Thanachart Securities

COM7 Pcl. (COM7 TB)

Able and fortunate

PATTADOL BUNNAK
662 – 483 8298
pattadol.bun@thanachartsec.co.th

We expect COM7 to post very strong 76% y-y earnings growth in 2Q21F despite the escalating COVID third wave. Key drivers continue to be robust demand for IT products, new product SKUs and market share gains. We also expect COM7 to be resilient during the lockdown with its stores open and strong online sales. Reaffirm BUY.

Another very strong quarter in 2Q21F

We estimate COM7's 2Q21F earnings to check in at Bt480m, up 76% y-y but down 15% q-q on the normal seasonal pattern. We would consider these to be very strong results given the escalating third COVID wave that has had a clear negative impact on traffic in shopping malls in 2Q21. COM7 also experienced a supply shortage of its tablet and computer products. We believe key earnings drivers were strong demand for IT products, more SKUs of 5G-enabled phones and 17% y-y store expansion, or 132 more shops. COM7 now has 920 stores.

Stores remain open during lockdown

Due to rising COVID cases, the government ordered most stores in malls in Bangkok and five other provinces to close from Monday for 14 days. Luckily, most COM7's and other IT stores are allowed to remain open along with shops that sell essential products e.g., food and drug stores. IT products are regarded as essential for communicating and for working from home. That said, we expect COM7 to feel some impact given a likely sharp drop in traffic at shopping malls during the semi-lockdown as only a few shops and areas remain open. In ***Siam Senses – The rainbow effect,* dated 14 July 2021**, we cut COM7's earnings by 3% this year given our assumption of a one-month lockdown but boosted them by 3% in 2022F due to pent-up demand and new products SKUs. Our TP was also rolled over to 2022F.

Still in a strong growth cycle

COM7 remains a strong growth stock in our view, and we estimate 41/35/24% EPS growth in 2021-23F. Key drivers are: 1) more 5G phone models, 2) 9-11% or 100 p.a. store expansion over the next three years (911 in 2020), 3) new products from both its existing and new business lines, e.g., Xiaomi smart phones and home appliance products, 4) continued market share gains, and 5) expansion into new businesses. Please refer to ***COM7: A big fish with many new ponds,* dated 1 March 2021**. Also note that Xiaomi now has the second-largest mobile phone market share in Thailand, up from fifth last year. This should also support its penetration of the smart home appliance market.

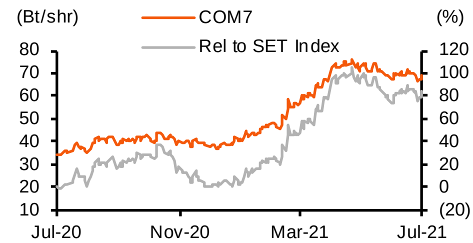
Stand-alone shops

Of the total 100 new store target this year, around 30 are planned to be big, stand-alone ones outside shopping malls. COM7 has already opened 10-plus stand-alone shops this year. Despite being double the size, COM7 expects their net margin to be similar to its existing shops in shopping malls. Rent per sqm is more than 50% lower than in shopping malls. The stand-alone shops are to accommodate new product lines that require more space, including home appliances and other smart products.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	37,306	44,825	52,686	59,357
Net profit	1,491	2,041	2,746	3,392
Consensus NP	—	2,081	2,654	3,207
Diff frm cons (%)	—	*(1.9)*	*3.5*	*5.8*
Norm profit	1,449	2,041	2,746	3,392
Prev. Norm profit	—	2,041	2,746	3,392
Chg frm prev (%)	—	*0.0*	*0.0*	*0.0*
Norm EPS (Bt)	1.2	1.7	2.3	2.8
Norm EPS grw (%)	19.1	40.8	34.5	23.5
Norm PE (x)	56.1	39.8	29.6	24.0
EV/EBITDA (x)	34.9	26.4	20.3	16.8
P/BV (x)	21.1	18.2	15.4	13.4
Div yield (%)	1.5	2.0	2.8	3.6
ROE (%)	40.1	49.0	56.4	59.9
Net D/E (%)	22.4	4.3	(2.2)	(7.8)

PRICE PERFORMANCE

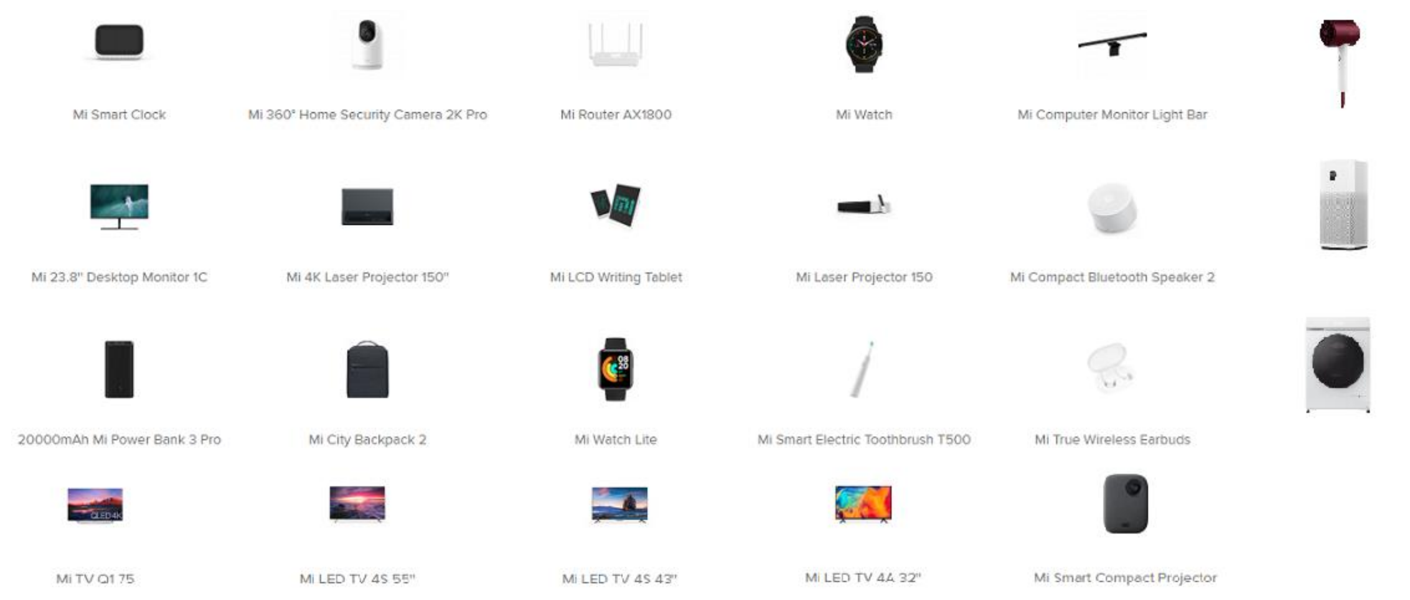


COMPANY INFORMATION

Price *as of* 15-Jul-21 (Bt)	67.75
Market Cap (US$ m)	2,488.7
Listed Shares (m shares)	1,200.0
Free Float (%)	45.7
Avg Daily Turnover (US$ m)	22.9
12M Price H/L (Bt)	76.50/34.25
Sector	Commerce
Major Shareholder	Khun Sura Kanittavikul 25.05%

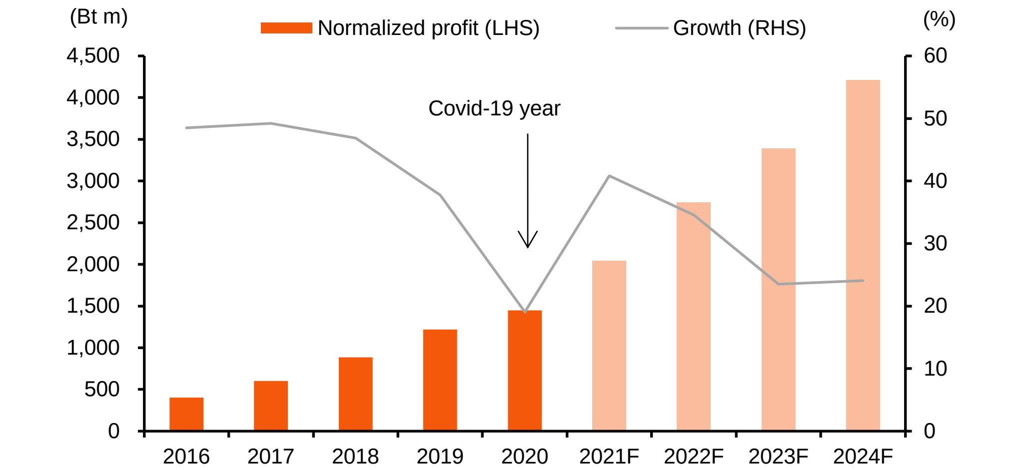
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Xiaomi's Products



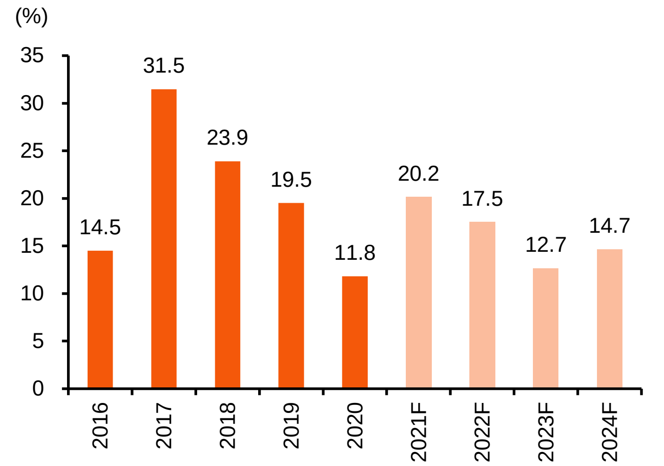
Source: Xiaomi

Ex 2: Earnings Momentum



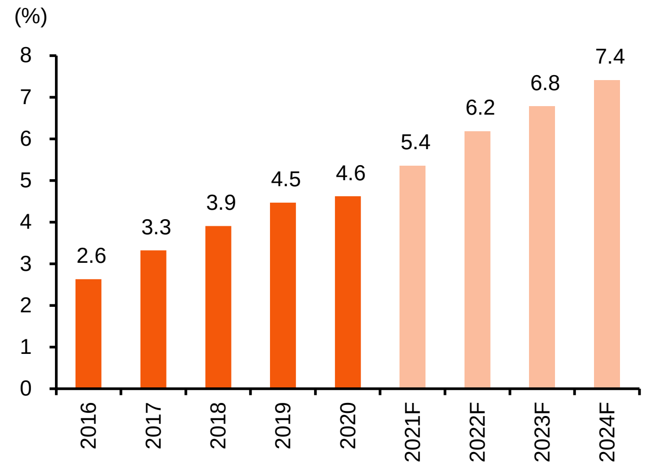
Sources: Company data, Thanachart estimates

Ex 3: Sales Growth



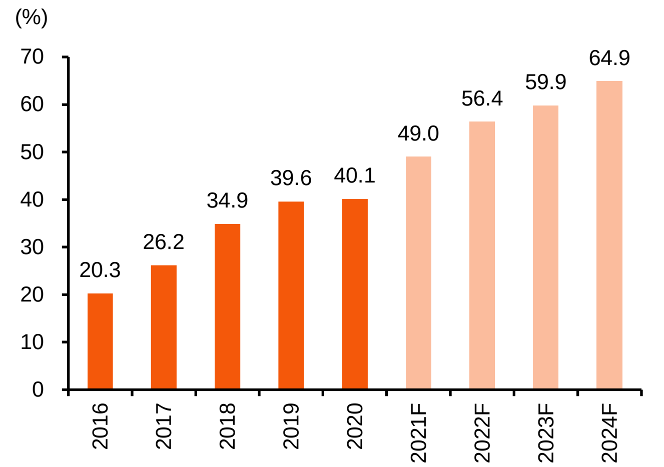
Sources: Company data, Thanachart estimates

Ex 4: EBIT Margin Expansion



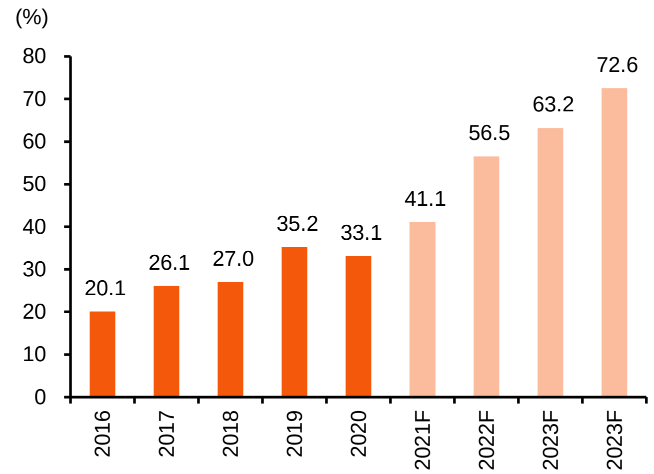
Sources: Company data, Thanachart estimates

Ex 5: Rising ROE…



Sources: Company data, Thanachart estimates

Ex 6: …And ROIC



Sources: Company data, Thanachart estimates

COM's 30x PE multiple in 2022F looks attractive to us vs. its strong earnings growth outlook of 41% this year (despite the third COVID-19 wave) and a further 35%/24% in 2022-23F. Thailand's economic outlook is sluggish, but COM7 is enjoying its own growth trajectory from the increasing adoption of 5G phones, new store openings, new product SKUs and market share gains. And given its ROE rising to 60% in 2023F vs. 40% in 2020, COM7 deserves a premium valuation in our view. We foresee very strong 2Q21F results acting as a near-term catalyst for COM7's share price.

Ex 7: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)		2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA		3,497	4,292	5,339	6,379	7,268	8,237	9,269	10,399	11,663	13,045	14,559	—
Free cash flow		2,282	2,961	3,576	4,552	5,483	6,241	7,047	7,930	8,919	10,001	11,117	149,261
PV of free cash flow		2,276	2,501	2,775	3,245	3,529	3,678	3,802	3,918	4,034	4,142	4,055	54,442
Risk-free rate (%)	3.5												
Market risk premium (%)	8.0												
Beta	1.0												
WACC (%)	9.6												
Terminal growth (%)	2.0												
Enterprise value - add investments	92,396												
Net debt (2021F)	192												
Minority interest	19												
Equity value	92,186												
# of shares	1,200												
Target price/share (Bt)	**77**												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div yield	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Marks & Spencer Group	MKS LN	UK	na	17.7	10.5	8.9	1.5	1.5	5.8	5.6	1.0	4.6
J Sainsbury	SBRY LN	UK	99.2	5.9	13.2	12.4	0.9	0.9	8.2	8.1	3.9	4.1
Tesco	TSCO LN	UK	54.5	9.4	12.7	11.6	1.4	1.2	7.2	6.8	4.0	4.3
Carrefour SA	CA FP	France	9.2	13.2	11.7	10.3	1.3	1.2	5.9	5.5	3.3	3.7
Casino Guichard	CO FP	France	(1.5)	16.1	11.2	9.7	0.7	0.6	6.8	6.3	7.2	6.1
Aeon	8267 JP	Japan	na	34.8	88.1	65.4	2.6	2.6	8.8	8.2	1.2	1.2
Lotte Shopping	023530 KS	S. Korea	na	113.2	30.1	13.8	0.3	0.3	10.4	9.8	2.9	3.0
Shinsegae	004170 KS	S. Korea	na	20.4	10.9	9.1	0.7	0.7	8.8	8.3	0.7	0.7
Amore Pacific Group	002790 KS	S. Korea	na	30.5	32.3	24.8	1.7	1.6	6.7	6.0	0.5	0.6
Wal-Mart Stores	WMT US	USA	9.0	5.1	23.7	22.5	4.7	4.4	12.0	11.6	1.6	1.6
Home Depot Inc	HD US	USA	18.6	4.6	22.4	21.4	na	na	15.6	15.2	2.1	2.2
Berli Jucker *	BJC TB	Thailand	(0.5)	25.7	34.9	27.7	1.2	1.1	13.9	13.5	1.4	1.8
COM7 *	COM7 TB	Thailand	40.8	34.5	39.8	29.6	18.2	15.4	26.4	20.3	2.0	2.8
CP All*	CPALL TB	Thailand	(34.9)	70.9	55.5	32.4	5.3	4.8	15.9	13.6	0.9	1.5
Central Pattana *	CPN TB	Thailand	(7.1)	45.3	46.1	31.8	3.0	2.8	17.6	15.0	1.2	1.5
Central Retail Corp. Pcl *	CRC TB	Thailand	na	106.4	72.0	34.9	3.6	3.4	10.9	9.5	0.6	1.1
Siam Global House *	GLOBAL TB	Thailand	45.7	17.9	38.6	32.7	5.8	5.2	27.9	23.8	1.0	1.2
Home Product*	HMPRO TB	Thailand	12.7	15.9	31.2	27.0	8.2	7.6	17.3	15.4	2.6	3.0
Siam Makro *	MAKRO TB	Thailand	10.2	8.0	24.2	22.4	7.2	6.7	13.9	13.0	3.1	3.6
MC Group *	MC TB	Thailand	21.1	8.0	13.8	12.8	2.0	2.0	8.2	7.3	7.0	7.5
Average			**19.8**	**30.2**	**31.1**	**23.1**	**3.7**	**3.4**	**12.4**	**11.1**	**2.4**	**2.8**

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates using normalized EPS growth

** MC's fiscal year ends in June.

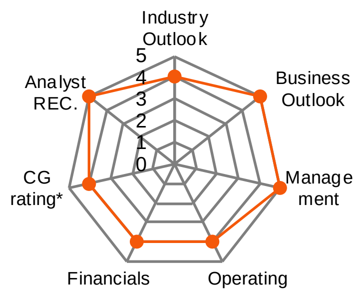
Based on 15-Jul-2021 closing prices

COMPANY DESCRIPTION

Com7 Pcl (COM7) runs a chain of retail outlets that imports, retails, and distributes computers and IT-related products in Thailand. The company offers products such as smartphones, tablets, notebooks and computers. COM7 also offers computer components, such as CPUs, hard drives, and networks and accessories.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	**5**
Good	**4**
Fair	**3**
Weak	**2**
Very Weak	**1**
None	**0**

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong distribution channels nationwide
- More products and brands
- Diversification into higher-margin businesses
- Leverage effect from better utilization of assets
- Apple's largest distributor in Thailand

W — Weakness

- Low-margin retail business
- Risk from obsolete inventory

O — Opportunity

- 4G to 5G migration
- Improving economy
- Increasing speed and bandwidth usage
- New development technology

T — Threat

- Fierce competition in handsets and IT-related products
- Fast-moving technological advances
- Rising competition from new entrants

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	79.28	77.00	-3%
Net profit 21F (Bt m)	2,081	2,041	-2%
Net profit 22F (Bt m)	2,654	2,746	3%
Consensus REC	**BUY: 7**	**HOLD: 3**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F earnings and TP are relatively similar to the Bloomberg consensus numbers. We still regard our and the Street's numbers as conservative as they look to have yet to factor in growth from COM7's potential new businesses.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- More competition in the existing retail business would be the key downside risk to our call.
- A worse-than-expected economy and lower IT-related demand would represent secondary downside risks.

Source: Thanachart

Strong sales growth despite the COVID crisis

Multi-year strong earnings growth, based on our estimates

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	33,362	37,306	44,825	52,686	59,357
Cost of sales	28,946	32,596	39,176	45,874	51,551
Gross profit	**4,416**	**4,710**	**5,649**	**6,812**	**7,806**
% gross margin	13.2%	12.6%	12.6%	12.9%	13.2%
Selling & administration expenses	2,925	2,986	3,248	3,552	3,777
Operating profit	**1,491**	**1,724**	**2,401**	**3,260**	**4,029**
% operating margin	4.5%	4.6%	5.4%	6.2%	6.8%
Depreciation & amortization	200	630	689	738	789
EBITDA	**1,691**	**2,354**	**3,089**	**3,998**	**4,819**
% EBITDA margin	5.1%	6.3%	6.9%	7.6%	8.1%
Non-operating income	28	47	56	66	74
Non-operating expenses	0	0	0	0	0
Interest expense	(52)	(53)	(52)	(52)	(35)
Pre-tax profit	**1,467**	**1,718**	**2,405**	**3,274**	**4,069**
Income tax	289	328	459	626	778
After-tax profit	**1,178**	**1,390**	**1,945**	**2,648**	**3,292**
% net margin	3.5%	3.7%	4.3%	5.0%	5.5%
Shares in affiliates' Earnings	39	64	100	102	104
Minority interests	1	(4)	(4)	(4)	(4)
Extraordinary items	(1)	41	0	0	0
NET PROFIT	**1,216**	**1,491**	**2,041**	**2,746**	**3,392**
Normalized profit	**1,217**	**1,449**	**2,041**	**2,746**	**3,392**
EPS (Bt)	1.0	1.2	1.7	2.3	2.8
Normalized EPS (Bt)	1.0	1.2	1.7	2.3	2.8

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	7,217	5,861	6,614	7,829	8,270
Cash & cash equivalent	1,304	1,121	1,000	1,400	1,200
Account receivables	926	864	1,039	1,221	1,375
Inventories	4,819	3,664	4,404	5,031	5,513
Others	167	211	172	177	182
Investments & loans	513	675	837	999	1,161
Net fixed assets	645	506	493	467	425
Other assets	785	2,165	1,970	1,758	1,493
Total assets	**9,160**	**9,207**	**9,915**	**11,053**	**11,349**
LIABILITIES:					
Current liabilities:	5,629	4,430	4,820	5,095	4,769
Account payables	3,349	2,464	2,962	3,531	3,968
Bank overdraft & ST loans	2,139	1,283	768	828	467
Current LT debt	0	0	0	0	0
Others current liabilities	142	683	1,090	736	334
Total LT debt	**5**	**708**	**424**	**457**	**258**
Others LT liabilities	149	198	177	208	234
Total liabilities	**5,784**	**5,336**	**5,420**	**5,760**	**5,261**
Minority interest	2	19	23	23	27
Preferreds shares	0	0	0	0	0
Paid-up capital	300	300	300	300	300
Share premium	899	899	899	899	899
Warrants	0	0	0	0	0
Surplus	0	(15)	(15)	(15)	(15)
Retained earnings	**2,175**	**2,668**	**3,288**	**4,086**	**4,877**
Shareholders' equity	3,374	3,852	4,472	5,270	6,061
Liabilities & equity	**9,160**	**9,207**	**9,915**	**11,053**	**11,349**

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	1,467	1,718	2,405	3,274	4,069
Tax paid	(266)	(276)	(450)	(581)	(757)
Depreciation & amortization	200	630	689	738	789
Chg In w orking capital	(567)	332	(416)	(240)	(199)
Chg In other CA & CL / minorities	1	492	492	(306)	(323)
Cash flow from operations	**835**	**2,896**	**2,720**	**2,885**	**3,579**
Capex	(155)	(28)	(180)	(190)	(200)
Right of use	0	(1,718)	(100)	(100)	(100)
ST loans & investments	(53)	36	44	0	0
LT loans & investments	(161)	(162)	(162)	(162)	(162)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(60)	(46)	(223)	(179)	(156)
Cash flow from investments	**(429)**	**(1,917)**	**(621)**	**(631)**	**(618)**
Debt financing	452	(149)	(799)	93	(560)
Capital increase	0	0	0	0	0
Dividends paid	(600)	(960)	(1,422)	(1,947)	(2,601)
Warrants & other surplus	(13)	(52)	0	0	0
Cash flow from financing	**(161)**	**(1,161)**	**(2,220)**	**(1,854)**	**(3,161)**
Free cash flow	**680**	**2,868**	**2,540**	**2,695**	**3,379**

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	66.8	56.1	39.8	29.6	24.0
Normalized PE - at target price (x)	75.9	63.8	45.3	33.6	27.2
PE (x)	66.8	54.5	39.8	29.6	24.0
PE - at target price (x)	76.0	62.0	45.3	33.6	27.2
EV/EBITDA (x)	48.6	34.9	26.4	20.3	16.8
EV/EBITDA - at target price (x)	55.1	39.6	30.0	23.1	19.1
P/BV (x)	24.1	21.1	18.2	15.4	13.4
P/BV - at target price (x)	27.4	24.0	20.7	17.5	15.2
P/CFO (x)	97.4	28.1	29.9	28.2	22.7
Price/sales (x)	2.4	2.2	1.8	1.5	1.4
Dividend yield (%)	1.2	1.5	2.0	2.8	3.6
FCF Yield (%)	0.8	3.5	3.1	3.3	4.2
(Bt)					
Normalized EPS	1.0	1.2	1.7	2.3	2.8
EPS	1.0	1.2	1.7	2.3	2.8
DPS	0.8	1.0	1.4	1.9	2.5
BV/share	2.8	3.2	3.7	4.4	5.1
CFO/share	0.7	2.4	2.3	2.4	3.0
FCF/share	0.6	2.4	2.1	2.2	2.8

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	19.5	11.8	20.2	17.5	12.7
Net profit (%)	36.5	22.6	36.9	34.5	23.5
EPS (%)	36.5	22.6	36.9	34.5	23.5
Normalized profit (%)	37.8	19.1	40.8	34.5	23.5
Normalized EPS (%)	37.8	19.1	40.8	34.5	23.5
Dividend payout ratio (%)	78.9	80.5	80.5	82.0	87.0
Operating performance					
Gross margin (%)	13.2	12.6	12.6	12.9	13.2
Operating margin (%)	4.5	4.6	5.4	6.2	6.8
EBITDA margin (%)	5.1	6.3	6.9	7.6	8.1
Net margin (%)	3.5	3.7	4.3	5.0	5.5
D/E (incl. minor) (x)	0.6	0.5	0.3	0.2	0.1
Net D/E (incl. minor) (x)	0.2	0.2	0.0	(0.0)	(0.1)
Interest coverage - EBIT (x)	28.4	32.4	46.1	62.7	116.7
Interest coverage - EBITDA (x)	32.2	44.3	59.3	76.9	139.6
ROA - using norm profit (%)	14.5	15.8	21.3	26.2	30.3
ROE - using norm profit (%)	39.6	40.1	49.0	56.4	59.9
DuPont					
ROE - using after tax profit (%)	38.3	38.5	46.7	54.4	58.1
- asset turnover (x)	4.0	4.1	4.7	5.0	5.3
- operating margin (%)	4.6	4.7	5.5	6.3	6.9
- leverage (x)	2.7	2.5	2.3	2.2	2.0
- interest burden (%)	96.5	97.0	97.9	98.4	99.2
- tax burden (%)	80.3	80.9	80.9	80.9	80.9
WACC (%)	8.8	8.8	8.8	8.8	8.8
ROIC (%)	35.2	33.1	41.1	56.5	63.2
NOPAT (Bt m)	1,198	1,395	1,942	2,637	3,259
invested capital (Bt m)	4,213	4,721	4,663	5,155	5,586

Sources: Company data, Thanachart estimates

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For sectors, an “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

Thanachart Securities Pcl.

Research Team
19 Floor, MBK Tower
444 Phayathai Road, Pathumwan Road, Bangkok 10330
Tel: 662 - 779-9119
Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Sarachada Sornsong
Bank, Finance, Insurance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Sittichet Rungrassameephat
Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant
Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom
Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Siriporn Arunothai
Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Thaloengsak Kucharoenpaisan
Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th

Chak Reungsinpinya
Energy, Petrochemical, Paper
Tel: 662-779-9104
chak.reu@thanachartsec.co.th

Pattadol Bunnak
Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th