

4 March 2020

Consumer Cyclical | Retailing

Home Product Center (HMPRO TB)

Take Profit (Maintained)

Inevitable Slowdown; Keep TAKE PROFIT

- **Stay TAKE PROFIT with new FY20F THB13.70 TP from THB16.00, 0% upside and 3% yield.** We expect Home Product Center's SSSG to turn negative and generate smaller earnings growth this year, as the weak economic conditions may only allow it to improve efficiencies to boost profit margins. We expect its 1H20 outlook to remain unattractive and suggest that investors look back at HMPRO at the <25x FY20F P/E (-1SD) level.
- **Keeping focus on margin hikes.** At Tuesday's analysts briefing, HMPRO said it will keep focusing on high-margin private label product sourcing to enhance its 20.5% contribution to sales (2019: 20%). It is also developing its new omni-channel platform to attain an online sales mix of 2% (2019: 1%), as well as improving store efficiency and supply chain. This is to raise GPM by up to 0.5ppts and keep bottomline profit growing. The company intends to continue opening five new stores this year – the same conservative move as in 2019 – and this includes one in Malaysia.
- **Gloomy sales outlook.** Thailand's Consumer Confidence Index hit a 69-month low in January, signalling weak spending sentiment – partly due to the drought in the north-eastern provinces earlier this year. The ongoing COVID-19 outbreak may also dampen customer traffic to stores in Bangkok and other major cities, as well as delay some of HMPRO's material sourcing from China. Housing registration – which is expected to drop 5% in 2020 according to the Real Estate Information Centre – may be also negative for new home furnishing demand (30% of total transactions). We believe this scenario will challenge HMPRO's sales, mainly throughout 1H20.
- **2019 losses at the six Malaysia HomePro stores fell 50%** to a c.THB50m loss vs 2018's THB100m loss, supported by improvements in customer ticket sizes and staff operations. Nonetheless, the uncertain economy there may remain the key pressure that hinders HMPRO's overseas SSSG turning into the black. It may take a couple of years to open 2-3 more stores, get scalable operations, and make this unit profitable.
- **Earnings cut.** We revise down 2020-2022 core profit forecasts by 5-6%, as we slash SSSG assumptions this year to -3% from 2% and EBIT margins by 0.4-0.5ppts throughout this period. We expect HMPRO to deliver moderate 7% earnings growth this year before ramping up to 9% in 2021. We also expect the new accounting standard on operating leases to slightly effect HMPRO's earnings by <2%.
- **Share price has fallen 21% during the past four months** on discretionary goods consumption concerns. This ongoing negative factor may be risky to 1Q20F-2Q20F earnings and sentiment on its valuation: 27x FY20F P/E may remain unattractive vs EPS growth. Our revised DCF-based TP indicates zero upside, so we suggest investors look to accumulating this stock again at the <THB12.50 or 25x P/E (-1SD to its 5-year historical trading mean) level. Risks include further consumption slowdowns and rising competition.

Target Price (Return):	THB13.70 (0%)
Price:	THB13.70
Market Cap:	USD5,720m
Avg Daily Turnover (THB/USD)	301m/9.78m

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.4)	(3.5)	(14.9)	(23.0)	(8.7)
Relative	(1.4)	4.6	(2.6)	(6.7)	7.5
52-wk Price low/high (THB)				12.1 – 18.6	

Home Product Center (HMPRO TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	61,951	63,046	64,081	67,060	70,104
Recurring net profit (THBm)	5,613	6,177	6,593	7,171	7,665
Recurring net profit growth (%)	14.9	10.0	6.7	8.8	6.9
Recurring P/E (x)	32.10	29.17	27.33	25.12	23.51
P/B (x)	9.0	8.5	7.7	7.2	6.7
P/CF (x)	21.41	21.94	16.65	16.66	15.55
Dividend Yield (%)	2.6	2.8	2.9	3.2	3.4
EV/EBITDA (x)	18.15	17.19	15.98	14.80	13.89
Return on average equity (%)	29.0	30.0	29.6	29.7	29.6
Net debt to equity (%)	55.3	49.7	41.6	37.3	32.3

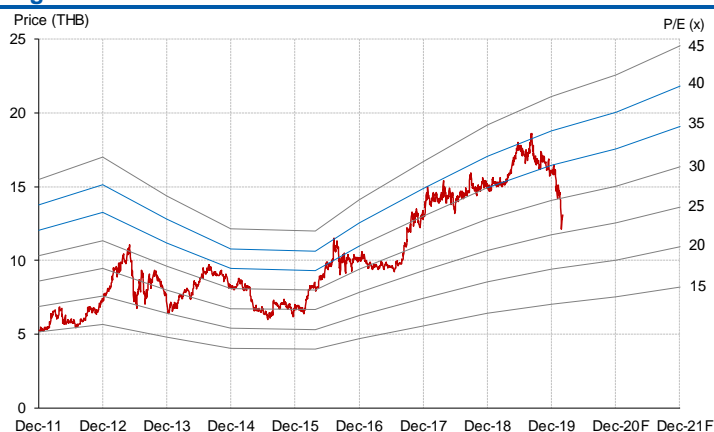
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	0.43	0.47	0.50	0.55	0.58
Consumer Cyclical	DPS	0.35	0.38	0.40	0.44	0.47
Home Product Center	BVPS	1.52	1.61	1.77	1.90	2.04
HMPRO TB	Return on average equity (%)	29.0	30.0	29.6	29.7	29.6
Take Profit						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	32.10	29.17	27.33	25.12	23.51
DCF.	P/B (x)	9.0	8.5	7.7	7.2	6.7
	FCF Yield (%)	2.8	2.6	3.0	3.1	3.6
Key drivers	Dividend Yield (%)	2.6	2.8	2.9	3.2	3.4
i. Opening of new HomePro and Mega Home stores;	EV/EBITDA (x)	18.15	17.19	15.98	14.80	13.89
ii. Strong demand for home improvement;	EV/EBIT (x)	25.75	23.51	21.95	20.26	19.01
iii. Rising sales contributions from private label products that improve profit margins.						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	61,951	63,046	64,081	67,060	70,104
i. Consumption slowdown;	Gross profit	15,789	16,331	16,727	17,639	18,510
ii. Rising competition from smaller home improvement retailers;	EBITDA	10,387	10,951	11,742	12,670	13,467
iii. Delays in opening new stores;	Depreciation and amortisation	(3,064)	(2,942)	(3,192)	(3,413)	(3,629)
iv. High-volume Mega Home business undermines overall gross margins.	Operating profit	7,322	8,009	8,550	9,257	9,837
	Net interest	(400)	(405)	(409)	(403)	(374)
	Pre-tax profit	6,922	7,604	8,140	8,853	9,463
	Taxation	(1,310)	(1,427)	(1,547)	(1,682)	(1,798)
	Reported net profit	5,613	6,177	6,593	7,171	7,665
	Recurring net profit	5,613	6,177	6,593	7,171	7,665
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	506	(648)	1,943	(804)	64
	Cash flow from operations	8,417	8,211	10,821	10,816	11,590
	Capex	(3,315)	(3,441)	(5,347)	(5,211)	(5,190)
	Cash flow from investing activities	(3,112)	(3,254)	(5,110)	(5,000)	(5,000)
	Dividends paid	(4,340)	(4,865)	(4,872)	(5,460)	(5,895)
	Cash flow from financing activities	(1,572)	(8,335)	(5,533)	(5,960)	(6,895)
	Cash at beginning of period	2,505	6,238	2,860	3,038	2,894
	Net change in cash	3,733	(3,378)	178	(144)	(305)
	Ending balance cash	6,238	2,860	3,038	2,894	2,588
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	6,238	2,860	3,038	2,894	2,588
	Tangible fixed assets	29,327	29,637	31,979	33,957	35,683
	Total investments	2,612	2,425	2,189	1,978	1,788
	Total assets	54,811	52,049	54,098	56,073	57,748
	Short-term debt	7,248	6,301	11,000	10,500	11,211
	Total long-term debt	10,000	7,072	1,711	1,711	0
	Total liabilities	34,897	30,911	30,849	31,113	31,017
	Total equity	19,914	21,138	23,249	24,961	26,731
	Total liabilities & equity	54,811	52,049	54,098	56,073	57,748
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	3.4	1.8	1.6	4.6	4.5
	Recurrent EPS growth (%)	14.9	10.0	6.7	8.8	6.9
	Gross margin (%)	25.5	25.9	26.1	26.3	26.4
	Operating EBITDA margin (%)	16.8	17.4	18.3	18.9	19.2
	Net profit margin (%)	9.1	9.8	10.3	10.7	10.9
	Dividend payout ratio (%)	77.3	78.8	73.9	76.1	76.9
	Capex/sales (%)	5.4	5.5	8.3	7.8	7.4
	Interest cover (x)	18.3	19.8	20.9	22.9	26.3

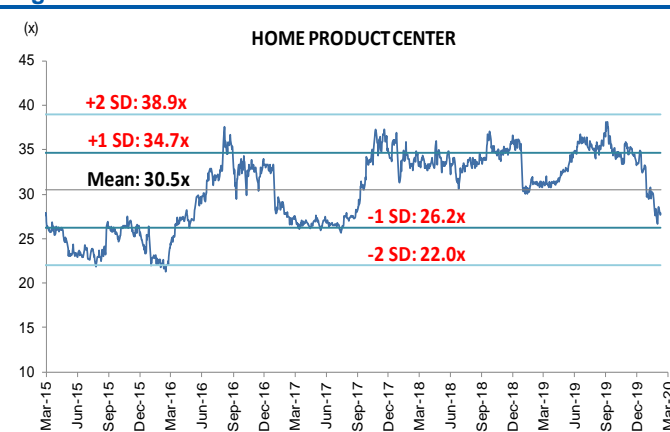
Source: Company data, RHB

Figure 1: HMPRO's P/E band



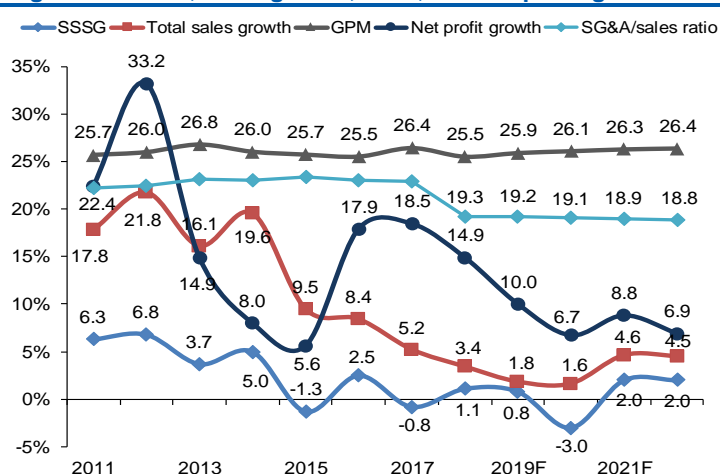
Source: RHB

Figure 2: HMPRO's P/E and SD level



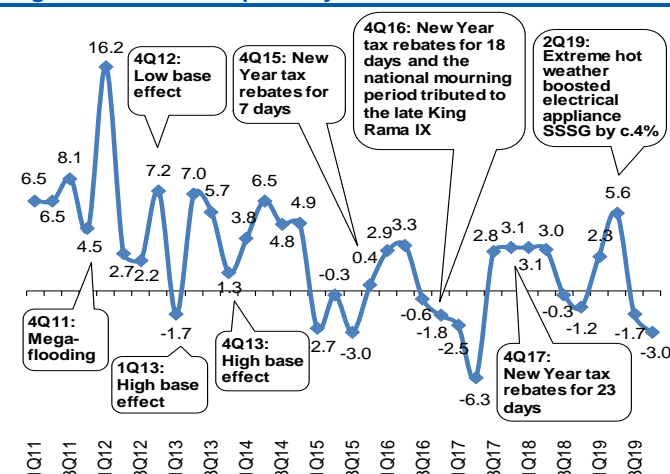
Source: Company data, RHB

Figure 3: SSSG, sales growth, GPM, and net profit growth



Source: Company data, RHB

Figure 4: HMPRO's quarterly SSSG



Source: Company data, RHB

Figure 5: HMPRO's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	8,550	9,257	9,837	10,466	11,076	11,725	12,396	13,100	13,832	14,597
EBIT (1-t)	6,925	7,498	7,968	8,477	8,972	9,497	10,041	10,611	11,204	11,823
Depreciation & amortisation	3,192	3,413	3,629	3,850	4,076	4,304	4,535	4,819	5,130	5,442
Change in net working capital	1,943	(804)	64	22	(66)	21	(34)	(3)	17	(2)
Capex	(5,433)	(5,127)	(5,044)	(4,968)	(4,895)	(4,829)	(4,772)	(5,671)	(6,053)	(5,945)
Net free cash flow to firm	2,741	6,588	6,489	7,337	8,219	8,951	9,838	9,762	10,263	11,322
Terminal value										274,808
PV	2,556	5,727	5,260	5,545	5,791	5,880	6,026	5,575	5,465	142,044
Terminal growth										3.0%
WACC										7.3%
Total discounted firm value										189,867
Less: Net debt										9,674
Less: Minority interest										0
Equity value										180,193
Number of shares (m)										13,151
Equity value per share (THB)										13.70

Source: RHB

Figure 6: Homepro's 4Q19 and 2019 results review

FYE Dec (THBm)	4Q18	3Q19	4Q19	YoY % chg	QoQ % chg	2018	2019	YoY % chg	Remarks
Turnover	16,231	15,220	16,000	(1.4)	5.1	61,951	63,046	1.8	Weak sales due to the slowdown local consumption. Negative SSSG undermined total sales.
Gross profit	3,835	4,125	3,835	(0.0)	(7.0)	15,789	16,331	3.4	
EBIT	2,192	1,930	2,236	2.0	15.9	7,322	8,009	9.4	
EBIT margin (%)	13.5	12.7	14.0			11.8	12.7		
EBITDA	2,976	2,681	2,986	0.3	11.4	10,387	10,951	5.4	
EBITDA margin (%)	18.3	17.6	18.7			16.8	17.4		
Interest expense	(108)	(100)	(90)	(17.0)	(9.8)	(400)	(405)	1.4	
Pretax profit	2,084	1,830	2,146	3.0	17.3	6,922	7,604	9.8	
Tax	(398)	(348)	(398)	0.1	14.6	(1,310)	(1,427)	9.0	
Net profit	1,686	1,482	1,748	3.7	17.9	5,613	6,177	10.0	Improved GPM and opex controls, mainly supported the bottomline profit growth YoY.
Gross margin (%)	23.6	27.1	24.0			25.5	25.9		Continuous enhancement of private label goods to 20% of total sales (2018: 19.6%) and efficiency improvements in material sourcing at most of its store formats.
SG&A/sales (%)	18.7	19.7	19.2			19.3	19.2		
Net margin (%)	10.4	9.7	10.9			9.1	9.8		
Key indicators									
Total store number	108	111	113	5	2	108	113	5	Opened two Mega Home construction material stores in 4Q19.
- HomePro Thailand	90	93	93	3	0	90	93	3	
- Mega Home	12	12	14	2	2	12	14	2	
- HomePro Malaysia	6	6	6	0	0	6	6	0	
SSSG (%)	-1.2	-1.7	-3.0			1.1	0.8		Continued negative SSSG in 4Q19 due to weak sentiment for discretionary goods consumption.

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-07	Take Profit	16.0	17.1
2019-10-30	Take Profit	16.0	17.3
2019-10-11	Take Profit	16.0	16.9
2019-08-05	Take Profit	15.0	16.6
2019-05-02	Take Profit	15.0	15.9
2018-11-05	Take Profit	13.6	14.9

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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