos
2018	Joined with M-Senko Logistics Company Limited to operate logistic, warehouse rental, trading and forwarding businesses.
2019	Invested in 65% of shares in Laem Charoen Seafood Company Limited.

Source: MK Restaurant Group Public Company Limited. (2021, July). *MK History*.

2.2 Services and brands

MK Restaurant Group Public Company Limited classifies into main three restaurant businesses as hotpot restaurant, Japanese restaurant, Thai / Seafood restaurant. Others are grab and go, coffee and bakery, catering and overseas franchises.

The company wholly operates hotpot restaurant business under trade mark MK restaurant NK The company differentiates into three MK names which is MK Suki, MK Gold and MK Live. MK Suki is the first brand with the most branches in shopping malls and community areas. MK Suki offers Thai hotpot with a variety of meat, meatballs and fresh vegetables. MK Gold is a premium-graded hotpot for high income customer. And MK Live designs for modern customer's lifestyle and customer can experience in live preparation and chef cooking.

Japanese restaurant business has three brands. Yayoi, the second most branches, provide à la carte Japanese menus. Miyazaki offers Japanese Teppanyaki grilled dishes. And Hakata offers Japanese ramen with varieties of soups.

Thai and seafood restaurant business comprise three brands as Na Siam, Le Siam and Laem Chareon Seafood. Na Siam offers traditional Thai menus for medium to high-end customers. Le Siam offers luxurious premium-graded food and beverages for foreign customers and high-income earners. Laem Chareon Seafood is a new brand

after in 2019, the company acquired 65% of shares in Laem Charoen Seafood Company. Laem Charoen is a seafood restaurant offering various seafood menus.

The other brands are grab and go shop under Bizzy Box, coffee shop and bakery outlet under Le Petit and dessert shop under MK Harvest. Catering business provides home delivery and catering services for MK Suki and Yayoi. And overseas restaurant business is operated partners who get the franchise right from MK Restaurant Group Public Company Limited. The company has a franchise agreement with Plenus-MK Limited for Sukiyaki restaurants in Japan, and Yayoi restaurant in Singapore. Global Investment Gate Joint-Stock Company and Premium Food Co., Ltd gets franchise right of MK Suki in Vietnam and Laos.

Table 2.2 Restaurant brands and outlets

Type of business	Restaurants	Brand	No of outlets		
			Total	Thailand	Overseas
Suki Restaurant	MK		485	449	Japan – 26 Vietnam – 8 Laos – 2
	MK Gold		5	5	
	MK Live		4	4	
Japanese Restaurant	Yayoi		205	194	Singapore – 11
	Miyazaki		21	21	
	Hakata		6	6	
Thai / Seafood restaurant	Na Siam		1	1	
	Le Siam		3	3	
	Leam Chareon Sea food		29	29	

Type of business	Restaurants	Brand	No of outlets		
			Total	**Thailand**	**Overseas**
Others	Bizzy Box		6	6	
	Le Petit		3	3	
	Harvest		1	1	

Table 2.2 Restaurant brands and outlets (cont.)

Source: MK Restaurant Group Public Company Limited. (2021). *MK 2020 Annual Report* (pp. 14 – 21).

2.3 Revenue

There are three major sources of revenue from sales and service as MK, Yayoi and Laem Chareon restaurant which is 98% approximately of total M's revenues. Most of revenue is from domestic sales. The other revenues are from Miyazaki, Hakata, Na Siam, Le Siam, Bizzy Box, Le Petit and MK Harvest.

In 2020, M's revenues from sales and services 23.3% dropped in 2020. All restaurant brands except Laem Chareon have decreased sales. The decrease was mainly because the outbreak of the COVID-19 in Thailand has continued to spread rapidly and widely and the government implemented lockdown measures. The 2020 revenues show in table 2.3 (MK 2020 Annual Report, 2021)

Table 2.3 Revenue Structure

	2019		2020		% Increase (Decrease)
	Million Baht	%	Million Baht	%	
MK Suki/ MK Gold/ MK Live	13,580	78.0	9,898	74.1	(27.1)
Yayoi Japanese Restaurant	3,320	19.1	2,440	18.3	(26.5)
Laem Charoen Seafood*	117	0.7	748	5.6	537.4
Other Restaurants**	392	2.2	276	2.0	(29.6)
Revenues from Sales and Services	**17,409**	**100.0**	**13,361**	**100.0**	**(23.3)**

Source: MK Restaurant Group Public Company Limited. (2021). *MK 2020 Annual Report*

        M's net profit was affected accordingly and profit decreased to 6.8% from 14.4% of 5 years-average. In 3M 2021, net profit has some improvement because of lockdown relaxation in some period. However, new wave spreading in April 2021 will negatively impact to 2021's revenue and net profit. (Refinitiv, 2021)

Table 2.4 M's Net Profit

	2014	2015	2016	2017	2018	2019	Avg 2104 - 2019	2020	3M/2020	3M/2021
Net Profit - %	14.1%	12.8%	13.9%	15.1%	15.4%	15.0%	14.4%	6.8%	8.8%	2.7%

Source: Refinitiv, 2021

2.4 Strategies

        M has developed and implemented business strategy in many dimensions, such as product and services, branding, marketing and cost. M provides varieties of menus by launching seasonal soup, trendy ingredients and collaborate with partner brands. M also applies loyalty program into digital platform (LINE, myMK application). For branding and marketing, M uses advertising to make the brand widely known as an outstanding quality of product and services. M offers healthy and convenient food at a reasonable price and standardized quality to maximize customer satisfaction.

        For procurement product and services, M has two central kitchen factories to supply raw materials, check quality, prepare ingredients and cook food. The shared kitchens use for product distribution center to all branches across the country.

        In 2020, COVID-19 outbreak, measures and customer behavior change have challenged M. Product, marketing and sales strategy was changed to support by expanding distribution channel to online channel and collaborating with delivery partners. In additional, M launches new products and delivery set promotions.

2.5 Corporate Governance

According to M annual report 2020, it has applied CG rules and regulations in the operation while it adopted policy to manage the business and supervise internal functions. The goal is to ensure that the business operates run efficiently and effectively to achieve its objectives. The essence of the CG is to commit to integrity, transparency, ethical practice and fairness when doing business to reinforce confidence among shareholders, investors, customers, staff, and all stakeholders. Personnel are encouraged to be aware of the principles and to commit to moral practices when conduct the service business. Both financial and non-financial information will disclose timely to shareholders. Stakeholders equally access the information. To reflects the Company's standards of management. Currently, company CG report score is at 4 from SET. (SET,2021)
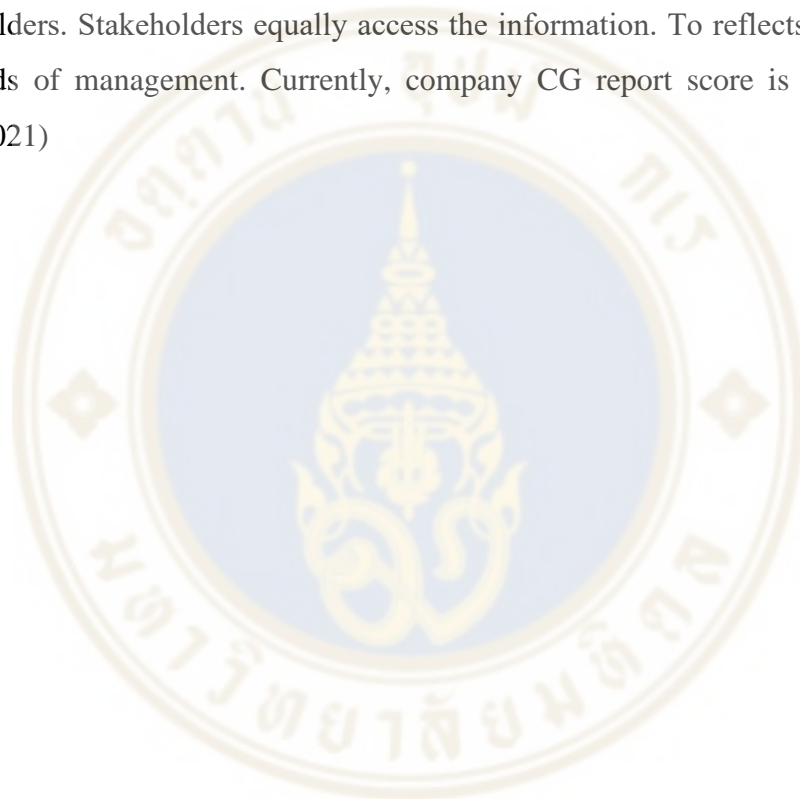
CHAPTER III
FOOD AND RESTUARANT INDUSTRY OUTLOOK

3.1 Thailand Economic Analysis

Thailand's economy was attacked by COVID-19 pandemic since 2020. The pandemic caused a sudden halt in tourism flows and a significant contraction in economic activity. Thailand's GDP fell by 6.1 percent in 2020.

The tourism sector, which accounts for about a fifth of GDP, has been especially affected by the cessation of tourist travel. From prolonged and more intense third wave outbreak that affects domestic spending and the number of foreign tourists. Private consumption and labor markets became more fragile and relief more slowly than in the past, especially the services sector and among the self-employed. Bank of Thailand expected GDP to grow 1.8% in 2021 and 3.9% in 2022. *(Monetary policy report, June 2021)*

Additional economic stimulus measures from new Emergency Decree, clearer plans for purchasing and distributing vaccines. As well as strong export growth from trading partner economies will help the Thai's economy to recover. (IMF, 2021)

Table 3.1 Thailand GDP Growth

(% YoY)	2020	2021E		2022E	
		Mar 21	Jun 21	Mar 21	Jun 21
GDP Growth	-6.1	3.0	1.8	4.7	3.9
- Private Consumption	-1.0	3.0	2.5	2.7	3.4
- Private Investment	-8.4	6.0	7.0	5.5	6.0
- Government Consumption	0.9	5.2	4.1	-3.1	-1.0
- Public Investment	5.7	11.6	9.5	0.8	5.7
- Exports of Goods and Services	-19.4	5.2	8.8	13.9	7.8
- Imports of Goods and Services	-13.3	9.2	15.0	7.5	5.5
Current Account* (Billion USD)	16.3	1.2	-1.5	25.0	12.0
- Value of Merchandise Exports	-6.6	10.0	17.1	6.3	4.9
- Value of Merchandise Imports	-13.5	15.2	22.7	6.8	6.6
Headline Inflation	-0.8	1.2	1.2	1.0	1.2
Core Inflation	0.3	0.3	0.2	0.4	0.3
Assumptions					
- Number of Tourists (Million)	6.7	3.0	0.7	21.5	10.0
- Dubai Oil Price (USD/Barrel)	42.2	60.0	62.3	62.5	65.5

Note: E Estimation

Source: Monetary policy report 2021

Headline inflation was projected to be 1.2% in 2021 and 2022. The increase is an effect from the global supply on crude oil price. Headline inflation will remain within the target range throughout the forecast horizon.

In Monetary policy report, June 2021 assessed the different GDP on outbreak scenarios (figure 3.1). At the baseline expected the outbreak end at the end of 2022 and recovery to pre-COVID level in early 2023. The worst case is for more severe and prolonged outbreak. The forecasted GDP's worst case will be lower and the recovery will be longer.

Figure 3.1 BOT GDP Growth Projection.

Source: Monetary policy report, June 2021

Tourism

Income from spending by foreign tourists account for 11% of GDP and tourism-related businesses account for 20% of total employment in Thailand. The tourism recovery depends on foreign tourist arrivals. Bank of Thailand foresee tourism recovery in three scenarios (Baseline / Worse case / Worst case) base on efficacy of COVID-19 vaccines and Thailand reopening. *(BOT Monetary Policy Report March 2021, 2021)*

As August 2021, Thailand recovery tends to be worst case as new virus mutation and COVID-19 vaccination rate. The foreign tourist figure is 0.1 million for both 2021 and 2022, and the Thai economy would contract 1.7% in 2021 and 0.3% in 2022, approximately.

Table 3.2 Foreign Tourist Projection

	1. Baseline		2. Worse case (3rd wave of COVID-19 infections)		3. Worst case (A virulent virus mutation)	
	2021	2022	2021	2022	2021	2022
Foreign tourist figures (million persons)	3.0	21.5	0.1	10.0	0.1	0.1
Economic growth (percent)	3.0	4.7	- 0.5	3.5	- 1.7	- 0.3
Source: forecast by Bank of Thailand						

Source: BOT Monetary Policy Report March 2021. (2021). The recovery in foreign tourist arrivals - a key risk to Thailand's economic recovery

3.2 Industry analysis

Food and restaurant industry has been challenged after significant growth in past years. Since 2019, the slowdown economic, tourism industry shrinking which related to food and restaurant industry and in 2020, COVID-19 pandemic and lockdown affect to the industry. The factors which drive the industry as following.

3.2.1 Industry growth

3.2.1.1 Domestic consumption growth decline.

The growth of the restaurant industry has been largely driven by economic growth. The fragile purchasing power is the crucial impact from economic slowdown and COVID outbreak. Domestic spending on food, beverage and restaurant were decreased. This crisis has been prolonged after 2021 which economic assume to recover after that. The longer crisis will diminish the domestic purchasing power and business will be in riskier on liquidity and go out of the industry.

The Office of The National Economic and Social Development Council projected Thai Economic Performance in Q1 and Outlook for 2021 that the GDP will decreases by 2.6% in Q1 2021 and in 2021 growth will be about 1.5% - 2.5%, especially by private consumption sector follow same decreasing trend.

Table 3.3 Thailand Economic Projection of 2021

Economic Projection of 2021						
(%YoY)	**2019**	**2020**			**2021**	
	Year	**Year**	**Q3**	**Q4**	**Q1**	**Year (f)**
GDP (CVM)	2.3	-6.1	-6.4	-4.2	-2.6	1.5 - 2.5
Investment[1/]	2.0	-4.8	-2.6	-2.5	7.3	5.3
Private	2.7	-8.4	-10.6	-3.3	3.0	4.3
Public	0.1	5.7	17.6	0.6	19.6	9.3
Private Consumption	4.0	-1.0	-0.6	0.9	-0.5	1.6
Government Consumption	1.7	0.9	2.5	2.2	2.1	5.1
Export of Goods[2/]	-3.3	-6.6	-8.2	-1.5	5.3	10.3
Volume[2/]	-3.7	-5.9	-7.6	-1.6	3.1	7.3
Import of Goods[2/]	-5.6	-13.5	-19.4	-5.9	9.5	13.1
Volume[2/]	-5.8	-10.1	-16.5	-2.9	6.6	9.1
Current Account to GDP (%)	7.0	3.3	5.4	-1.0	-1.9	0.7
Inflation	0.7	-0.8	-0.7	-0.4	-0.5	1.0 - 2.0

Note: [1/] Investment means Gross Fixed Capital Formation
[2/] base on the Bank of Thailand's data

Source: The Office of The National Economic and Social Development Council. (2021).
Gross Domestic Product: Q1/2021 Report

Besides the economic slowdown, the growing of young, middle-income population with higher disposable incomes and a greater propensity to spend, and a trend towards urbanization. Changes in the structure of Thai households and the pandemic have led to changes in how Thais eat with a rising demand for convenient ready-to-eat meals, healthy food products, and food delivery.

3.2.1.2 Slow growth in tourism industry

The growth in the tourism industry correlate to restaurant expansion. According to the Office of National Economic and Social Development Council, the Thai economy is expected to decrease between 7.8 and 7.3 percent in 2020 as a result of Covid pandemic, lockdown restriction and economic recession. In Thailand the tourism accounts approximately 13-14% of Thailand total GDP. Therefore, the food and beverage spending by tourist estimate forecast as low to no growth in 2021-2022.

3.2.2 Customer behavior change

3.2.2.1 Delivery service

The consequence of Covid-19 lockdown and the government restriction to control new wave spread to prohibit sit-in restaurant also force customer to change their lifestyle. Many restaurants adapt food delivery service to support customer requirement. In 2021 January, Thais use online food deliver through providing platforms such as mobile-based delivery services such as Line Man, GrabFood, Food Panda, and Get Food (Gojek). This delivery sales foresee significant growth and total value of online food delivery market is increasing. Some of offline demand by full-service or sit-in restaurant will shift to online for food delivery. All restaurants need to accommodate the online food service to serve the increasing online demand.

Figure 3.2 Online Food Delivery Market Size and Growth
Source: DataReportal. (2021). DIGITAL 2021: THAILAND.

3.2.2.2 Food trend

Initiative trend from health-conscious customer will influence new food trend for health and wellness, sustainability and hybrid products. These food trends were introduced to some customer group but social and hygiene will drive customer behavior and consideration for good teste and good for health.

3.3 Competition Analysis

Thailand have encountered fierce competition from not only local Thai hotpot restaurant but also imported restaurant such as Haidilao which is a famous Chinese hotpot chain that came to Thailand in late 2019.

The restaurant business that the company operate is in intense competition increase every, Company have to compete with many competitors both domestic and international, well-known restaurant chains and various of small individual restaurants As new rivals enter restaurant business, the competition in this business depended on quality and price, brand reputation and strength, value and variety of menu, advertising and sales promotion, number of outlets, attractiveness of new menu, restaurant's atmosphere and the way to attract new customers and also maintain loyal customers. Success in this business depend on ability to compete with rivals.

Despite a fierce competition on the restaurant markets, MK until now was able to grow. Company has many competitive advantages. 1.MK and Yayoi brand are highly recognized and favor by customers so company has strong brand reputation. 2. strong financial position, company has ability to expand business when company sees sophisticated opportunities in short and long term. 3. effective and high experienced management team that has been in restaurant business over 20 years which make company manage business efficient and effective. 4. Company own service training center which increase management skills of branch managers and standardized services skill of all staffs at all company's branches. 5. Good strategic locations of MK and Yayoi nationwide. 6. Large business size to gain economy of scale in many parts of business area such as sourcing, purchasing, advertising, marketing and transportation. 7. New and sophisticated central kitchen and distribution center that will increase capacity and capability for future restaurant expansion.

M Competitors are listed below

  Zen Corporation Group PCL (ZEN) is a Thailand-based full-service restaurant company. The Company mainly provides catering and delivery services. There are 3 business categories by the company first, restaurant business that have 12 brands which is Japanese and Thai total 240 branches the brands are Zen, Musha by Zen, AKA, On the Table, Tetsu and Sushi Cyu; within the Thai cuisine under Tummour Group are Tummour, Lao Yuan, Jaew Haun, Pho, De Tummour and Khiang. Second, franchise business in Thai cuisine has 145 branches driven by Tummour Group. Third, related business such as food delivery and restaurant. Management services such as Bento boxes at seminars or conferences. Revenue from food and beverage account for 96.2% of total revenue, 2.4% from franchise fee and 1.4% from other income. *(Zen Management Discussion and Analysis, 2021)*

  S&P Syndicate Public Company Limited (SNP) is a Thailand-based company operate in the restaurants and bakery business. Total revenue of 2020 is 5,199 million baht decreased from 2019 at 7,312 million baht by 28.9%. Net income is 183 million baht decreased from last year by 41.7% because the lockdown occurred in Thailand. Source of income mainly from domestic restaurant and bakery shop that account for 85.13%. Packages food and bakery trading 11.06% and overseas restaurant 3.81%. By 2020, SNP operates 502 branches in domestic and 15 restaurants oversea. The majority of branches came from S&P bakery shop (335 branches). S&P restaurants and bakery focus on mass and family customer while other brands focus more in unique targets. For international business company expanding in form of direct investment and joint investments with local investors. *(SNP annual report, 2020)*

  Oishi Group Public Company Limited (OISHI) is a Thailand-based company operate in Japanese restaurant and bakery, and distribution of food and beverage. Business operations of the Company and its subsidiaries consist of two main segments. First is food business which include chain of restaurants, Shabushi 162 branches, Oishi Ramen 52 Branches, Kakashi 18 branches, Oishi Buffet 9 branches, Oishi Eaterium 9 branches, Nikuya 8 branches, Hou Yuu (3 branches) Oishi Grand 1 branch, Oyoki 1 branch, Oishi Delivery 1,151 outlets OISHI TO GO 1 branchand Oishi Food Truck 1 truck. For operation in ready to cook and ready to eat business company operate by OISHI EATO with Japanese-style and high-quality chilled and frozen

products. Second business is beverage, company and its subsidiaries have beverage products with various flavors and packaging by OISHI GREEN TEA, OISHI GOLD and OISHI CHAKULZA. Proportion of income is beverage 56% and food 44%. Total revenue of OISHI is 11,366 million Baht in 2020 which decreased 17.4% from 13,631 million Baht in previous year. This was mainly due to the decrease in food revenue. The decline was largely driven by the pandemic that pressure consumer purchasing power. *(OISHI annual report,2020)*

Haidilao International Holding Ltd (6862.HK) is a China-based company of hot pot founded in China in 1994. Haidilao is the largest hot pot chain in China. Haidilao also sell takeaway food and the majority of income come from domestic market. Revenue of Haidilao 2020 is 131,256.45 million baht increased by 7.8% compare to 2019, mainly from business expansion but net income decreases to 1,418.66 million baht decreased by 86.8% from last year due to the outbreak of the COVID-19 pandemic. Haidilao restaurant operation account for 95.9% of total revenue. By the end of 2020, Company has opened total 1298 branches. 1,025 branches in China and 93 branches oversea. *(Refinitiv, 6862.HK, 2021)*

Xiabuxiabu Catering Management China Holdings Co Ltd (0520.HK) is a China-based investment holding company mainly operate in fast casual restaurant operation. The group main source of income come from Xiabuxiabu casual hot pot restaurants. The Company mainly operate business in domestic market. Revenue of group decreased by 9.5% from 27,661.13 million baht in 2019 to 25,023.55 million baht in 2020. Company net profit decreased by 67.1% mainly due to COVID-19 pandemic. Since January 2020 company suspended a majority of it restaurant operation and start to reopen in March 2020. Xiabu Xiabu has become the largest individual, bar-style hotpot restaurant chain in China and contributed around 64.2% of all revenue. And CouCou Hotpot provides an upgraded shabu-shabu and a rich variety of afternoon tea. The soup base of CouCou have continued XiabuXiabu's classic ones. The spending per head of CouCou is 580.73 THB, which is double from XiabuXiabu (285.78 THB). In 2020, the group has 1,201 restaurants, under the brand Xiabu Xiabu 1,061 branches and Coucou 140 branches covering major metropolitan markets and cities, including Beijing, Shanghai, Guangzhou and Shenzhen. The company has been expanded rapidly,

in 2020 the group open 91 Xiabu Xiabu restaurants and 38 Coucou restaurants. *(520.hk annual report, 2020)*

CHAPTER IV
VALUATION

4.1 Financial Analysis

In this section, the return of equity (ROE) over last 5 years will be measured by Dupont analysis. The most appropriate comparative companies are Zen Corporation Group PCL (ZEN), Haidilao International Holding Ltd (6862.HK) and Xiabuxiabu Catering Management China Holdings Co Ltd (0520.HK). Their source of revenues is mainly from hot pot restaurants.

Dupont analysis breakdown into 3 components, net profit margin, asset turnover and equity multiplier as show in below formula.

$$ROE = Net\ Profit\ Margin \times AT \times EM$$

where:

Net Profit Margin = Net Income / Sales

Asset Turnover (AT) = Sales/ Average Total Assets

Equity Multiplier (EM) = Average Total Assets / Average Shareholders' Equity

Table 4.1 is ROE by Dupont analysis for last 5 years of M and 2020 of ZEN, Haidilao and Xiabuxiabu. ROE of M had been risen through the years until sharply drop in 2020 from pandemic, leaded to revenue and net margin decreased.

Table 4.1 Dupont Analysis of ROE

	M					Zen	Haidilao	Xiabuxiabu
DUPONT Analysis	**2016**	**2017**	**2018**	**2019**	**2020**	**2020**	**2020**	**2020**
Revenue (Million Baht)	15,115.18	16,072.82	16,770.44	17,408.96	13,360.88	2,284.00	129,763.31	24,739.09

Table 4.1 Dupont Analysis of ROE (cont.)

DUPONT Analysis	M					Zen	Haidilao	Xiabuxiabu
	2016	2017	2018	2019	2020	2020	2020	2020
Net Profit Margin	13.89%	15.09%	15.35%	14.99%	6.82%	-2.79%	1.08%	0.21%
Asset Turnover	0.98	1.01	1.00	0.99	0.70	0.96	1.19	0.96
Equity Multiplier	1.17	1.17	1.19	1.22	1.34	1.79	2.31	2.41
ROE by Dupont	15.93%	17.83%	18.26%	18.11%	6.40%	-4.79%	2.97%	0.49%

Source: Refinitiv, 2021

M was operating well from the past five years. In 2020, restaurant industries suffer from the effect of COVID-19. By compare to companies in the same industry, M was performed well. Company has higher ROE compare to Zen, Haidilao and Xiabuxiabu. M can utilize its assets to generate sales lower than its peer. For equity multiplier, M has less debt that make the company less leverage than others. However, M has outstanding net profit margin that make ROE of M better than peer.

4.2 Relative Valuation

4.2.1 Historical Multiple Bands

The valuation of M determines, based on relative valuation method by using six multiples composed of trailing price to earnings, forward price to earnings, trailing price to book value, forward price to book value, trailing enterprise value to EBITDA and forward enterprise value to EBITDA. These bands are based on five years past historical data.

The price-to-earnings ratio (P/E ratio) is related company's share price to its earning. P/E use for justifying a value of a company share to its peers or to own history, whether a stock is cheap or expensive.

From Figure 4.1, current trailing P/E as of 9 July 2021: 71.24 higher than 5Y P/E average: 30.05 higher than the +2 SD band: 51.71. From lockdown situation in 2020, EPS of M sharply dropped from 2.83 Baht in 2019 to 0.99 in 2020 by 65.02% While the closing price at the end of 2020 was 49.25 decreased from 70.50 in 2019 by 30.14%. That means the EPS is decreased more than the market price declined. Then the trailing P/E continues to increase in the past year. In 1Q2021 EPS of M kept decreased to drive the trailing P/E higher than last year. In relative to itself with trailing P/E the firm is overvalued.

On March 2020, forward P/E sharp drop by price decreased in stock market crisis. Follow by a decrease in earnings forecast of M and rebound in stock price that push forward P/E higher than +2SD to peak at 33.58 in July. After that forward P/E fluctuated around –1 SD to +2 SD from uncertain of a lockdown situation so analysts adjusted EPS and market price was also varied around 43.75 to 59 Baht. Current forward P/E is much lower than trailing P/E because analysts expect earnings of M will recover in the next year. Forward P/E as of 9 July 2021 is 25.71 lower than the +1 SD band 26.33 and drops from last month because the price was dropped while forecast earning next 12 months slightly increase.
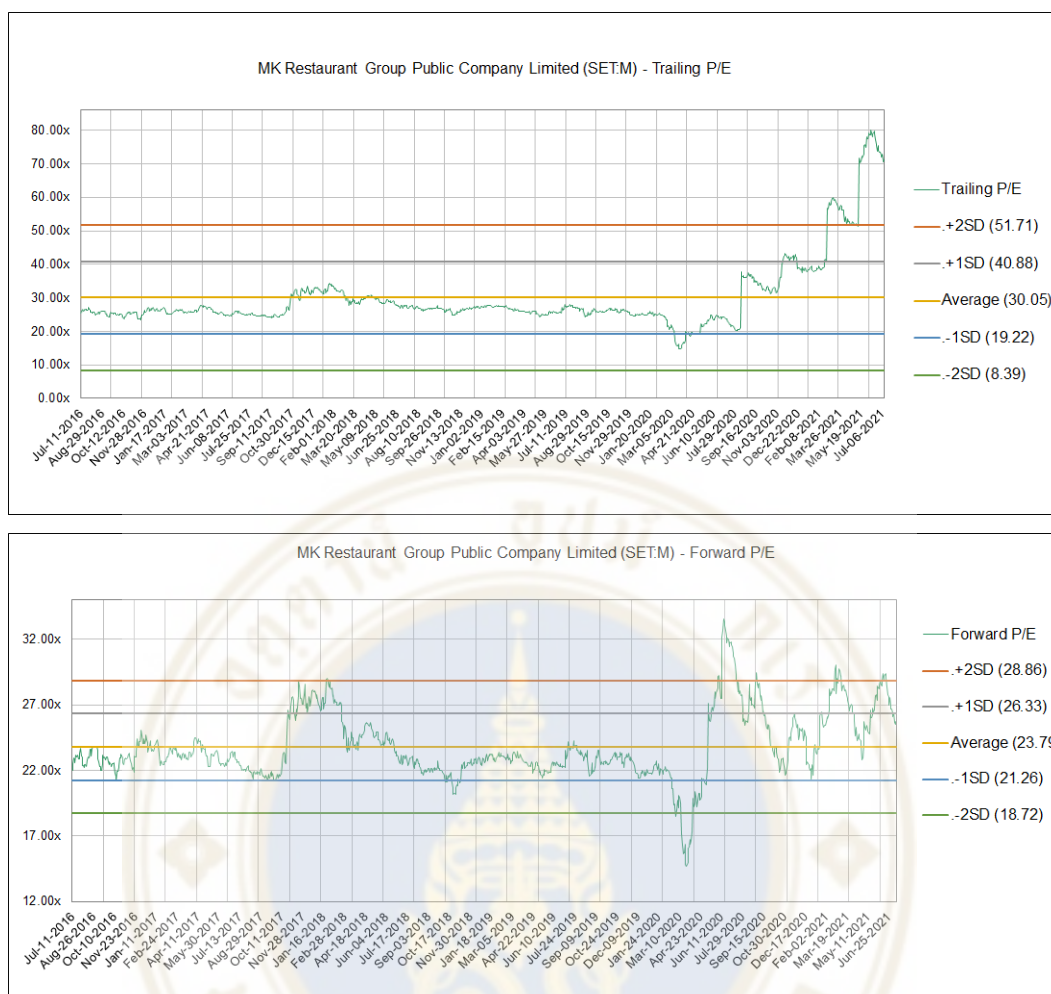
Figure 4.1 Trailing and Forward P/E Band

Price to Book value is a ratio measure how many times is the market price of stock trade above book value. M's book value does not change often in past five years. **(Figure 4.2)** The trend and value of both trailing and forward P/BV pretty the same. Fluctuation of P/BV in history came from market price change. Since March 2020, M's price has dropped due to the Covid-19 outbreak leaded P/BV to hit five years historical low. After that, M price rebound, but still trade below the average P/BV. Now, in relative to itself with P/BV the firm is undervalued.
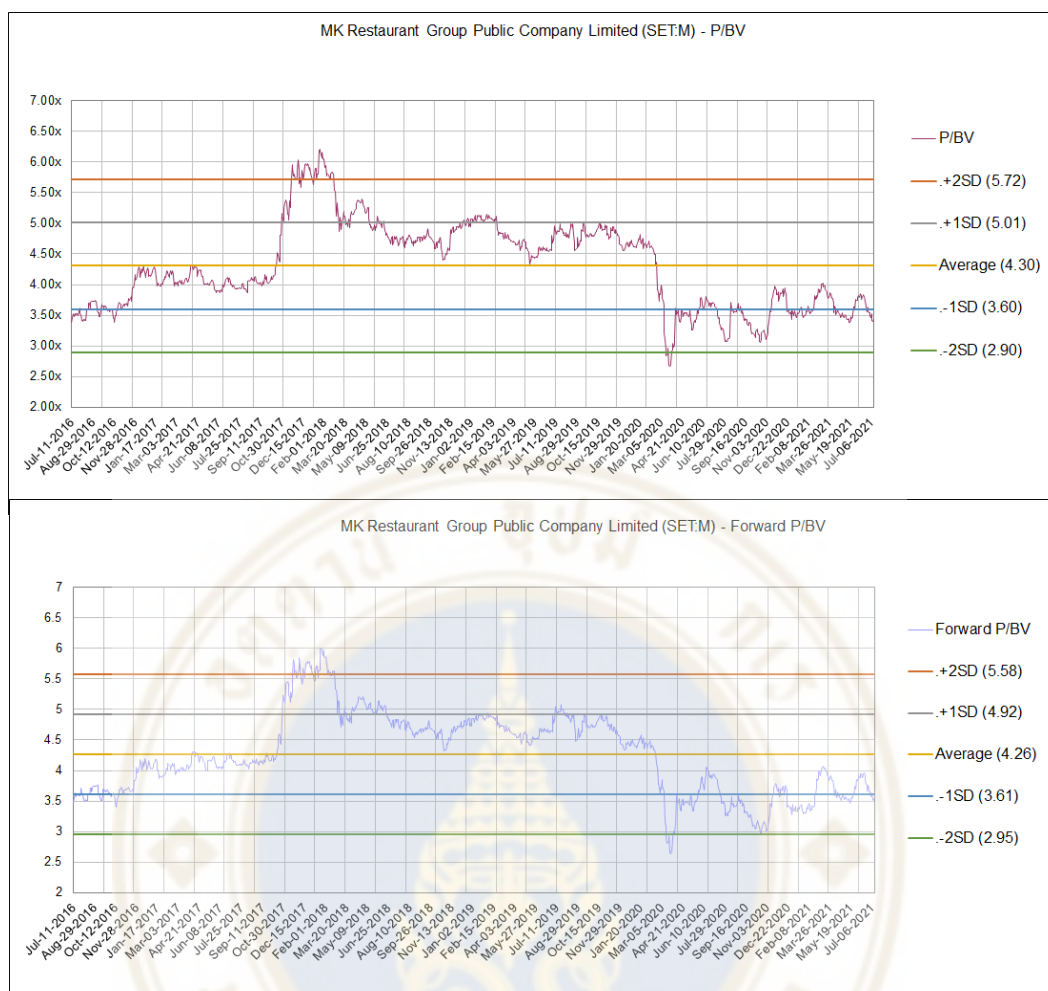
Figure 4.2 Trailing and Forward P/BV Bands

Enterprise Value (EV) to EBITDA is comparing an enterprise value to earnings before interest, taxes, depreciation and amortization. For M bands in **Figure 4.3,** trailing and forward EV/EBITDA drop below -2SD in March 2021 because the enterprise value sharply drops. Afterwards, forward ratio sharply increases from the enterprise value increase and expected 12 months EBITDA will decrease. As of 9 July 2021, the forward ratio is trading at –1 SD lower than the trailing ratio that trade on average because analysts expected EBITDA in next 12 months is higher than previous one.
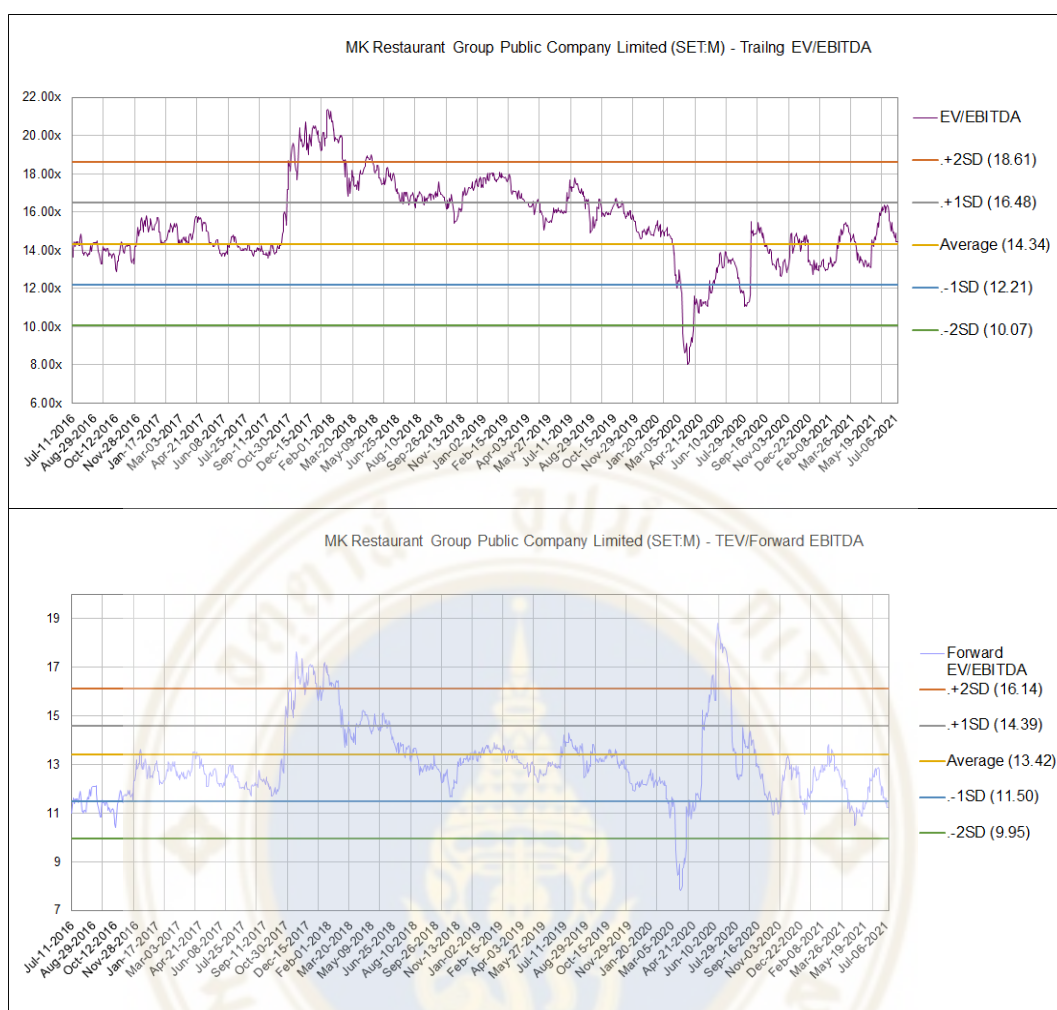
Figure 4.3 Trailing and Forward EV/EBITDA Bands

In my opinion, P/E would be the most appropriate multiple for value M because it shows the ability to make profit by focus on earnings. Moreover, food and restaurant industry are relative stable profit except the one-time situation from pandemic.

4.2.2 Peer Group Multiples

The peers of M in this paper are ZEN, OISHI, SNP, Haidilao and Xiabuxiabu. ZEN, OISHI and SNP are operated in Thailand and listed in SET. Haidilao and Xiabuxiabu are operated in China and listed in The Stock Exchange of Hong Kong. Haidilao is the largest company among peers, by having hot pot branches cover the top tiers cities in China. Company has the highest income among peers. As of July 9, 2021

Xiabuxiabu is a bar-style hotpot that has the highest trailing P/E because company profit was close to zero in last 12 months due to impact of implementation of IFRS16. From **Table 4.2,** M is trade premium in term of trailing multiple compare to restaurant company in Thailand but consider cheaper in international peers. **Table 4.3** show that forward P/E of M close to peer average. In term of forward P/B company considered cheap and trading below peer. However, forward EV/EBITDA of M is relatively high. I determined the peer group to define the best range of price for M by using P/E, P/BV and EV/EBITDA.

Table 4.2 Peer Group Trailing Multiples

	Company Name	Market Capital (million baht)	Trailing P/E	Trailing P/BV	Trailing EV/ EBITDA
M.BK	MK Restaurant Group PCL	46,705.83	49.98	3.35	12.84
OISHI.BK	Oishi Group PCL	15,656.25	13.85	2.13	8.87
SNP.BK	S & P Syndicate PCL	7,057.54	32.77	2.54	6.82
ZEN.BK	Zen Corporation Group PCL	3,357.93	N.A.	2.70	11.40
6862.HK	Haidilao International	979,410.26	861.16	26.02	65.12
0520.HK	Xiabuxiabu Catering	37,482.52	8,651.75	6.96	16.47
		Peer Average	2,389.88	8.07	21.74
		Peer Median	446.97	2.70	11.40
		Peer Min	13.85	2.13	6.82
		Peer Max	8,651.75	26.02	65.12

Source: Refinitiv ,2021

Table 4.3 Peer Group Forward Multiples

	Company Name	Market Capital (million baht)	Forward P/E	Forward P/BV	Forward EV/ EBITDA
M.BK	MK Restaurant Group PCL	46,705.83	25.71	3.46	20.25
OISHI.BK	Oishi Group PCL	15,656.25	N/A	N/A	N/A
SNP.BK	S & P Syndicate PCL	7,057.54	N/A	N/A	N/A
ZEN.BK	Zen Corporation Group PCL	3,357.93	27.32	2.87	9.86
6862.HK	Haidilao International	979,410.26	39.54	9.03	28.41
0520.HK	Xiabuxiabu Catering	37,482.52	14.62	2.29	10.34
	Peer Average		**27.16**	**4.73**	**16.20**
	Peer Median		**27.32**	**2.87**	**10.34**
	Peer Min		**14.62**	**2.29**	**9.86**
	Peer Max		**39.54**	**9.03**	**28.41**

Source: Refinitiv, 2021

4.2.3 Price from multiples

In this section, the price for all multiples is calculated by maximum, median and minimum. In **Table 4.4 and Table 4.5**, EPS, book value per share, EBITDA debt, cash and number of shares from Refinitiv. By using the maximum and minimum multiples, result from EV/EBITDA is the highest expected price at **131.84 baht**. The lowest expected is **16.23 baht** from minimum P/E. By applying the median, the highest expected price is 41.9 from forward book value. And the lowest expected price is 30.33 from forward P/E.

However, as expected in recovery in next year earning the highest expected price in median value is 57.13 from P/E and the lowest is 44.20 from P/BV ratio.

As I mentioned before, P/E is the most appropriate multiple for M. Since trailing multiple use the past earnings of last 12 months that company effect by pandemic that rarely occur. Company's past earnings does not signal future profit. Thus, price from forward multiple is more suitable for compute the price of M as it reflects the future of the company performance. However, the forward P/E in the market may be over optimistic about the market situation in food business then I will use median to compute. So, the expected price for M is 57.13 by using forward P/E multiply by EPS 2022.

Table 4.4 Expected Prices 2021 from Relative Valuation

M (2021)			
EPS	1.11		
BV per share	14.60		
EBITDA (M baht)	2,378.18		
Debt (M baht)	3,691.00		
Cash (M baht)	8,354.00		
Number of shares (million)	920.81		
	Forward P/E	**Forward P/BV**	**Forward EV/EBITDA**
Multiple (max)	39.54	9.03	28.41
Multiple (Median)	27.32	2.87	10.34
Multiple (min)	14.62	2.29	9.86
Expected Price (Max)	43.89	131.84	78.43
Expected Price (Median)	30.33	41.90	31.77
Expected Price (Min)	16.23	33.39	30.53

Table 4.5 Expected Prices 2022 from Relative Valuation

M (2022)			
EPS	2.09		
BV per share	15.40		
EBITDA (M baht)	3,611.27		
Debt (M baht)	3,691.00		
Cash (M baht)	8,654.00		
Number of shares	920.81		
	Forward P/E	Forward P/BV	Forward EV/EBITDA
Multiple (max)	39.54	9.03	28.41
Multiple (Median)	27.32	2.87	10.34
Multiple (min)	14.62	2.29	9.86
Expected Price (Max)	82.68	139.06	116.80
Expected Price (Median)	57.13	44.20	45.94
Expected Price (Min)	30.57	35.22	44.06

4.3 Relative valuation summary

4.3.1 Rating criteria

The criteria of rating divided in 3 categories. First, if the value of the current stock price provide upside more than 10% or greater upside to target price, the issue the BUY recommendation. Second, if the current value in the range between 10% upside and 10% downside to target price, recommended HOLD. Third, if the current stock price provided 10% or more than 10% downside to target price them issue SELL recommendation.

Table 4.6 Rating Criteria

Rating Rules	
Buy	10% or Greater upside
Hold	Between 10% upside and 10% downside
Sell	10% or More downside

4.3.2 Valuation recommendation

The recommendation based on relative valuation is BUY base on forward P/E. Target price of M is 57.13 for year-end 2022. This offers 12.5% upside to target from close price of 50.75 on 9 July 2021. Moreover, forward multiple is more suitable to compute future price rather than trailing since it indicates future value.
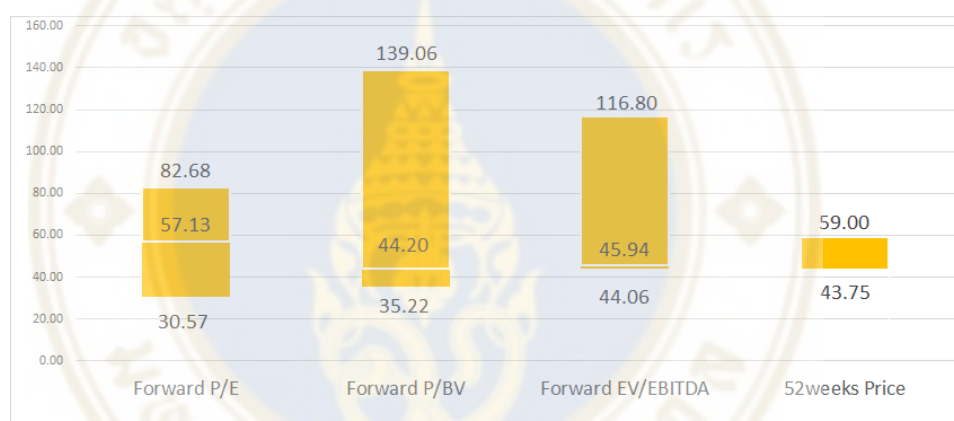
Figure 4.4 Football field

4.3.3 Sensitivity analysis

To provide the range of potential expected price, sensitivity analysis of EPS shows the change in price. Therefore, the possible of EPS is deviate by –20% to +20% from base case. The expected price is demonstrated below in **Table 4.7.**

Table 4.7 Sensitivity analysis – EPS

		Forward P/E
	EPS (THB)	2022F 27.32X
20%	2.51	68.52
10%	2.30	62.81
Base case	**2.09**	**57.13**
-10%	1.88	51.39
-20%	1.67	45.68
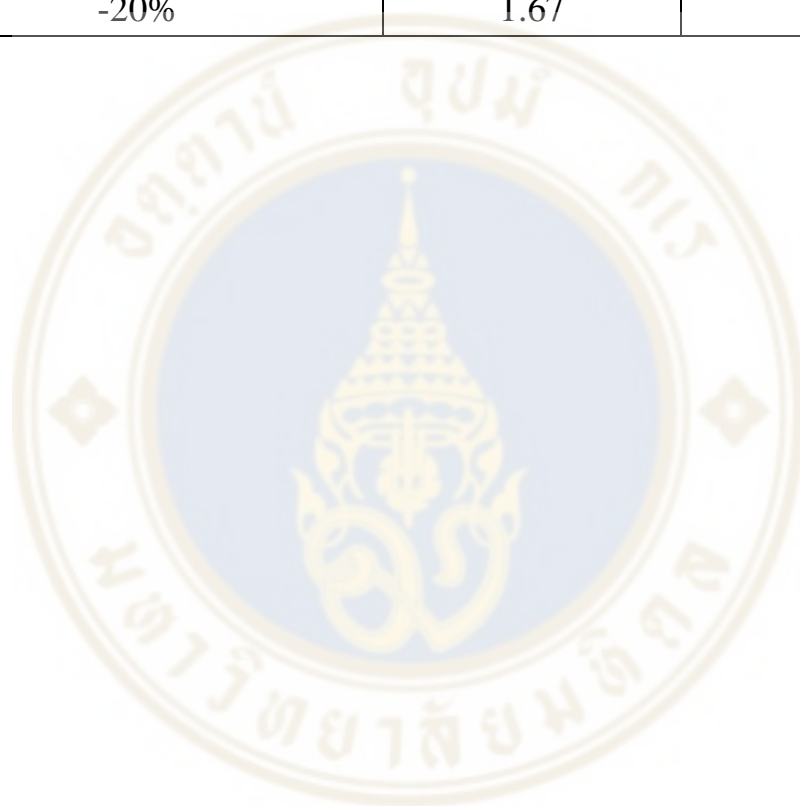
CHAPTER V
INVESTMENT RISKS AND DOWNSIDE POSSIBILITIES

MK Restaurant Group Public Company Limited (M)'s risk assessment and downside possibility is assessed to realize a various of business, investment and market risks that could impact to future operation, business performance and share price.

5.1 Business Risk

For the type of business risks, there are 5 risks relating to M's business, which are

5.1.1 Competitive risk

The competition in restaurant increases over the decades due to the low barrier to enter. As a result, a various of companies include domestic and international restaurant chains jump into this industry. Although the competitive advantages such as brand reputation and economy of scale, M may loss some revenue and lower profit margin in order to compete with other challengers.

5.1.2 Volatility of raw material prices risk

Most of M's raw materials are fresh food such as meat, vegetable, fruit, rice, egg and seasoning. The market prices and quantities all the time according to demand and supply, season, natural disaster and diseases in plants and animals. Company could not raise the sales price to respond the hike in raw materials price due to high competitions and customers satisfaction. Since costs of food are the biggest portion. M try to minimize risk from swing of prices by estimate demands and as a huge volumes M can negotiate with manufacturers to get the products with reasonable prices on schedule. Moreover, M signed a future sales contract with clearly specific prices to

suppliers and regularly compare the raw materials as guide to hike sales price when it possible.

5.1.3 Opening a new branch risk.

New branch needs approximately 8 - 10 million baht a branch investment. It costs for design, construction, mechanical & electricity (M&E) system, furniture, kitchen equipment, and other office equipment. M plans continuous new outlet expansion and risk will be on overlap outlets in nearby location. This could affect the sales and performances in the longer run. M takes into consideration sales amounts of nearby branches and population density in the same area to ensure that a new entrant will not affect the business of existing branch.

5.1.4 Risk from COVID-19 Outbreak

Since first spreading in March 2020, M's operations were also adversely affected by government restrictions on lock down, limited operating hours and limiting dine-in capacity. M changed operational activities tended to safeguard employees and customers in response to COVID-19, including increased cleaning and sanitization, installation of counter screens and purchasing protective equipment, which resulted in the increase of restaurant operating costs and reduced restaurant-level margins. In 2021, new wave has been spiked and continued spread. It is expected that COVID-19 impact to business and results of operations.

5.1.5 Risks from natural disasters and accidents

M has realized the effect of natural disaster to business and has planned protective measures to handle the risk. This includes buying casualty insurance, formulating an emergency operation plan, training staff to handle natural disaster incidents, building a new central kitchen at an ideal site, adding a distribution center to its portfolio to diversify risk and communicating with all parties. The communication convinces and boost confidence of shareholders, employees, suppliers, and customers that M can handle and return the business to normalcy as quickly as possible. In additionally M has taken out several types of casualty insurance policies such as

accident insurance, third-party liability insurance, and property insurance to make itself ready for future incidents.

5.2 Investment Risk

5.2.1 Liquidity Risk

Trading volume relatively low, an event that occur in market can lead to more fluctuation of price due to low trading liquidity.

Date	Open	High	Low	Average Price	Close	Change	% Change	Volume (x1000)	Value (MB.)	SET Index	% Change
15/07/21	51.25	51.75	51.00	51.40	51.75	0.75	1.47	763.38	39.24	1,572.01	0.15
14/07/21	52.00	52.00	50.75	51.01	51.00	-0.75	-1.45	1,254.24	63.98	1,569.70	-0.08
13/07/21	51.75	52.00	51.50	51.88	51.75	0.00	0.00	748.93	38.85	1,570.99	1.36
12/07/21	51.25	51.75	51.00	51.45	51.75	1.00	1.97	464.29	23.89	1,549.84	-0.14
09/07/21	50.25	51.50	50.25	50.92	50.75	0.50	1.00	1,425.63	72.59	1,552.09	0.55
08/07/21	50.50	51.50	50.25	50.60	50.25	-0.25	-0.50	4,023.33	203.57	1,543.67	-2.09
07/07/21	52.25	52.25	50.50	51.15	50.50	-1.50	-2.88	2,404.81	123.01	1,576.60	-0.93
06/07/21	51.50	52.25	51.50	51.91	52.00	0.75	1.46	609.99	31.67	1,591.43	0.77
05/07/21	52.25	52.25	51.25	51.53	51.25	-0.50	-0.97	603.97	31.12	1,579.28	0.05
02/07/21	52.00	52.00	51.50	51.68	51.75	-0.50	-0.96	844.82	43.66	1,578.49	-0.96
01/07/21	52.25	52.50	51.50	51.95	52.25	0.00	0.00	1,587.84	82.49	1,593.75	0.38
30/06/21	53.00	53.00	52.25	52.59	52.25	-0.50	-0.95	490.24	25.78	1,587.79	-0.23
29/06/21	53.25	53.75	52.50	52.86	52.75	-1.00	-1.86	900.49	47.60	1,591.43	0.78
28/06/21	52.00	54.00	51.25	52.59	53.75	1.25	2.38	2,534.20	133.28	1,579.17	-0.22
25/06/21	53.75	54.00	52.50	52.98	52.50	-1.25	-2.33	1,476.76	78.24	1,582.67	-0.19

Figure 5.1 M Trading History

Source: Settrade

CHAPTER VI
CONCLUSIONS

In this thematic paper, MK Restaurant Group Public Company Limited is evaluated by relative valuation method to evaluate the target price by using P/E, P/BV and EV/EBITDA multiples. The forward P/E multiple is chosen as the most appropriate multiple to appraise the value of M. Currently, P/E of M is close to peers median, which is about 25.71x while peers median is 27.16x. The median peer P/E multiple was determined as the most suited method to forecast the stock price. By using median P/E from peers the target price of M is 57.13 Baht. As the result, the recommendation is "BUY" base of current price at 50.75 Baht.

The potential triggers that could lead for re-assessment of M value, as most of the revenue come from sales in domestic restaurants. If M strategy focuses more on international market expansion that would significantly impact the sales, margin and profit, it can lead to reassessment. Moreover, an essential new investment in others industry that provide a potential revenue upside and new benchmark also can lead to a reassessment as well. However, the prolong of lockdown regulations can become key obstacles to pressure earnings and price of company shares.

For the limitations of this valuation study, by using peer multiples, only some peers have somethings in common yet there are some differences as well. This means that it is difficult to find the most proper peer to evaluate the stock. The data that used in the valuation is based on the past performance and projection from analysts so the relative valuation may not cover for all of the company future performance and price. In addition, qualitative factors such as brand reputation, Corporate Social Responsibility or the company's future strategy is not included in the calculation. Furthermore, there are no guarantees that the company future price will trade outperform or equal to it peers in the future.

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APPENDICES

Appendix A: Competition Analysis (Five force)

The five forces analysis of M that we analyzed.

High threat of new entrance, opening a new restaurant doesn't cost much, so new competitors can easily come to the food industry. Even Though newcomers can enter the market, they have to build up their new brand and compete with a very smaller size. However, operators in this industry should always beware and adapt with new players.

High threat of substitutes, as majority branches of MK restaurant operate in department stores so there are many restaurants around MK so it is easier for customers to change the restaurant.

High bargaining power of suppliers, there are two parts of M suppliers. First is raw material supplier, majority in this part is from fresh food which has a high number of suppliers. M can change if they are dissatisfied about quality or price. Second part is renters in department stores, with a limit of space in shopping malls and prices are differentiated by area M has less bargaining power to the renters.

Low bargaining power of customers, with a strong brand reputation and reliable taste make customers have less bargaining power. Furthermore, as they open restaurants in department stores so customers can not bargain with M.

Low rivalry among current competitors, food business has a strong competition among competitors with low loyalty people can switch easily. But for the suki chain for now there are low rivalry in Thailand as M majority operate in this country.

Appendix B: Financial Analysis

Table B-1 Dupont analysis of ROE

DUPONT Analysis	M					ZEN	Haidi lao	Xiabu xiabu
	2016	2017	2018	2019	2020	2020	2020	2020
Revenue (MNTH)	15,146	16,073	16,770	17,409	13,361	2,284	129,763	24,739
Asset Turnover	0.97	0.99	0.98	0.97	0.66	0.85	1.02	0.93
Equity multiplier	1.17	1.18	1.21	1.25	1.51	2.22	2.69	2.49
ROE by Dupont	15.7%	17.5%	18.2%	18.2%	6.7%	-5.3%	3.0%	0.5%

Table B-2 Financial Profitability

	M					ZEN	Haidi lao	Xiabu xiabu
	2016	2017	2018	2019	2020	2020	2020	2020
Gross Profit Margin	67.3%	67.8%	68.4%	68.5%	65.7%	46.2%	46.6%	42.5%
Operating margin	17.2%	18.6%	18.7%	17.7%	8.2%	-2.2%	4.2%	0.5%
Net Profit Margin	14.6%	15.8%	16.1%	15.0%	6.8%	-2.8%	1.2%	0.2%

Table B-3 Working capital Analysis

	M					ZEN	Haidi lao	Xiabu xiabu
	2016	2017	2018	2019	2020	2020	2020	2020
AC Receivable Days	3	2	2	3	4	15	16	24
Inventory Days	22	24	23	23	31	27	28	84
AC Payable Days	106	110	123	127	126	70	53	40
Cash Cycle	-81	-84	-98	-101	-92	-28	-9	68

Table B-4 Financial Liquidity

	M					ZEN	Haidi lao	Xiabu xiabu
	2016	2017	2018	2019	2020	2020	2020	2020
Current Ratio	5.36	5.02	4.21	3.54	2.92	4.75	2.79	1.12
Quick Ratio	5.19	4.85	4.08	3.40	2.77	2.77	2.77	2.77
Working Capital to Total Assets	0.54	0.52	0.47	0.35	0.27	0.27	0.27	0.27
Cash ratio	0.17	0.19	0.29	0.33	0.18	0.47	0.01	0.55
Operating cash flow ratio	1.59	1.70	1.48	1.39	0.74	-0.08	0.29	0.63