

ZEN CORPORATION GROUP

THAILAND / FOOD & BEVERAGE

ZEN TB

BUY

Profit rising faster than peers

- We forecast a record high bottom line in 4Q22 as ZEN's profit exceeds the pre-Covid level and rises at a faster-than-peers rate.
- Management targets 2023 revenue growth of 30% y-y, SSSG up 4%-5% y-y, and an expansion of 55 new stores.
- Initiate with a BUY call and TP of THB20.

TARGET PRICE	THB20.00
CLOSE	THB17.60
UP/DOWNSIDE	+13.6%
TP vs CONSENSUS	+1.0%

One of the leading Japanese chain restaurants in Thailand

ZEN, a leading Japanese chain restaurant in Thailand, offers famous brands from both Japan and Thailand such as ZEN, AKA, On the Table, Tummour, Khiang, etc. In 2021, the company diversified its core revenue structure with expanded franchise and retail businesses. ZEN plans to raise its franchise and retail business revenue exposure to 30% in 2024 (vs 14% in 2021).

Expect record high top and bottom lines in 4Q22

ZEN's 4Q22 net profit should hit a record high of THB58m (+14% q-q, +564% y-y), thanks to 1) record high total revenue from newly opened stores and 0.8% higher SSSG y-y; 2) a higher gross margin at 47% from 46.6% in 3Q22; and 3) lower q-q and y-y SG&A to sales at 38.3%. Moreover, we expect strong retail sales revenue growth, up 184% y-y due to the full-year recognition of revenue from King Marine, which at cTHB70m would account for 7.3% of total revenue. Overall, we estimate its 2022 bottom line should exceed the pre-Covid level with a THB157m profit after the loss in 2021.

2023 profit should soar to a record high

Management targets 30% y-y revenue growth in 2023, SSSG up 4%-5% y-y, and 55 new stores. We project strong net profit growth in 2023 (+36.7% y-y) based on our conservative assumptions of 5% higher SSSG y-y and 40 new stores, plus strong food retail sales growth of 26.4% y-y in 2023 due to the tourism recovery. This should push the retail sales contribution higher to 12.5% in 2023 from 11.2% in 2022. We also expect ZEN's 2023 gross margin to return to the pre-Covid level at 47%, up from 46.2% in 2022, as the expected drop in raw material prices could completely offset its increased utilities costs.

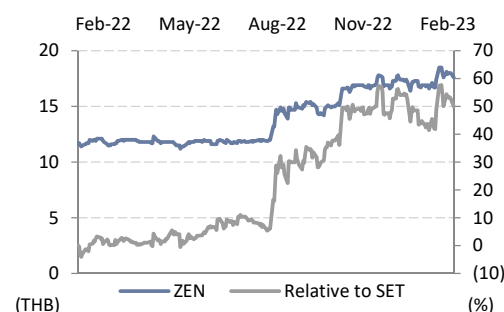
Recommend BUY on strong recovery and potential upside

We initiate our coverage of ZEN with a BUY call and TP of THB20 based on 28x 2023E P/E, in line with its five-year historical average. We like ZEN's faster-than-peers operational recovery post Covid-19. Furthermore, there is a potential upside from its M&A strategy.

KEY STOCK DATA

YE Dec (THB m)	2021	2022E	2023E	2024E
Revenue	2,209	3,401	3,856	4,184
Net profit	(92)	157	215	256
EPS (THB)	(0.31)	0.52	0.72	0.85
vs Consensus (%)	-	3.4	9.1	10.0
EBITDA	304	661	785	880
Core net profit	(78)	157	215	256
Core EPS (THB)	(0.26)	0.52	0.72	0.85
EPS growth (%)	nm	nm	36.7	19.2

Core P/E (x)	(67.5)	33.6	24.6	20.6
Dividend yield (%)	-	0.9	1.2	1.5
EV/EBITDA (x)	19.4	9.0	7.4	6.3
Price/book (x)	4.7	4.3	3.8	3.4
Net debt/Equity (%)	50.5	51.5	34.9	14.4
ROE (%)	(6.7)	13.4	16.5	17.4



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	4.1	4.1	50.4
Relative to country (%)	3.6	0.7	49.7
Mkt cap (USD m)	157		
3m avg. daily turnover (USD m)	0.2		
Free float (%)	27		
Major shareholder	AGB Sibling Holdings (25%)		
12m high/low (THB)	19.20/10.90		
Issued shares (m)	300.00		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

We think ZEN is one of the leading Japanese chain restaurants in Thailand. The company offers 13 famous Japanese and Thai brands such as ZEN, AKA, On the Table, Sushi Cyu, Tummour, LaoYuan, Khiang, etc. In 2021, ZEN diversified its core revenue structure to reduce risk by expanding its franchise and retail businesses. It plans to raise its franchise and retail business revenue exposure to 30% in 2024 (vs 14% in 2021). We expect 2023-24 net profit growth of 36.7% y-y and 19.2% y-y, respectively, due to the recovery in consumption and tourism and a decline in raw material costs. Furthermore, its M&A strategy could create potential upside and growth opportunities in the future.

Company profile

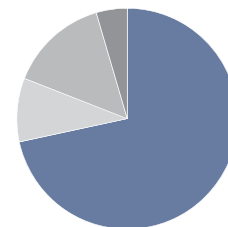
Zen Corporation Group operates its business as a holding company with stakes in restaurant industry companies and other related businesses through its subsidiaries. Its three main business groups are as follows: 1) restaurants under the group's brands; 2) franchise businesses under the group's brands; and 3) other related businesses such as catering, delivery, and food retailing.

In 9M22, the company had 356 stores which included 146 equity stores and 210 franchise stores.

www.zengroup.co.th

Principal activities (revenue, 2021)

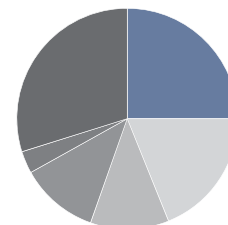
- Restaurant - 71.6 %
- Franchise - 9.3 %
- Delivery & Catering - 14.5 %
- Retail - 4.5 %



Source: Zen Corporation Group

Major shareholders

- AGB Sibling Holdings - 25.0 %
- Morgan Stanley & Co. International - 18.9 %
- Mr. Sakkanon Chirathivat - 11.5 %
- Miss Jomkwan Chirathivat - 11.5 %
- Mrs. Kessara Manasilp - 3.3 %



Source: Zen Corporation Group

Catalysts

Potential catalysts for ZEN's earning growth in 2023 are 1) restaurant revenue growth driven by a traffic recovery; 2) retail revenue growth supported by the tourism recovery; 3) a decline in raw material costs; and 4) its new store expansion plan.

Risks to our call

Downside risks to our P/E-based TP include 1) a slower-than-expected consumption recovery; 2) a potential rise in raw material costs; 3) lower-than-expected new store expansion; and 4) a minimum wage increase and labour shortages.

Event calendar

Date	Event
27 Feb-23	4Q22 results announcement
16 Mar-23	4Q22 Opportunity Day via SET website
May-23	1Q23 results announcement

Key assumptions

	2022E	2023E	2024E
SSSG (%)	46.8	5.0	4.0
New stores - equity	20	20	20
New stores - franchise	4	20	20
Total revenue growth (%)	54.0	13.4	8.5
Gross margin (%)	46.2	47.0	47.1

Source: FSSIA estimates

Earnings sensitivity

- For every 1% increase in SSSG, we estimate 2023 net profit to rise by 0.8%, and vice versa, all else being equal.
- For every 0.2% increase in GPM, we estimate 2023 net profit to rise by 2.8%, and vice versa, all else being equal.
- For every 0.5% increase in SG&A, we estimate 2023 net profit to fall by 6.9%, and vice versa, all else being equal.

Source: FSSIA estimates

One of the leading Japanese chain restaurants

ZEN was established and opened its first Japanese restaurant in 1991. Since then, the company has expanded its equity and franchise stores both domestically and internationally. ZEN's brand delivers authentic Japanese food made from premium ingredients while providing premium service for its customers. Following the ZEN brand's continuous store expansion success, the company diversified its Japanese restaurant offerings to include AKA (Yakiniku-Japanese style grilled cuisine) and On the Table (a Tokyo café lifestyle restaurant). In 2016, the company acquired the Tummour brand, a leading northeastern Thai (Isan) restaurant company with diverse brands including Tummour, LaoYuan, Pho and Jaew Hon. In 2018, ZEN opened a Thai street food style restaurant under the brand Kiang.

Exhibit 1: ZEN's various Japanese and Thai brands



Source: ZEN

In 2021, the company invested in a 51% stake in ZEN and Kosum Interfoods (ZKC, not listed), the manufacturer of seasoning products such as fermented fish sauce, dipping sauce, spicy salad dressing, fermented fish chili paste, etc.

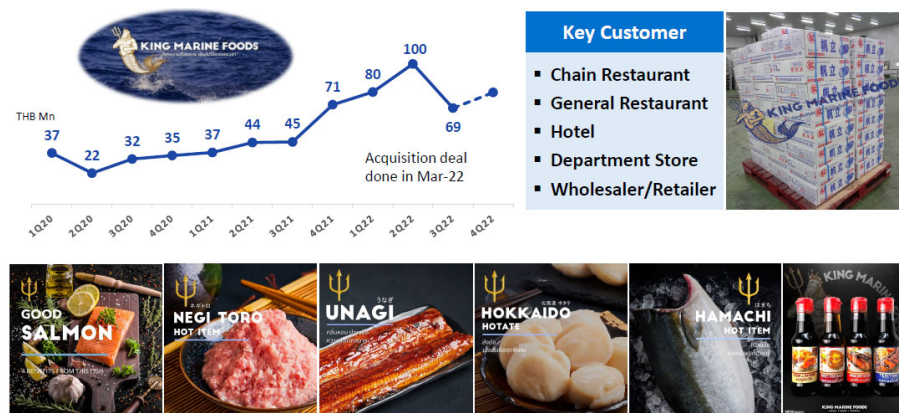
Exhibit 2: ZKC's key data



Source: ZEN

In 2022, the company invested in a 51% stake in King Marine Food (KMF, not listed), a domestic distributor and wholesaler of frozen seafood for use in Japanese and other types of restaurants.

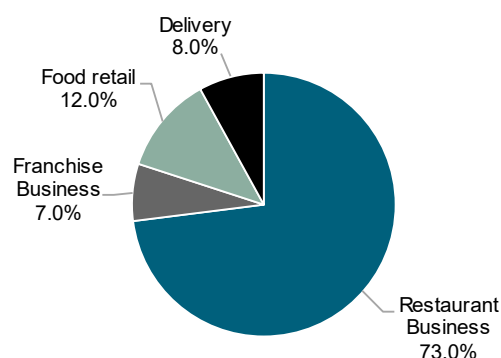
Exhibit 3: King Marine Food's key data



Source: ZEN

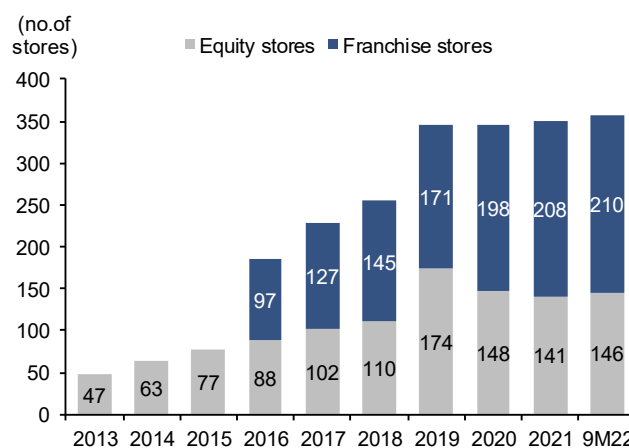
In addition, ZEN operates restaurants and a franchise business under the group's brands, and other related businesses. ZEN's 9M22 revenue came mainly from its restaurant business (73%), franchise business (7%), food retail business (12%), and delivery (8%). As of 9M22, the company operated 13 leading Japanese and Thai restaurant brands with a total 356 stores, of which 146 were equity stores and 210 franchise stores.

Exhibit 4: ZEN's revenue by business segment in 9M22



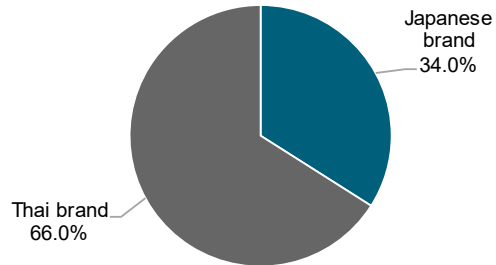
Source: ZEN

Exhibit 5: Number of stores by ownership in 9M22



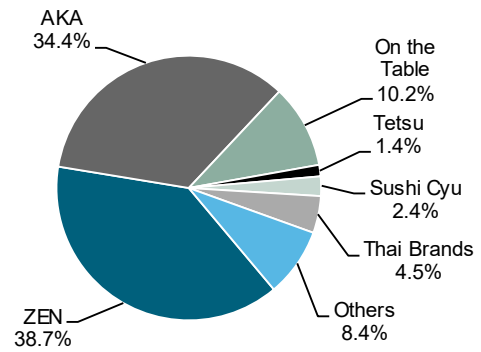
Source: ZEN

Exhibit 6: Store breakdown by type in 9M22



Source: ZEN

Exhibit 7: Restaurant revenue breakdown by brand in 9M22



Source: ZEN

Exhibit 8: Number of stores by brand in 9M22

Type of Business	Brand	Equity (no.)	Franchise (Domestic) (no.)	Franchise (International) (no.)	Total outlets (no.)
Japanese restaurant	ZEN	47	-	-	47
	AKA	35	-	3	38
	OTT	27	-	2	29
	PREMIUM	4	-	-	4
	DINs	1	-	-	1
Cloud kitchen	Japanese brand	2	-	-	2
Thai restaurant	TUMMOUR	11	86	2	99
	LAOYUAN	5	23	-	28
	PHO	-	2	2	4
	KHIANG	14	90	-	104
Total		146	201	9	356

Source: ZEN

Expect record high top and bottom lines in 4Q22

We forecast total revenue to hit a record high of THB955m (+6% q-q, +25% y-y) in 4Q22. Although our SSSG forecast projects only a slight increase by 0.8%, we think the jump y-y should come from the 24 new stores opened in 2022, which brought the total to 373 stores. Moreover, we expect strong retail sales revenue growth at 184% y-y due to the full-year recognition of revenue from King Marine, which at cTHB70m would account for 7.3% of total revenue.

4Q22 gross margin should rise to 47% from 46.6% in 3Q22 from the higher revenue but remain down from 47.9% in 4Q21 mainly due to higher raw material prices. In addition, SG&A to sales should decrease to 38.3% (vs 39.3% in 3Q22 and 44.9% in 4Q21), supported by efficient cost control and higher revenue, which could offset the impact of rising utilities costs.

Overall, we forecast ZEN's 4Q22 net profit to hit a record high of THB58m (+14% q-q, +564% y-y). Assuming in-line 4Q22 results, its 2022 bottom line should see a profit of THB157m after the loss of THB92m in 2021. We think ZEN's profit will exceed the pre-Covid level and rise at a faster rate than its peers.

Exhibit 9: 4Q22 results preview

	4Q21	1Q22	2Q22	3Q22	4Q22E	----- Change -----		2021	2022E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(THB m)	(y-y%)
Sales	765	686	859	900	955	6.1	24.8	2,209	3,401	54.0
Cost of sales	399	378	466	480	506	5.4	26.9	1,243	1,831	47.3
Gross profit	366	309	393	420	449	7.0	22.6	966	1,570	62.6
SG&A	344	295	329	354	366	3.4	6.4	1,072	1,344	25.4
Operating profit	38	19	69	76	88	15.3	134.6	(59)	253	nm
Interest expense	9	9	9	8	9	7.2	(6.8)	35	36	2.3
Tax expense	4	2	11	13	16	17.2	257.5	(23)	42	nm
Reported net profit	9	4	44	51	58	14.2	564.4	(92)	157	nm
Core profit	40	4	44	51	58	14.2	44.6	(78)	157	nm
Key Ratios (%)						(ppt)	(ppt)			
Gross margin	47.9	45.0	45.7	46.6	47.0	0.4	(0.9)	43.7	46.2	2.4
SG&A / Sales	44.9	43.0	38.3	39.3	38.3	(1.0)	(6.6)	48.5	39.5	(9.0)
Operating margin	4.9	2.8	8.1	8.5	9.2	0.7	4.3	(2.7)	7.4	10.1
Net margin	1.1	0.6	5.1	5.6	6.1	0.4	4.9	(4.1)	4.6	8.8
Core margin	5.2	0.6	5.1	5.6	6.1	0.4	0.8	(3.5)	4.6	8.2
Operating Statistics										
SSSG (%)	18.5	8.5	52.6	75.2	0.8	(74.4)	(95.7)	3.0	46.8	43.8
New stores	(3)	2	3	8	7	(12.5)	nm	3	24	700.0
Total stores	349	354	356	356	367	3.1	5.2	349	373	6.9
Restaurant sales (THB m)	603	502	599	683	738	8.1	22.4	1,582	2,522	59.4
Franchise sales (THB m)	58	52	61	58	61	5.2	5.2	206	232	12.6
Delivery and catering (THB m)	72	68	67	64	65	1.6	(9.7)	321	264	(17.8)
Retail sales (THB m)	32	64	131	96	91	(5.2)	184.4	100	382	282.0

Sources: ZEN, FSSIA estimates

2023 profit might hit a record high

Management targets revenue growth of 30% y-y in 2023, with SSSG up 4%-5% y-y and 55 new stores (25 equity stores and 30 franchise stores). We project 2023 net profit to hit a record high of THB215m, up 36.7% y-y, based on our conservative assumptions.

As for revenue growth, we expect SSSG to rise 5% y-y in 2023 and its expansion plans to result in 40 new stores. In addition, we forecast strong food retail sales growth of 26.4% y-y in 2023 due to the recovery in tourism, which should boost the retail sales contribution to 12.5% from 11.2% in 2022.

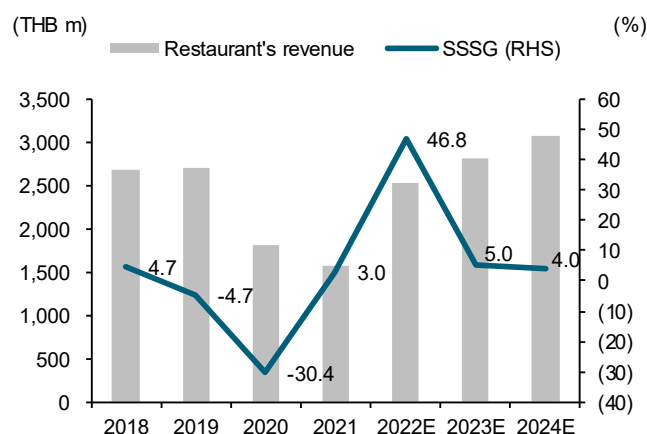
Our gross margin assumption for 2023 projects a return to the pre-Covid level at 47%, up from 46.2% in 2022, and the expected drop in raw material prices could completely offset the increased utilities costs. Also, SG&A to sales should drop to 39.3% from 39.5% in 2022, as the higher total revenue growth outpaces the rise in SG&A expenses.

Exhibit 10: Key assumptions for ZEN

Assumptions	Forecast			% Growth		
	2022E	2023E	2024E	2022E	2023E	2024E
SSSG (%)	46.8	5.0	4.0	1460.0	(89.3)	(20.0)
New stores - equity	20	20	20	(385.7)	0.0	0.0
New stores - franchise	4	20	20	(60.0)	400.0	0.0
Total new stores	24	40	40	700.0	66.7	0.0
Total stores	373	413	453	6.9	10.7	9.7
Restaurant sales (THB m)	2,522	2,808	3,081	59.4	11.3	9.7
Franchise sales (THB m)	232	287	281	12.6	23.9	(2.4)
Retail sales (THB m)	382	483	531	282.0	26.4	10.0
Total sales values (THB m)	3,401	3,856	4,184	54.0	13.4	8.5
Gross profit (THB m)	1,570	1,812	1,970	62.6	15.4	8.7
Gross margin (%)	46.2	47.0	47.1	2.4	0.8	0.1
SG&A expenses (THB m)	1,344	1,515	1,632	25.4	0.0	7.7
SG&A to sales (%)	39.5	39.3	39.0	(9.0)	(0.2)	(0.3)
Reported net profit (THB m)	157	215	256	nm	36.7	19.2
Net margin (%)	4.6	5.6	6.1	8.8	1.0	2.6
Core profit (THB m)	157	215	256	nm	36.7	19.2
Core margin (%)	4.6	5.6	6.1	8.2	1.0	0.5

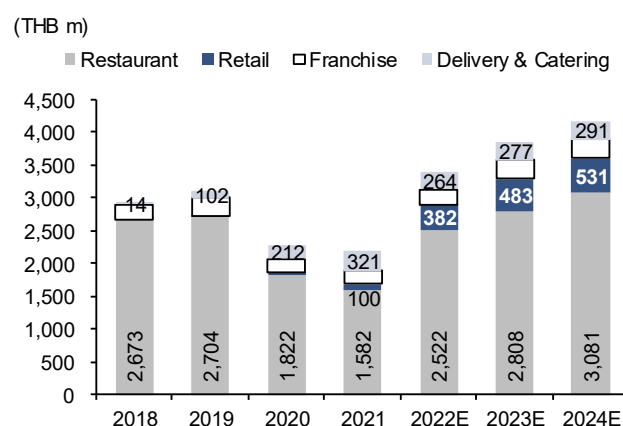
Source: FSSIA estimates

Exhibit 11: SSSG and restaurant revenue



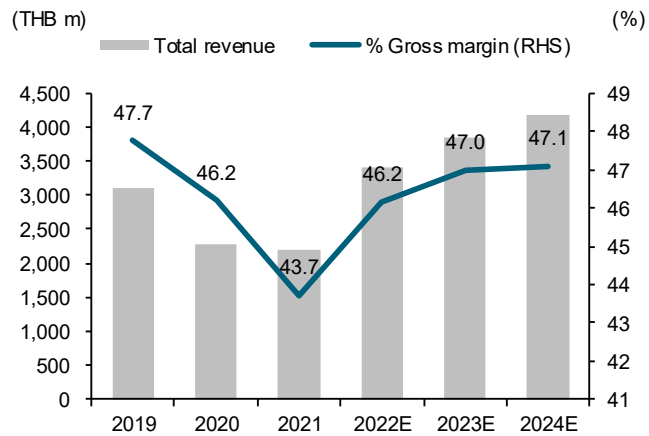
Sources: ZEN, FSSIA estimates

Exhibit 12: Revenue by segment



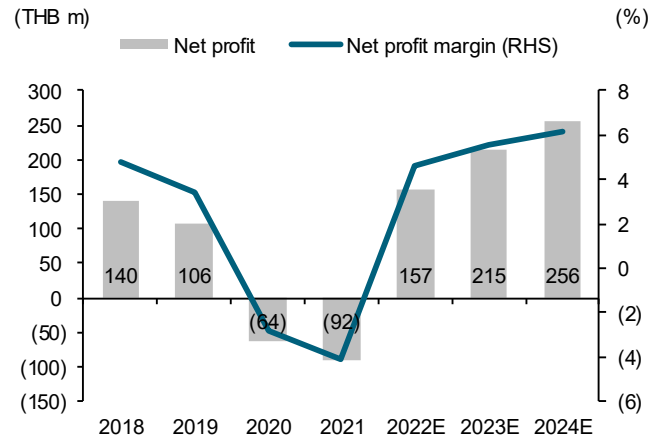
Sources: ZEN, FSSIA estimates

Exhibit 13: Revenue growth and GM (%)



Source: ZEN, FSSIA estimates

Exhibit 14: Net profit



Source: ZEN, FSSIA estimates

Valuations

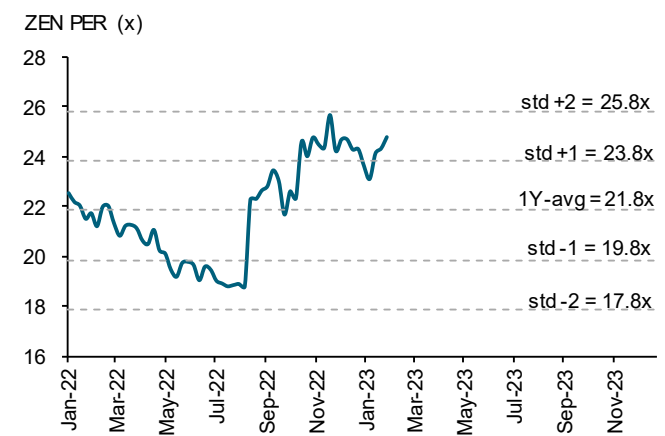
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Exhibit 15: Peers comparison as of 6 Feb 2023

Company	BBG	Rec	Share price			Market Cap	PE		ROE		PBV		EV/EBITDA	
			Current	Target	Upside		22E	23E	22E	23E	22E	23E	22E	23E
			(LCY)	(LCY)	(%)		(USD m)	(x)	(x)	(%)	(%)	(x)	(x)	(x)
Thailand														
Zen Corporation Group	ZEN TB	BUY	17.60	20.00	14	157	33.6	24.6	13.4	16.5	4.3	3.8	9.0	7.4
MK Restaurant Group	M TB	BUY	56.75	66.00	16	1,551	34.2	21.5	11.8	18.9	4.1	4.0	11.7	9.2
OISHI Group	OISHI TB	n/a	48.25	n/a	n/a	538	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
S&P Syndicate	SNP TB	n/a	18.30	n/a	n/a	279	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
After You	AU TB	n/a	12.00	n/a	n/a	291	71.9	46.2	15.1	24.2	12.0	12.0	24.7	17.6
Wow Factor	W TB	n/a	1.79	n/a	n/a	53	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Thailand average						2,868	46.5	30.7	13.4	19.9	6.8	6.6	15.1	11.4
Regional														
Uni-President China Holdings	220 HK	n/a	7.24	n/a	n/a	3,985	21.6	16.9	9.2	11.9	2.0	2.0	9.6	8.1
Xiabuxiabu Catering Mgmt	520 HK	n/a	7.75	n/a	n/a	1,073	n/a	27.4	(11.2)	13.7	4.3	3.8	12.6	6.2
Guangzhou Restaurant Group	603043 CH	n/a	25.50	n/a	n/a	2,136	23.6	19.2	17.8	18.7	4.2	3.6	15.8	13.2
Tongqinglou Catering	605108 CH	n/a	31.25	n/a	n/a	1,197	55.3	31.1	7.1	11.4	3.9	3.5	21.3	13.8
Haidilao International	6862 HK	n/a	19.88	n/a	n/a	14,119	209.6	40.9	5.5	24.2	11.3	9.0	23.3	15.5
Jollibee Foods	JFC PM	n/a	245.00	n/a	n/a	5,035	32.4	29.6	13.1	13.4	4.0	3.6	13.6	12.1
Jubilant Foodworks	JUBI IN	n/a	430.00	n/a	n/a	3,544	64.7	62.6	27.8	22.1	16.6	12.7	27.9	25.5
Westlife Development	WLDL IN	n/a	691.05	n/a	n/a	1,309	n/a	88.7	(0.4)	22.7	22.7	18.5	59.8	30.5
Yum China Holdings	YUMC US	n/a	58.78	n/a	n/a	24,596	54.0	30.6	6.5	10.5	3.3	3.1	16.4	11.8
Domino's Pizza	DPZ US	n/a	359.62	n/a	n/a	12,730	29.7	25.4	(5.3)	(5.6)	n/a	n/a	21.1	19.5
Regional average						69,723	61.4	37.2	7.0	14.3	8.0	6.7	22.1	15.6
Overall average						72,591	57.3	35.7	8.5	15.6	7.7	6.6	20.5	14.6

Sources: Bloomberg, FSSIA estimates

Exhibit 16: Historical P/E band



Sources: Bloomberg, FSSIA estimates

Exhibit 17: Historical P/BV band



Sources: Bloomberg, FSSIA estimates

Corporate Governance – ZEN

Board structure

Independent Directors (ID)	5 of 11 board members, x female
Percentage of IDs on the board	45.4%
ID attendance at board meetings	100%
ID in audit/remuneration committee	3/3 in audit committee and 2/3 in remuneration committee
ID terms	Not more than nine years

Additional information: 2021 One Report; Chairman of the board is an independent director.

Compensation and remuneration

Directors' remuneration vs earnings/ROE/share performance	In 2021, THB5.98m vs net loss of THB91.6m In 2019, THB3.9m vs net profit of
Changes/stability in senior management	None
Incidents of termination of senior management	None
Track record on insider sales	None

Additional information: None

Audit practices

Auditor	KPMG Phoomchai Audit Company Limited
Length of service	Since FY2020
Reporting incidents	None
Fee track record	THB4.75m
Policy on change of audit firm	To review every five years

Additional information: Prior to KPMG, the auditor was Baker Tilly Audit and Advisory Services (Thailand) Ltd.

Shareholders' rights

Practice	Activity
Communication - shareholder participation in AGMs/EGMs	AGM once annually, EGM when appropriated and in accordance with SEC guidelines
Related party transactions	In accordance with SEC guidelines
Voting issues - policies, incidents of rejected proposals	None

Additional information: None

ESG and sustainability management

ZEN Corporation Group PCL is a holding company, operating restaurant and franchise businesses. At end-2021, the Group had 349 branches; 141 by the Group and 208 by franchise. In addition, the Group diversified into delivery and catering, restaurant management, restaurant consultancy and the food retail business such as ready-to-cook and ready-to-eat products. Currently, there are a total of 13 restaurant brands under the operation; 7 Japanese and 6 Thai restaurants. Zen's goal is to become the country's leader in the restaurant business with a profit margin to exceed 8% (from 2016-19 of c3.9%) and the franchise and retail businesses to contribute > 30% of revenue combined by 2024 (from 2021's 14% at cTHB309m).

Materiality issues	Activities and practice
Risk as a holding company	As a holding company, earnings depend on the performance and dividend payments of its subsidiaries. For FY2021, the company's eight subsidiaries are ZRH, AKA, GGG, OTT, SYN, ZPC, ZSM and ZKC. Therefore, the performance of the subsidiaries is the performance of the company.
Covid-19 pandemic	The Group implements a continuity management plan to report ongoing progress to the Board of Directors regularly. During 2021, ZEN expanded 42 franchise branches, 27 branches were closed, only Kiang brand survived from delivery and take-out services.
Raw material shortage and price fluctuation	<ul style="list-style-type: none"> Plans procurement and estimates demand of each raw material in a bid to procure at best prices and conditions. Keep a good relationship with suppliers, closely monitor factors and events that may affect the quantity and price of raw materials, directly and indirectly in order to prepare, prevent and resolve the potential risk in time. Increase of raw material prices will not lead to immediate food price hikes, rather they will be adjusted in accordance with market prices. Short-term and long-term futures contracts of some key raw materials will be arranged with reliable manufacturers or distributors. Lists of alternative suppliers and food items will be prepared to align with availability sourcing and season.
Concentration risk	ZEN aims to diversify from c80%-90% restaurant revenue contribution. While opening restaurants throughout the country, both own and franchised can avoid systematic risk, relief of some specific risk is established via additional related businesses. In early 2021, ZEN acquired a 51% share in Zen & Kosum Interfoods Co., Ltd., whose business is in manufacturing, distributing, retailing and supplying bottled cooked fermented fish sauce or ready-made food or seasonings and products with fermented fish sauce as the main raw material.
Failure of new branches	Branch expansion will be justified by market conditions, industry, competition, demand and purchasing power of consumers. Note that opening a new branch will cost cTHB7m-10m for Japanese restaurants and cTHB1m-3.5m for Thai restaurants on an investment in design, construction work, system work, shop decoration, furniture, kitchen equipment and other office equipment.
Franchisee failure to comply with terms of contract	The Group has legal departments and other related units responsible for auditing franchise branches to ensure compliance of the terms and conditions of the contract. The Group will provide comprehensive franchise support, i.e. store opening preparation, ongoing training, and marketing. In the past, the Group had no problems with franchise management that could result in termination of the contract.
Outsourcing risk	The Group hires experienced third parties for warehousing and delivery of food ingredients to all branches. The Group employs more than ten third-parties by considering their qualifications, reputation and specialisation. For outsourcing production, the quality of ingredients and seasonings are inspected to meet the terms. A list of replacements has been persistently prepared with a scheduled performance appraisal. In 2021, there were no errors in third party services that significantly affected the Group's performance.
Competitive risk	Food services is an ease of entry business and subject to change of consumer behaviour. The Group endlessly adjusts marketing strategies and guidelines in accordance with the current situation. In addition, ZEN expands distribution channels, improves services and increases online sales channels, organises sales promotions and optimises its business model.
Dependency on high level of key executives	The Group's current management structure includes a Critical Position Project plan, an appropriate and decentralised structure and scope of duties and responsibilities for managers based on knowledge, ability and experience. Nevertheless, the Group has a policy to continuously promote and develop knowledge, capabilities, and leadership skills for executives and personnel and to develop career advancement and have a succession plan as well as recruit more knowledgeable personnel to join the Group in accordance with the business plan and business expansion plan.
Food safety and hygiene	ZEN monitors and traces periodically every stage of production and continuously improves safety /standards, optimises resource utilisation and takes action to reduce food waste.
Environmental management	ZEN has environmental quality management in place as well as creates a culture and raises awareness among personnel.
R & D	ZEN researches and develops menus, new restaurant designs, and efficiency improvements. Its R&D department also involves a selection of suppliers, raw materials, models of new restaurants and sales territory optimisation etc.
Awards and recognitions	<ul style="list-style-type: none"> Received the corporate governance (CG) rating of "Excellent" or 5 stars in 2021 from the Thai Institute of Directors (IOD). Selected as a Thailand Sustainability Investment (THSI) 2021 from the Stock Exchange of Thailand.

Net profit margin in 2020-2021 were in negative territory due to the country lockdown to prevent the spread of the Covid-19 pandemic.

Additional information: 2021 One Report

Financial Statements

Zen Corporation Group

Profit and Loss (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Revenue	2,284	2,209	3,401	3,856	4,184
Cost of goods sold	(830)	(879)	(1,423)	(1,586)	(1,706)
Gross profit	1,454	1,329	1,978	2,270	2,478
Other operating income	49	47	27	31	33
Operating costs	(1,154)	(1,072)	(1,344)	(1,515)	(1,632)
Operating EBITDA	349	304	661	785	880
Depreciation	(399)	(363)	(407)	(457)	(507)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	(50)	(59)	253	328	372
Net financing costs	(34)	(38)	(35)	(36)	(27)
Associates	(1)	(2)	(2)	(1)	(1)
Recurring non-operating income	(1)	(2)	(2)	(1)	(1)
Non-recurring items	0	(13)	0	0	0
Profit before tax	(84)	(112)	216	291	344
Tax	21	23	(42)	(57)	(67)
Profit after tax	(64)	(89)	175	234	277
Minority interests	0	(3)	(17)	(19)	(21)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	(64)	(92)	157	215	256
Non-recurring items & goodwill (net)	0	13	0	0	0
Recurring net profit	(64)	(78)	157	215	256
Per share (THB)					
Recurring EPS *	(0.21)	(0.26)	0.52	0.72	0.85
Reported EPS	(0.21)	(0.31)	0.52	0.72	0.85
DPS	0.25	0.00	0.16	0.22	0.26
Diluted shares (used to calculate per share data)	300	300	300	300	300
Growth					
Revenue (%)	(26.4)	(3.3)	54.0	13.4	8.5
Operating EBITDA (%)	7.2	(13.0)	117.2	18.9	12.0
Operating EBIT (%)	nm	nm	nm	29.5	13.6
Recurring EPS (%)	nm	nm	nm	36.7	19.2
Reported EPS (%)	nm	nm	nm	36.7	19.2
Operating performance					
Gross margin inc. depreciation (%)	46.2	43.7	46.2	47.0	47.1
Gross margin of key business (%)	-	-	-	-	-
Operating EBITDA margin (%)	15.3	13.8	19.4	20.4	21.0
Operating EBIT margin (%)	(2.2)	(2.7)	7.4	8.5	8.9
Net margin (%)	(2.8)	(3.5)	4.6	5.6	6.1
Effective tax rate (%)	24.7	20.8	19.3	19.5	19.5
Dividend payout on recurring profit (%)	(117.8)	-	30.0	30.0	30.0
Interest cover (X)	(1.5)	(1.6)	7.2	9.2	13.7
Inventory days	40.0	43.8	35.2	36.6	37.4
Debtor days	14.3	11.0	7.3	7.5	6.7
Creditor days	120.3	118.4	66.6	48.8	49.9
Operating ROIC (%)	(3.7)	(3.4)	15.1	19.1	22.8
ROIC (%)	(2.5)	(2.5)	10.3	12.9	14.9
ROE (%)	(4.8)	(6.7)	13.4	16.5	17.4
ROA (%)	(1.6)	(1.7)	8.0	10.3	11.3
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Restaurant	1,822	1,582	2,522	2,808	3,081
Franchise	200	206	232	287	281
Delivery & Catering	212	321	264	277	291
Retail	50	100	382	483	531

Sources: Zen Corporation Group; FSSIA estimates

Financial Statements

Zen Corporation Group

Cash Flow (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Recurring net profit	(64)	(78)	157	215	256
Depreciation	399	363	407	457	507
Associates & minorities	1	2	2	1	1
Other non-cash items	0	37	3	3	3
Change in working capital	(76)	14	(114)	9	30
Cash flow from operations	261	338	456	685	797
Capex - maintenance	-	-	-	-	-
Capex - new investment	(1,192)	(158)	(401)	(430)	(430)
Net acquisitions & disposals	11	(42)	(42)	(47)	(34)
Other investments (net)	-	-	-	-	-
Cash flow from investing	(1,181)	(199)	(443)	(477)	(464)
Dividends paid	(160)	-	(47)	(65)	(77)
Equity finance	0	0	0	0	0
Debt finance	980	(141)	(67)	(75)	(170)
Other financing cash flows	5	2	(35)	13	10
Cash flow from financing	825	(139)	(149)	(126)	(237)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	0	0	0	0	0
Movement in cash	(95)	(1)	(136)	82	96
Free cash flow to firm (FCFF)	(886.36)	175.84	47.61	243.90	360.20
Free cash flow to equity (FCFE)	65.03	(1.01)	(89.11)	146.58	172.68

Per share (THB)

FCFF per share	(2.95)	0.59	0.16	0.81	1.20
FCFE per share	0.22	0.00	(0.30)	0.49	0.58
Recurring cash flow per share	1.12	1.08	1.90	2.25	2.56

Balance Sheet (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Tangible fixed assets (gross)	2,538	2,445	2,399	2,418	2,390
Less: Accumulated depreciation	(861)	(972)	(934)	(981)	(1,030)
Tangible fixed assets (net)	1,677	1,472	1,465	1,437	1,360
Intangible fixed assets (net)	266	290	290	290	290
Long-term financial assets	2	4	0	0	0
Invest. in associates & subsidiaries	-	-	-	-	-
Cash & equivalents	269	268	131	213	309
A/C receivable	72	61	75	85	69
Inventories	87	124	150	168	182
Other current assets	34	42	41	46	50
Current assets	462	495	397	512	610
Other assets	282	296	340	386	418
Total assets	2,689	2,557	2,492	2,625	2,678
Common equity	1,211	1,122	1,232	1,382	1,561
Minorities etc.	0	37	40	42	45
Total shareholders' equity	1,211	1,159	1,271	1,425	1,607
Long term debt	778	650	580	510	440
Other long-term liabilities	133	133	99	112	121
Long-term liabilities	912	784	679	622	562
A/C payable	252	319	201	224	243
Short term debt	203	202	205	200	100
Other current liabilities	112	93	136	154	167
Current liabilities	566	614	542	578	510
Total liabilities and shareholders' equity	2,689	2,557	2,492	2,625	2,678
Net working capital	(171)	(185)	(71)	(79)	(109)
Invested capital	2,057	1,878	2,024	2,033	1,959

* Includes convertibles and preferred stock which is being treated as debt

Per share (THB)

Book value per share	4.04	3.74	4.11	4.61	5.20
Tangible book value per share	3.15	2.77	3.14	3.64	4.24

Financial strength

Net debt/equity (%)	58.8	50.5	51.5	34.9	14.4
Net debt/total assets (%)	26.5	22.9	26.3	18.9	8.6
Current ratio (x)	0.8	0.8	0.7	0.9	1.2
CF interest cover (x)	38.5	5.2	10.0	17.2	23.3

Valuation	2020	2021	2022E	2023E	2024E
Recurring P/E (x) *	(82.9)	(67.5)	33.6	24.6	20.6
Recurring P/E @ target price (x) *	(94.3)	(76.7)	38.2	27.9	23.4
Reported P/E (x)	(82.9)	(57.7)	33.6	24.6	20.6
Dividend yield (%)	1.4	-	0.9	1.2	1.5
Price/book (x)	4.4	4.7	4.3	3.8	3.4
Price/tangible book (x)	5.6	6.3	5.6	4.8	4.2
EV/EBITDA (x) **	17.2	19.4	9.0	7.4	6.3
EV/EBITDA @ target price (x) **	19.2	21.8	10.1	8.3	7.1
EV/invested capital (x)	2.9	3.1	3.0	2.9	2.8

* Pre-exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income

Sources: Zen Corporation Group; FSSIA estimates

Corporate Governance report of Thai listed companies 2021

EXCELLENT LEVEL – Score range 90-100										
AAV	BCPG	CPALL	GCAP	K	MSC	PLANET	SAMART	SPI	THRE	TVD
ADVANC	BDMS	CPF	GFPT	KBANK	MST	PLAT	SAMTEL	SPRC	THREL	TVI
AF	BEM	CPI	GGC	KCE	MTC	PORT	SAT	SPVI	TIPCO	TVO
AH	BGC	CPN	GLAND	KKP	MVP	PPS	SC	SSSC	TISCO	TWPC
AIRA	BGRIM	CRC	GLOBAL	KSL	NCL	PR9	SCB	SST	TK	U
AKP	BIZ	CSS	GPI	KTG	NEP	PREB	SCC	STA	TKT	UAC
AKR	BKI	DDD	GPSC	KTC	NER	PRG	SCCC	STEC	TMT	UBIS
ALT	BOL	DELTA	GRAMMY	LALIN	NKI	PRM	SCG	STI	TNDT	UV
AMA	BPP	DEMCO	GULF	LANNA	NOBLE	PROUD	SCGP	SUN	TNITY	VGI
AMATA	BRR	DRT	GUNKUL	LH	NSI	PSH	SCM	SUSCO	TOA	VIH
AMATAV	BTS	DTAC	HANA	LHFG	NVD	PSL	SDC	SUTHA	TOP	WACOAL
ANAN	BTW	DUSIT	HARN	LIT	NWR	PTG	SEAFECO	SVI	TPBI	WAVE
AOT	BWG	EA	HMPRO	LPN	NYT	PTT	SEAOL	SYMC	TQM	WHA
AP	CENTEL	EASTW	ICC	MACO	OISHI	PTTEP	SE-ED	SYNTEC	TRC	WHAUP
ARIP	CFRESH	ECF	ICHI	MAJOR	OR	PTTGC	SELIC	TACC	TRU	WICE
ARROW	CHEWA	ECL	III	MAKRO	ORI	PYLON	SENA	TASCO	TRUE	WINNER
ASP	CHO	EE	ILINK	MALEE	OSP	Q-CON	SHR	TCAP	TSC	ZEN
AUCT	CIMBT	EGCO	ILM	MBK	OTO	QH	SIRI	TEAMG	TSR	
AWC	CK	EPG	INTUCH	MC	PAP	QTC	SIS	TFMAMA	TSTE	
AYUD	CKP	ETC	IP	MCOT	PCSGH	RATCH	SITHAI	TGH	TSTH	
BAFS	CM	FPI	IRPC	METCO	PDG	RS	SMK	THANA	TTA	
BANPU	CNT	FPT	ITEL	MFEC	PDJ	S	SMPC	THANI	TTB	
BAY	COM7	FSMART	IVL	MINT	PG	S & J	SNC	THCOM	TTCL	
BBL	COMAN	GBX	JSP	MONO	PHOL	SAAM	SONIC	THG	TTW	
BCP	COTTO	GC	JWD	MOONG	PLANB	SABINA	SPALI	THIP	TU	
VERY GOOD LEVEL – Score range 80-89										
2S	ASIMAR	CHOW	FLOYD	IT	LOXLEY	OCC	RPC	SKY	TCC	TVT
7UP	ASK	CI	FN	ITD	LRH	OGC	RT	SLP	TCMC	TWP
ABICO	ASN	CIG	FNS	J	LST	PATO	RWI	SMIT	TEAM	UEC
ABM	ATP30	CMC	FORTH	JAS	M	PB	S11	SMT	TFG	UMI
ACE	B	COLOR	FSS	JCK	MATCH	PICO	SA	SNP	TFI	UOBKH
ACG	BA	CPL	FTE	JCKH	MBAX	PIMO	SAK	SO	TIGER	UP
ADB	BAM	CPW	FVC	JMART	MEGA	PJW	SALEE	SORKON	TITLE	UPF
AEONTS	BC	CRD	GEL	JMT	META	PL	SAMCO	SPA	TKN	UPOIC
AGE	BCH	CSC	GENCO	KBS	MFC	PM	SANKO	SPC	TKS	UTP
AHC	BEC	CSP	GJS	KCAR	MGT	PMTA	SAPPE	SPCG	TM	VCOM
AIT	BEYOND	CWT	GYT	KEX	MICRO	PPP	SAWAD	SR	TMC	VL
ALL	BFIT	DCC	HEMP	KGI	MILL	PPPM	SCI	SRICHA	TMD	VPO
ALLA	BJC	DCON	HPT	KIAT	MITSIB	PRIME	SCN	SSC	TMI	VRANDA
ALUCON	BJCHI	DHOUSE	HTC	KISS	MK	PRIN	SCP	SSF	TMILL	WGE
AMANAH	BLA	DOD	HYDRO	KOOL	MODERN	PRINC	SE	STANLY	TNL	WIJK
AMARIN	BR	DOHOME	ICN	KTIS	MTI	PSG	SFLEX	STGT	TNP	WP
APCO	BROOK	DV8	IFS	KUMWEL	NBC	PSTC	SFP	STOWER	TOG	XO
APCS	CBG	EASON	IMH	KUN	NCAP	PT	SFT	STPI	TPA	XPG
APURE	CEN	EFORL	IND	KWC	NCH	QLT	SGF	SUC	TPAC	YUASA
AQUA	CGH	ERW	INET	KWM	NETBAY	RBF	SIAM	SWC	TPCS	
ASAP	CHARAN	ESSO	INSET	L&E	NEX	RCL	SINGER	SYNEX	TPS	
ASEFA	CHAYO	ESTAR	INSURE	LDC	NINE	RICHY	SKE	TAE	TRITN	
ASIA	CHG	ETE	IRC	LEO	NRF	RML	SKN	TAKUNI	TRT	
ASIAN	CHOTI	FE	IRCP	LHK	NTV	ROJNA	SKR	TBSP	TSE	
GOOD LEVEL – Score range 70-79										
A	BGT	CITY	GIFT	JTS	MDX	PK	SGP	SUPER	TQR	YGG
AI	BH	CMAN	GLOCON	JUBILE	MJD	PLE	SICT	SVOA	TTI	ZIGA
AIE	BIG	CMO	GREEN	KASET	MORE	PPM	SIMAT	TC	TYCN	
AJ	BLAND	CMR	GSC	KCM	MUD	PRAKIT	SISB	TCCC	UKEM	
ALPHAX	BM	CPT	GTB	KK	NC	PRAPAT	SK	THMUI	UMS	
AMC	BROCK	CRANE	HTECH	KKC	NDR	PRECHA	SMART	TNH	UNIQ	
APP	BSBM	CSR	HUMAN	KWI	NFC	PTL	SOLAR	TNR	UPA	
AQ	BSM	D	IHL	KYE	NNCL	RJH	SPACK	TOPP	UREKA	
ARIN	BTNC	EKH	IIG	LEE	NOVA	RP	SPG	TPCH	VIBHA	
AS	BYD	EMC	INGRS	LPH	NPK	RPH	SQ	TIPL	W	
AU	CAZ	EP	INOX	MATI	NUSA	RSP	SSP	TIPIP	WIN	
B52	CCP	F&D	JAK	M-CHAI	PAF	SABUY	STARK	TPLAS	WORK	
BEAUTY	CGD	FMT	JR	MCS	PF	SF	STC	TPOLY	WPH	

Disclaimer:

The disclosure of the survey results of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey results may be changed after that date. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such survey results.

* CGR scoring should be considered with news regarding wrong doing of the company or director or executive of the company such unfair practice on securities trading, fraud, and corruption SEC imposed a civil sanction against insider trading of director and executive

Sources: Thai Institute of Directors Association (IOD); FSSIA's compilation; data as of 26 October 2021

Anti-corruption Progress Indicator

CERTIFIED										
2S	BCH	CPALL	GC	K	MFC	PE	QLT	SNP	THCOM	TU
7UP	BCP	CPF	GCAP	KASET	MFEC	PG	QTC	SORKON	THIP	TVD
ADVANC	BCPG	CPI	GEL	KBANK	MILL	PHOL	RATCH	SPACK	THRE	TVI
AF	BE8	CPN	GFPT	KBS	MINT	PK	RML	SPALI	THREL	TVO
AI	BEYOND	CSC	GGC	KCAR	MONO	PL	RWI	SPC	TIDLOR	TWPC
AIE	BGC	DCC	GJS	KCE	MOONG	PLANB	S & J	SPI	TIPCO	U
AIRA	BGRIM	DELTA	GPI	KGI	MSC	PLANET	SAAM	SPRC	TISCO	UBE
AKP	BJCHI	DEMCO	GPSC	KKP	MST	PLAT	SABINA	SRICHA	TKS	UBIS
ALPHAX	BKI	DIMET	GSTEEL	KSL	MTC	PM	SAPPE	SSF	TKT	UEC
AMA	BLA	DRT	GUNKUL	KTB	MTI	PPP	SAT	SSP	TMD	UKEM
AMANA	BPP	DTAC	HANA	KTC	NBC	PPPM	SC	SSSC	TMILL	UOBKH
AMATA	BROOK	DUSIT	HARN	KWC	NEP	PPS	SCB	SST	TMT	UPF
AMATAV	BRR	EA	HEMP	KWI	NINE	PR9	SCC	STA	TNITY	UV
AP	BSBM	EASTW	HENG	L&E	NKI	PREB	SCCC	STOWER	TNL	VGI
APCS	BTS	ECL	HMPRO	LANNA	NMG	PRG	SCG	SUSCO	TNP	VIH
AQUA	BWG	EGCO	HTC	LH	NNCL	PRINC	SCN	SVI	TNR	WACOAL
ARROW	CEN	EP	ICC	LHFG	NOBLE	PRM	SEAOL	SYMC	TOG	WHA
AS	CENTEL	EPG	ICHI	LHK	NOK	PROS	SE-ED	SYNTEC	TOP	WHAUP
ASIAN	CFRESH	ERW	IFEC	LPN	NSI	PSH	SELIC	TAE	TOPP	WICE
ASK	CGH	ESTAR	IFS	LRH	NWR	PSL	SENA	TAKUNI	TPA	WIIK
ASP	CHEWA	ETE	ILINK	M	OCC	PSTC	SGP	TASCO	TPP	XO
AWC	CHOTI	FE	INET	MAKRO	OGC	PT	SINGER	TBSP	TRU	ZEN
AYUD	CHOW	FNS	INSURE	MALEE	ORI	PTG	SIRI	TCAP	TRUE	
B	CIG	FPI	INTUCH	MATCH	PAP	PTT	SITHAI	TCMC	TSC	
BAFS	CIMBT	FPT	IRC	MBAX	PATO	PTTEP	SKR	TFG	TSTE	
BAM	CM	FSMART	IRPC	MBK	PB	PTTGC	SMIT	TFI	TSTH	
BANPU	CMC	FSS	ITEL	MC	PCSGH	PYLON	SMK	TFMAMA	TTA	
BAY	COM7	FTE	IVL	MCOT	PDG	Q-CON	SMPC	TGH	TTB	
BBL	COTTO	GBX	JKN	META	PDJ	QH	SNC	THANI	TTCL	
DECLARED										
AJ	CHG	DDD	ETC	JR	MAJOR	NUSA	RS	SSS	TQM	YUASA
ALT	CPL	DHOUSE	FLOYD	JTS	NCAP	NYT	SAK	STECH	TSI	ZIGA
APCO	CPR	DOHOME	GULF	KEX	NCL	OR	SCGP	STGT	VARO	
B52	CPW	ECF	III	KUMWEL	NOVA	PIMO	SCM	TKN	VCOM	
BEC	CRC	EKH	INOX	LDC	NRF	PLE	SIS	TMI	VIBHA	

Level

Certified	This level indicates practical participation with thoroughly examination in relation to the recommended procedures from the audit committee or the SEC's certified auditor, being a certified member of Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) or already passed examination to ensure independence from external parties.
Declared	This level indicates determination to participate in the Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

Disclaimer:

The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by Thaipat Institute, is made in order to comply with the policy and sustainable development plan for the listed companies of the Office of the Securities and Exchange Commission. Thaipat Institute made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of Thaipat Institute that is a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, FSS International Investment Advisory Company Limited does not confirm, verify, or certify the accuracy and completeness of the assessment results.

Note: Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of 26 October 2021) are categorised into: 1) companies that have declared their intention to join CAC, and; 2) companies certified by CAC.

Sources: The Securities and Exchange Commission, Thailand; * FSSIA's compilation

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Sureeporn Teewasuwet FSS International Investment Advisory Securities Co., Ltd

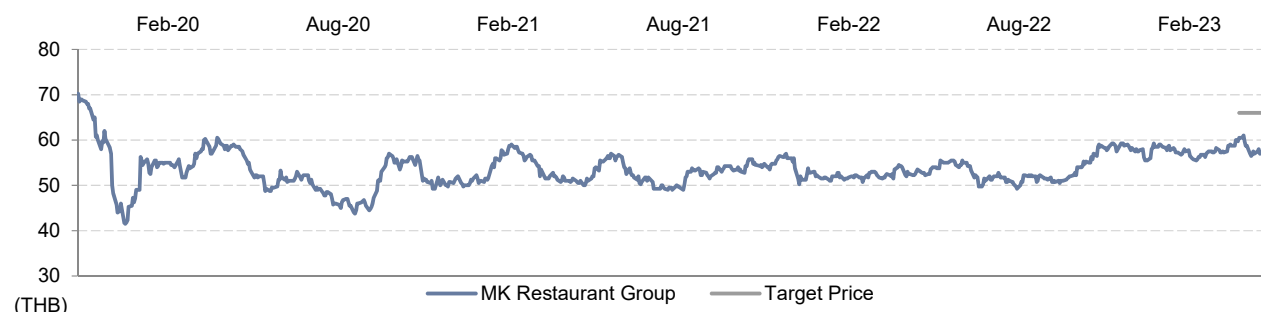
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History of change in investment rating and/or target price

MK Restaurant Group (M TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
05-Jan-2023	BUY	66.00	-	-	-	-	-	-

Sureeporn Teewasuwet started covering this stock from 05-Jan-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Zen Corporation Group	ZEN TB	THB 17.60	BUY	Downside risks to our P/E-based TP include 1) a slower-than-expected consumption recovery; 2) a potential rise in raw material costs; 3) lower-than-expected new store expansion; and 4) a minimum wage increase and labour shortages.
MK Restaurant Group	M TB	THB 56.75	BUY	Downside risks to our P/E-based TP include a potential rise in raw material costs (~32% of total revenues), labour costs given its labour intensive nature, renewal of the 3-year Yayoi franchise, and risk from animal diseases.

Source: FSSIA estimates

Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finansia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 06-Feb-2023 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.