

26 July 2023

Consumer Cyclical | Retailing

## Home Product Center (HMPRO TB)

**Buy** (Maintained)

### 2Q23 Results In Line; Still BUY

Target Price (Return): THB18.50 (+32%)  
 Price (Market Cap): THB14.00 (USD5,353m)  
 ESG score: 3.45 (out of 4)  
 Avg Daily Turnover (THB/USD) 259m/7.50m

- **Maintain BUY and DCF-based THB18.50 TP, 32% upside and c.3% yield.** Home Product Center's 2Q23 net profit (+7% YoY, +1% QoQ) was in line with our and Street forecasts, mainly supported by favourable topline and secured GPM. Maintain our view that its aggressive new store openings and improving opex should drive 2H23F performance to expand YoY and HoH. Its 3Q23F earnings may enter a low season, before seeing strong QoQ growth in the final quarter.

- **2Q23 results in line.** On Tuesday, HMPRO reported 2Q23 net profit of THB1.62bn (+7% YoY, +1%QoQ), in line with our and Street forecasts. The growth was attributable to wider sales and GPM. 1H23 net profit was THB3.23bn, up 7% YoY, and accounted for 46% of our FY23F.

- **Solid topline.** Total sales were THB17.79bn (+9% YoY, +3% QoQ), thanks to; i) A consumption rebound mainly in tourism-led cities, ii) the ongoing construction and home improvement activities this summer vs 2Q22 when the rainy season hit much earlier, iii) higher sales of electrical appliances due to high temperatures, iv) the opening of three new Mega Home construction material stores this quarter, and v) an "Old-for-New" trade-in campaign and HomePro Super Expo event. It attained SSSG of c.+5% YoY for HomePro stores (2Q22: -1.1%, 1Q23: +5.8%), -2% YoY for Mega Home (1Q23: flat), and -12% YoY for HomePro Malaysia (1Q23: +7.6%). A combined net rental and other income rose 13% YoY and 10% QoQ to THB925m mainly from improving operations of the Market Village mall in Hua Hin and an increase in promotional activities with vendors.

- **GPM still rising.** 2Q23 GPM was 26.3% (+0.6ppts YoY, +0.2ppts QoQ), driven by a better sales mix towards high-margin products (ie private label items at c.20.8% of sales) and higher volume discounts for seasonal items received from vendors, despite some steel price volatility effects on Mega Home. The opex-to-sales ratio rose by 1.0ppt YoY and QoQ on elevated expenses related to new store openings, higher utility costs, and increased marketing and promotional activities. Impact of higher opex and finance costs led NPM to slightly narrow by 0.2ppts YoY and 0.3ppts QoQ, to 9.1%.

- **Towards a stronger 2H23F outlook.** We keep our earnings forecasts on HMPRO, given its plans to accelerate new store openings with another four stores (two each of HomePro and Mega Home), Mega Home's efficiency enhancements (ie procurement and product mix development), improving opex controls, and a high season in 4Q23 that should support 2H23 topline and profit margin. Its 3Q23F earnings may continue expanding YoY, albeit modestly declining QoQ during the rainy period. Our current estimate has HMPRO posting 2023F earnings of THB7.02bn or a 13% YoY growth.

- **ESG.** HMPRO's ESG score of 3.5 is two notches above the country median, so we apply a 6% premium to its intrinsic value to derive our TP. This counter is still trading at 26x FY23F P/E or c.-1SD from its 5-year mean, ie below pre-pandemic levels.

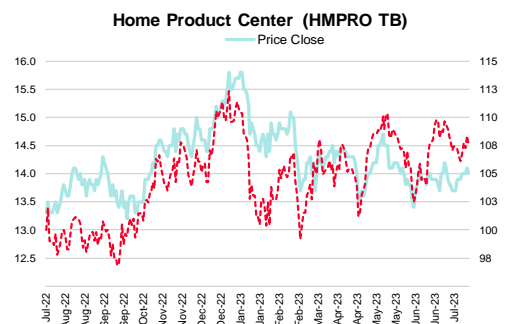
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.7)	0.7	2.9	(2.8)	5.3
Relative	(1.2)	(0.7)	3.8	6.5	7.5
52-wk Price low/high (THB)	13.20 – 15.80				



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; amplifies 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 25% and 94% of 2030 goals. HMPRO offers Eco Choice products to customers, which currently contribute c.40% 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	68,180	71,246	74,381
Recurring net profit (THBm)	5,441	6,217	7,021	7,526	8,039
Recurring net profit growth (%)	5.5	14.3	12.9	7.2	6.8
Recurring P/E (x)	33.84	29.61	26.22	24.46	22.90
P/B (x)	8.0	7.6	6.8	6.3	6.0
P/CF (x)	26.82	22.28	14.15	15.46	14.66
Dividend Yield (%)	2.3	2.7	3.1	3.3	3.5
EV/EBITDA (x)	18.45	16.85	14.69	13.82	13.02
Return on average equity (%)	24.4	26.3	27.2	26.7	26.8
Net debt to equity (%)	38.5	40.8	24.3	17.6	10.7

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	0.41	0.47	0.53	0.57	0.61
Consumer Cyclical	DPS	0.32	0.38	0.43	0.46	0.49
<b>Home Product Center</b>	BVPS	1.74	1.85	2.07	2.21	2.35
HMPRO TB	Return on average equity (%)	24.4	26.3	27.2	26.7	26.8
Buy						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	33.84	29.61	26.22	24.46	22.90
DCF	P/B (x)	8.0	7.6	6.8	6.3	6.0
	FCF Yield (%)	2.3	0.8	4.4	3.8	4.2
<b>Key drivers</b>	Dividend Yield (%)	2.3	2.7	3.1	3.3	3.5
i. Opening of new stores – both HomePro and Mega Home;	EV/EBITDA (x)	18.45	16.85	14.69	13.82	13.02
ii. Strong demand for home improvement;	EV/EBIT (x)	26.84	23.42	20.59	19.25	18.02
iii. Rising sales contributions from private label products that improve profit margins.						
	<b>Income statement (THBm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	60,568	65,091	68,180	71,246	74,381
i. Consumption slowdown;	Gross profit	15,643	17,013	17,979	18,859	19,763
ii. Rising competition from smaller home improvement retailers;	EBITDA	10,258	11,259	12,709	13,423	14,125
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	9,070	9,635	10,207
	Net interest	(416)	(445)	(402)	(343)	(282)
	Pre-tax profit	6,634	7,658	8,668	9,291	9,925
	Taxation	(1,194)	(1,441)	(1,647)	(1,765)	(1,886)
	Reported net profit	5,441	6,217	7,021	7,526	8,039
	Recurring net profit	5,441	6,217	7,021	7,526	8,039
	<b>Cash flow (THBm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Company Profile</b>	Change in working capital	(1,329)	673	3,460	(1,754)	8
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 from operations	6,864	8,262	13,009	11,909	12,560
	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)	(5,009)	(5,779)	(6,185)
	Cash flow from financing activities	(3,192)	(2,920)	(9,812)	(7,279)	(7,685)
	Cash at beginning of period	3,283	4,546	5,420	3,889	3,919
	Net change in cash	1,263	874	(1,532)	30	275
	Ending balance cash	4,546	5,420	3,889	3,919	4,194
	<b>Balance sheet (THBm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	4,546	5,420	3,889	3,919	4,194
	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	62,841	64,181	65,771
	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	35,639	35,232	34,968
	Total equity	22,890	24,246	27,202	28,949	30,803
	Total liabilities & equity	58,586	65,185	62,841	64,181	65,771
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	3.8	7.5	4.7	4.5	4.4
	Recurrent EPS growth (%)	5.5	14.3	12.9	7.2	6.8
	Gross margin (%)	25.8	26.1	26.4	26.5	26.6
	Operating EBITDA margin (%)	16.9	17.3	18.6	18.8	19.0
	Net profit margin (%)	9.0	9.6	10.3	10.6	10.8
	Dividend payout ratio (%)	77.4	80.4	80.0	80.0	80.0
	Capex/sales (%)	4.3	10.4	7.3	6.8	6.5
	Interest cover (x)	17.0	18.2	22.6	28.1	36.2

Source: Company data, RHB

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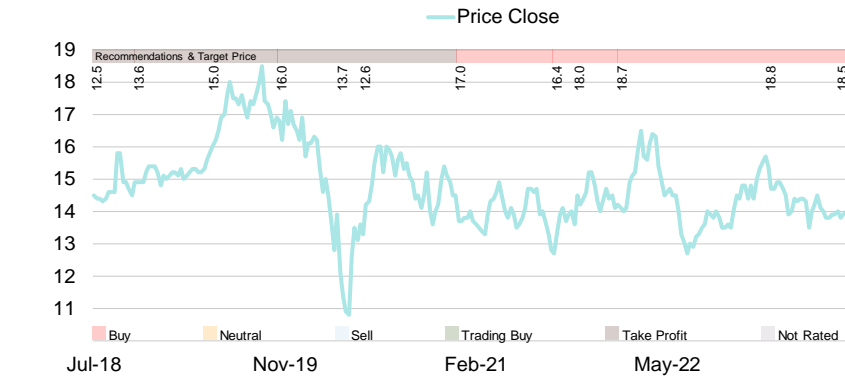
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Figure 1: HMPRO's performance review

FYE Dec (THBm)	2Q22	1Q23	2Q23	YoY % chg	QoQ % chg	1H22	1H23	YoY % chg	Remarks
Turnover	16,319	17,223	17,789	9.0	3.3	32,080	35,012	9.1	YoY: A consumption pick-up mainly in tourism-led cities, and the net opening of nine new stores in the past 12 months QoQ: Ongoing construction activities in summer, and higher sales of electrical appliances ie cooling products due to high temperatures
Gross profit	4,195	4,492	4,680	11.5	4.2	8,292	9,172	10.6	
EBIT	1,981	2,137	2,138	8.0	0.0	3,966	4,275	7.8	
EBIT margin (%)	12.1	12.4	12.0			12.4	12.2		
EBITDA	2,760	2,956	3,006	8.9	1.7	5,518	5,962	8.0	
EBITDA margin (%)	16.9	17.2	16.9			17.2	17.0		
Interest expense	(99)	(133)	(130)	31.8	(2.7)	(192)	(263)	37.0	
Pre-tax profit	1,882	2,004	2,008	6.7	0.2	3,774	4,012	6.3	
Tax	(362)	(393)	(388)	7.3	(1.1)	(743)	(781)	5.2	
Net profit	1,520	1,611	1,620	6.6	0.5	3,031	3,231	6.6	Sales and GPM expansions limit impact of higher SG&A/sales ratio
Gross margin (%)	25.7	26.1	26.3			25.8	26.2		Wider GPM YoY and QoQ, thanks to a better sales mix towards high-margin products and higher volume discounts for seasonal items received from vendors, despite some steel price volatility effects on Mega Home
SG&A/sales (%)	18.5	18.5	19.5			18.4	19.0		Higher expenses related to new store openings, higher utility costs, as well as more marketing and promotional activities
Net margin (%)	9.3	9.4	9.1			9.4	9.2		
<b>Key indicators</b>									
Total store number	114	121	123	9	2	114	123	9	
- HomePro	93	92	92	-1	0	93	92	-1	
- Thailand									
- Mega Home	14	21	24	10	3	14	24	10	Opened three Mega Home stores upcountry in 2Q23 – Nakhon Pathom, Chiang Mai, and Bang Saen.
- HomePro	7	7	7	0	0	7	7	0	
- Malaysia									
SSSG (%)	-1.1	5.8	5.0			1.0	5.4		

Source: Company data, RHB

## Recommendation Chart

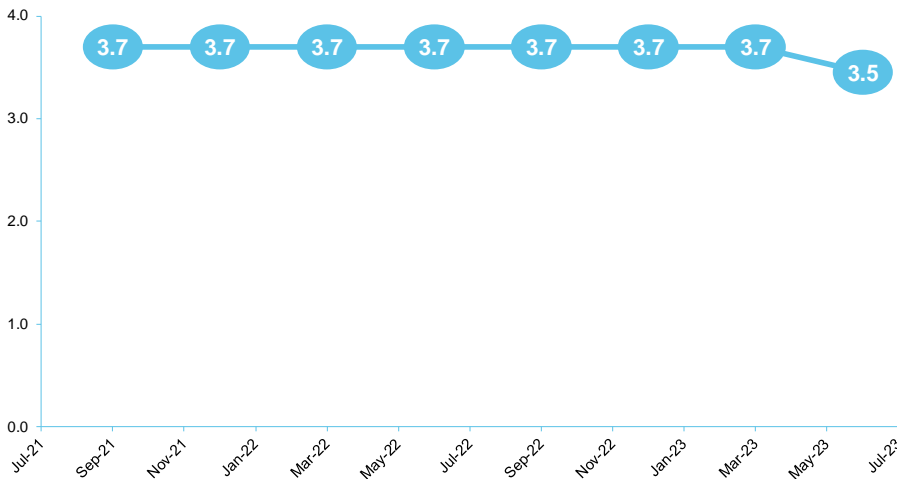


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-11-03	Buy	18.0	14.9

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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