BUY (Unchanged) | **TP: Bt 75.00** (From: Bt 68.00) | **5 JULY 2021**

Change in Numbers | **Upside : 26.1%**

CP ALL Public Co Ltd (CPALL TB)

Time for a relook

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After two years of share price underperformance, CPALL is now one of our preferred choices in the sector. While we believe the market has factored in disappointment over the Tesco deal at 25.2x PE on 2019 numbers, we see CPALL as the strongest turnaround play over the next three years from its worst performance this year. BUY.

Now our preferred choice in the sector

CPALL, along with COM7 (COM7, BUY, Bt70.00) and Siam Global House (GLOBAL, BUY, Bt22.80), is now our preferred picks in the retail sector. *First*, we expect it to be the strongest earnings turnaround play in the sector with 36-67% p.a. EPS growth in 2022-23F. *Second*, after its share price underperformance of 21% vs. the SET and 49% vs. the retail sector, we believe CPALL's stock price has more than factored in the disappointment over the Tesco deal. At 25.2x PE on 2019 numbers, which we expect to be achieved again in 2023F, CPALL looks cheap to us. Our DCF-based 12-month TP (rolled over to a 2022F base year) of Bt75 (from Bt68) implies a 28.8x PE multiple in a normalized EPS year in 2023F vs. its 33x 10-year historical average PE. *Lastly*, we expect CPALL's earnings to reach bottom in 2Q21F vs. 3Q21F for its big retail peers.

Earlier bottom with strongest turnaround

We estimate CPALL's earnings to reach bottom in 2Q21F at Bt1.9bn, down 34% y-y and 27% q-q. This is vs. its big retail peers that should see worsening performance in 3Q21F with the escalating third COVID wave and a semi-lockdown. We also project CPALL's strongest earnings turnaround in the sector at 36-67% p.a. in 2022-23F. Key earnings drivers are 7% p.a. same-store sales (SSS) recovery, a resumption of rising gross margin from a higher mix of high-margin products, a sharp fall in interest expense by Bt714m-1,941m, continued store expansions at 5% p.a. and losses from the Tesco SPV falling by Bt612m-2,121m.

Less third-wave impact than peers

CPALL in our view is not the biggest victim of the third COVID wave and its subsidiary Siam Makro (MAKRO TB, BUY, Bt36.00) (34% of 2021F total EBIT) is resilient during the semi-lockdown. 7-Eleven's SSS have fallen 20-25% from 2019 but has stabilized since 2Q20. Looking at the decline, we estimate 10% has been from disappearing tourists and 5% from falling traffic at petrol stations. The government's co-pay stimulus has hit its SSS since 2020 and isn't a new factor this year. We expect Central Pattana (CPN, Bt51.75, BUY) and Central Retail Corporation (CRC, Bt34.25, BUY) to be hit harder in 3Q21F on huge rent discounts, fall in revenue sharing, and lower department store sales.

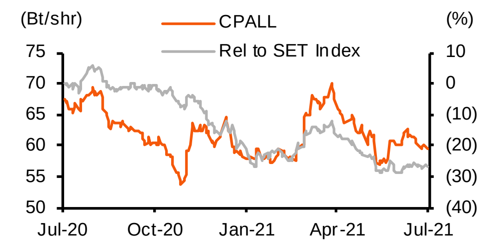
Our new TP is Bt75/share

We cut our earnings estimates by 13-38% in 2021-22F to reflect the COVID impact on 7-Eleven's SSS and gross margin, and a higher loss this year from 40%-owned Tesco's SPV. Valuation wise, CPALL is starting to look inexpensive to us having de-rated to 25.2x PE on 2019 earnings. Our TP of Bt75 implies a de-rated PE of 28.8x on 2023F earnings (back to 2019 levels).

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	546,207	561,165	617,294	683,966
Net profit	16,102	11,343	18,243	24,372
Consensus NP	—	15,821	20,060	24,234
Diff frm cons (%)	—	*(28.3)*	*(9.1)*	*0.6*
Norm profit	15,876	11,343	18,243	24,372
Prev. Norm profit	—	18,204	20,951	23,916
Chg frm prev (%)	—	*(37.7)*	*(12.9)*	*1.9*
Norm EPS (Bt)	1.7	1.2	1.9	2.6
Norm EPS grw (%)	(30.0)	(30.5)	66.7	35.5
Norm PE (x)	35.9	51.7	31.0	22.9
EV/EBITDA (x)	15.5	15.6	13.4	11.5
P/BV (x)	5.5	5.3	4.8	4.3
Div yield (%)	1.5	1.0	1.6	2.2
ROE (%)	16.7	11.5	17.1	20.5
Net D/E (%)	180.8	167.4	142.9	116.1

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 5-Jul-21 (Bt)	59.50
Market Cap (US$ m)	16,645.7
Listed Shares (m shares)	8,983.1
Free Float (%)	57.5
Avg Daily Turnover (US$ m)	48.4
12M Price H/L (Bt)	70.00/53.75
Sector	Commerce
Major Shareholder	CP Group 35.58%

Sources: Bloomberg, Company data, Thanachart estimates

Now a preferred choice in the sector

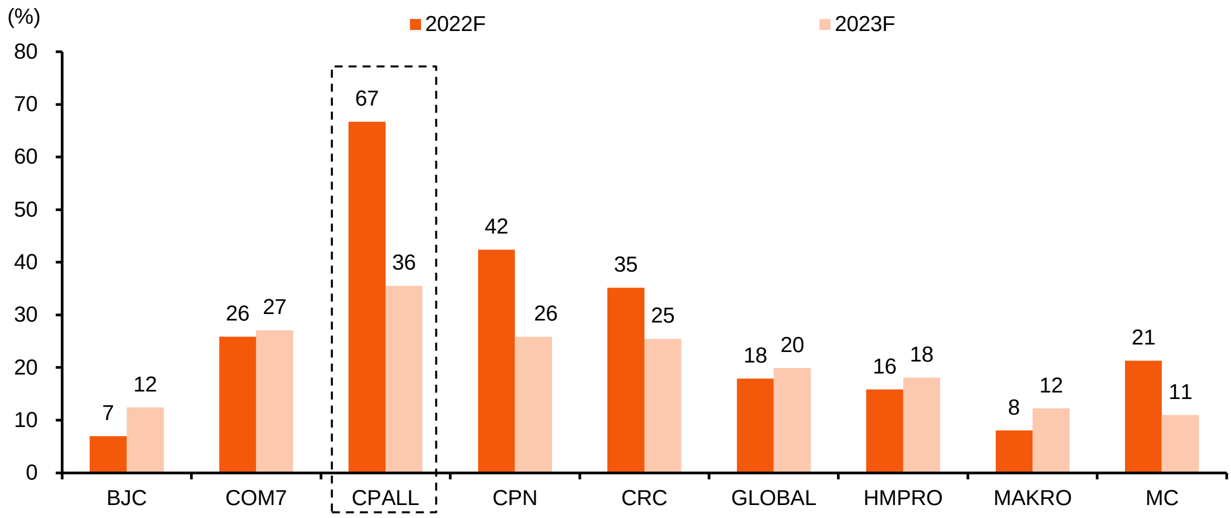
CPALL is now our top retail sector pick for…

We now assign CP All Pcl (CPALL) as our top pick in the retail sector, while we also like Com7 Pcl (COM7 TB, Bt70.00, BUY) and Siam Global House Pcl (GLOBAL TB, Bt22.80, BUY), for the following reasons.

1) Sector-best EPS growth in 2022-23F

First, we estimate CPALL to experience the best earnings growth turnaround in the sector of 67% in 2022F and 36% in 2023F. Besides the recovery in its 7-Eleven convenience store business, where we expect same-store sales (SSS) to return to positive growth next year and a continuing solid performance by its cash-and-carry subsidiary Siam Makro (MAKRO TB, BUY, Bt36.00), falling interest expenses from bridging loan refinancing and declining interest-bearing debt, and higher equity income from Lotus (40% stake) also look set to drive growth.

Ex 1: Retail Stocks' Normalized EPS Growth

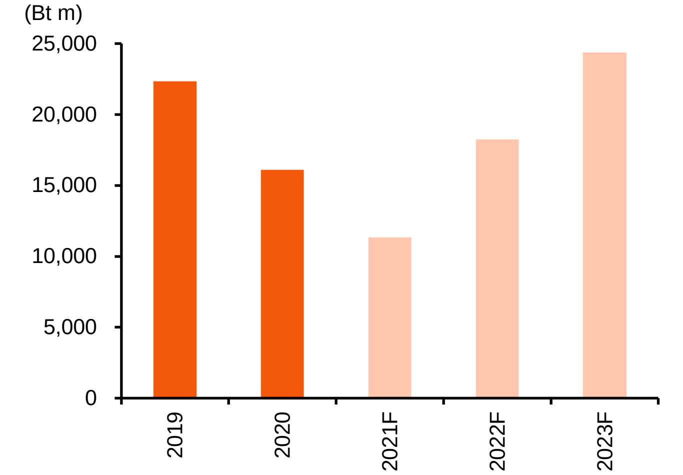


Source: Thanachart estimates

2) Inexpensive valuation in our view, and

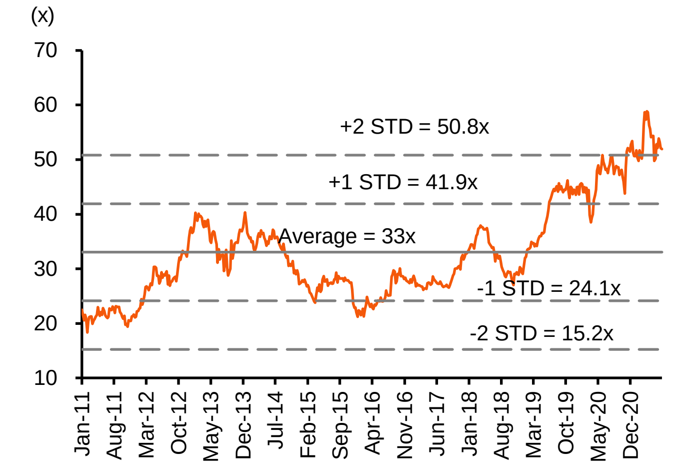
Second, CPALL's share price has dropped by 31% over the past two years, underperforming the Stock Exchange of Thailand (SET) by 21% and the retail sector by 49%. We believe this has been because of COVID's impact on the convenience store business and disappointment over its move to invest in Tesco hypermarkets in Thailand and Malaysia leading to a rising debt burden and loss contributions in the first few years after the acquisition. However, at 25.2x PE on 2019 earnings, which we estimate to be achieved again in 2023F, CPALL looks cheap to us. Our DCF-based 12-month TP (rolled over to a 2022F base year) of Bt75/share (from Bt68 previously) implies 28.8x PE in a normalized EPS year in 2023F vs. its 33x 10-year historical average PE.

Ex 2: CPALL's Net Profit



Sources: Company data, Thanachart estimates

Ex 3: CPALL's PE



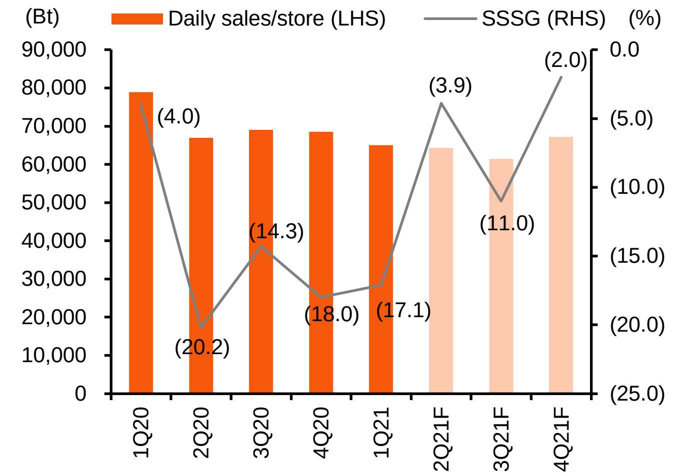
Sources: Bloomberg, Thanachart estimates

3) Earnings to bottom in 2Q21F with a strong recovery afterwards

Lastly, we expect CPALL's quarterly earnings to reach bottom in 2Q21F vs. 3Q21F for its big retail peers.

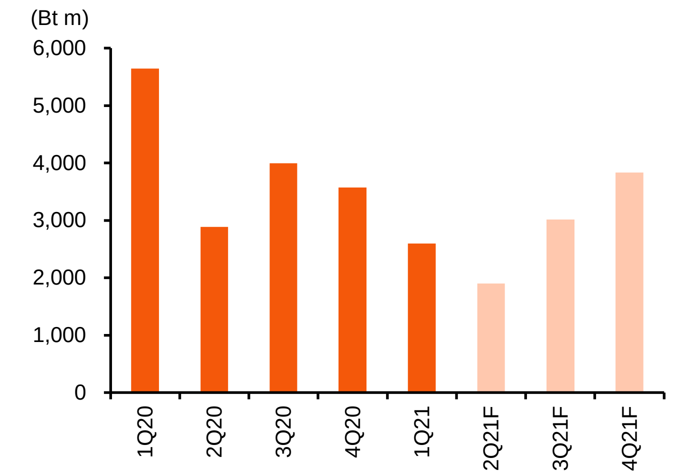
We estimate 2Q21F net profit to check in at Bt1.9bn, down 34% y-y and 27% q-q, mainly on a jump in interest expenses which looks likely to peak at Bt3.6bn, including Bt1.2bn of one-time costs related to its bridging loan repayment and debenture issuances. Operations wise, we expect the 7-Eleven business to bottom out in 3Q21F with average daily sales/store hovering around Bt61-62k (down 25% from the pre-pandemic level of Bt83k in 2019) before our expectation of a gradual recovery starting from 4Q21F. Factoring in the escalating COVID impact, we estimate SSS to decline by 11% in 3Q21F and 2% in 4Q21F. With falling interest costs in 2H21F from its bridging loan refinancing in 2Q21 and higher profit from MAKRO, we project CPALL's net profit to improve q-q to Bt3.0bn in 3Q21F (-33% y-y, +58% q-q) and Bt3.8bn in 4Q21F (+7% y-y, +27% q-q).

Ex 4: 7-Eleven Quarterly SSSG Vs. Daily Sales/Store



Sources: Company data, Thanachart estimates

Ex 5: CPALL's Quarterly Profit



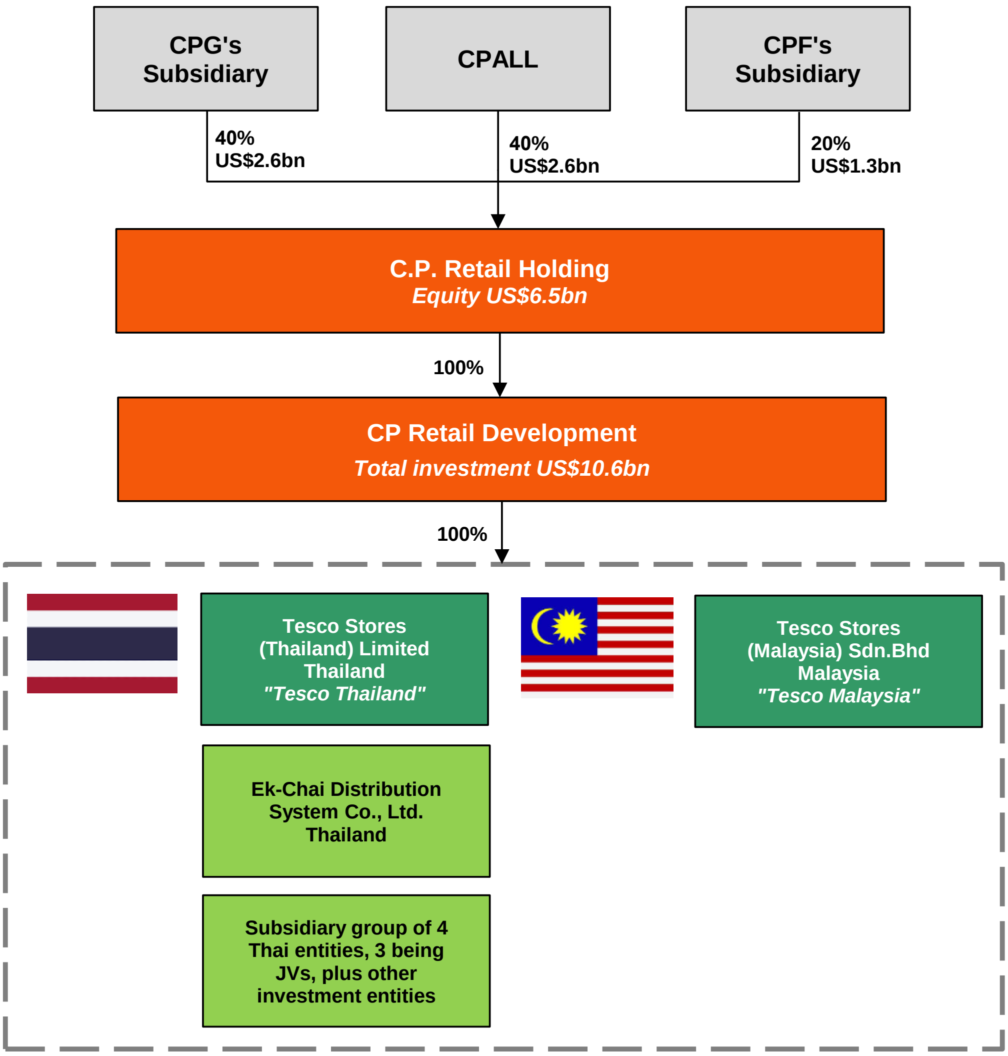
Sources: Company data, Thanachart estimates

Bridging loan refinancing completed

Recent debentures brought down interest costs

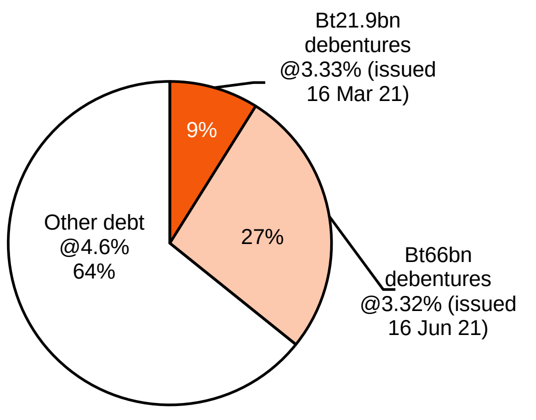
After drawing down a bridging loan in mid-December last year to fund its 40% investment in Tesco Asia (Thailand, Malaysia), CPALL completed its refinancing with the issuance of Bt21.9bn in debentures in March and Bt66bn in June this year. With a lower cost of funds for the new debentures averaging 3.32-3.33%, this saves Bt1,075m/year (Bt860m net of tax) in interest costs. We project interest expenses (including non-recurring costs) to fall by 22% h-h to Bt5.0bn in 2H21F. With a lower average cost of debt, no one-time expenses and falling interest-bearing debt, we expect interest expenses to decline by 17% next year to Bt9.6bn and 7% in 2023F to Bt8.9bn.

Ex 6: CP-Tesco Transaction Structure



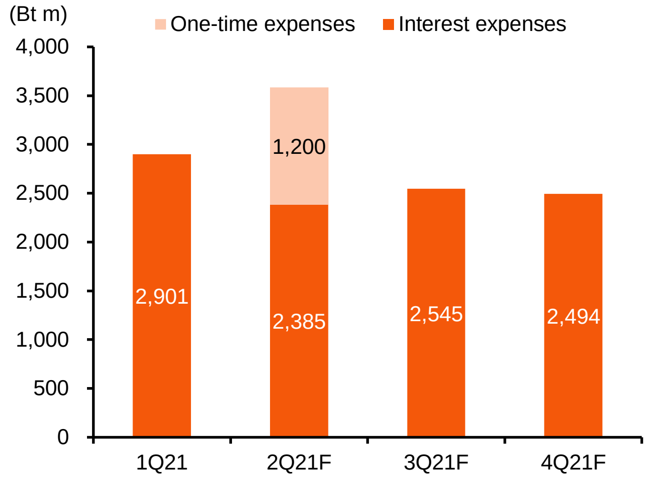
Source: Company data

Ex 7: Debt Structure



Sources: Company data, Thanachart estimates

Ex 8: Interest Costs



Sources: Company data, Thanachart estimates

Earlier bottom with strongest turnaround

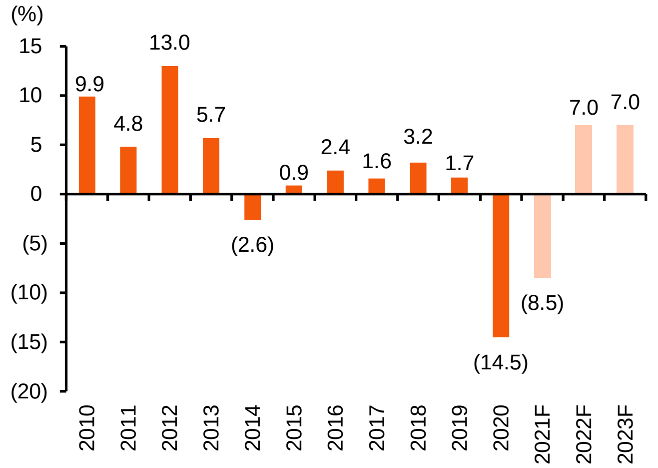
Bottom quarter in 2Q21F

Despite the escalating third COVID wave, including a semi-lockdown in 10 maximum-control dark-red zone provinces effective from 28 June, including Bangkok plus its five neighboring provinces (Nonthaburi, Pathum Thani, Samut Prakarn, Nakorn Pathom and Samut Sakhon) and four southern provinces (Narathiwat, Pattani, Yala and Songkhla), we estimate CPALL's earnings to reach a bottom in 2Q21F. This compares with its big retail peers where we foresee worsening operations in 3Q21F.

Strong EPS growth from 7-Eleven business recovery, lower Lotus losses and falling interest costs

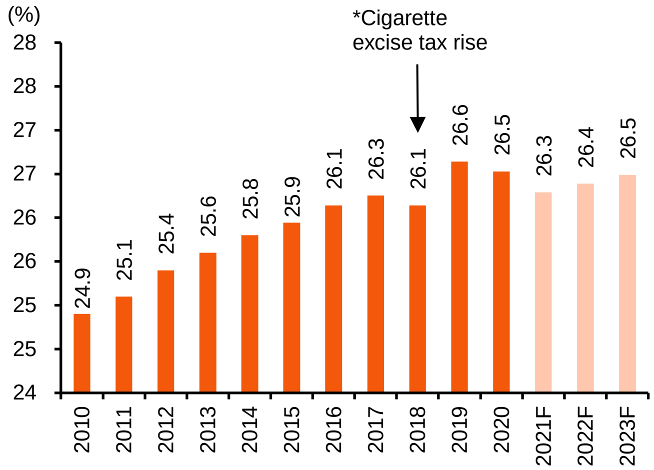
From next year, we also project CPALL to experience the strongest earnings turnaround in the sector at 36-67% p.a. in 2022-23F. Key earnings drivers are 7-Eleven's same-store sales (SSS) recovery of 7% in both years, a resumption of total product margin expansion due to a rising mix of high-margin products when the economy turns around (lower sales of budget chilled meal boxes, falling demand for lower-margin, big-sized items, growing demand for high-margin personal care goods), continued 7-Eleven outlet openings of 700 branches each year, or 5% p.a., a sharp fall in interest expenses by Bt714m-1,941m in 2022-23F, and losses from the Tesco SPV company falling by Bt612m-2,121m. Lastly, we expect its 93.08%-held subsidiary, MAKRO, to deliver EPS growth of 8-12% in 2022-23F.

Ex 9: 7-Eleven's SSSG



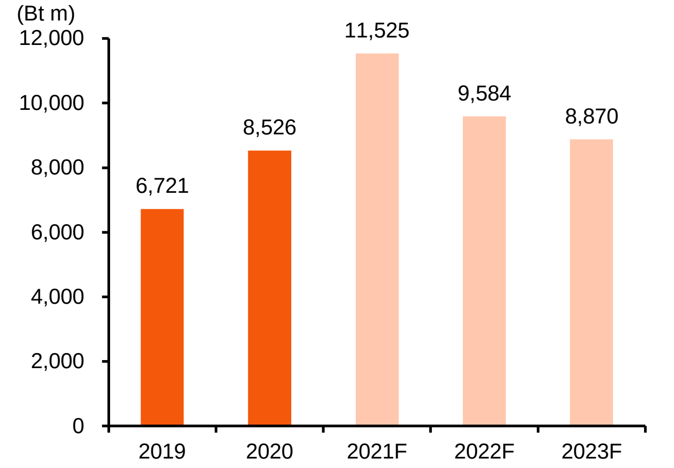
Sources: Company data, Thanachart estimates

Ex 10: 7-Eleven's Total Product Margin



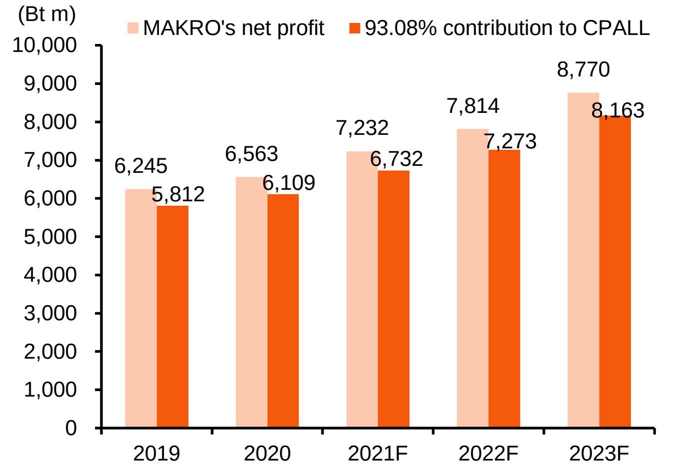
Sources: Company data, Thanachart estimates

Ex 11: Falling Interest Costs



Sources: Company data, Thanachart estimates

Ex 12: MAKRO's Net Profit



Sources: Company data, Thanachart estimates

Ex 13: Lotus's Estimated Contributions

(Bt m)	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
CPALL's current net profit forecast	11,343	18,243	24,372	30,874	37,135	40,943	46,877	52,812	58,756	65,843	73,172	80,868
Lotus's profit	6,538	8,172	9,398	10,808	11,889	12,483	13,107	13,763	14,451	15,174	15,932	16,729
Interest expense - SPV	6,035	5,130	4,828	4,828	4,828	4,828	4,828	4,828	4,828	4,828	4,828	4,828
Equity income from Lotus's (40% stake)	201	1,217	1,828	2,392	2,824	3,062	3,312	3,574	3,849	4,138	4,442	4,760
Interest expense - CPALL's investment - net of tax	3,337	2,232	2,232	2,232	2,232	2,232	2,232	2,232	2,232	2,232	2,232	2,232
Lotus's profit contribution - net of interest cost	(3,136)	(1,015)	(403)	160	593	831	1,080	1,342	1,618	1,907	2,210	2,529

Sources: Company data, Thanachart estimates

Less impact from third-wave than its peers

Lower downside risk from COVID than peers

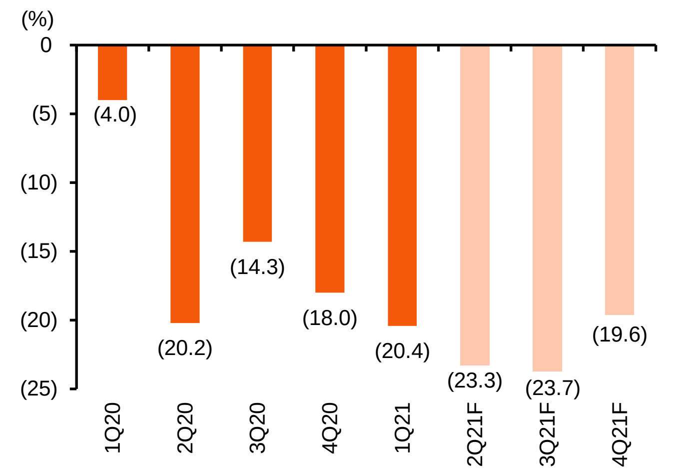
Thailand has been suffering from a third COVID wave from late June and many businesses have felt a bigger hit from both the economic impact and the government's semi-lockdown measures, i.e. a suspension of construction activity in Bangkok and its vicinity for 30 days to control the virus spread among construction sites, and no dine-in services allowed at restaurants in 10 dark-red provinces. CPALL in our view is not the biggest victim of the escalating COVID wave and we expect MAKRO (34% to total EBIT) to be resilient during the semi-lockdown.

Since the pandemic began, 7-Eleven's SSS have fallen by 20-25% compared to the pre-COVID level in 2019 and have been stabilizing since 2Q20. Looking at the decline, we estimate 10% of the lost sales from disappearing tourists, and 5% from falling traffic at gas stations (15% of its total 12,587 branches). The government's continued co-pay stimulus scheme has hit its SSS since 2020 and is not a new factor this year. As most products sold at its convenience stores are consumer staples necessary for basic consumption, while its near-home locations are scattered around the country, we see lower downside risk from any further lockdown measures than for other discretionary businesses. COVID outbreaks at many fresh markets, no onsite dining and the stay-at-home policy should also ensure store traffic does not fall much further from 800-900 customers/store/day from nearly 1,200 before

COVID. Lower store traffic is also being alleviated by 7 Delivery sales that rose to 10% in 1Q21, from 3% in 2020. As for the product mix, the company has adjusted to suit the current situation with more big-sized items as people shop near their homes more, while it has added to its selection of fresh vegetables and ingredients for home cooking. We have seen spending per ticket rising by around 10% from Bt70 pre-COVID to Bt77 at present.

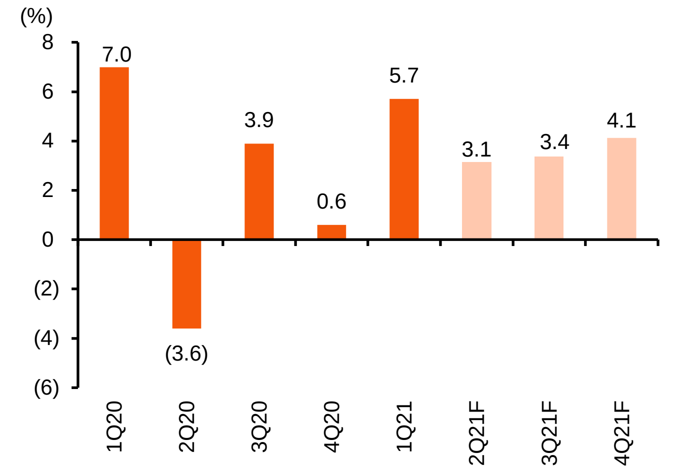
Relatively, we expect Central Pattana (CPN TB, Bt51.75, BUY) and Central Retail Corporation (CRC TB, Bt34.25, BUY) to be hit harder in 3Q21F from still large rental discounts given ongoing light mall traffic, fall in revenue sharing from restaurants and lower department store sales.

Ex 14: 7-Eleven's SSSG VS Pre-Covid



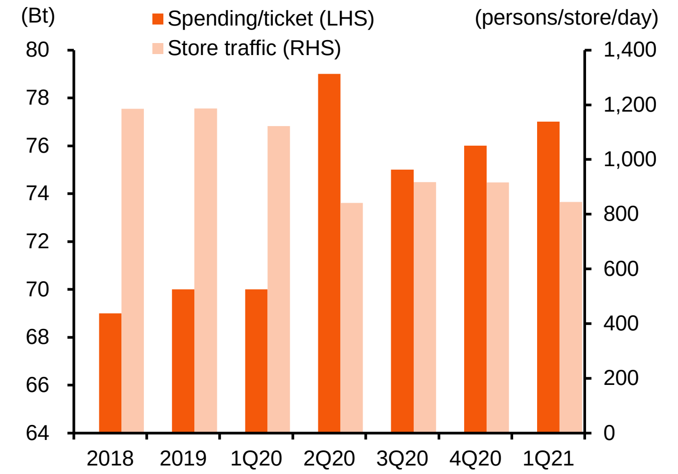
Sources: Company data, Thanachart estimates

Ex 15: MAKRO's SSSG VS Pre-Covid



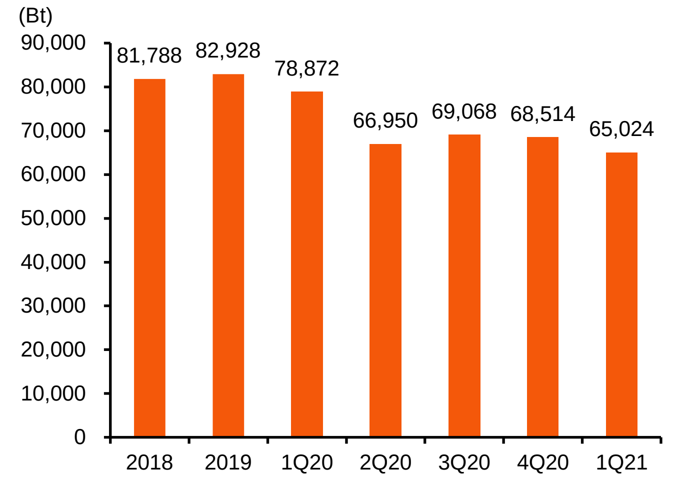
Sources: Company data, Thanachart estimates

Ex 16: Spending/Ticket Vs. Store Traffic



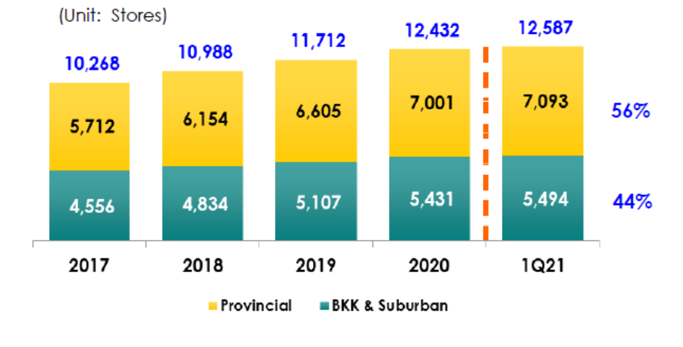
Source: Company data

Ex 17: Average Daily Sales/Store



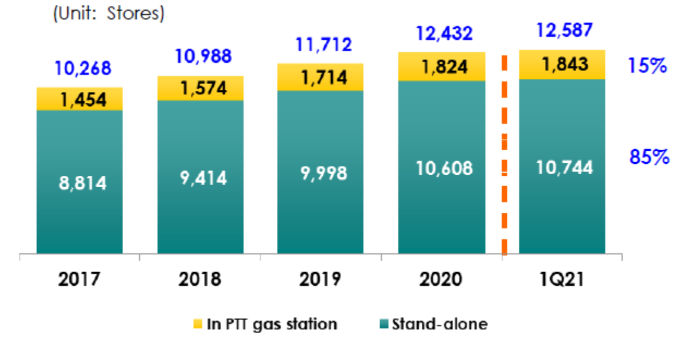
Source: Company data

Ex 18: 7-Eleven's Stores (Bangkok Vs. Upcountry)



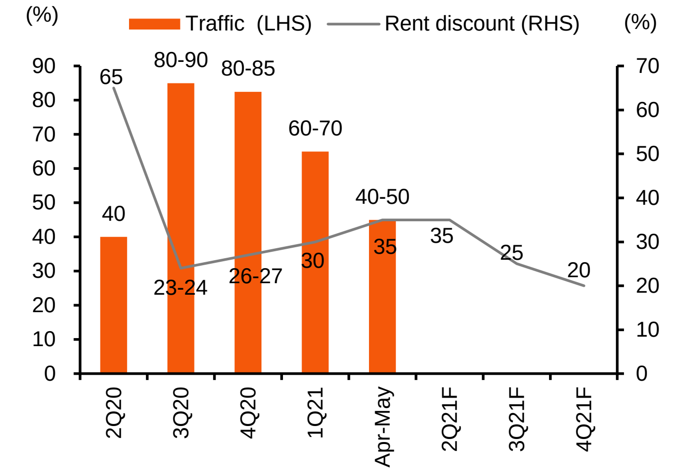
Source: Company data

Ex 19: 15% Of Branches At PTT Gas Stations



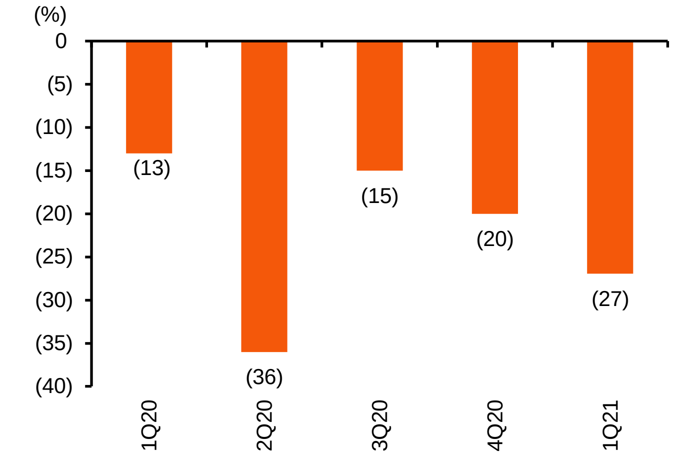
Source: Company data

Ex 20: CPN's Traffic Vs. Rent Discount



Sources: Company data, Thanachart estimates

Ex 21: CRC's SSSG Vs. Pre-COVID Level



Sources: Company data, Thanachart estimates

Our new TP is Bt75

We lift our TP by 10% to Bt75 on earnings hikes of 6% p.a. in 2021-31F and a base-year rollover

We revise down our earnings estimates for 2021-22F by 13-38% to account for the COVID-19 third wave that has hit 7-Eleven stores (cutting SSSG and gross margin) and our expectation for a higher loss from Lotus's business this year. However, we raise our earnings from 2023F on falling interest expenses and because we foresee Lotus's performance improving over the longer term. As we roll over our valuation base year to 2022F, we lift our DCF-based 12-month TP by 10% to Bt75/share from Bt68.

The stock trades at a 2022F PE of 31.0x, below its historical 10-year average of 33.0x, on a 42% EPS CAGR over 2021-24F. The current price also implies 25.2x PE on 2019 earnings which looks inexpensive to us given that earnings look set to recover back to surpass 2019's profit in 2023F. Our Bt75 TP reflects a de-rated PE to 28.8x on 2023F profit.

Ex 22: Key Assumption Changes

	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
SSS growth (%) - 7-Eleven											
- New	(8.50)	7.00	7.00	6.00	5.00	3.00	3.00	3.00	3.00	3.00	3.00
- Old	5.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Total product margin (%)											
- New	26.3	26.4	26.5	26.6	26.7	26.8	26.9	27.0	27.1	27.2	27.3
- Old	26.7	26.8	26.9	27.0	27.3	27.5	27.7	27.9	28.1	28.3	28.5
Equity income (Bt m) 40% in Lotus											
- New	201	1,217	1,828	2,392	2,824	3,062	3,312	3,574	3,849	4,138	4,442
- Old	557	880	1,128	1,162	1,197	1,232	1,269	1,308	1,347	1,387	1,429
Change (%)	*(64)*	*38*	*62*	*106*	*136*	*148*	*161*	*173*	*186*	*198*	*211*
Interest expense (Bt m)											
- New	11,525	9,584	8,870	8,082	7,364	9,477	8,277	7,428	6,458	5,597	4,939
- Old	10,668	10,896	11,016	10,479	11,997	11,597	11,404	10,888	9,887	8,733	7,569
Change (%)	*8*	*(12)*	*(19)*	*(23)*	*(39)*	*(18)*	*(27)*	*(32)*	*(35)*	*(36)*	*(35)*
Norm profit (Bt m)											
- New	11,343	18,243	24,372	30,874	37,135	40,943	46,877	52,812	58,756	65,843	73,172
- Old	18,204	20,951	23,916	27,312	30,929	34,306	39,694	45,664	52,335	59,490	67,071
Change (%)	*(38)*	*(13)*	*2*	*13*	*20*	*19*	*18*	*16*	*12*	*11*	*9*

Source: Thanachart estimates

Ex 23: 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		40,867	47,777	55,083	62,128	69,070	75,209	81,535	88,021	95,989	104,405	113,150	
Free cash flow		23,709	29,492	35,811	44,308	50,585	55,516	60,923	66,514	73,326	80,513	87,868	1,264,828
PV of free cash flow		23,644	25,218	28,307	32,382	33,456	33,803	34,144	34,319	34,831	38,237	36,807	529,827
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.0												
WACC (%)	8.2												
Terminal growth (%)	2.0												
Enterprise value - add investments	884,976												
Net debt (end-2021F)	194,715												
Minority interest	15,336												
Equity value	674,925												
# of shares (m)	8,986												
Equity value/share (Bt)	**75.11**												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 24: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div. yield 21F (%)	Div. yield 22F (%)
Marks & Spencer	MKS LN	Britain	(86.7)	na	64.8	10.7	0.8	1.4	8.1	6.1	0.0	1.1
J Sainsbury PLC	SBRY LN	Britain	(44.4)	87.3	22.9	12.2	0.8	0.8	6.1	5.4	5.7	4.3
Tesco	TSCO LN	Britain	(53.0)	80.4	20.4	11.3	1.0	1.2	8.2	7.0	3.9	4.5
Carrefour SA	CA FP	France	11.3	12.6	12.2	10.9	1.3	1.2	6.0	5.6	3.2	3.5
Casino Guichard	CO FP	France	32.4	15.3	12.7	11.0	0.7	0.7	7.0	6.5	6.4	6.0
L'Oreal SA	OR FP	France	15.6	9.8	44.9	40.8	6.8	6.3	25.6	23.7	1.2	1.3
Alimentation Couche	ATD/B CN	Canada	22.7	(8.2)	19.9	21.6	4.3	4.1	9.7	10.4	0.6	0.7
Aeon	8267 JP	Japan	na	na	na	90.3	2.5	2.6	10.7	9.0	1.2	1.2
Kao Corporation	4452 JP	Japan	2.6	11.3	25.1	22.6	3.5	3.3	12.6	11.6	2.1	2.2
Lion Corporation	4912 JP	Japan	(25.3)	5.9	25.7	24.2	2.3	2.2	11.2	10.5	1.2	1.3
Shiseido Co. Ltd	4911 JP	Japan	na	87.1	104.5	55.8	6.5	6.1	31.2	21.0	0.6	0.7
Lawson	2651 JP	Japan	(56.6)	91.6	57.1	29.8	1.9	1.9	4.8	4.2	2.9	2.9
Seven & I Holdings	3382 JP	Japan	(25.7)	63.6	29.0	17.8	1.7	1.6	7.3	5.5	1.9	2.1
Lotte Corp	004990 KS	South Korea	177.9	13.4	12.1	10.6	0.6	0.5	10.0	9.9	3.0	3.3
Shinsegae	004170 KS	South Korea	na	21.2	11.2	9.2	0.7	0.7	8.8	8.3	0.7	0.7
Amore Pacific Group	002790 KS	South Korea	162.6	29.9	32.7	25.2	1.8	1.7	6.8	6.1	0.5	0.6
Best Buy Co Inc	BBY US	USA	5.9	2.8	13.8	13.4	7.4	7.3	7.2	7.3	1.9	2.4
Wal-Mart Stores	WMT US	USA	6.1	5.8	23.6	22.3	4.7	4.4	11.9	11.5	1.5	1.6
Home Depot Inc	HD US	USA	18.1	4.9	22.7	21.7	142.2	228.2	15.8	15.4	1.9	2.1
Yonghui Superstores	601933 CH	China	(56.0)	58.7	43.4	27.3	2.3	2.2	22.4	19.4	3.0	3.3
Sa International	178 HK	Hong Kong	na	na	na	na	4.6	4.2	na	25.8	0.0	1.1
Dairy Farm Intl Hldgs	DFI SP	Hong Kong	37.4	20.1	17.6	14.7	4.1	3.7	12.7	11.6	4.3	4.8
President Chain Store	2912 TT	Taiwan	6.4	7.8	24.8	23.1	7.2	6.9	11.0	10.6	3.6	3.8
7-Eleven Malaysia	SEM MK	Malaysia	10.4	15.1	27.4	23.8	18.8	19.1	8.4	8.6	2.6	2.8
Berli Jucker *	BJC TB	Thailand	31.4	7.0	26.6	24.8	1.1	1.1	12.6	11.8	1.9	2.0
COM7 *	COM7 TB	Thailand	45.8	25.9	39.7	31.6	18.6	16.0	26.3	21.4	2.0	2.6
CP All *	CPALL TB	Thailand	(30.5)	66.7	51.7	31.0	5.3	4.8	15.6	13.4	1.0	1.6
Central Pattana *	CPN TB	Thailand	3.4	42.4	42.7	30.0	3.1	2.9	17.2	14.7	1.2	1.6
Central Retail Corp. *	CRC TB	Thailand	na	35.2	40.4	29.9	3.2	3.0	9.8	8.2	1.0	1.3
Siam Global House *	GLOBAL TB	Thailand	45.7	17.9	36.7	31.1	5.5	5.0	26.7	22.7	1.1	1.3
Home Product*	HMPRO TB	Thailand	18.6	15.8	31.8	27.5	8.7	8.0	17.9	16.0	2.5	2.9
Siam Makro *	MAKRO TB	Thailand	10.2	8.0	23.9	22.1	7.1	6.6	13.7	12.8	3.1	3.6
Mc Group *	MC TB	Thailand	28.6	21.3	12.8	10.5	2.0	2.0	7.7	6.3	7.7	9.4
Average			**11.2**	**29.2**	**31.4**	**24.7**	**8.6**	**11.0**	**12.8**	**11.8**	**2.3**	**2.6**

Sources: Bloomberg, Thanachart estimates

Note: * Thanachart estimates using normalized EPS growth

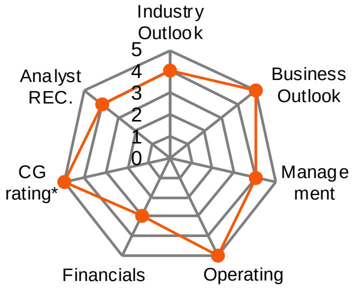
Based on 5 July 2021 closing price

COMPANY DESCRIPTION

C.P. All Pcl (CPALL) is a Thailand-based company that operates convenience stores (CVS) under the 7-Eleven trademark and owns a 93.08% stake in the cash-and-carry operator Siam Makro Pcl (MAKRO). The company also engages in related businesses such as bill-payment collection through its subsidiary, Counter Service Co., Ltd., and the manufacture and sale of ready-to-eat foods and bakery items via C.P. Retailing and Marketing Co., Ltd. In December 2020, it invested in a 40% stake in in Tesco Asia.

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

- Thai CVS market leader and has a natural monopoly with a 64% market share.
- A cash-cow stock operating 7-Eleven stores in Thailand – a very stable and secure business.
- Successful franchise.

W — Weakness

- Too swift expansion may lead to staff shortages.
- Loss in early years from MAKRO's overseas expansion to Cambodia, India, China and Myanmar.
- Rising debt from 40% investment in Lotus.

O — Opportunity

- The Thai CVS market hasn't matured yet while the competitive landscape isn't that fierce.
- Opportunities to open more stores upcountry and also in Bangkok along with mass-transit expansion.
- CLMV expansion.
- New sources of service income.

T — Threat

- The possible implementation of the Retail and Wholesale Business Act.
- Risk of natural disasters.
- Risk of theft.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	69.71	75.00	8%
Net profit 21F (Bt m)	15,652	11,343	-28%
Net profit 22F (Bt m)	19,877	18,243	-8%
Consensus REC	**BUY: 19**	**HOLD: 7**	**SELL: 2**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021-22F net profits are 8-28% below the Bloomberg consensus estimates, likely due to us having lower 7-Eleven assumptions for SSSG and Lotus's operation because of the COVID-19 impact.
- Our DCF-based TP is 8% higher than the consensus, likely as we roll over our valuation base year to 2022F.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A weaker-than-expected economy would have a direct negative impact on the performance of the 7-Eleven business as it is highly leveraged to domestic consumption, and this presents the key downside risk to our call.
- If other competitors, i.e. Family Mart, Tops and mini BIGC, expand faster than we currently anticipate and are more successful than we expect now, this would represent a secondary downside risk to our call.
- If its subsidiary MAKRO fails in its ventures abroad and generates larger losses than we currently expect.

Source: Thanachart

Thai 7-Eleven business is cash-flow generating with rapid breakeven

We estimate EPS growth resuming at a 42% CAGR over 2021-24F

Higher debt burden from investment in Lotus in late 2020

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	570,712	546,207	561,165	617,294	683,966
Cost of sales	426,063	410,880	424,928	464,800	512,843
Gross profit	**144,649**	**135,327**	**136,238**	**152,494**	**171,123**
% gross margin	25.3%	24.8%	24.3%	24.7%	25.0%
Selling & administration expenses	111,562	107,858	110,733	121,763	134,336
Operating profit	**33,087**	**27,469**	**25,505**	**30,730**	**36,787**
% operating margin	5.8%	5.0%	4.5%	5.0%	5.4%
Depreciation & amortization	10,166	19,895	21,143	22,709	24,292
EBITDA	**43,252**	**47,364**	**46,648**	**53,439**	**61,079**
% EBITDA margin	7.6%	8.7%	8.3%	8.7%	8.9%
Non-operating income	295	157	219	275	316
Non-operating expenses	0	0	0	0	0
Interest expense	(6,721)	(8,526)	(11,525)	(9,584)	(8,870)
Pre-tax profit	**26,660**	**19,100**	**14,198**	**21,422**	**28,232**
Income tax	4,070	2,759	2,556	3,856	5,082
After-tax profit	**22,591**	**16,340**	**11,642**	**17,566**	**23,151**
% net margin	4.0%	3.0%	2.1%	2.8%	3.4%
Shares in affiliates' Earnings	0	(63)	201	1,217	1,828
Minority interests	(351)	(400)	(500)	(540)	(607)
Extraordinary items	104	226	0	0	0
NET PROFIT	**22,343**	**16,102**	**11,343**	**18,243**	**24,372**
Normalized profit	**22,240**	**15,876**	**11,343**	**18,243**	**24,372**
EPS (Bt)	2.4	1.7	1.2	1.9	2.6
Normalized EPS (Bt)	2.4	1.7	1.2	1.9	2.6

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	71,923	81,404	89,665	92,171	97,090
Cash & cash equivalent	30,519	40,626	46,627	45,037	45,037
Account receivables	1,718	1,650	1,695	1,865	2,066
Inventories	31,538	31,749	33,761	36,929	40,746
Others	8,148	7,379	7,581	8,340	9,240
Investments & loans	34	85,586	85,586	85,586	85,586
Net fixed assets	116,082	120,199	123,326	126,696	130,222
Other assets	187,578	236,165	232,690	228,443	223,044
Total assets	**375,617**	**523,354**	**531,267**	**532,896**	**535,942**
LIABILITIES:					
Current liabilities:	112,917	123,383	139,139	144,953	153,134
Account payables	78,550	72,778	75,672	82,773	91,328
Bank overdraft & ST loans	3,341	1,056	7,240	6,826	6,298
Current LT debt	12,528	19,825	23,410	22,071	20,364
Others current liabilities	18,498	29,723	32,817	33,283	35,144
Total LT debt	**129,193**	**221,503**	**210,691**	**198,641**	**183,273**
Others LT liabilities	25,139	66,874	65,143	61,623	57,529
Total liabilities	**267,250**	**411,759**	**414,974**	**405,216**	**393,937**
Minority interest	14,629	14,836	15,336	15,877	16,483
Preferreds shares	0	0	0	0	0
Paid-up capital	8,983	8,983	8,986	8,986	8,986
Share premium	1,684	1,684	1,684	1,684	1,684
Warrants	0	0	0	0	0
Surplus	16,318	16,833	16,833	16,833	16,833
Retained earnings	**66,753**	**69,258**	**73,453**	**84,299**	**98,017**
Shareholders' equity	93,739	96,759	100,957	111,803	125,521
Liabilities & equity	**375,617**	**523,354**	**531,267**	**532,896**	**535,942**

Sources: Company data, Thanachart estimates

Business is generating strong free cash flows

We believe high PEs are justified by stronger EPS growth from 2022F

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	26,660	19,100	14,198	21,422	28,232
Tax paid	(3,932)	(3,082)	(2,390)	(3,791)	(4,886)
Depreciation & amortization	10,166	19,895	21,143	22,709	24,292
Chg In w orking capital	(1,887)	(5,915)	837	3,763	4,537
Chg In other CA & CL / minorities	(789)	11,869	2,800	763	2,504
Cash flow from operations	**30,218**	**41,867**	**36,587**	**44,866**	**54,679**
Capex	(14,960)	(15,009)	(14,510)	(15,390)	(16,200)
Right of use	0	(61,902)	(6,190)	(6,190)	(6,190)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	(85,552)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	1,711	46,238	(1,699)	(3,676)	(4,032)
Cash flow from investments	**(13,250)**	**(116,225)**	**(22,399)**	**(25,256)**	**(26,422)**
Debt financing	(8,505)	97,547	(1,042)	(13,804)	(17,603)
Capital increase	0	0	3	0	0
Dividends paid	(10,780)	(11,229)	(7,148)	(7,396)	(10,654)
Warrants & other surplus	(2,655)	(1,854)	0	0	0
Cash flow from financing	**(21,940)**	**84,465**	**(8,187)**	**(21,200)**	**(28,257)**
Free cash flow	**15,258**	**26,858**	**22,077**	**29,476**	**38,479**

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	25.2	35.9	51.7	31.0	22.9
Normalized PE - at target price (x)	31.7	45.3	65.2	39.1	28.8
PE (x)	25.1	35.4	51.7	31.0	22.9
PE - at target price (x)	31.6	44.6	65.2	39.1	28.8
EV/EBITDA (x)	15.0	15.5	15.6	13.4	11.5
EV/EBITDA - at target price (x)	18.2	18.5	18.6	16.0	13.7
P/BV (x)	5.7	5.5	5.3	4.8	4.3
P/BV - at target price (x)	7.2	7.0	6.7	6.0	5.4
P/CFO (x)	17.7	12.8	14.6	11.9	9.8
Price/sales (x)	0.9	1.0	1.0	0.9	0.8
Dividend yield (%)	2.1	1.5	1.0	1.6	2.2
FCF Yield (%)	2.9	5.0	4.1	5.5	7.2
(Bt)					
Normalized EPS	2.4	1.7	1.2	1.9	2.6
EPS	2.4	1.7	1.2	1.9	2.6
DPS	1.3	0.9	0.6	1.0	1.3
BV/share	10.4	10.8	11.2	12.4	14.0
CFO/share	3.4	4.7	4.1	5.0	6.1
FCF/share	1.7	3.0	2.5	3.3	4.3

Sources: Company data, Thanachart estimates

We forecast ROE to head back up from next year

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	8.2	(4.3)	2.7	10.0	10.8
Net profit (%)	6.8	(27.9)	(29.6)	60.8	33.6
EPS (%)	2.0	(29.3)	(31.5)	66.7	35.5
Normalized profit (%)	6.5	(28.6)	(28.6)	60.8	33.6
Normalized EPS (%)	1.7	(30.0)	(30.5)	66.7	35.5
Dividend payout ratio (%)	52.6	53.6	50.0	50.0	50.0
Operating performance					
Gross margin (%)	25.3	24.8	24.3	24.7	25.0
Operating margin (%)	5.8	5.0	4.5	5.0	5.4
EBITDA margin (%)	7.6	8.7	8.3	8.7	8.9
Net margin (%)	4.0	3.0	2.1	2.8	3.4
D/E (incl. minor) (x)	1.3	2.2	2.1	1.8	1.5
Net D/E (incl. minor) (x)	1.1	1.8	1.7	1.4	1.2
Interest coverage - EBIT (x)	4.9	3.2	2.2	3.2	4.1
Interest coverage - EBITDA (x)	6.4	5.6	4.0	5.6	6.9
ROA - using norm profit (%)	5.9	3.5	2.2	3.4	4.6
ROE - using norm profit (%)	24.9	16.7	11.5	17.1	20.5
DuPont					
ROE - using after tax profit (%)	25.3	17.2	11.8	16.5	19.5
- asset turnover (x)	1.5	1.2	1.1	1.2	1.3
- operating margin (%)	5.8	5.1	4.6	5.0	5.4
- leverage (x)	4.2	4.7	5.3	5.0	4.5
- interest burden (%)	79.9	69.1	55.2	69.1	76.1
- tax burden (%)	84.7	85.6	82.0	82.0	82.0
WACC (%)	8.2	8.2	8.2	8.2	8.2
ROIC (%)	13.8	11.3	7.0	8.5	10.2
NOPAT (Bt m)	28,036	23,500	20,914	25,199	30,165
invested capital (Bt m)	208,283	298,517	295,672	294,304	290,420

Sources: Company data, Thanachart estimates

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

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.

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