

3 March 2021

Consumer Cyclical | Retailing

Home Product Center (HMPRO TB)

Buy (Maintained)

Look Forward To An Earnings Rebound; BUY

Target Price (Return): THB17.00 (+25.0%)
 Price: THB13.60
 Market Cap: USD5,918m
 Avg Daily Turnover (THB/USD) 330m/11.0m

- **Maintain BUY and FY21F THB17.00 TP, 25% upside and 2-3% yields.** Home Product Center has a conservative view on its 2021 outlook and will focus on online channel development in Thailand and Vietnam. We expect a favourable 17% profit rebound this year, with improved momentum from 2Q21 onwards. Valuation looks undemanding despite a superior ROE.
- **A cautious view.** At Tuesday's analysts meeting, management was conservative on HMPRO's 2021 business expansion and operational recovery. This was on a lack in consumption sentiment, yet-to-recover tourism industry, and stable outlook for new housing this year. It has kept the opening of two new HomePro stores – the same slow pace as 2020 – ie one each in Bangkok and Malaysia. HMPRO targets to boost the private brand sales mix back to 2019's 20% level (2020: 19.5%).
- **HMPRO will focus on improving** its omni-channel platform this year to cope with the new post-pandemic normal trend. It may strongly support the shift in online sales mix to 5% from pre-pandemic's 1%. It will also differentiate its products with private label goods and develop supply chain and delivery procedures. Strengthening its business foundations may benefit efficiency and profit margins in the longer term.
- **HMPRO plans to enter Vietnam this year with an online platform** that sells private label soft line items. A minimal USD1m investment in its wholly owned unit there may effectively help research consumer behaviour before further expansion. We expect limited downside from operating losses (<0.5% of earnings). A seventh HomePro opening in Malaysia in 1Q21 indicates a possible business expansion resumption there. The Malaysia unit may deliver smaller negative profits (<-THB100m in 2021) before achieving breakeven when it hits 10 stores, likely in the next few years.
- **Seeking a 2Q21 rebound.** We expect HMPRO's 1Q21 earnings to decline YoY and QoQ, as it is this year's bottom. Key reasons include the resurgence of COVID-19 affecting sales and rental income, and sluggish sales of high-margin imported private label products. This stems from the shortage of shipping containers and undermined GPMs. We expect momentum to start improving from 2Q21 onwards – driven by the low earnings base vs the same period last year, store sales recovery that may improve the operating leverage, less rental discounts given to its retail mall tenants, and the company's ongoing strength in efficient opex controls.
- **2021 earnings to turn to a 17% growth.** Post FY20 results, we fine-tune our 2021F-2023F earnings slightly and expect FY21 core profit to grow 17%. This is based on a conservative +3.5% SSSG, +0.4ppts GPM increase, and rental income recovery to 16% below 2019's levels.
- **Still BUY and FY21F DCF-based THB17.00 TP.** Its current valuation of 29x P/E (-1SD) looks undemanding despite the profit growth rate having stabilised close to 2018-2019 levels. 2021's EPS growth may be a laggard vs domestic home improvement peers' >20%, but ROE remains superior.

Analyst

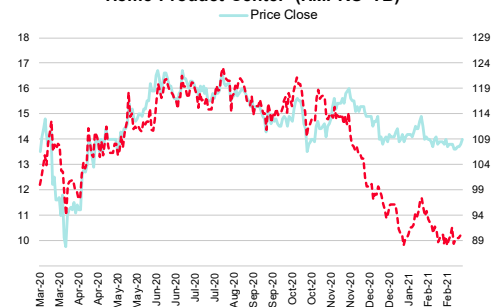
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.7)	0.0	(7.5)	(7.5)	3.8
Relative	(4.3)	(1.0)	(13.4)	(21.6)	(8.6)
52-wk Price low/high (THB)	9.35 – 16.30				

Home Product Center (HMPRO TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (THBm)	63,046	58,347	61,099	63,933	66,849
Recurring net profit (THBm)	6,177	5,155	6,006	6,694	7,180
Recurring net profit growth (%)	10.0	(16.5)	16.5	11.5	7.3
Recurring P/E (x)	28.96	34.70	29.78	26.72	24.91
P/B (x)	8.4	8.3	7.4	6.9	6.5
P/CF (x)	21.78	22.69	13.05	16.80	15.76
Dividend Yield (%)	2.8	2.2	2.7	3.0	3.2
EV/EBITDA (x)	17.07	18.83	15.93	14.68	13.78
Return on average equity (%)	30.0	24.1	26.3	26.8	27.0
Net debt to equity (%)	49.7	46.8	24.3	19.5	14.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	Recurring EPS	0.47	0.39	0.46	0.51	0.55
Consumer Cyclical	DPS	0.38	0.30	0.37	0.41	0.44
Home Product Center	BVPS	1.61	1.64	1.83	1.96	2.09
HMPRO TB	Return on average equity (%)	30.0	24.1	26.3	26.8	27.0
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	28.96	34.70	29.78	26.72	24.91
DCF	P/B (x)	8.4	8.3	7.4	6.9	6.5
	FCF Yield (%)	2.7	1.5	4.7	3.1	3.6
Key drivers	Dividend Yield (%)	2.8	2.2	2.7	3.0	3.2
i. Opening of new stores – both HomePro and Mega Home;	EV/EBITDA (x)	17.07	18.83	15.93	14.68	13.78
ii. Strong demand for home improvements;	EV/EBIT (x)	23.34	27.84	23.05	20.99	19.61
iii. Rising sales contribution from private label products that improve profit margins.						
	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks	Total turnover	63,046	58,347	61,099	63,933	66,849
i. Consumption slowdown;	Gross profit	16,221	14,749	15,720	16,513	17,333
ii. Rising competition from smaller home improvement retailers;	EBITDA	10,951	9,831	11,371	12,299	13,043
iii. Delays in the opening of new stores;	Depreciation and amortisation	(2,942)	(3,182)	(3,513)	(3,696)	(3,879)
iv. High-volume Mega Home business undermining overall gross margins.	Operating profit	8,009	6,649	7,858	8,603	9,163
	Net interest	(405)	(459)	(443)	(339)	(299)
	Pre-tax profit	7,604	6,190	7,415	8,264	8,864
	Taxation	(1,427)	(1,035)	(1,409)	(1,570)	(1,684)
	Reported net profit	6,177	5,155	6,006	6,694	7,180
	Recurring net profit	6,177	5,155	6,006	6,694	7,180
	Cash flow (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Company Profile	Change in working capital	(648)	453	4,637	(3,928)	39
HMPRO 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 relating to construction, 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 trademark. It currently operates HomePro stores in Thailand and Malaysia.	Cash flow from operations	8,211	7,881	13,701	10,644	11,352
	Capex	(3,441)	(5,242)	(5,215)	(5,077)	(4,937)
	Cash flow from investing activities	(3,254)	(3,390)	(4,894)	(4,800)	(4,700)
	Dividends paid	(4,865)	(4,076)	(4,552)	(5,025)	(5,511)
	Cash flow from financing activities	(8,335)	(4,069)	(9,220)	(5,525)	(6,222)
	Cash at beginning of period	6,238	2,860	3,283	2,868	3,187
	Net change in cash	(3,378)	423	(414)	319	430
	Ending balance cash	2,860	3,283	2,868	3,187	3,618
	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	2,860	3,283	2,868	3,187	3,618
	Tangible fixed assets	29,637	28,741	33,767	35,313	36,521
	Total investments	2,425	3,880	3,560	3,283	3,046
	Total assets	52,049	56,091	57,108	59,097	60,986
	Short-term debt	6,301	5,324	7,000	8,211	7,500
	Total long-term debt	7,072	8,056	1,711	0	0
	Total liabilities	30,911	34,526	33,048	33,368	33,588
	Total equity	21,138	21,565	24,060	25,729	27,398
	Total liabilities & equity	52,049	56,091	57,108	59,097	60,986
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	1.8	(7.5)	4.7	4.6	4.6
	Recurrent EPS growth (%)	10.0	(16.5)	16.5	11.5	7.3
	Gross margin (%)	25.7	25.3	25.7	25.8	25.9
	Operating EBITDA margin (%)	17.4	16.8	18.6	19.2	19.5
	Net profit margin (%)	9.8	8.8	9.8	10.5	10.7
	Dividend payout ratio (%)	78.8	79.1	75.8	75.1	76.8
	Capex/sales (%)	5.5	9.0	8.5	7.9	7.4
	Interest cover (x)	19.8	14.5	17.7	25.4	30.6

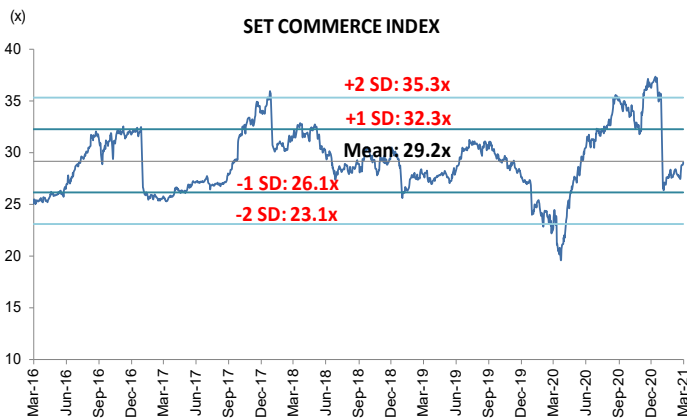
Source: Company data, RHB

Figure 1: HMPRO's DCF valuation

THBm	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
EBIT	7,858	8,603	9,163	9,706	10,284	10,881	11,506	12,157	12,837	13,545
EBIT (1-t)	6,365	6,969	7,422	7,862	8,330	8,813	9,320	9,847	10,398	10,971
Depreciation & amortisation	3,513	3,696	3,879	4,101	4,301	4,502	4,735	4,991	5,251	5,512
Change in net working capital	4,637	(3,928)	39	(63)	6	(2)	(21)	7	2	6
Capex	(5,215)	(5,077)	(4,937)	(4,836)	(4,813)	(4,695)	(5,183)	(5,668)	(5,655)	(5,644)
Net free cash flow to firm	9,300	1,660	6,403	7,064	7,823	8,618	8,851	9,178	9,995	10,846
Terminal value										324,961
PV	8,739	1,466	5,313	5,508	5,732	5,934	5,727	5,580	5,710	180,292
Terminal growth	3.0%									
WACC	6.4%									
Total discounted firm value	230,002									
Less: Net debt	5,843									
Less: Minority interest	0									
Equity value	224,160									
Number of shares (m)	13,151									
Equity value per share (THB)	17.00									

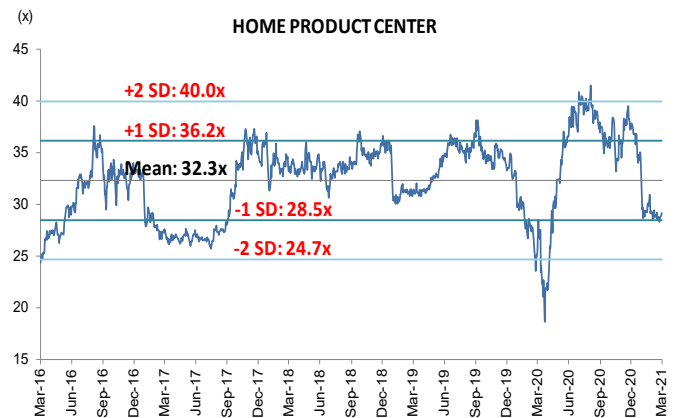
Source: RHB

Figure 2: SET commerce sector's P/E and SD levels



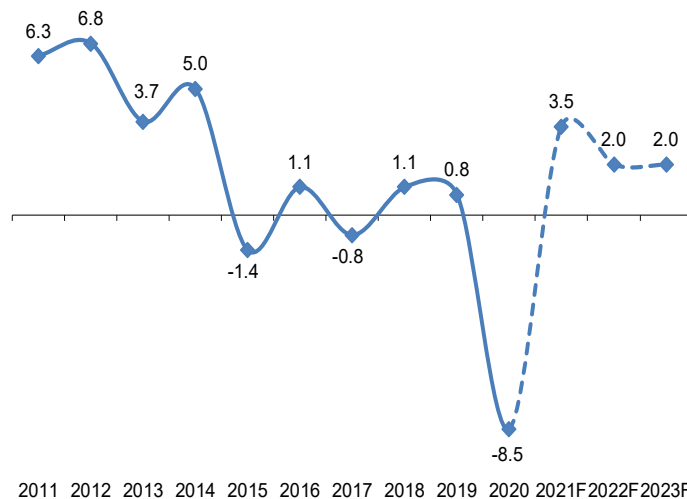
Source: Bloomberg, RHB

Figure 3: HMPRO's P/E and SD levels



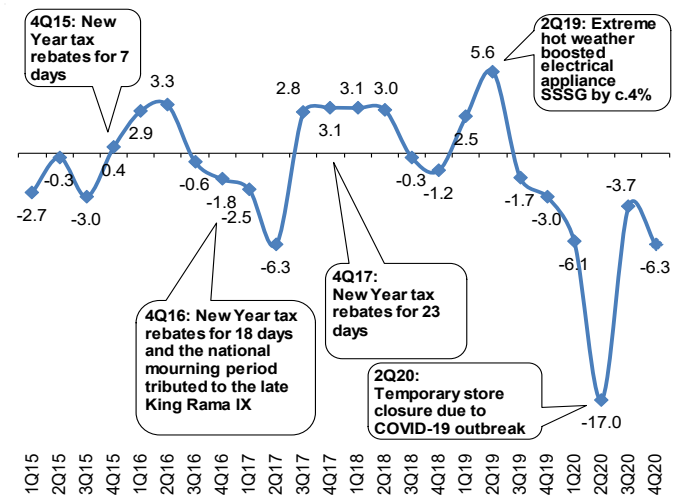
Source: Company data, RHB

Figure 4: HMPRO's annualised SSSG



Source: Company data, RHB

Figure 5: HMPRO's quarterly SSSG



Source: Company data, RHB

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Figure 6: HMPRO's 3Q20 and 9M20 performance review

FYE Dec (THBm)	4Q19	3Q20	4Q20	YoY % chg	QoQ % chg	2019	2020	YoY % chg	Remarks
Turnover	15,671	15,064	14,913	(4.8)	(1.0)	63,046	58,347	(7.5)	4Q20: Sluggish consumption mainly at tourism-driven provinces, and effects of COVID-19's resurgence in Thailand and Malaysia. 2020: Temporary store closure from late Mar 2020 to mid-May 2020 following the Government's lockdown measure. Online sales contribution jumped to 5% from 1% in the previous year.
Gross profit	4,367	3,885	3,837	(12.1)	(1.2)	16,221	14,749	(9.1)	
EBIT	2,236	1,812	1,898	(15.1)	4.8	8,009	6,649	(17.0)	YoY: Sluggish rental income due to weak store traffic and rental rate discounts given to tenants at its retail malls. QoQ: A seasonally improved other income supported the EBIT growth
EBIT margin (%)	14.3	12.0	12.7			12.7	11.4		2020: Smaller rental income affected by the temporary mall closures due to COVID-19 and less in-store promotional income supported by vendors.
EBITDA	2,986	2,588	2,680	(10.3)	3.5	10,951	9,824	(10.3)	
EBITDA margin (%)	19.1	17.2	18.0			17.4	16.8		
Interest expense	(90)	(110)	(108)	19.8	(2.1)	(405)	(459)	13.2	YoY: The new accounting standard on financial leases.
Pre-tax profit	2,146	1,702	1,790	(16.6)	5.2	7,604	6,190	(18.6)	
Tax	(398)	(301)	(245)	(38.5)	(18.6)	(1,427)	(1,035)	(27.4)	
Net profit	1,748	1,401	1,545	(11.6)	10.3	6,177	5,155	(16.5)	YoY: Weak sales, rental income and GPM. QoQ: Rising other income and a smaller effective tax rate.
Gross margin (%)	27.9	25.8	25.7			25.7	25.3		YoY: Intensive promotional campaigns, an increase of sales mix from low-margin home appliances, and smaller contribution from private label merchandise due to supply chain disruption.
SG&A/sales (%)	21.0	19.2	19.5			18.9	18.8		
Net margin (%)	11.2	9.3	10.4			9.8	8.8		
Key indicators									
Total store number	113	113	115	2	2	113	115	2	
- HomePro Thailand	93	93	95	2	2	93	95	2	Two new 5,000sq m HomePro stores opened in 4Q20.
- Mega Home	14	14	14	0	0	14	14	0	
- HomePro Malaysia	6	6	6	0	0	6	6	0	
SSSG (%)	-3.0	-3.0	-6.3			0.8	-8.5		Monthly SSSG gradually improved from Oct 2020 to Dec 2020 with less negative magnitudes. Bangkok stores delivered less negative SSSG vs upcountry stores. Only the Mega Home store format still provided slight positive SSSG.

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-15	Buy	17.0	14.1
2020-04-29	Take Profit	12.6	13.6
2020-03-04	Take Profit	13.7	14.0
2019-10-11	Take Profit	16.0	16.9
2019-05-02	Take Profit	15.0	15.9
2018-11-05	Take Profit	13.6	14.9
2018-05-03	Take Profit	12.5	14.7

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
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Analyst	Company
-	-

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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

ประกาศเจตนารมณ์ 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

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- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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