

7 August 2023

Consumer Cyclical | Retailing

Home Product Center (HMPRO TB)

Buy (Maintained)

Eyeing 2H23 Supports; Keep BUY

Target Price (Return): THB18.20 (32.8%)
 Price (Market Cap): THB13.70 (USD5,184m)
 ESG score: 3.5 (out of 4)
 Avg Daily Turnover (THB/USD) 251m/7.24m

- **Still BUY, new THB18.20 TP (DCF) from THB18.50, 33% upside and 3% yield.** Post last Friday's analyst meeting, we believe Home Product Center could still deliver YoY core profit growth in 2H23 and reach a peak quarter in 4Q23 – the strongest among the Thai home improvement retailers. Despite currently lacking consumption stimulus measures, its aggressive opening of new stores, sales initiatives, and product mix management should act as key earnings drivers.
- **Lacking stimulus measures.** HMPRO's SSSG momentum for July 2023 were mixed – c.-1% YoY for HomePro Thailand (2Q23: 4.9%), c.1% for Mega Home (2Q23: -2%), and c.-3% for HomePro Malaysia (2Q23: -11%). Thailand's political uncertainty may affect consumer spending, mainly at stores in Bangkok and non-tourism cities. However, the opening of three Mega Home and two HomePro stores in 2H, and strategies on product trade-in services and more corporate customer penetrations, could support 2H23's topline growth. The possible consumption boost measures post the new cabinet formation may act as SSSG upsides, especially for 4Q23.
- **Enlarge trade-in services.** HMPRO launched a new trade-in services campaign in 1Q23, offering up to THB5,000 discounts to attract customers. Management revealed 20% of electrical appliance sales in 2Q23 were associated with the campaign. Expanding the trade-in coverage to more categories from June should ramp up sales for both HomePro and its recycling stores. The initiative would create more sustainable waste management towards a circular economy.
- **GPM keeps expanding.** We still expect HMPRO to post a higher GPM YoY in 2H23F, with support factors of: i) Rising sales of high-margin softline and home improvement items in 4Q23F; and ii) Mega Home's development of private label product mix increasing to c.20% from c.18% in 2Q23. The company earned 0.4ppts GPM hikes in 1H23, and in our view, likely to achieve its 2023 target to enhance GPM by 0.2ppts.
- **Opex remains high.** Its 2H23F opex-to-sales ratio may be slightly lower than 2H22's 20% – on full-quarter electricity charge drop. However, we think it would be higher than 2Q23's 19.5% – on new stores' pre-opening costs.
- **Trimming forecasts.** We lower core earnings slightly by 3% in 2023 and 1% in 2024-2025, as we mainly raise opex-to-sales ratio assumption by 0.5ppts over the 3-year period, despite revising 2023F SSSG to +3% YoY (from +2%). Our current forecasts show a 2023 core profit growth of 10% to THB6.84bn, and 9% growth to TH7.43bn in 2024. HMPRO's 3Q23F earnings may continue growing YoY, but likely to decline QoQ in a low season, before reaching its peak in 4Q23F.
- **Valuations.** HMPRO's ESG score of 3.5 is above the country median, so we apply a 6% premium to its intrinsic value to derive our new TP. It is still trading at 26x FY23F P/E or c.-1SD from its 5-year mean. Key risks include consumption slowdown and rising competition.

Analyst

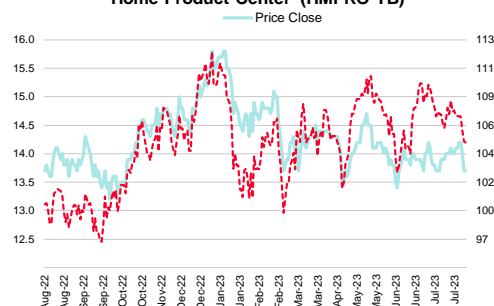
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.6)	(3.5)	(3.5)	(8.1)	2.2
Relative	(3.3)	(4.5)	(3.3)	1.3	6.5
52-wk Price low/high (THB)				13.20 – 15.80	

Home Product Center (HMPRO TB)



Source: Bloomberg

Overall ESG Score: 3.5 (out of 4)

E: EXCELLENT

HMPRO has set an operating framework to tackle environmental issues throughout the supply chain; amplifying operational efficiency via alternative energy or less consumption of natural resources, bolsters workforce awareness on energy conservation, and promotes energy saving-initiatives to its suppliers. Renewable energy usage and zero waste progress are at 27% and 84% of 2030 goals. HMPRO offers Eco Choice products to customers, which currently contribute c.48% of the sales mix.

S: EXCELLENT

To enhance employee engagement, HMPRO prioritises the development of employees to gain knowledge and improve, and ensures the welfare of its associates and their families' living wages. It strengthens business growth through partnership with suppliers and promotes sustainability management. HMPRO also offers customers' health and safety products, and services, eg elderly care.

G: EXCELLENT

HMPRO firmly upholds and complies with the principles of good corporate governance. It ensures shareholders' rights by clearly revealing the shareholding structure for transparent and accountable operations, regularly disseminates information via proper channels, and constantly holds meetings with investors.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (THBm)	60,568	65,091	70,569	73,708	76,885
Recurring net profit (THBm)	5,441	6,217	6,843	7,426	7,932
Recurring net profit growth (%)	5.5	14.3	10.1	8.5	6.8
Recurring P/E (x)	33.12	28.98	26.33	24.26	22.71
P/B (x)	7.9	7.4	6.6	6.2	5.9
P/CF (x)	26.25	21.81	13.96	15.25	14.47
Dividend Yield (%)	2.3	2.8	3.0	3.3	3.5
EV/EBITDA (x)	18.06	16.50	14.64	13.65	12.86
Return on average equity (%)	24.4	26.3	26.6	26.5	26.6
Net debt to equity (%)	38.5	40.8	24.6	17.7	10.9

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Thailand	Recurring EPS	0.41	0.47	0.52	0.56	0.60
Consumer Cyclical	DPS	0.32	0.38	0.42	0.45	0.48
Home Product Center	BVPS	1.74	1.85	2.06	2.20	2.34
HMPRO TB	Return on average equity (%)	24.4	26.3	26.6	26.5	26.6
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	33.12	28.98	26.33	24.26	22.71
DCF	P/B (x)	7.9	7.4	6.6	6.2	5.9
	FCF Yield (%)	2.4	0.8	4.4	3.9	4.2
Key drivers	Dividend Yield (%)	2.3	2.8	3.0	3.3	3.5
i. Opening of new stores – both HomePro and Mega Home;	EV/EBITDA (x)	18.06	16.50	14.64	13.65	12.86
ii. Strong demand for home improvement;	EV/EBIT (x)	26.28	22.93	20.66	19.09	17.87
iii. Rising sales contributions from private label products that improve profit margins.						
	Income statement (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	60,568	65,091	70,569	73,708	76,885
i. Consumption slowdown;	Gross profit	15,643	17,013	18,609	19,510	20,428
ii. Rising competition from smaller home improvement retailers;	EBITDA	10,258	11,259	12,488	13,300	13,994
iii. Delays in the opening of new stores;	Depreciation and amortisation	(3,208)	(3,156)	(3,639)	(3,788)	(3,918)
iv. High-volume Mega Home business undermining overall gross margins.	Operating profit	7,050	8,103	8,849	9,512	10,075
	Net interest	(416)	(445)	(402)	(343)	(282)
	Pre-tax profit	6,634	7,658	8,448	9,168	9,793
	Taxation	(1,194)	(1,441)	(1,605)	(1,742)	(1,861)
	Reported net profit	5,441	6,217	6,843	7,426	7,932
	Recurring net profit	5,441	6,217	6,843	7,426	7,932
Company Profile						
Home Product Center was established with the objective of operating a retail business in the home improvement segment by selling goods. The business also provides a complete range of services related to construction. This is in addition to refurbishment, renovation, improvement of buildings, houses, and residential units through a one-stop shopping centre format under the HomePro and Mega Home trade names – the company's trademarks. It currently operates HomePro stores in Thailand and Malaysia.	Cash flow (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(1,329)	673	3,536	(1,825)	4
	Cash flow from operations	6,864	8,262	12,907	11,815	12,455
	Capex	(2,614)	(6,794)	(4,992)	(4,854)	(4,828)
	Cash flow from investing activities	(2,409)	(4,468)	(4,728)	(4,600)	(4,600)
	Dividends paid	(4,208)	(4,866)	(4,951)	(5,661)	(6,103)
	Cash flow from financing activities	(3,192)	(2,920)	(9,755)	(7,161)	(7,603)
	Cash at beginning of period	3,283	4,546	5,420	3,844	3,898
	Net change in cash	1,263	874	(1,576)	54	252
	Ending balance cash	4,546	5,420	3,844	3,898	4,150
	Balance sheet (THBm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	4,546	5,420	3,844	3,898	4,150
	Tangible fixed assets	27,584	29,469	31,421	33,035	34,438
	Total investments	3,675	4,263	3,999	3,744	3,516
	Total assets	58,586	65,185	63,262	64,651	66,228
	Short-term debt	4,414	6,248	6,500	6,000	5,500
	Total long-term debt	8,943	9,056	4,000	3,000	2,000
	Total liabilities	35,696	40,939	36,182	35,805	35,553
	Total equity	22,890	24,246	27,080	28,845	30,675
	Total liabilities & equity	58,586	65,185	63,262	64,651	66,228
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	3.8	7.5	8.4	4.4	4.3
	Recurrent EPS growth (%)	5.5	14.3	10.1	8.5	6.8
	Gross margin (%)	25.8	26.1	26.4	26.5	26.6
	Operating EBITDA margin (%)	16.9	17.3	17.7	18.0	18.2
	Net profit margin (%)	9.0	9.6	9.7	10.1	10.3
	Dividend payout ratio (%)	77.4	80.4	80.0	80.0	80.0
	Capex/sales (%)	4.3	10.4	7.1	6.6	6.3
	Interest cover (x)	17.0	18.2	22.0	27.7	35.7

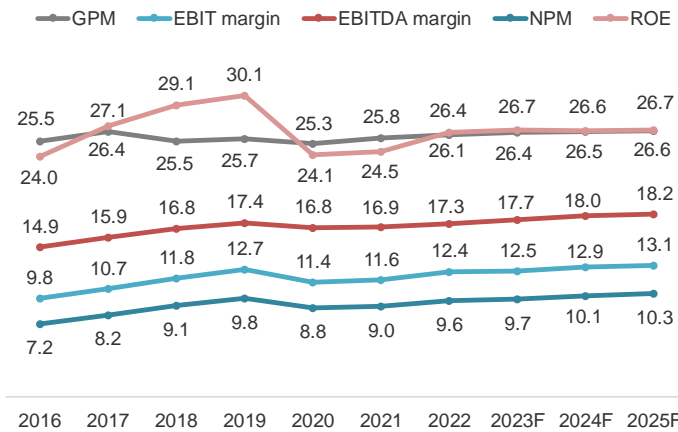
Source: Company data, RHB

Figure 1: HMPRO's DCF valuation

THBm	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
EBIT	8,849	9,512	10,075	10,657	11,267	11,901	12,563	13,252	13,971	14,720
EBIT (1-t)	7,168	7,704	8,161	8,632	9,126	9,640	10,176	10,734	11,317	11,923
Depreciation & amortisation	3,639	3,788	3,918	4,088	4,268	4,474	4,688	4,903	5,121	5,342
Change in net working capital	3,536	(1,825)	4	(19)	(50)	(23)	(18)	(30)	2	(17)
Capex	(4,992)	(4,854)	(4,828)	(4,719)	(5,205)	(5,691)	(5,680)	(5,669)	(5,658)	(5,649)
Net free cash flow to firm	9,351	4,813	7,255	7,983	8,139	8,400	9,166	9,938	10,782	11,600
Terminal value										326,998
PV	8,770	4,233	5,983	6,175	5,904	5,714	5,847	5,945	6,049	178,142
Terminal growth										3.0%
WACC										6.6%
Total discounted firm value										232,761
Less: Net debt										6,656
Less: Minority interest										0
Equity value										226,105
Number of shares (m)										13,151
Intrinsic value (THB/share)										17.20
ESG premium/(discount)										6%
TP (THB/share)										18.20

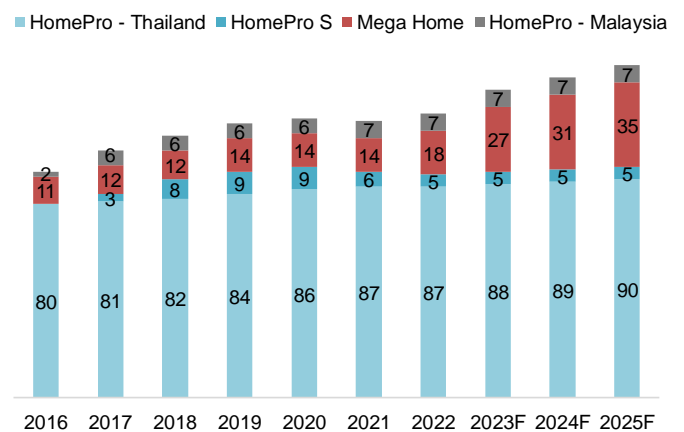
Source: RHB

Figure 2: HMPRO's profit margins and ROE trends (%)



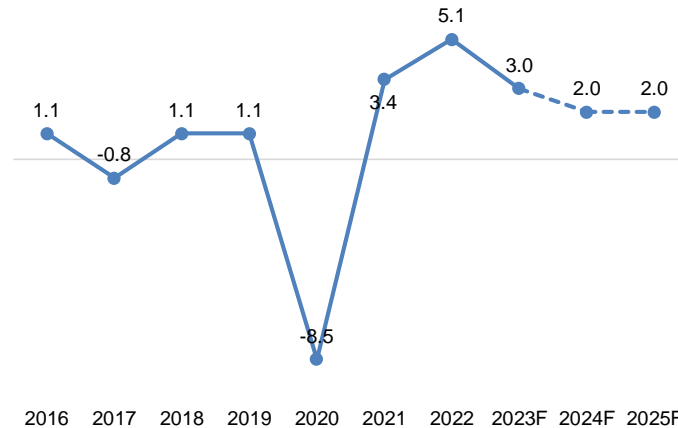
Source: Company data, RHB

Figure 3: HMPRO's store breakdown by formats



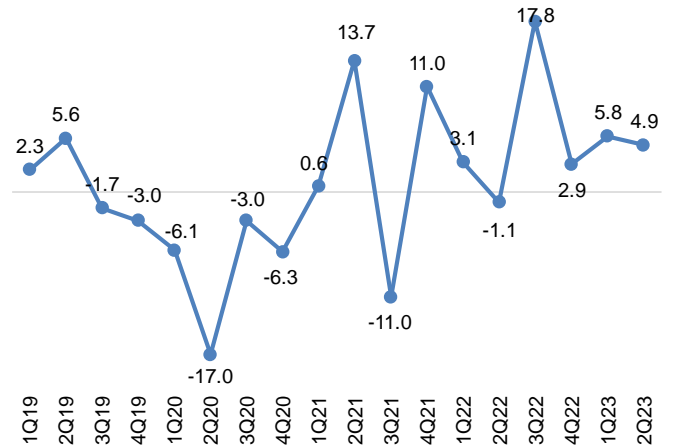
Source: Company data, RHB

Figure 4: HMPRO's annualised SSSG (%)



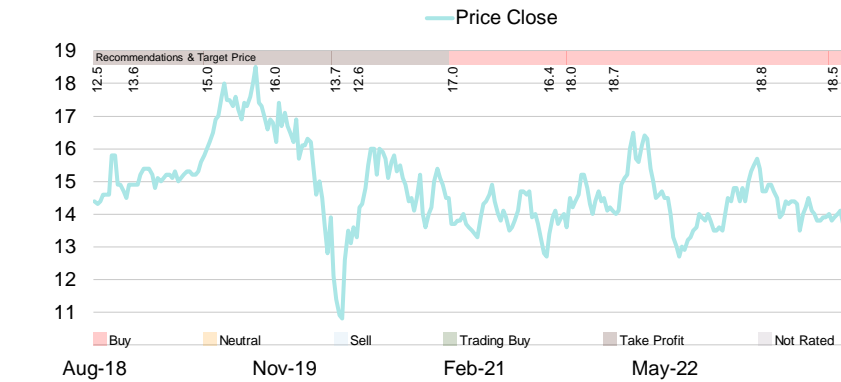
Source: Company data, RHB

Figure 5: HMPRO's quarterly SSSG (%)



Source: Company data, RHB

Recommendation Chart

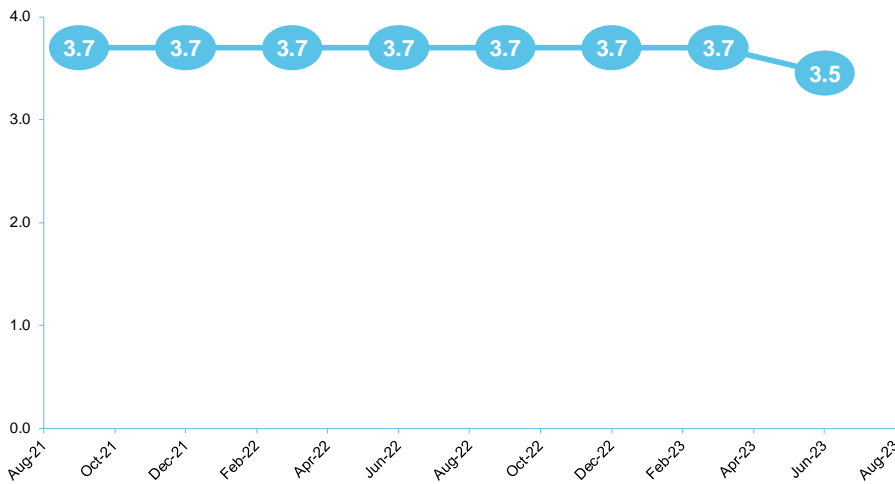


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-25	Buy	18.5	14.0
2023-06-26	Buy	18.5	13.9
2023-04-25	Buy	18.8	13.6
2023-04-07	Buy	18.8	14.4
2023-02-23	Buy	18.8	15.0
2023-01-04	Buy	18.8	15.7
2022-11-03	Buy	18.7	14.4
2022-10-25	Buy	18.7	14.2
2022-10-04	Buy	18.7	13.5
2022-08-03	Buy	18.7	13.3
2022-07-04	Buy	18.7	12.7
2022-04-19	Buy	18.7	16.1
2022-03-02	Buy	18.7	16.1
2022-02-24	Buy	18.7	15.1
2022-01-11	Buy	18.7	14.6

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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Analyst	Company
-	-

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Anti-Corruption Progress Indicator (as of 1 Nov 22)

ได้รับการรับรอง CAC

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

ประกาศเจตนาสมัครเข้าร่วม CAC

AH	CHG	DHOUSE	EVER	J	KUMWEL	NRF	RS	SUPER	TQM	VIBHA
ALT	CI	DOHOME	FLOYD	JMART	LDC	NUSA	SAK	SVT	TRT	W
APCO	CPR	ECF	GLOBAL	JMT	MEGA	OR	SIS	TKN	TSI	WIN
ASW	CPW	EKH	ILM	JTS	NCAP	PIMO	SSS	TMD	VARO	
B52	DDD	ETC	INOX	KEX	NOVA	PLE	STECH	TMI	VCOM	

คำชี้แจง: ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย มี 2 กลุ่ม

-ได้ประกาศเจตนาสมัครเข้าร่วม CAC

-ได้รับการรับรอง CAC

Source: www.cqthailand.org

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