

MK RESTAURANT GROUP

THAILAND / FOOD & BEVERAGE

M TB

BUY

UNCHANGED

Expect slight q-q growth in 1Q23

- We forecast a 1Q23 net profit of THB330m (+3% q-q, +22% y-y), slightly increasing q-q at a lower rate than previously expected.
- Three factors should drive growth in 2Q23: 1) the high season; 2) a tourism recovery; and 3) a declining electricity expense.
- Retain BUY call with 2023E profit growth of 51% and TP of THB59.

| | |
|-----------------|-----------|
| TARGET PRICE | THB59.00 |
| CLOSE | THB51.00 |
| UP/DOWNSIDE | +15.7% |
| PRIOR TP | THB59.00 |
| CHANGE IN TP | UNCHANGED |
| TP vs CONSENSUS | -3.9% |

Expect 1Q23 net profit growth q-q and y-y

We forecast a 1Q23 net profit of THB330m (+3% q-q, +22% y-y), slightly increasing q-q at a lower rate than previously expected. Even though we think its extra bonus expenses should drop q-q, the savings could be offset by a higher electricity expense by around 10%. Hence, we assume 1Q23 SG&A to sales to remain stable q-q at 56.4%.

We think increasing ASP could offset higher duck price

We estimate 1Q23 SSSG at 15.5% y-y, due to the low base from the Omicron variant impact in 1Q22 and a higher average selling price (ASP) by 4% since February 2023. Its adjusted ASP could offset the higher duck price by 10% y-y. The company has locked in the duck price throughout 2023. We think its 1Q23 total revenue should drop 1.5% q-q, but grow by 17% y-y due to the low base last year. In addition, we forecast its gross margin to be flat q-q at 65.0%, lower than 65.6% in 1Q22.

2Q23 is the high season for the restaurant business

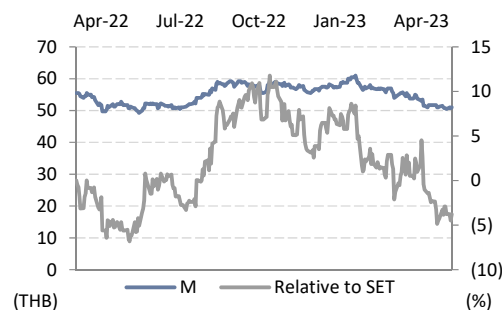
In our view, there are three factors to drive growth in 2Q23: 1) the high season for the restaurant business, supported by stronger SSSG; 2) a tourism recovery, especially for Chinese tourists, which should benefit Laem Charoen Seafood (LCS); and 3) a declining electricity expense by 10.5% q-q, in line with the fuel tariff which will drop to THB4.77 per unit from THB5.33 per unit from May 2023 to August 2023. Moreover, we expect to see strong growth in 2H23 due to more new branches being added. M plans to open its first LCS branch in Malaysia in June 2023.

Reaffirm our BUY call

We maintain our 2023 net profit forecast of THB2.2b (+51% y-y) and reaffirm our TP of THB59, based on 25x 2023E P/E. We still view M in a positive light in terms of strong profit growth this year. In the short term, we think LCS's overseas expansion would be a positive catalyst for M's share price. Therefore, we retain our BUY rating on M on the back of the stock's upside of +16%.

KEY STOCK DATA

| YE Dec (THB m) | 2022 | 2023E | 2024E | 2025E |
|----------------------|--------|--------|--------|--------|
| Revenue | 15,728 | 18,008 | 18,639 | 19,347 |
| Net profit | 1,439 | 2,170 | 2,334 | 2,506 |
| EPS (THB) | 1.56 | 2.36 | 2.53 | 2.72 |
| vs Consensus (%) | - | 11.6 | 0.0 | (4.8) |
| EBITDA | 3,867 | 4,715 | 4,921 | 5,142 |
| Core net profit | 1,439 | 2,170 | 2,334 | 2,506 |
| Core EPS (THB) | 1.56 | 2.36 | 2.53 | 2.72 |
| Chg. In EPS est. (%) | - | - | - | - |
| EPS growth (%) | 998.5 | 50.8 | 7.6 | 7.4 |
| Core P/E (x) | 32.6 | 21.6 | 20.1 | 18.7 |
| Dividend yield (%) | 2.7 | 3.9 | 4.5 | 4.8 |
| EV/EBITDA (x) | 10.7 | 8.8 | 8.4 | 8.1 |
| Price/book (x) | 3.5 | 3.4 | 3.4 | 3.3 |
| Net debt/Equity (%) | (41.8) | (41.8) | (41.6) | (39.6) |
| ROE (%) | 10.8 | 15.9 | 16.8 | 17.7 |



| Share price performance | 1 Month | 3 Month | 12 Month |
|--------------------------------|-------------------------|---------|----------|
| Absolute (%) | (5.1) | (13.2) | (7.3) |
| Relative to country (%) | (6.3) | (8.3) | (2.5) |
| Mkt cap (USD m) | 1,375 | | |
| 3m avg. daily turnover (USD m) | 1.9 | | |
| Free float (%) | 36 | | |
| Major shareholder | Thirakomen Family (37%) | | |
| 12m high/low (THB) | 61.50/49.25 | | |
| Issued shares (m) | 920.88 | | |

Sources: Bloomberg consensus; FSSIA estimates


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Investment thesis

We think M is one of the leading chain restaurant companies in Thailand. Although the chain restaurant business is highly competitive, in our view, M has an edge based on its superior distribution and store networks, as well as its product quality and service.

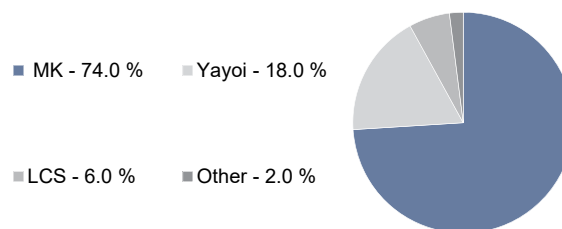
Looking ahead, M plans to continuously expand both locally and abroad within its various restaurant brands. We are impressed by the company's track record of profitability and its balance sheet, which we think is among the strongest both locally and internationally. Its M&A strategy could create growth opportunities in the future. Furthermore, its management strategy has traditionally been conservative and aimed at maximising return on equity.

Company profile

M opened its first Sukiyaki branch in Thailand in 1984 and first branch in Japan in 1994. M celebrated its 100th branch in 2000 and 400th in 2013. Other brands in its portfolio include Yayoi Japanese restaurant, Hakata Ramen, Miyazaki, Laem Charoen Seafood, and Na Siam Thai restaurants.

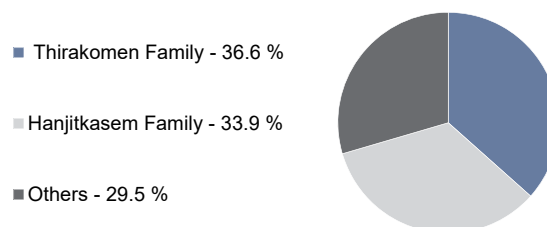
www.mkrestaurant.com

Principal activities (revenue, 2022)



Source: MK Restaurant Group

Major shareholders



Source: MK Restaurant Group

Catalysts

Potential catalysts for M's earnings growth in 2023 are 1) revenue growth driven by a tourism recovery; 2) its new store expansion plan; and 3) a decline in raw material costs which could offset higher utility costs.

Risks to our call

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

Event calendar

| Date | Event |
|-------------|---------------------------|
| 11 May 2023 | 1Q23 results announcement |

Key assumptions

| | 2023E | 2024E | 2025E |
|--------------------|-------|-------|-------|
| SSSG (%) | 10.0 | 2.0 | 2.0 |
| New stores (no.) | 25 | 25 | 20 |
| Total stores (no.) | 735 | 760 | 780 |
| GPM (%) | 65.5 | 66.0 | 66.5 |
| SG&A to sales (%) | 52.5 | 52.5 | 52.5 |

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 0.5% increase in GPM, we estimate 2023 net profit to rise by 3%, and vice versa, all else being equal.
- For every 0.5% increase in SG&A, we estimate 2023 net profit to fall by 3%, and vice versa, all else being equal.

Source: FSSIA estimates

Exhibit 1: 1Q23 earnings preview

| | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23E | Change | |
|-----------------------------------|---------|---------|---------|---------|---------|---------|--------------|--------------|
| | (THB m) | (THB m) | (THB m) | (THB m) | (THB m) | (THB m) | (q-q%) | (y-y%) |
| Sales | 3,583 | 3,495 | 4,016 | 4,067 | 4,149 | 4,089 | (1.5) | 17.0 |
| Cost of sales | 1,186 | 1,204 | 1,394 | 1,413 | 1,450 | 1,431 | (1.3) | 18.9 |
| Gross profit | 2,397 | 2,291 | 2,623 | 2,654 | 2,699 | 2,658 | (1.5) | 16.0 |
| SG&A | 1,931 | 2,008 | 2,118 | 2,182 | 2,337 | 2,306 | (1.3) | 14.8 |
| Operating profit | 512 | 347 | 555 | 527 | 442 | 432 | (2.3) | 24.4 |
| Interest expense | 18 | 21 | 21 | 21 | 23 | 23 | (1.4) | 7.4 |
| Tax expense | 90 | 51 | 89 | 86 | 82 | 69 | (16.3) | 34.4 |
| Reported net profit | 399 | 271 | 439 | 408 | 321 | 330 | 2.9 | 21.9 |
| Core profit | 399 | 271 | 418 | 408 | 321 | 330 | 2.9 | 21.9 |
| Key Ratios (%) | | | | | | | (ppt) | (ppt) |
| Gross margin | 66.9 | 65.6 | 65.3 | 65.2 | 65.0 | 65.0 | (0.0) | (0.6) |
| SG&A / Sales | 53.9 | 57.5 | 52.7 | 53.7 | 56.3 | 56.4 | 0.1 | (1.1) |
| Operating margin | 14.3 | 9.9 | 13.8 | 12.9 | 10.7 | 10.6 | (0.1) | 0.6 |
| Net margin | 11.1 | 7.7 | 10.9 | 10.0 | 7.7 | 8.1 | 0.3 | 0.3 |
| Norm margin | 11.1 | 7.7 | 10.4 | 10.0 | 7.7 | 8.1 | 0.3 | 0.3 |
| Operating Statistics (no.) | | | | | | | | |
| SSSG (%) | (1.0) | 10.0 | 58.0 | 101.0 | 14.0 | 15.5 | | |
| Total stores | 703 | 705 | 707 | 710 | 710 | 710 | | |

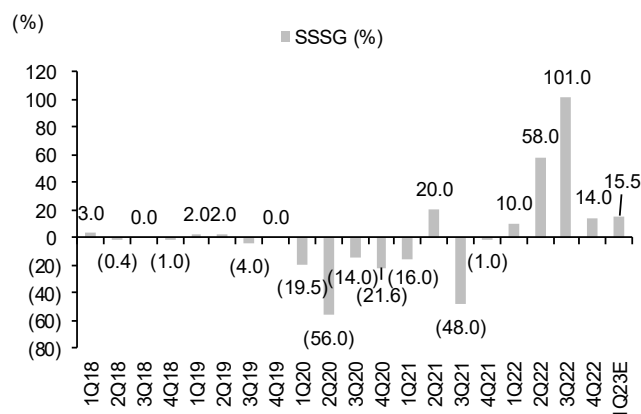
Sources: M; FSSIA estimates

Exhibit 2: Key assumptions for M

| Assumptions | Actual | Forecast | | | Growth | | |
|------------------------------|---------------|---------------|---------------|---------------|-------------|------------|------------|
| | 2022 | 2023E | 2024E | 2025E | 2023E | 2024E | 2025E |
| SSSG (%) | 38.6 | 10.0 | 2.0 | 2.0 | (28.6) | (8.0) | 0.0 |
| New stores (no.) | 12 | 25 | 25 | 20 | 108.3 | 0.0 | (20.0) |
| Total stores (no.) | 710 | 735 | 760 | 780 | 3.5 | 3.4 | 2.6 |
| Total revenue (THB m) | 15,728 | 18,008 | 18,639 | 19,347 | 14.5 | 3.5 | 3.8 |
| Gross profit (THB m) | 10,267 | 11,796 | 12,302 | 12,866 | 14.9 | 4.3 | 4.6 |
| Gross margin (%) | 65.3 | 65.5 | 66.0 | 66.5 | 0.2 | 0.5 | 0.5 |
| SG&A expenses (THB m) | 8,646 | 9,454 | 9,785 | 10,157 | 9.4 | 3.5 | 3.8 |
| SG&A to sales (%) | 55.0 | 52.5 | 52.5 | 52.5 | (2.5) | 0.0 | 0.0 |
| Reported net profit (THB m) | 1,439 | 2,170 | 2,334 | 2,506 | 50.8 | 7.6 | 7.4 |
| Net margin (%) | 9.1 | 12.0 | 12.5 | 13.0 | 2.9 | 0.5 | 0.4 |
| Core profit (THB m) | 1,439 | 2,170 | 2,334 | 2,506 | 50.8 | 7.6 | 7.4 |
| Core margin (%) | 9.1 | 12.0 | 12.5 | 13.0 | 2.9 | 0.5 | 0.4 |

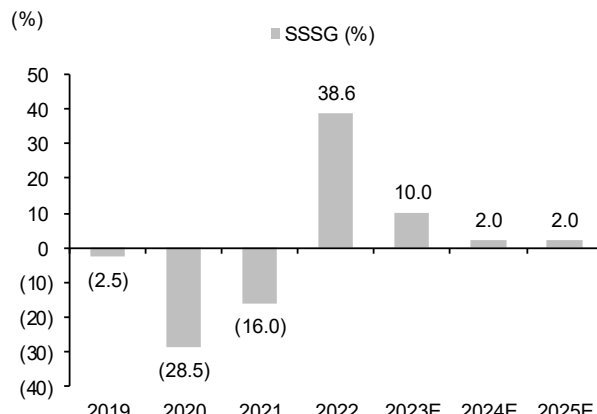
Source: FSSIA estimates

Exhibit 3: Quarterly same-store sales growth



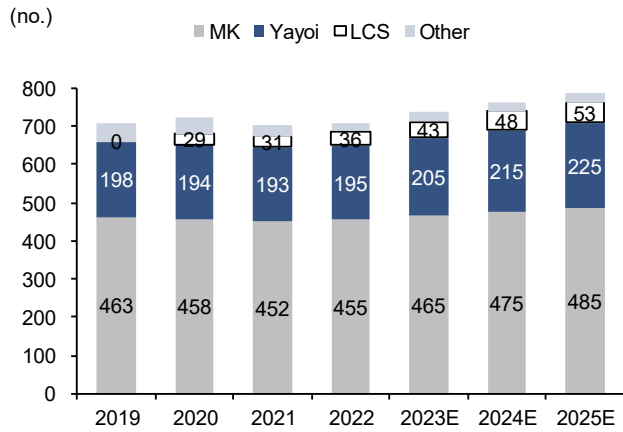
Sources: M; FSSIA estimates

Exhibit 4: Yearly same-store sales growth



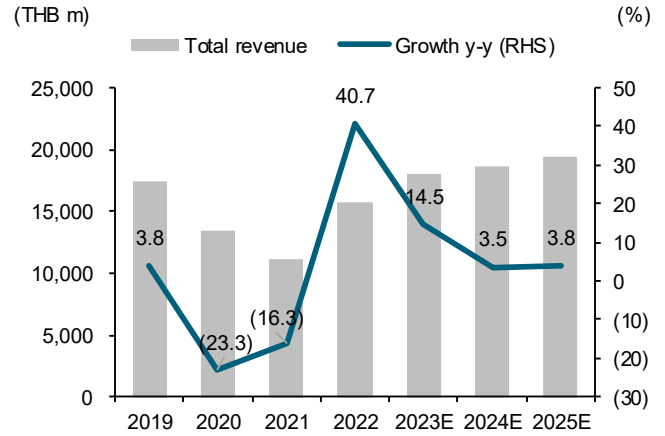
Sources: M; FSSIA estimates

Exhibit 5: Store expansions



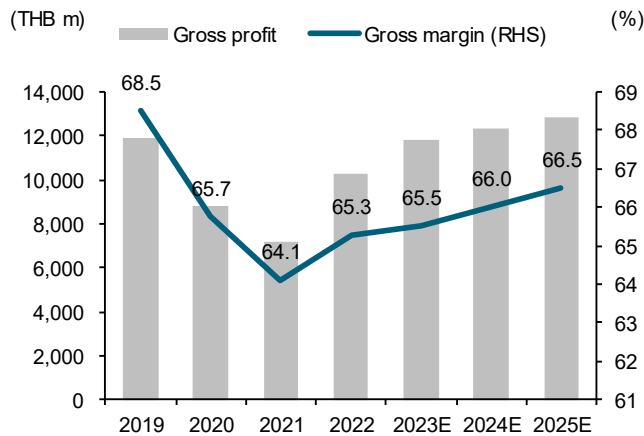
Sources: M, FSSIA estimates

Exhibit 6: Yearly total revenue and growth



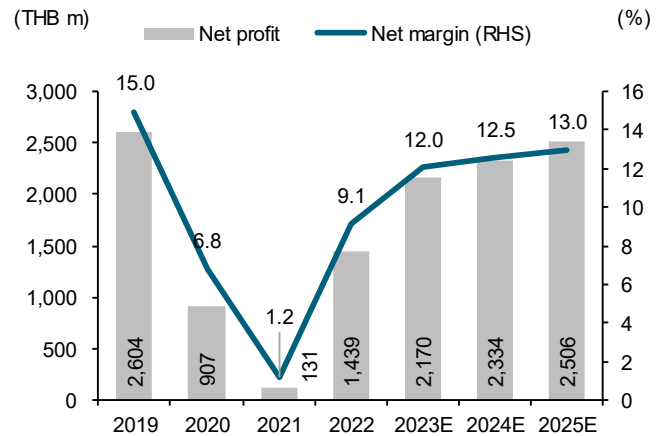
Sources: M, FSSIA estimates

Exhibit 7: Yearly gross profit and gross margin



Sources: M, FSSIA estimates

Exhibit 8: Yearly net profit and net margin



Sources: M, FSSIA estimates

Financial Statements

MK Restaurant Group

| Profit and Loss (THB m) Year Ending Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|--------------|---------------|---------------|---------------|---------------|
| Revenue | 11,182 | 15,728 | 18,008 | 18,639 | 19,347 |
| Cost of goods sold | (2,005) | (3,465) | (4,199) | (4,305) | (4,435) |
| Gross profit | 9,176 | 12,263 | 13,810 | 14,333 | 14,912 |
| Other operating income | 207 | 249 | 360 | 373 | 387 |
| Operating costs | (7,170) | (8,646) | (9,454) | (9,785) | (10,157) |
| Operating EBITDA | 2,213 | 3,867 | 4,715 | 4,921 | 5,142 |
| Depreciation | (2,009) | (1,997) | (2,014) | (2,032) | (2,047) |
| Goodwill amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 204 | 1,870 | 2,701 | 2,889 | 3,096 |
| Net financing costs | (69) | (87) | (81) | (81) | (80) |
| Associates | (23) | (29) | 0 | 9 | 10 |
| Recurring non-operating income | (23) | (29) | 0 | 9 | 10 |
| Non-recurring items | 0 | 0 | 0 | 0 | 0 |
| Profit before tax | 111 | 1,755 | 2,620 | 2,818 | 3,026 |
| Tax | 10 | (308) | (445) | (479) | (514) |
| Profit after tax | 121 | 1,447 | 2,175 | 2,339 | 2,511 |
| Minority interests | 10 | (8) | (5) | (5) | (5) |
| Preferred dividends | - | - | - | - | - |
| Other items | - | - | - | - | - |
| Reported net profit | 131 | 1,439 | 2,170 | 2,334 | 2,506 |
| Non-recurring items & goodwill (net) | 0 | 0 | 0 | 0 | 0 |
| Recurring net profit | 131 | 1,439 | 2,170 | 2,334 | 2,506 |
| Per share (THB) | | | | | |
| Recurring EPS * | 0.14 | 1.56 | 2.36 | 2.53 | 2.72 |
| Reported EPS | 0.14 | 1.56 | 2.36 | 2.53 | 2.72 |
| DPS | 0.80 | 1.40 | 2.00 | 2.28 | 2.45 |
| Diluted shares (used to calculate per share data) | 921 | 921 | 921 | 921 | 921 |
| Growth | | | | | |
| Revenue (%) | (16.3) | 40.7 | 14.5 | 3.5 | 3.8 |
| Operating EBITDA (%) | (32.3) | 74.7 | 21.9 | 4.4 | 4.5 |
| Operating EBIT (%) | (82.0) | 816.8 | 44.4 | 6.9 | 7.1 |
| Recurring EPS (%) | (85.6) | 998.5 | 50.8 | 7.6 | 7.4 |
| Reported EPS (%) | (85.6) | 998.5 | 50.8 | 7.6 | 7.4 |
| Operating performance | | | | | |
| Gross margin inc. depreciation (%) | 64.1 | 65.3 | 65.5 | 66.0 | 66.5 |
| Gross margin of key business (%) | 65.3 | 65.5 | 65.5 | 66.0 | 66.5 |
| Operating EBITDA margin (%) | 19.8 | 24.6 | 26.2 | 26.4 | 26.6 |
| Operating EBIT margin (%) | 1.8 | 11.9 | 15.0 | 15.5 | 16.0 |
| Net margin (%) | 1.2 | 9.1 | 12.0 | 12.5 | 13.0 |
| Effective tax rate (%) | (8.5) | 17.5 | 17.0 | 17.0 | 17.0 |
| Dividend payout on recurring profit (%) | 562.5 | 89.6 | 85.0 | 90.0 | 90.0 |
| Interest cover (X) | 2.6 | 21.2 | 33.3 | 35.9 | 39.1 |
| Inventory days | 73.8 | 42.5 | 43.9 | 51.0 | 50.6 |
| Debtor days | 4.5 | 3.3 | 2.7 | 2.9 | 2.9 |
| Creditor days | 242.7 | 147.7 | 129.6 | 131.2 | 130.1 |
| Operating ROIC (%) | 17.2 | 230.6 | 316.6 | 233.9 | 221.7 |
| ROIC (%) | 1.5 | 16.1 | 23.4 | 24.7 | 25.5 |
| ROE (%) | 1.0 | 10.8 | 15.9 | 16.8 | 17.7 |
| ROA (%) | 0.9 | 7.7 | 11.2 | 11.9 | 12.5 |
| * Pre-exceptional, pre-goodwill and fully diluted | | | | | |
| Revenue by Division (THB m) | | | | | |
| MK | 8,274 | 11,639 | 13,268 | 13,666 | 14,144 |
| Yayoi | 2,124 | 2,831 | 3,227 | 3,324 | 3,441 |
| LCS | 559 | 944 | 1,151 | 1,266 | 1,355 |
| Other | 224 | 315 | 362 | 382 | 407 |

Sources: MK Restaurant Group; FSSIA estimates

Financial Statements

MK Restaurant Group

| Cash Flow (THB m) Year Ending Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Recurring net profit | 131 | 1,439 | 2,170 | 2,334 | 2,506 |
| Depreciation | 2,009 | 1,997 | 2,014 | 2,032 | 2,047 |
| Associates & minorities | 13 | 37 | 25 | (4) | (5) |
| Other non-cash items | 0 | 0 | 0 | 0 | 0 |
| Change in working capital | (147) | 295 | (126) | 24 | 28 |
| Cash flow from operations | 2,007 | 3,768 | 4,083 | 4,385 | 4,576 |
| Capex - maintenance | (5,049) | (1,653) | (1,950) | (2,300) | (2,600) |
| Capex - new investment | - | - | - | - | - |
| Net acquisitions & disposals | - | - | - | - | - |
| Other investments (net) | 3,910 | (691) | 19 | (28) | (32) |
| Cash flow from investing | (1,139) | (2,344) | (1,931) | (2,328) | (2,632) |
| Dividends paid | (460) | (1,197) | (1,844) | (2,100) | (2,256) |
| Equity finance | 0 | 0 | 0 | 0 | 0 |
| Debt finance | (410) | (187) | (270) | (23) | 177 |
| Other financing cash flows | 28 | 51 | (95) | 38 | 42 |
| Cash flow from financing | (842) | (1,333) | (2,209) | (2,085) | (2,036) |
| Non-recurring cash flows | - | - | - | - | - |
| Other adjustments | 0 | 0 | 0 | 0 | 0 |
| Net other adjustments | 0 | 0 | 0 | 0 | 0 |
| Movement in cash | 26 | 91 | (57) | (29) | (92) |
| Free cash flow to firm (FCFF) | 937.23 | 1,510.24 | 2,233.26 | 2,137.61 | 2,023.92 |
| Free cash flow to equity (FCFE) | 486.05 | 1,287.71 | 1,787.00 | 2,071.73 | 2,163.91 |

Per share (THB)

| | | | | | |
|-------------------------------|------|------|------|------|------|
| FCFF per share | 1.02 | 1.64 | 2.43 | 2.32 | 2.20 |
| FCFE per share | 0.53 | 1.40 | 1.94 | 2.25 | 2.35 |
| Recurring cash flow per share | 2.34 | 3.77 | 4.57 | 4.74 | 4.94 |

| Balance Sheet (THB m) Year Ending Dec | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|---------------|---------------|---------------|---------------|---------------|
| Tangible fixed assets (gross) | 11,525 | 11,913 | 12,263 | 12,613 | 12,913 |
| Less: Accumulated depreciation | (8,683) | (9,167) | (9,258) | (9,351) | (9,444) |
| Tangible fixed assets (net) | 2,842 | 2,747 | 3,005 | 3,263 | 3,469 |
| Intangible fixed assets (net) | 5,810 | 5,533 | 5,210 | 5,221 | 5,568 |
| Long-term financial assets | - | - | - | - | - |
| Invest. in associates & subsidiaries | 1,690 | 2,366 | 2,366 | 2,375 | 2,385 |
| Cash & equivalents | 7,689 | 7,779 | 7,722 | 7,694 | 7,602 |
| A/C receivable | 167 | 121 | 148 | 153 | 159 |
| Inventories | 392 | 414 | 596 | 608 | 621 |
| Other current assets | 170 | 111 | 180 | 186 | 193 |
| Current assets | 8,418 | 8,426 | 8,646 | 8,641 | 8,576 |
| Other assets | 808 | 830 | 810 | 839 | 871 |
| Total assets | 19,569 | 19,901 | 20,038 | 20,339 | 20,868 |
| Common equity | 13,194 | 13,443 | 13,768 | 14,002 | 14,252 |
| Minorities etc. | 314 | 322 | 347 | 352 | 357 |
| Total shareholders' equity | 13,509 | 13,765 | 14,115 | 14,354 | 14,609 |
| Long term debt | 2,207 | 2,023 | 1,823 | 1,723 | 1,823 |
| Other long-term liabilities | 1,124 | 1,175 | 1,081 | 1,118 | 1,161 |
| Long-term liabilities | 3,331 | 3,198 | 2,903 | 2,841 | 2,984 |
| A/C payable | 1,355 | 1,449 | 1,532 | 1,563 | 1,598 |
| Short term debt | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities | 1,374 | 1,489 | 1,487 | 1,581 | 1,677 |
| Current liabilities | 2,729 | 2,938 | 3,019 | 3,144 | 3,275 |
| Total liabilities and shareholders' equity | 19,569 | 19,901 | 20,038 | 20,339 | 20,868 |
| Net working capital | (2,000) | (2,291) | (2,095) | (2,197) | (2,302) |
| Invested capital | 9,151 | 9,184 | 9,297 | 9,501 | 9,991 |

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

Per share (THB)

| | | | | | |
|-------------------------------|-------|-------|-------|-------|-------|
| Book value per share | 14.33 | 14.60 | 14.95 | 15.20 | 15.48 |
| Tangible book value per share | 8.02 | 8.59 | 9.29 | 9.53 | 9.43 |

Financial strength

| | | | | | |
|---------------------------|--------|--------|--------|--------|--------|
| Net debt/equity (%) | (40.6) | (41.8) | (41.8) | (41.6) | (39.6) |
| Net debt/total assets (%) | (28.0) | (28.9) | (29.4) | (29.4) | (27.7) |
| Current ratio (x) | 3.1 | 2.9 | 2.9 | 2.7 | 2.6 |
| CF interest cover (x) | 8.0 | 15.9 | 23.0 | 26.7 | 28.2 |

| Valuation | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|--------------|-------------|-------------|-------------|-------------|
| Recurring P/E (x) * | 358.6 | 32.6 | 21.6 | 20.1 | 18.7 |
| Recurring P/E @ target price (x) * | 414.8 | 37.8 | 25.0 | 23.3 | 21.7 |
| Reported P/E (x) | 358.6 | 32.6 | 21.6 | 20.1 | 18.7 |
| Dividend yield (%) | 1.6 | 2.7 | 3.9 | 4.5 | 4.8 |
| Price/book (x) | 3.6 | 3.5 | 3.4 | 3.4 | 3.3 |
| Price/tangible book (x) | 6.4 | 5.9 | 5.5 | 5.3 | 5.4 |
| EV/EBITDA (x) ** | 18.9 | 10.7 | 8.8 | 8.4 | 8.1 |
| EV/EBITDA @ target price (x) ** | 22.2 | 12.6 | 10.3 | 9.9 | 9.5 |
| EV/invested capital (x) | 4.6 | 4.5 | 4.5 | 4.4 | 4.2 |

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

Sources: MK Restaurant Group; FSSIA estimates

Public disclosures related to sustainable development evaluation of Thai listed companies

Rating regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) "**Sustainability Investment List (THSI)**" by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

CG Score by the Thai Institute of Directors Association (Thai IOD)¹

The **CG Score** indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The **five underlying categories and weighting** used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

AGM Checklist by the Thai Investors Association (TIA)²

The "**AGM Checklist**" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The **Checklist** contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)³

A **CAC certified member** is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member **start with** by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the **CAC Council** for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

Sustainability Investment (THSI)⁴ by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **Environmental**, and **Social** issues, by managing business with transparency in **Governance**. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **Economic** (CG, risk management, customer relation management, supply chain management, and innovation); **Environmental** (environmental management, eco-efficiency, and climate risk); **Social** (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices⁵ (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the **THSI list**, the SET further developed a sustainability **SETTHSI Index** in June 2018 from selected THSI companies whose 1) market capitalisation > THB50 (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

Disclaimer:

¹ Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

² Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

³ Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

⁴ Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

⁵ Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Sureeporn Teewasuwet FSS International Investment Advisory Securities Co., Ltd

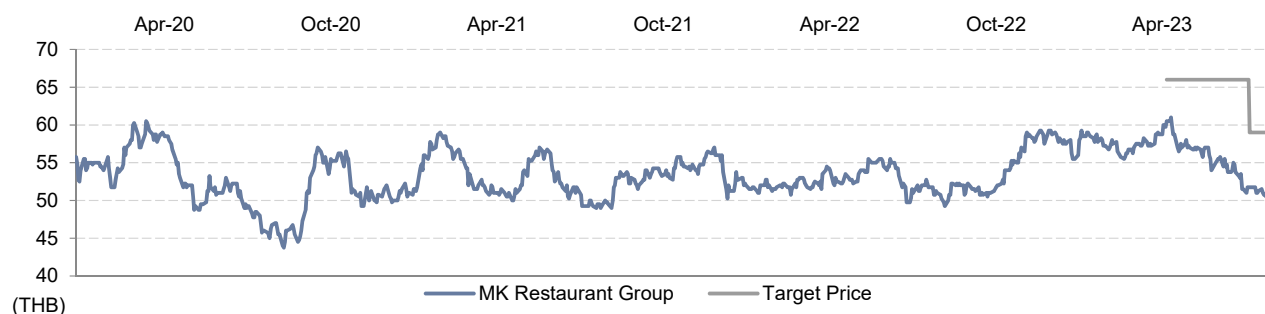
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History of change in investment rating and/or target price

MK Restaurant Group (M TB)



| Date | Rating | Target price | Date | Rating | Target price | Date | Rating | Target price |
|-------------|--------|--------------|-------------|--------|--------------|------|--------|--------------|
| 05-Jan-2023 | BUY | 66.00 | 22-Mar-2023 | BUY | 59.00 | - | - | - |

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 |
|---------------------|--------|-----------|--------|---|
| MK Restaurant Group | M TB | THB 51.00 | BUY | Downside risks to our P/E-based TP include 1) a slower-than-expected consumption recovery; 2) potential rises in raw material costs; 3) a lower-than-expected new store expansion; and 4) a minimum wage increase and labour shortages. |

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

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All share prices are as at market close on 12-Apr-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.