

16 May 2024

Consumer Cyclical | Retailing

Central Retail Corporation (CRC TB)

Buy (Maintained)

Seeking Better Sales And Opex Controls; Still BUY

Target Price (Return): THB47.50 (48.4%)
 Price (Market Cap): THB32 (USD5,286m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (THB/USD) 381m/10.4m

- **Keep BUY and THB47.50 TP, 48% upside and c.2% yield.** During Wednesday's meeting with analysts, Central Retail Corporation maintained its 2024F guidance. We expect to see stronger earnings in 2H24F, driven by a better SSSG momentum, more openings of big-format stores, and opex controls.
- **1Q24 results recap.** CRC reported 1Q24 net profit of THB2.17bn (flat YoY, -31% QoQ). Excluding non-recurring items, core profit totalled THB2.52bn (+14% YoY, -13% QoQ). The YoY growth was driven by: i) Total sales growth of 6% and the group's SSSG by +1%, mainly from fashion and food segments, and ii) opex-to-sales ratio dropping 0.8ppts on efficient controls over personnel and marketing expenses. The QoQ decline was due to: i) Narrower GPM of 2.5ppts following a higher mix of low-margin items sold during the e-tax rebate scheme for the fashion business in Thailand and sales promotion for its food wing in Vietnam during the Tet holiday period, and ii) a one-time, smaller income tax in 4Q23. CRC's EBT still expanded 8% QoQ and its 1Q24 core profit accounted 25% of our FY24 forecast.
- **SSSG supports ahead.** The group's SSSG remained soft in April (c.-3% to -2% YoY) before improving to c.1-2% growth in early May. We expect the Thai tourism recovery to continue, and the late fiscal 2024 budget spending from May and the completed enhancement of two Thai Watsadu flagship hardline stores at end-April could be SSSG supports in 2Q24. Transformation of CRC's flagship Central Chidlom to a luxury departmental store may boost its fashion SSSG and GPM in 3Q24. The scheduled nationwide minimum wage hike in October and the possible implementation of the government digital wallet scheme may also act as catalysts in 4Q24.
- **Expanding big-format stores.** CRC opened two Central Departmental Stores, three Tops Supermarket, and one GO Wholesale in 1Q24. It plans to open 18 big-box stores focusing on hard line and food segments between 2Q-4Q24 – nine Thai Watsadu, six GO Wholesale, and three Vietnam GO! hypermarkets. We view these new stores will strengthen its 2H24F topline.
- **Well-managed opex.** Management maintained the company's guidance on opex-to-total revenue ratio of 27.5% (1Q24: 26.7%), as there may be some headwinds to raise the opex amount in the following quarters, ie higher personnel and pre-opening expenses for new stores in the pipeline. We think other costs (ie marketing and utilities) may be optimised to maintain the ratio.
- **Maintain forecasts.** We expect a core profit of THB9.21bn (+13% YoY) in 2024 – near pre-COVID-19 levels. Key earnings drivers: i) 9% expected total sales growth, ii) flattish GPM (28.7%), iii) lower opex-to-sales ratio (-0.4ppts), and iv) core profit margin expansion (+0.1ppts). 2Q24F earnings may expand YoY and seasonally decline QoQ.
- **Valuation.** As CRC's 3.2 ESG score is the country median, we applied 0% premium/discount to its intrinsic value to derive our DCF-based TP. Its current 22x FY24F P/E looks undemanding. Key risks include rising competition and higher-than-expected opex.

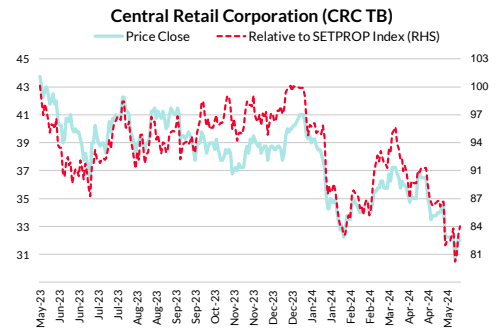
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.0)	(12.3)	(7.3)	(18.5)	(29.3)
Relative	(16.6)	(8.2)	(4.9)	(15.3)	(15.5)
52-wk Price low/high (THB)	30.75 – 43.75				



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

CRC applies the circular economy concept, and has carried out the Central Retail Love The Earth campaign since 2018 – consisting three main projects: Journey to Zero, Central Green, and Forest Restoration. Some of its key projects include the installation of solar rooftop systems, food surplus management, and the Say No to Plastic campaign.

S: EXCELLENT

The Central Tham corporate project looks to create shared values aimed at developing the community, society, and environment to create jobs, occupations and good quality of life in a sustainable manner. This includes the employment of persons with disabilities and Jing Jai farmers' market project. CRC also focuses on developing creativity of all employees to increase innovation value and serve as a key driver of the implementation of its strategy in the direction of customer-centric omni-channel platforms.

G: EXCELLENT

Five out of 15 directors on the board are independent directors. Four of the board are female. CRC frames its businesses with good governance, with a commitment towards morality, ethics, and due regard for the balanced interests among its stakeholders.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (THBm)	219,898	231,438	252,861	268,170	281,423
Recurring net profit (THBm)	6,930	8,168	9,209	10,337	11,774
Recurring net profit growth (%)	3,559.5	17.9	12.7	12.2	13.9
Recurring P/E (x)	29.18	24.76	21.96	19.57	17.18
P/B (x)	2.3	2.2	2.1	1.9	1.8
P/CF (x)	10.46	6.88	8.04	6.95	6.77
Dividend Yield (%)	1.5	1.7	1.8	2.0	2.3
EV/EBITDA (x)	10.09	9.32	8.81	8.39	7.88
Return on average equity (%)	8.5	9.0	9.7	10.2	10.9
Net debt to equity (%)	187.2	177.5	163.3	146.1	129.6

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Thailand	Recurring EPS	1.10	1.29	1.46	1.64	1.86
Consumer Cyclical	DPS	0.48	0.55	0.58	0.65	0.75
Central Retail Corporation	BVPS	13.72	14.53	15.44	16.49	17.70
CRC TB	Return on average equity (%)	8.5	9.0	9.7	10.2	10.9
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	29.18	24.76	21.96	19.57	17.18
DCF.	P/B (x)	2.3	2.2	2.1	1.9	1.8
	FCF Yield (%)	0.7	2.2	1.6	3.5	3.9
Key drivers	Dividend Yield (%)	1.5	1.7	1.8	2.0	2.3
i. Opening of new stores and enhancement of existing ones;	EV/EBITDA (x)	10.09	9.32	8.81	8.39	7.88
ii. Rising omni-channel sales;	EV/EBIT (x)	23.82	20.40	18.91	17.45	15.82
iii. Improving sales mix of high-margin merchandise, eg fashion business segment and private label products;						
iv. Increasing leasable space from the property business.						
	Income statement (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	219,898	231,438	252,861	268,170	281,423
i. A slow recovery in consumption;	Gross profit	60,251	66,497	72,599	76,981	80,990
ii. Rising competition;	EBITDA	29,804	32,625	34,980	36,469	38,499
iii. Higher-than-expected opex.	Depreciation and amortisation	(17,171)	(17,722)	(18,683)	(18,935)	(19,328)
	Operating profit	12,633	14,903	16,297	17,534	19,170
Company Profile	Net interest	(3,479)	(4,642)	(4,271)	(4,051)	(3,841)
Central Retail Corp is Thailand's leading multi-format retail platform, with retail banners and omni-channel offerings across multiple retail categories. This includes fashion, hardline, food, and leasable property, which accounted for 25%, 33%, 38%, and 4% of 2022 core revenue. Its key operating destinations are Thailand, Vietnam, and Italy, which represented 70%, 24%, and 6% of 2022 sales. Its store portfolio had a total 1,842 point-of-sales and 71 shopping malls as of end 2022.	Pre-tax profit	9,399	10,109	12,026	13,483	15,329
	Taxation	(1,794)	(1,587)	(2,285)	(2,562)	(2,913)
	Reported net profit	7,175	8,016	9,209	10,337	11,774
	Recurring net profit	6,930	8,168	9,209	10,337	11,774
	Cash flow (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(4,094)	(1,204)	(6,242)	(220)	(1,301)
	Cash flow from operations	19,342	29,403	25,148	29,080	29,871
	Capex	(18,000)	(25,000)	(22,000)	(22,000)	(22,000)
	Cash flow from investing activities	(17,814)	(24,763)	(22,000)	(22,000)	(22,000)
	Dividends paid	(2,295)	(3,239)	(3,476)	(3,684)	(4,135)
	Cash flow from financing activities	(3,391)	(4,985)	(5,139)	(7,237)	(6,140)
	Cash at beginning of period	16,579	14,716	14,371	12,381	12,224
	Net change in cash	(1,863)	(345)	(1,991)	(157)	1,731
	Ending balance cash	14,716	14,371	12,381	12,224	13,954
	Balance sheet (THBm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	15,617	14,814	12,823	12,666	14,397
	Tangible fixed assets	112,324	119,221	124,747	129,836	134,531
	Total investments	25,588	26,190	21,382	20,248	19,114
	Total assets	275,984	287,097	289,378	295,654	303,226
	Short-term debt	48,039	54,895	58,546	60,046	63,046
	Total long-term debt	89,032	84,662	78,387	73,387	68,387
	Total liabilities	211,099	216,837	213,385	213,007	212,940
	Total equity	64,885	70,260	75,994	82,647	90,286
	Total liabilities & equity	275,984	287,097	289,378	295,654	303,226
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	21.0	5.2	9.3	6.1	4.9
	Recurrent EPS growth (%)	3559.5	17.9	12.7	12.2	13.9
	Gross margin (%)	27.4	28.7	28.7	28.7	28.8
	Operating EBITDA margin (%)	13.6	14.1	13.8	13.6	13.7
	Net profit margin (%)	3.3	3.5	3.6	3.9	4.2
	Dividend payout ratio (%)	42.3	43.4	40.0	40.0	40.0
	Capex/sales (%)	8.2	10.8	8.7	8.2	7.8
	Interest cover (x)	3.63	3.21	3.82	4.33	4.99

Source: Company data, RHB

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Figure 1: CRC's DCF valuation

THBm	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	16,297	17,534	19,170	20,861	22,447	24,119	25,876	27,731	28,958	30,205
EBIT (1-t)	13,201	14,203	15,528	16,898	18,182	19,537	20,960	22,462	23,456	24,466
Depreciation & amortisation	18,683	18,935	19,328	19,842	20,066	20,378	20,767	20,837	21,394	21,745
Change in net working capital	(4,401)	7,400	(6,176)	1,418	(367)	(757)	671	(28)	60	166
Capex	(22,000)	(22,000)	(22,000)	(22,000)	(15,000)	(15,000)	(15,000)	(16,000)	(17,000)	(18,000)
Net free cash flow to firm	5,483	18,538	6,680	16,158	22,881	24,158	27,398	27,271	27,910	28,378
Terminal value										627,273
PV	5,148	16,141	5,393	12,097	15,884	15,551	16,354	15,094	14,324	312,023
Terminal growth	3.0%									
WACC	7.8%									
Total discounted firm value	428,009									
Less: Net debt	124,553									
Less: Minority interest	3,201									
Equity value	300,256									
Number of shares (m)	6,320									
Intrinsic value (THB/share)	47.50									
ESG premium/(discount)	0%									
TP (THB/share)	47.50									

Source: RHB

Figure 2: CRC's performance review

FYE Dec (THBm)	1Q23	2Q23	3Q23	4Q23	1Q24	YoY % chg	QoQ % chg
Turnover	58,960	55,853	55,522	61,103	62,763	6.4	2.7
Gross profit	16,386	15,975	15,985	18,150	17,303	5.6	-4.7
Gross profit margin (%)	27.8	28.6	28.8	29.7	27.6		
SG&A/sales (%)	28.7	30.6	31.1	30.4	27.9		
EBIT	3,996	3,375	3,072	4,461	4,571	14.4	2.5
EBIT margin (%)	6.8	6.0	5.5	7.3	7.3		
EBITDA	8,243	7,732	7,593	9,057	9,070	10.0	0.1
EBITDA margin (%)	14.0	13.8	13.7	14.8	14.5		
Interest expense	(1,031)	(1,117)	(1,215)	(1,278)	(1,140)	10.6	-10.8
Pre-tax profit	2,965	2,258	1,856	3,182	3,431	15.7	7.8
Tax	(602)	(417)	(424)	(143)	(760)	26.2	431.1
Core profit	2,219	1,717	1,321	2,911	2,524	13.7	-13.3
Core profit margin (%)	3.8	3.1	2.4	4.8	4.0		
Net profit	2,168	1,567	1,143	3,138	2,171	0.1	-30.8
Net profit margin (%)	3.7	2.8	2.1	5.1	3.5		
Key indicators							
SSSG (%)							
Fashion	31	14	6	3	2		
Hardline	0.3	-2	-6	-8	-5		
Food	8	-2	-3	-5	4		

Source: Company data, RHB

Emissions And ESG

Trend analysis

CRC had a total GHG emissions of 1,024,360 tCO₂e in 2023, from 571,781 tCO₂e the previous year, as the data coverage in 2023 covers its business operations in Thailand and Vietnam.

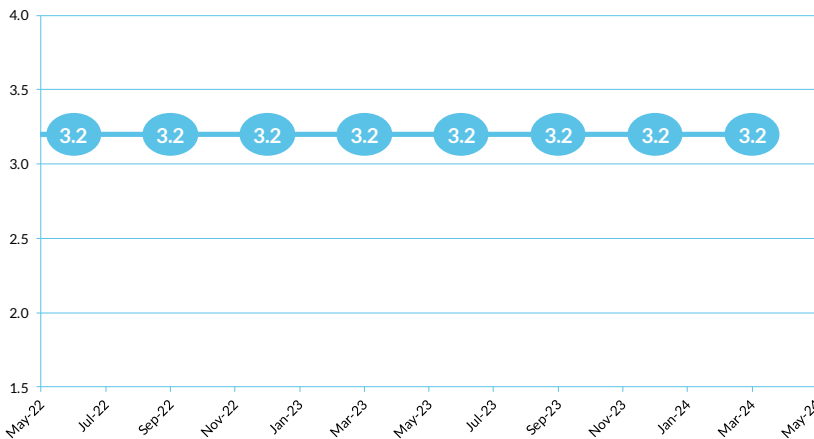
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	39,527	53,772	56,695
Scope 2	384,588	435,910	411,511
Scope 3	37,183	82,099	556,154
Total emissions	461,298	571,781	1,024,360

Source: Company data, RHB

Latest ESG-Related Developments

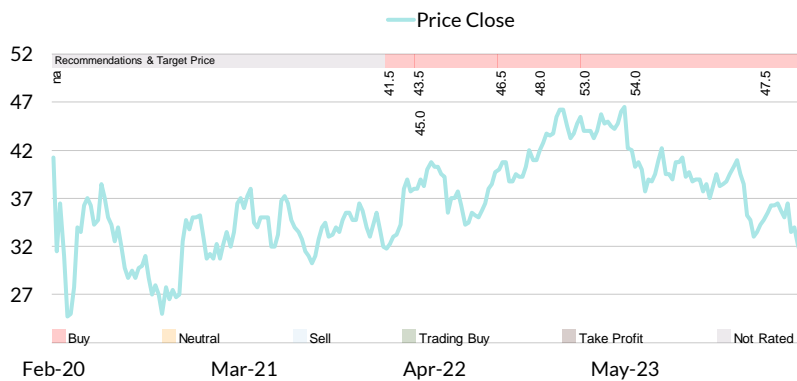
- In 2022, CRC pledged to become a green & sustainable retail business and adopted the “ReNEW” strategy, which has become a key factor in driving business growth.
- CRC also set 2030 targets and looks to achieve net zero emissions in 2050, including; i) Reduce greenhouse gases by 30%, ii) navigate society wellbeing by generating an income of THB5,400m per year for local communities, iii) eco-friendly packaging with 100% implementation across its businesses, and iv) waste management and reducing food waste by 30%.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-04	Buy	47.5	35.5
2024-02-13	Buy	47.5	35.0
2024-01-08	Buy	54.0	39.0
2023-11-15	Buy	54.0	39.3
2023-09-27	Buy	54.0	38.5
2023-09-14	Buy	54.0	41.0
2023-08-17	Buy	54.0	39.0
2023-05-22	Buy	54.0	42.8
2023-03-01	Buy	53.0	45.0
2023-02-07	Buy	53.0	44.3
2022-12-01	Buy	48.0	44.0
2022-11-16	Buy	48.0	41.5
2022-11-07	Buy	48.0	40.3
2022-09-27	Buy	46.5	40.3
2022-09-22	Buy	46.5	39.5

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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