

31 July 2023

Consumer Cyclical | Retailing

Siam Global House (GLOBAL TB)

Buy (Maintained)

2Q23 Results Below Forecasts; Keep BUY

Target Price (Return): THB21 (27.3%)
 Price (Market Cap): THB16.50 (USD2,402m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (THB/USD) 163m/4.72m

- **Keep BUY, new THB21 TP (DCF) from THB22, 27% upside and c.1% yield.** 2Q23 core profit (-32% YoY, -21% QoQ) was below our and Street's forecasts. While we lower our estimates, Siam Global House's earnings may still slightly expand YoY in 2H23 as the outlook may remain challenging in 3Q23 before improving in 4Q23. GLOBAL's undemanding valuations of 23-26x FY23F-24F P/E (-1 to -1.5SD) reflect the weak results.
- **Lower-than-expected 2Q23 results.** GLOBAL reported a 2Q23 core profit of THB703m (-32% YoY, -21% QoQ), ie 15% and 13% below our and Street's forecasts, due to sluggish sales and opex hikes. Overall 1H23 core earnings stood at THB1.59bn (-27% YoY).
- **Steeper negative SSSG.** GLOBAL delivered -9.5% YoY SSSG in 2Q23, with the weakest momentum in June, a result lower than 1Q23's -8.7% – it turned negative from 2Q22's +1.5%. The impact of average steel prices (15% of the sales mix) falling 22% YoY (-7% QoQ) was the main reason. In 2Q23, GLOBAL opened two new construction material stores upcountry – Ranong and Roi Et – a net opening of three new stores in 1H23. Regardless, 2Q23 total sales fell 8% YoY and 5% QoQ to THB8.50bn.
- **GPM rebounds.** 2Q23 GPM stood at 25.4% (-1ppt YoY) due to the impact from steel price fluctuations, but it rebounded 0.4ppts QoQ on partial benefits from the private label product price hikes (+c.5%) and product mix management. The opex-to-sales ratio surged by 2.4ppts YoY and QoQ on lower sales, and elevated expenses related to new store openings, marketing activities, and higher utility costs. Equity profits totalled THB21m, jumping 147% YoY from a low base but down 40% QoQ due to weaker operations in Laos and Myanmar in tandem with the economy.
- **Possibly better in 4Q23.** We expect a slight YoY earnings growth in 2H23, with an improving 2H23 SSSG and GPM outlook vs 1H's numbers. This is based on: i) A narrower steel price gap vs in 2H22, ii) strategy to enhance the high-margin private label product mix to 25% from c.24% currently, iii) lower freight costs, and iv) opening of four new stores in Thailand and continued expansions of overseas outlets, and v) manageable opex. GLOBAL's net profit outlook may remain challenging in 3Q23 before improving in the final quarter, as the company booked inventory impairments and write-offs as one-time expenses in 4Q22.
- **Revise forecasts down.** We lower 2023F-2025F core earnings by 5-11% as we raise opex-to-sales ratio by 0.4-1.2ppts over the 3-year period and cut 2023F SSSG to -4.5% YoY (from -3%). Our current forecasts show a 2023 core earnings decline of 16% to THB3.09bn before turning to an 18% growth to THB3.66bn in 2024.
- **ESG.** GLOBAL's ESG score remains unchanged at 3.0. Given our country median of 3.2, we apply a 4% ESG discount to its intrinsic value and derive our new DCF-based TP of THB21.

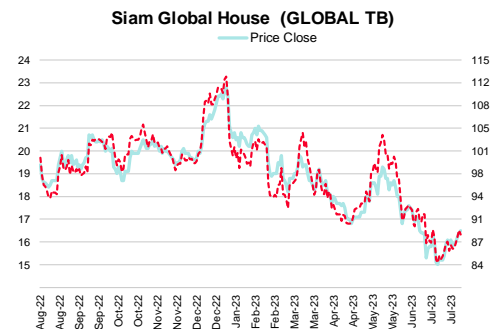
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.3)	1.2	(3.5)	(18.3)	(12.2)
Relative	(18.8)	(3.2)	(4.3)	(10.1)	(10.1)
52-wk Price low/high (THB)				15 – 22.80	



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD

GLOBAL installed solar roof panels at all its stores in 2019 under its "Green Store" project, hence lowering greenhouse gas emissions and opex. It has applied the automated storage and retrieval system or ASRS for new stores opened from 2016 and replaced diesel forklifts with electric ones. GLOBAL has also reduced the size of tax receipts and encourages back-office staff to go paperless.

S: GOOD

GLOBAL has created jobs among the elderly and handicapped (1.1% of its total staff numbers). The company provides personal protective equipment to staff to reduce operational accidents. It also supports skilled technicians to earn higher income by joining GLOBAL's home improvement servicing platform. The company also promotes local growers in Nan Province to supply raw coffee beans to its owned La Mayon Coffee offerings.

G: GOOD

GLOBAL has 10 directors on its board. Four are independent and one is female. The company paid a total of THB68m or 3.2% of earnings as compensation to management. It has been developing its investor relation activities over the past couple of years.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (THBm)	33,498	35,270	34,360	38,147	41,405
Recurring net profit (THBm)	3,344	3,658	3,090	3,660	4,230
Recurring net profit growth (%)	71.0	9.4	(15.5)	18.5	15.6
Recurring P/E (x)	22.21	21.21	26.18	22.55	19.51
P/B (x)	3.9	3.6	3.4	3.1	2.8
P/CF (x)	30.07	15.24	13.74	17.69	14.46
Dividend Yield (%)	1.8	1.6	1.3	1.9	2.2
EV/EBITDA (x)	15.78	15.14	16.71	14.52	12.61
Return on average equity (%)	18.3	16.9	13.5	14.4	15.1
Net debt to equity (%)	74.1	59.3	38.6	30.5	19.5

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Thailand	Recurring EPS	0.74	0.78	0.63	0.73	0.85
Consumer Cyclical	DPS	0.30	0.27	0.22	0.31	0.36
Siam Global House	BVPS	4.24	4.55	4.81	5.32	5.86
GLOBAL TB	Return on average equity (%)	18.3	16.9	13.5	14.4	15.1
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	22.21	21.21	26.18	22.55	19.51
DCF	P/B (x)	3.9	3.6	3.4	3.1	2.8
	FCF Yield (%)	1.7	4.5	5.4	2.7	4.8
Key drivers	Dividend Yield (%)	1.8	1.6	1.3	1.9	2.2
i. Aggressive expansion of new stores;	EV/EBITDA (x)	15.78	15.14	16.71	14.52	12.61
ii. Increase in sales contributed by high-margin products;	EV/EBIT (x)	20.48	19.26	22.18	18.90	16.14
iii. Increased demand for construction materials and home improvement products.						
	Income statement (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	33,498	35,270	34,360	38,147	41,405
i. Fluctuation of the domestic economy;	Gross profit	8,431	9,104	8,659	9,651	10,508
ii. Inventory build-up from its aggressive expansion;	EBITDA	5,506	5,821	5,254	6,092	6,828
iii. Delay in opening new stores.	Depreciation and amortisation	(1,264)	(1,246)	(1,294)	(1,412)	(1,496)
	Operating profit	4,242	4,575	3,960	4,681	5,333
Company Profile	Net interest	(180)	(193)	(221)	(200)	(137)
Siam Global House is a Thailand-based distributor of home construction materials and equipment. It is a one-stop shopping home centre that offers construction materials, home decor products, and tools and equipment used in construction, home improvement, and household and gardening decorations – these are retailed via a modern trade warehouse format. The company's stores cover many provinces nationwide.	Pre-tax profit	4,142	4,330	3,868	4,610	5,325
	Taxation	(783)	(824)	(754)	(922)	(1,065)
	Reported net profit	3,344	3,487	3,090	3,660	4,230
	Recurring net profit	3,344	3,658	3,090	3,660	4,230
	Cash flow (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(3,092)	(740)	747	(1,328)	(1,085)
	Cash flow from operations	2,470	5,089	5,885	4,665	5,706
	Capex	(1,216)	(1,617)	(1,528)	(2,450)	(1,750)
	Cash flow from investing activities	(1,843)	(1,905)	(1,735)	(2,453)	(1,721)
	Dividends paid	(814)	(1,173)	(1,274)	(1,083)	(1,537)
	Cash flow from financing activities	(158)	(3,731)	(3,446)	(2,443)	(4,308)
	Cash at beginning of period	1,224	1,694	1,147	1,852	1,620
	Net change in cash	470	(547)	704	(232)	(324)
	Ending balance cash	1,694	1,147	1,852	1,620	1,296
	Balance sheet (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	1,694	1,147	1,852	1,620	1,296
	Tangible fixed assets	17,099	17,471	17,705	18,744	18,998
	Total investments	2,108	2,645	2,645	2,645	2,645
	Total assets	39,275	39,148	40,034	41,608	41,904
	Short-term debt	13,128	11,006	7,990	6,590	3,840
	Total long-term debt	3,268	3,252	3,252	3,252	3,252
	Total liabilities	19,439	17,057	15,698	14,662	12,229
	Total equity	19,836	22,091	24,337	26,947	29,676
	Total liabilities & equity	39,275	39,148	40,034	41,608	41,904
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	25.0	5.3	(2.6)	11.0	8.5
	Recurrent EPS growth (%)	63.4	4.7	(19.0)	16.1	15.6
	Gross margin (%)	25.2	25.8	25.2	25.3	25.4
	Operating EBITDA margin (%)	16.4	16.5	15.3	16.0	16.5
	Net profit margin (%)	10.0	9.9	9.0	9.6	10.2
	Dividend payout ratio (%)	41.1	36.5	35.1	42.0	42.0
	Capex/sales (%)	3.6	4.6	4.4	6.4	4.2
	Interest cover (x)	23.5	23.7	17.9	23.4	38.9

Source: Company data, RHB

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Figure 1: GLOBAL's DCF valuation

THBm	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT	4,089	4,810	5,462	5,791	6,105	6,465	6,839	7,229	7,634	8,056
EBIT (1-t)	3,292	3,848	4,370	4,633	4,884	5,172	5,471	5,783	6,107	6,445
Depreciation & amortisation	1,294	1,412	1,496	1,546	1,596	1,647	1,697	1,748	1,798	1,848
Change in net working capital	1,487	(2,075)	244	355	106	35	(1,221)	(84)	(87)	(91)
Capex	(1,528)	(2,450)	(1,750)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)
Net free cash flow to firm	4,545	734	4,359	5,484	5,537	5,804	4,897	6,396	6,768	7,153
Terminal value										170,072
PV	4,236	638	3,530	4,140	3,896	3,807	2,994	3,646	3,596	87,769
Terminal growth	3.0%									
WACC	7.3%									
Total discounted firm value	118,252									
Less: Net debt	8,256									
Less: Minority interest	334									
Equity value	109,662									
Number of shares (m)	5,002									
Intrinsic value (THB/share)	21.90									
ESG premium/(discount)	(4%)									
TP (THB/share)	21.00									

Source: RHB

Figure 2: GLOBAL's performance review

FYE Dec (THBm)	2Q22	3Q22	4Q22	1Q23	2Q23	YoY % chg	QoQ % chg	1H22	1H23	YoY % chg
Turnover	9,220	8,170	8,247	8,933	8,503	-7.8	-4.8	18,853	17,437	-7.5
Gross profit	2,438	2,104	2,045	2,238	2,159	-11.5	-3.5	4,955	4,397	-11.3
Gross profit margin (%)	26.4	25.8	24.8	25.0	25.4			26.3	25.2	
SG&A/sales (%)	14.3	16.2	16.5	14.3	16.7			13.6	15.5	
EBIT	1,331	1,004	876	1,164	937	-29.5	-19.5	2,814	2,102	-25.3
EBIT margin (%)	14.4	12.3	10.6	13.0	11.0			14.9	12.1	
EBITDA	1,643	1,321	1,181	1,452	1,240	-24.5	-14.6	3,438	2,692	-21.7
EBITDA margin (%)	17.8	16.2	14.3	16.3	14.6			18.2	15.4	
Interest expense	(47)	(47)	(54)	(64)	(65)	40.6	2.7	(92)	(129)	41.0
Pre-tax profit	1,284	958	821	1,100	872	-32.1	-20.8	2,722	1,972	-27.6
Tax	(253)	(179)	(118)	(209)	(167)	-33.8	-20.2	(528)	(376)	-28.7
Core profit	1,028	774	699	887	703	-31.6	-20.8	2,185	1,591	-27.2
Core profit margin (%)	11.2	9.5	8.5	9.9	8.3			11.6	9.1	
Net profit	1,028	775	527	883	703	-31.6	-20.3	2,185	1,586	-27.4
Net profit margin (%)	11.2	9.5	6.4	9.9	8.3			11.6	9.1	
Key indicators										
Total store number	76	77	77	78	80			76	80	
SSSG (%)	1.5	4.4	-2.2	-8.7	-9.5			4.4	-9.1	

Source: Company data, RHB

Recommendation Chart

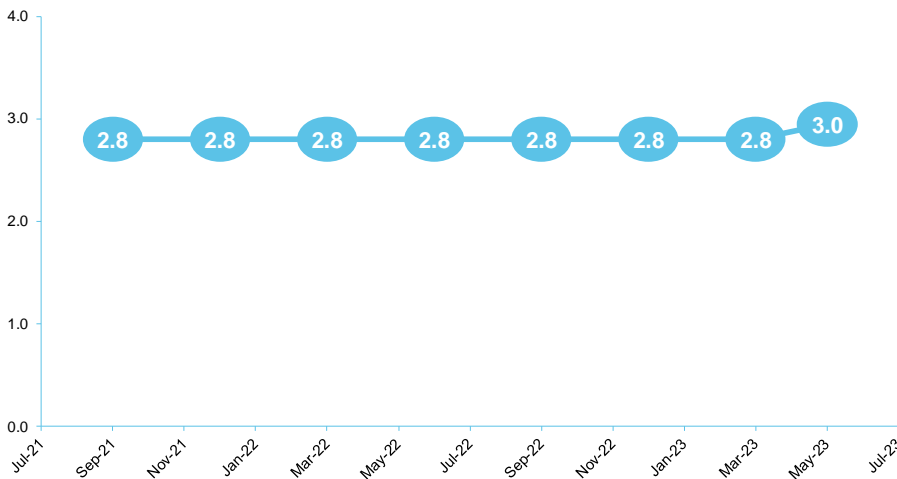


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-05	Buy	22.0	16.0
2023-06-09	Buy	22.0	17.4
2023-05-03	Buy	22.9	17.3
2023-03-28	Buy	24.0	19.2
2023-02-14	Buy	24.0	19.0
2023-01-06	Buy	26.0	22.8
2022-09-13	Buy	25.5	20.6
2022-07-07	Buy	25.5	17.8
2022-05-04	Buy	25.5	21.7
2022-04-21	Buy	25.5	23.2
2022-02-15	Buy	25.0	20.9
2022-01-18	Buy	25.0	20.4
2021-11-02	Buy	24.0	20.5
2021-10-04	Buy	24.0	20.8
2021-01-18	Take Profit	17.5	17.8

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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