

29 April 2020

Consumer Cyclical | Retailing

Home Product Center (HMPRO TB)

Take Profit (Maintained)

In a Weak Mode; Still TAKE PROFIT

Target Price (Return): THB12.60 (-10%)
 Price: THB14.00
 Market Cap: USD5,678m
 Avg Daily Turnover (THB/USD) 411m/12.8m

- TAKE PROFIT, new FY20F DCF-based TP of THB12.60 from THB13.70, 10% downside with c.2% FY20F yield.** Home Product Center's weak 1Q20 profit was impacted by the COVID-19 pandemic. We expect earnings to decline further in 2Q20 on store closures, while sales may recover marginally in the remaining quarters of 2020. A 50% rally in its share price within a month has made valuations demanding. Homepro is trading above the sector average – despite our estimate of FY20 net profit falling by 15%.
- 1Q20: a weak quarter.** Homepro posted its 1Q20 results yesterday, with earnings of THB1.27bn (-11% YoY, -28% QoQ) in line with the Street estimate. Total sales dropped 6% YoY with a negative SSSG (c.-7% YoY), affected by the continued slowdown in local consumption and the store closures in Thailand and Malaysia since mid-March due to the COVID-19 pandemic. Although GPM and opex-to-sales ratio improved on cost control efficiencies, weak rental income due to offering rental fee discounts to its tenants, as well as smaller other incomes, undermined its operating margin and NPM by 0.5ppt YoY.
- Brace for impact in 2Q20F.** The full-month store closures throughout April should dampen Homepro's 2Q20 performance. 33 Homepro stores (out of 93) and eight out of 14 Mega Home stores in Thailand have remained open since 22 Mar. There is an expectation the lockdown for retail stores may be eased from early May onwards, but we only expect sales to recover marginally in late 2Q-4Q this year. This would be due to possible customer traffic controls being put in place at stores, remaining fears over the spread of COVID-19, and the after-effects on the economy which may dampen consumption of durable goods. In Malaysia, all its six stores were re-opened on 23 Apr, but sales are likely lesser by more than a half from normal levels.
- We slash FY20F net profit by 20%, and FY21-22F earnings by 12-14%** to reflect the effect of COVID-19. We also cut topline sales by 8% over the period, having decreased FY20F SSSG further to -9% YoY, from -3% YoY. Rental and other income, in the meantime, are now lower by 25% for the year as well. As such, we expect FY20 earnings to decline 15% YoY to THB5.22bn, with total sales down 7% YoY and NPM narrower by 0.9ppt. FY21F net profit may then turn to 18% YoY growth, to THB6.14bn – close to pre-outbreak levels.
- Keep TAKE PROFIT.** Homepro's share price rallied by 50% in a month, from its 3.5-year low. We believe it has reflected expectations over the improving COVID-19 situation in Thailand and possible easing of the lockdown. Net profit is likely to bottom in 2Q20F, but sluggish earnings may be in store for the latter half of FY20 as well. Delaying the opening of five new outlets this year also points to risks. Homepro's valuation is too demanding amidst its earnings downturn, at 34x FY20F P/E or +1SD to its 5-year historical trading mean, vs the Thai Commerce sector's 27x P/E or -0.5SD. We still prefer staple retailers than discretionary ones, at this time.

Analyst

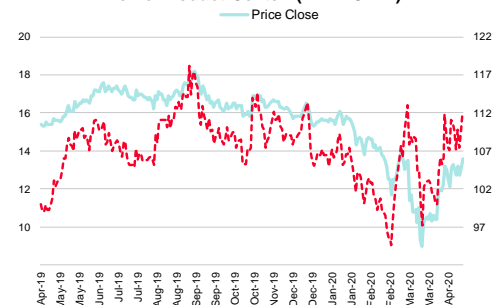
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.5)	28.4	(6.7)	(14.1)	(10.3)
Relative	6.8	12.5	9.1	6.0	13.2
52-wk Price low/high (THB)				9.35	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	58,670	61,398	64,185
Recurring net profit (THBm)	5,613	6,177	5,222	6,141	6,731
Recurring net profit growth (%)	14.9	10.0	(15.5)	17.6	9.6
Recurring P/E (x)	32.80	29.81	35.26	29.98	27.35
P/B (x)	9.2	8.7	8.2	7.7	7.2
P/CF (x)	21.87	22.42	19.81	18.94	17.31
Dividend Yield (%)	2.5	2.7	2.3	2.7	2.9
EV/EBITDA (x)	18.53	17.55	19.18	16.90	15.61
Return on average equity (%)	29.0	30.0	24.0	26.4	27.1
Net debt to equity (%)	55.3	49.7	48.2	43.0	37.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.43	0.47	0.40	0.47	0.51
Consumer Cyclical	DPS	0.35	0.38	0.32	0.37	0.41
Home Product Center	BVPS	1.52	1.61	1.70	1.83	1.95
HMPRO TB	Return on average equity (%)	29.0	30.0	24.0	26.4	27.1
Take Profit						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	32.80	29.81	35.26	29.98	27.35
DCF	P/B (x)	9.2	8.7	8.2	7.7	7.2
	FCF Yield (%)	2.8	2.6	2.1	2.6	3.1
Key drivers	Dividend Yield (%)	2.5	2.7	2.3	2.7	2.9
i. Opening of new stores, for both HomePro and Mega Home;	EV/EBITDA (x)	18.53	17.55	19.18	16.90	15.61
ii. Strong demand for home improvement products;	EV/EBIT (x)	26.29	24.00	28.11	24.10	22.10
iii. Rising sales contribution from private label products that improves profit margins.						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	61,951	63,046	58,670	61,398	64,185
i. Consumption slowdown;	Gross profit	15,789	16,331	15,022	15,904	16,690
ii. Growing competition from smaller home improvement retailers;	EBITDA	10,387	10,951	10,048	11,387	12,293
iii. Delay in opening of new stores;	Depreciation and amortisation	(3,064)	(2,942)	(3,192)	(3,403)	(3,609)
iv. High-volume Mega Home business undermines overall gross margin.	Operating profit	7,322	8,009	6,856	7,984	8,684
	Net interest	(400)	(405)	(409)	(403)	(374)
	Pre-tax profit	6,922	7,604	6,447	7,581	8,310
	Taxation	(1,310)	(1,427)	(1,225)	(1,440)	(1,579)
	Reported net profit	5,613	6,177	5,222	6,141	6,731
	Recurring net profit	5,613	6,177	5,222	6,141	6,731
Company Profile	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Home Product Center was established with the objective of operating a retail business in the home improvement segment by selling goods. It 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.	Change in working capital	506	(648)	1,788	(703)	119
	Cash flow from operations	8,417	8,211	9,294	9,721	10,637
	Capex	(3,315)	(3,441)	(5,347)	(5,011)	(4,990)
	Cash flow from investing activities	(3,112)	(3,254)	(5,110)	(4,800)	(4,800)
	Dividends paid	(4,340)	(4,865)	(4,433)	(4,471)	(5,101)
	Cash flow from financing activities	(1,572)	(8,335)	(5,094)	(4,471)	(5,601)
	Cash at beginning of period	2,505	6,238	2,860	1,950	2,400
	Net change in cash	3,733	(3,378)	(910)	450	235
	Ending balance cash	6,238	2,860	1,950	2,400	2,635
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	6,238	2,860	1,950	2,400	2,635
	Tangible fixed assets	29,327	29,637	31,979	33,767	35,313
	Total investments	2,612	2,425	2,189	1,978	1,788
	Total assets	54,811	52,049	52,014	54,306	56,301
	Short-term debt	7,248	6,301	11,000	11,000	12,211
	Total long-term debt	10,000	7,072	1,711	1,711	0
	Total liabilities	34,897	30,911	29,698	30,321	30,686
	Total equity	19,914	21,138	22,316	23,986	25,615
	Total liabilities & equity	54,811	52,049	52,014	54,306	56,301
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	3.4	1.8	(6.9)	4.6	4.5
	Recurrent EPS growth (%)	14.9	10.0	(15.5)	17.6	9.6
	Gross margin (%)	25.5	25.9	25.6	25.9	26.0
	Operating EBITDA margin (%)	16.8	17.4	17.1	18.5	19.2
	Net profit margin (%)	9.1	9.8	8.9	10.0	10.5
	Dividend payout ratio (%)	77.3	78.8	84.9	72.8	75.8
	Capex/sales (%)	5.4	5.5	9.1	8.2	7.8
	Interest cover (x)	18.3	19.8	16.7	19.8	23.2

Source: Company data, RHB

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Figure 1: Homepro's 1Q20 results review

FYE Dec (THBm)	1Q19	4Q19	1Q20	YoY	QoQ	Remarks
				% chg	% chg	
Turnover	15,497	15,903	14,546	(6.1)	(8.5)	Weak sales were affected by store closures in Thailand since 22 Mar and in Malaysia since 18 Mar, and the cancellation of the HomePro Expo event due to the COVID-19 pandemic. That said, service income (Home Service) still increased.
Gross profit	3,870	3,995	3,739	(3.4)	(6.4)	
EBIT	1,858	2,236	1,667	(10.3)	(25.4)	The closure of stores and its Market Village retail malls in Bangkok and Hua Hin caused the company to lower rental fees for tenants.
EBIT margin (%)	12.0	14.1	11.5			Despite the improved GPM and the lowered opex-to-sales ratio, weak rental and other incomes undermined the EBIT margin.
EBITDA	2,572	2,986	2,481	(3.6)	(16.9)	
EBITDA margin (%)	16.6	18.8	17.1			
Interest expense	(108)	(90)	(115)	6.7	27.9	
Pretax profit	1,750	2,146	1,552	(11.3)	(27.7)	
Tax	(330)	(398)	(286)	(13.5)	(28.3)	
Net profit	1,420	1,748	1,267	(10.8)	(27.5)	Sluggish revenue, slimmer operating margin, and interest expense hike caused the drops in bottomline and NPM.
Gross margin (%)	25.0	25.1	25.7			Change in product sales mix, increase in private label product sales of 20.2% YoY (2019: 20% YoY), and the cancellation of the low-margin HomePro Expo event.
SG&A/sales (%)	18.8	19.7	18.6			Lowered contribution costs; ie credit card fees, marketing expenses, and variable costs.
Net margin (%)	9.2	11.0	8.7			
Key indicators						
Total store number	108	113	113	5	0	No new stores opened in 1Q20. Only 33 HomePro and eight Mega Home stores in Thailand have been operating since 22 Mar.
- HomePro Thailand	90	93	93	3	0	
- Mega Home	12	14	14	2	0	
- HomePro Malaysia	6	6	6	0	0	
SSSG (%)	2.3	-3.0	-7.0			Steeper negative SSSG vs 4Q19 due to a high base last year. Also, the continued weakening consumption has affected discretionary product retailers, and hastened store closures due to COVID-19.

Source: Company data, RHB

Figure 2: Homepro's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	6,856	7,984	8,684	9,243	9,784	10,361	10,956	11,581	12,231	12,911
EBIT (1-t)	5,553	6,467	7,034	7,486	7,925	8,392	8,875	9,381	9,907	10,458
Depreciation & amortisation	3,192	3,403	3,609	3,815	4,021	4,228	4,434	4,667	4,927	5,189
Change in net working capital	1,788	(703)	119	19	(52)	(16)	11	(36)	26	(2)
Capex	(5,347)	(5,011)	(4,990)	(4,873)	(4,755)	(4,741)	(4,627)	(5,115)	(5,604)	(5,594)
Net free cash flow to firm	1,611	5,562	5,535	6,410	7,242	7,896	8,670	8,969	9,204	10,055
Terminal value										249,094
PV	1,556	5,011	4,652	5,026	5,296	5,387	5,518	5,325	5,098	133,884
Terminal growth	3.0%									
WACC	7.2%									
Total discounted firm value	176,752									
Less: Net debt	10,761									
Less: Minority interest	0									
Equity value	165,991									
Number of shares (m)	13,151									
Equity value per share (THB)	12.60									

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-04	Take Profit	13.7	14.0
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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Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Analyst	Company
-	-

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ช่วงคะแนน Score	สัญลักษณ์ Rang Number of Logo	ความหมาย	Description
90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ผลสำรวจการกำกับดูแลกิจการบริษัทจดทะเบียนที่แสดงไว้นี้ เป็นผลที่ได้จากการสำรวจและประเมินข้อมูลของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย และตลาดหลักทรัพย์ เอ็ม เอ ไอ (“บริษัทจดทะเบียน”) เปิดเผยต่อสาธารณะและเป็นข้อมูลให้ผู้ลงทุนทั่วไปสามารถเข้าถึงได้ ผลสำรวจดังกล่าวจึงเป็นการนำเสนอข้อมูลในมุมมองของบุคคลภายนอกต่อมาตรฐานการกำกับดูแลกิจการของบริษัทจดทะเบียน โดยไม่ได้เป็นการประเมินผลการปฏิบัติงานหรือการดำเนินการของบริษัทจดทะเบียนอื่นทั้งมิได้ใช้ข้อมูลภายในของบริษัทจดทะเบียนในการประเมิน ดังนั้นผลสำรวจที่แสดงนี้จึงไม่ได้เป็นการรับรองถึงผลการปฏิบัติงานหรือการดำเนินการของบริษัทจดทะเบียนและไม่ถือเป็นการให้คำแนะนำในการลงทุนในหลักทรัพย์ของบริษัทจดทะเบียนหรือคำแนะนำใดๆ ผู้ใช้ข้อมูลจึงควรใช้วิจารณญาณของตนเองในการวิเคราะห์และตัดสินใจในการใช้ข้อมูลใดๆ ที่เกี่ยวกับบริษัทจดทะเบียนที่แสดงในผลสำรวจนี้

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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