

HOLD (From: BUY)

Change in Recommendation

TP: Bt 10.00

Upside : 7.5%

(From: Bt 12.50)

30 AUGUST 2021

Small Cap Research

MC GROUP Pcl (MC TB)

Muted growth

We downgrade MC to HOLD as we don't see its prospects beyond the lockdown being rosy. Its plan to add new product lines and penetrate markets abroad amid weak purchasing power will likely take longer to bear fruit. However, its dividend yield remains decent at 4.8% in FY22F, rising to 5.9-7.0% in FY23-24F.

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Downgrading to HOLD

We downgrade our rating on MC to HOLD (from Buy) with a new DCF-based 12-month TP, using an FY22F base year, of Bt10 (from Bt12.5). *First*, its 4QFY21 (April-June 2021) earnings were very disappointing at only Bt18m, down 51% y-y and 81% q-q. We foresee a risk that its 1QFY22F (July-September 2021) results could turn to a loss because of the partial lockdown impact. *Secondly*, as MC sells fashion and apparel products, we expect it to continue to be hit post-lockdown by weak purchasing power. *Thirdly*, with our 31-39% earnings cuts for FY22-24F, we believe MC is already fairly priced with the shares trading at PEs of 21.0x in FY22F (year ending June 2022) and 16.2x FY23F. Despite the operational headwinds, we only downgrade our rating by one notch to HOLD, given that the shares still offer a decent dividend yield of 4.8% in FY22F, rising to 5.9-7.0% in FY23-24F.

Previous quarter's developments

MC reported profit of only Bt18m in 4QFY21 (April-June 2021) despite no lockdown being in place then. Sales contracted by 3% y-y and profit was down 51% y-y from the lowest quarterly base last year when the first lockdown was enforced in April-May 2020. As there was no lockdown in 4QFY21, there were no cost savings for personnel and store rental fees. At the same time, the escalating third COVID-19 wave from April this year has started to impact demand for fashion and apparel products.

Expecting a weak 1HFY22F

MC closed 246 points of sale (39% of the 636 total) during the partial lockdown in August this year. We estimate -47% y-y SSSG in 1QFY22F (July-September 2021), or -49% from the same quarter in 2019. We also project -27% y-y SSSG in 2QFY22F (October-December 2021), or -33.5% from the same quarter in 2019. We foresee a risk of an earnings loss in 1QFY22F and we estimate earnings in 1HFY22F (July-December 2021) of Bt40m, down 88% y-y and 64% h-h.

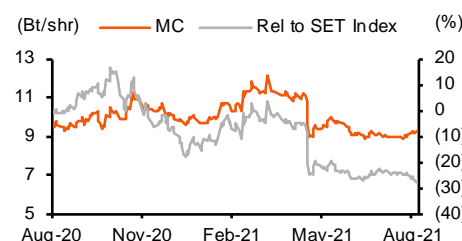
We foresee muted growth

Given lingering weak purchasing power after two long years of the COVID-19 crisis, MC's plan to grow inorganically by expanding product lines and tapping international markets looks likely to take longer to bear fruit. Although the company intends to continue to launch new non-apparel products in September, demand doesn't look set to be strong. Its online product distribution in Malaysia since March has also been behind target given that Malaysia has also been hit by COVID-19.

COMPANY VALUATION

Y/E Jun (Bt m)	2021A	2022F	2023F	2024F
Sales	3,220	2,914	3,486	3,745
Net profit	446	354	458	533
Consensus NP	—	604	652	515
Diff frm cons (%)	—	(41.4)	(29.7)	3.5
Norm profit	446	354	458	533
Prev. Norm profit	—	580	695	773
Chg frm prev (%)	—	(39.0)	(34.1)	(31.0)
Norm EPS (Bt)	0.6	0.4	0.6	0.7
Norm EPS grw (%)	0.4	(20.6)	29.5	16.3
Norm PE (x)	16.7	21.0	16.2	14.0
EV/EBITDA (x)	7.4	8.3	7.5	6.9
P/BV (x)	2.1	2.1	2.1	2.0
Div yield (%)	5.9	4.8	5.9	7.0
ROE (%)	12.4	9.9	12.8	14.7
Net D/E (%)	(17.2)	(19.0)	(13.2)	(11.7)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 30-Aug-21 (Bt)	9.30
Market Cap (US\$ m)	229.2
Listed Shares (m shares)	800.0
Free Float (%)	42.8
Avg Daily Turnover (US\$ m)	1.0
12M Price H/L (Bt)	12.10/9.00
Sector	Commerce
Major Shareholder	Miss Sunee Seripanun (42.73%)

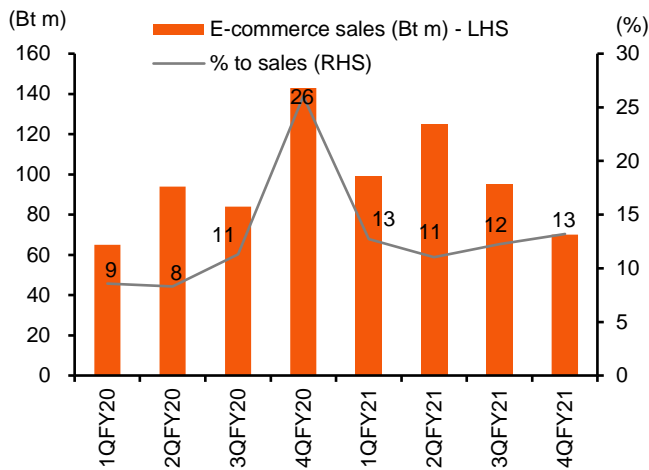
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Key Assumptions Changes

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
SSSG (%)											
- New	(15.5)	19.0	5.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
- Old	(7.0)	11.3	5.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Online sales (Bt m)											
- New	424	488	531	574	614	663	710	759	809	861	917
- Old	582	764	858	932	1,011	1,094	1,178	1,267	1,361	1,462	1,568
Change (%)	(27)	(36)	(38)	(38)	(39)	(39)	(40)	(40)	(41)	(41)	(41)
Normalized profit (Bt m)											
- New	354	458	533	607	687	760	857	917	1,022	1,134	1,207
- Old	580	695	773	847	923	1,004	1,085	1,170	1,261	1,358	1,460
Change (%)	(39)	(34)	(31)	(28)	(26)	(24)	(21)	(22)	(19)	(16)	(17)

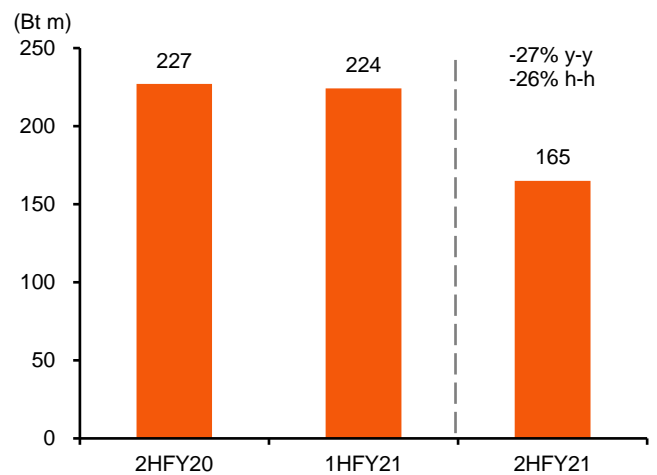
Source: Thanachart estimates

Ex 2: E-commerce Sales Mix



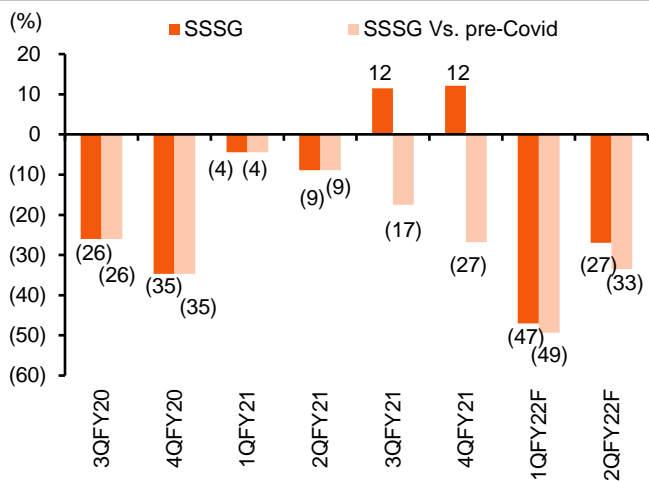
Sources: Company data, Thanachart estimates

Ex 3: Declining E-commerce Sales In 2HFY21



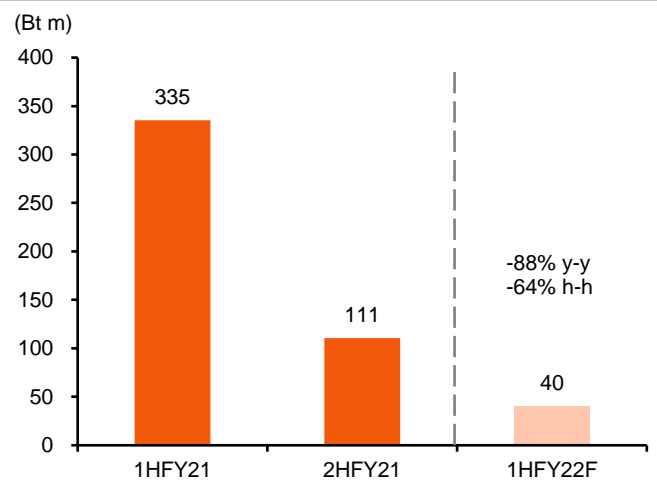
Sources: Company data, Thanachart estimates

Ex 4: MC's SSSG



Sources: Company data, Thanachart estimates

Ex 5: Weak 1H FY22F



Sources: Company data, Thanachart estimates

Ex 6: 12-month DCF-based TP Calculation Using A Base Year Of FY22F

(Bt m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	Terminal value
EBITDA	505	632	719	806	902	1,010	1,128	1,202	1,332	1,473	1,566	0
Free cash flow	426	522	560	630	666	749	868	899	1,002	1,199	1,190	12,064
PV of free cash flow	425	419	402	404	383	375	387	358	355	379	335	2,869
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	11.7											
Terminal growth (%)	2.0											
Enterprise value	7,392											
Net debt (end FY2021)	(621)											
Minority interest	11											
Equity value	8,002											
# of shares (m)	800											
Equity value / share (Bt)	10.00											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: 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	MKS LN	Britain	(86.7)	na	73.7	11.8	0.9	1.3	8.7	6.3	0.0	0.7
J Sainsbury PLC	SBRY LN	Britain	(44.4)	97.3	25.7	13.0	0.8	0.9	6.7	5.8	5.1	4.0
Tesco	TSCO LN	Britain	(53.0)	83.3	22.7	12.4	1.1	1.4	8.7	7.3	3.5	4.1
Carrefour SA	CA FP	France	13.5	12.4	12.0	10.7	1.3	1.3	6.8	6.4	3.2	3.6
Casino Guichard	CO FP	France	37.0	16.5	11.4	9.8	0.8	0.8	7.3	7.0	4.2	6.4
L'Oreal SA	OR FP	France	19.5	9.8	46.3	42.1	7.3	6.7	28.3	26.2	1.1	1.2
Alimentation Couche	ATD/B CN	Canada	22.7	(3.5)	21.7	22.5	4.8	4.4	10.3	10.6	0.6	0.7
Aeon	8267 JP	Japan	na	na	na	88.5	2.4	2.6	10.5	8.8	1.2	1.2
Kao Corporation	4452 JP	Japan	1.3	10.7	24.7	22.3	3.3	3.2	12.2	11.4	2.2	2.3
Lion Corporation	4912 JP	Japan	(25.7)	6.8	24.7	23.2	2.1	2.0	11.0	10.3	1.3	1.4
Shiseido Co. Ltd	4911 JP	Japan	na	27.7	63.3	49.5	5.6	5.3	26.5	18.7	0.7	0.8
Lawson	2651 JP	Japan	(56.6)	95.4	60.2	30.8	2.0	2.0	4.2	3.7	2.8	2.8
Seven & I Holdings	3382 JP	Japan	(25.7)	44.6	26.5	18.3	1.6	1.5	6.3	5.2	2.1	2.2
Lotte Corp	004990 KS	South Korea	167.9	20.0	11.3	9.4	0.6	0.5	9.1	8.9	3.4	3.8
Shinsegae	004170 KS	South Korea	na	24.3	10.8	8.7	0.7	0.6	8.3	8.1	0.7	0.8
Amore Pacific Group	002790 KS	South Korea	193.6	19.8	25.7	21.5	1.5	1.4	6.0	5.0	0.7	0.7
Best Buy Co Inc	BBY US	USA	22.9	(2.4)	12.1	12.4	7.0	7.1	6.7	7.0	1.9	2.3
Wal-Mart Stores	WMT US	USA	12.7	4.1	23.3	22.4	4.8	4.4	11.9	11.5	1.5	1.5
Home Depot Inc	HD US	USA	21.3	4.2	22.2	21.3	283.7	2,566.5	15.5	15.1	1.9	2.1
Yonghui Superstores	601933 CH	China	(63.7)	85.6	41.9	22.6	1.8	1.8	22.5	16.3	2.7	3.2
Sa International	178 HK	Hong Kong	na	na	na	86.8	3.5	3.2	na	22.6	0.0	1.0
Dairy Farm Intl Hldgs	DFI SP	Hong Kong	(27.0)	57.5	28.1	17.9	3.8	3.5	12.7	11.5	3.1	4.4
President Chain Store	2912 TT	Taiwan	(5.3)	18.1	30.7	26.0	7.6	7.2	12.7	11.8	3.0	3.3
7-Eleven Malaysia	SEM MK	Malaysia	(6.3)	35.6	33.8	24.9	19.7	20.8	9.1	8.9	2.1	2.6
Berli Jucker *	BJC TB	Thailand	(0.5)	25.7	37.2	29.6	1.2	1.2	14.4	13.9	1.3	1.7
COM7 *	COM7 TB	Thailand	40.8	34.5	40.7	30.3	18.6	15.8	27.0	20.8	2.0	2.7
CP All *	CPALL TB	Thailand	(34.9)	70.9	59.6	34.9	5.7	5.2	16.7	14.4	0.8	1.4
Central Pattana *	CPN TB	Thailand	(44.7)	127.5	83.4	36.6	3.3	3.1	22.7	16.7	0.8	1.4
Central Retail Corp. *	CRC TB	Thailand	na	106.4	75.9	36.8	3.8	3.6	11.4	9.9	0.5	1.1
Siam Global House *	GLOBAL TB	Thailand	57.3	20.2	32.6	27.1	5.3	4.7	24.4	20.5	1.2	1.5
Home Product*	HMPRO TB	Thailand	(1.0)	19.8	36.9	30.8	8.6	8.0	19.4	17.0	2.2	2.6
Siam Makro *	MAKRO TB	Thailand	10.2	8.0	27.7	25.6	8.2	7.6	16.0	15.0	2.7	3.1
Mc Group *	MC TB**	Thailand	(20.6)	29.5	21.0	16.2	2.1	2.1	8.3	7.5	4.8	5.9
Average			4.4	37.0	34.4	27.2	12.9	81.9	13.2	11.8	2.0	2.4

Sources: Bloomberg, Thanachart estimates

Note: * Thanachart estimates using normalized EPS growth, ** MC's fiscal year ends in June. The figures shown in the table are for FY22F and FY23F

Based on 30 August 2021 closing price

COMPANY DESCRIPTION

MC GROUP PCL (MC) started its jeans business in Thailand under its own "Mc" brand in 1975. Over the years, MC has developed a wide range of products under the Mc, Mc Lady, the Blue Brothers premium jeanswear, Mc mini kidswear and U-P activewear brands and it distributes them mostly via free-standing shops and modern-trade outlets nationwide. It has also established an e-commerce platform, which has become a key earnings growth driver.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

S — Strength

- Management has lots of experience in the jeans market in Thailand.
- It has the strong "Mc" brand with its own product designs.
- Good coverage of distribution channels nationwide.
- MC's product quality is high with reasonable prices.
- With its large market share and in-house production, MC is very cost competitive.

O — Opportunity

- Penetrating fast-growing ASEAN markets.
- Penetrating lifestyle markets.
- Expansion of product lines and customer group.
- Some small apparel manufacturers have exited the market.

CONSENSUS COMPARISON

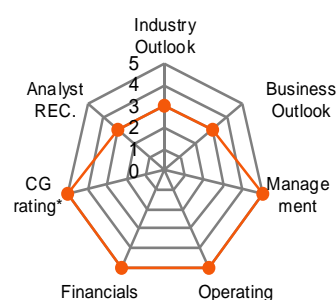
	Consensus	Thanachart	Diff
Target price (Bt)	10.36	10.00	-3%
Net profit 22F (Bt m)	487	354	-27%
Net profit 23F (Bt m)	561	458	-18%
Consensus REC	BUY: 1	HOLD: 4	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our net profits for 2022-23F are 18-27% lower than the Bloomberg consensus figures, likely as we have factored in a slower economic recovery because of COVID-19.
- Our DCF-based TP is therefore below the Street's.

Sources: Bloomberg consensus, Thanachart estimates

COMPANY RATING



Source: Thanachart; * CG Rating

Rating Scale

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

W — Weakness

- MC has high stock and inventory days, but they are on a declining trend.
- High operating expenses, mainly personnel and rental cost comprising of 76% to total SG&A.

T — Threat

- Competition from existing peers in the jeans market including Levi's, Wrangler, Lee and other brands.
- Competition from new international brands such as H&M, UNIQLO and ZARA is on the rise.

RISKS TO OUR INVESTMENT CASE

- If growth in people's spending were to come in below our current expectations, this would be the key downside risk to our SSS growth assumptions.
- If MC's omni-channel and international sales strategy is not as successful as planned, this would have a negative impact on the company's earnings-growth prospects.
- Increased competition from existing and new rivals in the jeans and apparel markets would pressure MC's sales volume and prices.
- Faster-than-expected economic recovery represents the key upside risk to our earnings.

Source: Thanachart

INCOME STATEMENT

*We expect FY22F
normalized profit to drop
from the partial lockdown*

FY ending Jun (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	3,182	3,220	2,914	3,486	3,745
Cost of sales	1,344	1,301	1,172	1,394	1,487
Gross profit	1,839	1,919	1,743	2,091	2,258
% gross margin	57.8%	59.6%	59.8%	60.0%	60.3%
Selling & administration expenses	1,377	1,401	1,309	1,528	1,605
Operating profit	461	518	434	563	653
% operating margin	14.5%	16.1%	14.9%	16.2%	17.4%
Depreciation & amortization	99	400	377	369	356
EBITDA	560	918	810	932	1,009
% EBITDA margin	17.6%	28.5%	27.8%	26.8%	27.0%
Non-operating income	35	29	31	38	43
Non-operating expenses	0	0	0	0	0
Interest expense	(0)	(28)	(28)	(29)	(30)
Pre-tax profit	496	519	437	573	666
Income tax	50	78	83	115	133
After-tax profit	446	441	354	458	533
% net margin	14.0%	13.7%	12.1%	13.2%	14.2%
Shares in affiliates' Earnings	(1)	5	0	0	0
Minority interests	(2)	(0)	0	0	0
Extraordinary items	(39)	0	0	0	0
NET PROFIT	405	446	354	458	533
Normalized profit	444	446	354	458	533
EPS (Bt)	0.5	0.6	0.4	0.6	0.7
Normalized EPS (Bt)	0.6	0.6	0.4	0.6	0.7

*EPS growth resumes at
30% in FY23F and 16% in
FY24F*

BALANCE SHEET

*Inventory is well under
control*

FY ending Jun (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	3,192	3,324	3,498	3,830	4,053
Cash & cash equivalent	1,481	728	893	950	1,030
Account receivables	266	202	224	267	287
Inventories	1,408	1,250	1,204	1,203	1,222
Others	37	1,144	1,178	1,409	1,514
Investments & loans	25	25	25	25	25
Net fixed assets	404	343	291	253	227
Other assets	463	1,522	1,325	1,240	1,126
Total assets	4,084	5,214	5,139	5,347	5,432
LIABILITIES:					
Current liabilities:	412	721	562	848	1,015
Account payables	283	283	257	306	326
Bank overdraft & ST loans	0	0	214	468	597
Current LT debt	0	106	2	4	5
Others current liabilities	129	332	89	71	88
Total LT debt	0	0	0	1	1
Others LT liabilities	79	891	1,021	883	748
Total liabilities	492	1,612	1,583	1,733	1,764
Minority interest	11	11	11	11	11
Preferreds shares	0	0	0	0	0
Paid-up capital	400	400	400	400	400
Share premium	2,825	2,825	2,825	2,825	2,825
Warrants	0	0	0	0	0
Surplus	(90)	(90)	(90)	(90)	(90)
Retained earnings	446	456	410	468	522
Shareholders' equity	3,581	3,591	3,545	3,603	3,657
Liabilities & equity	4,084	5,214	5,139	5,347	5,432

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Jun (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	496	519	437	573	666
Tax paid	(59)	(78)	(83)	(114)	(133)
Depreciation & amortization	99	400	377	369	356
Chg In working capital	212	221	(0)	5	(18)
Chg In other CA & CL / minorities	(44)	(871)	(285)	(258)	(97)
Cash flow from operations	705	190	446	576	774
Capex	(86)	(13)	(20)	(30)	(40)
Right of use	0	(1,452)	(145)	(145)	(145)
ST loans & investments	0	0	0	0	0
LT loans & investments	22	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	6	851	176	(200)	(159)
Cash flow from investments	(59)	(614)	10	(375)	(344)
Debt financing	0	106	110	257	130
Capital increase	0	0	0	0	0
Dividends paid	(515)	(433)	(400)	(400)	(480)
Warrants & other surplus	6	(2)	0	0	0
Cash flow from financing	(509)	(330)	(291)	(143)	(350)
Free cash flow	619	177	426	546	734

VALUATION

FY ending Jun	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	16.8	16.7	21.0	16.2	14.0
Normalized PE - at target price (x)	18.0	17.9	22.6	17.5	15.0
PE (x)	18.4	16.7	21.0	16.2	14.0
PE - at target price (x)	19.7	17.9	22.6	17.5	15.0
EV/EBITDA (x)	10.6	7.4	8.3	7.5	6.9
EV/EBITDA - at target price (x)	11.6	8.0	9.0	8.1	7.5
P/BV (x)	2.1	2.1	2.1	2.1	2.0
P/BV - at target price (x)	2.2	2.2	2.3	2.2	2.2
P/CFO (x)	10.6	39.1	16.7	12.9	9.6
Price/sales (x)	2.3	2.3	2.6	2.1	2.0
Dividend yield (%)	5.9	5.9	4.8	5.9	7.0
FCF Yield (%)	8.3	2.4	5.7	7.3	9.9
(Bt)					
Normalized EPS	0.6	0.6	0.4	0.6	0.7
EPS	0.5	0.6	0.4	0.6	0.7
DPS	0.6	0.6	0.5	0.6	0.6
BV/share	4.5	4.5	4.4	4.5	4.6
CFO/share	0.9	0.2	0.6	0.7	1.0
FCF/share	0.8	0.2	0.5	0.7	0.9

Sources: Company data, Thanachart estimates

*Decent dividend yields,
based on our forecasts*

FINANCIAL RATIOS

FY ending Jun	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(4.8)	1.2	(9.5)	19.6	7.4
Net profit (%)	(22.3)	10.0	(20.6)	29.5	16.3
EPS (%)	(22.3)	10.0	(20.6)	29.5	16.3
Normalized profit (%)	(18.8)	0.4	(20.6)	29.5	16.3
Normalized EPS (%)	(18.8)	0.4	(20.6)	29.5	16.3
Dividend payout ratio (%)	108.6	98.7	101.8	96.0	97.5
Operating performance					
Gross margin (%)	57.8	59.6	59.8	60.0	60.3
Operating margin (%)	14.5	16.1	14.9	16.2	17.4
EBITDA margin (%)	17.6	28.5	27.8	26.8	27.0
Net margin (%)	14.0	13.7	12.1	13.2	14.2
D/E (incl. minor) (x)	0.0	0.0	0.1	0.1	0.2
Net D/E (incl. minor) (x)	(0.4)	(0.2)	(0.2)	(0.1)	(0.1)
Interest coverage - EBIT (x)	na	18.4	15.4	19.5	21.9
Interest coverage - EBITDA (x)	na	32.7	28.8	32.3	33.8
ROA - using norm profit (%)	10.6	9.6	6.8	8.7	9.9
ROE - using norm profit (%)	12.2	12.4	9.9	12.8	14.7
DuPont					
ROE - using after tax profit (%)	12.3	12.3	9.9	12.8	14.7
- asset turnover (x)	0.8	0.7	0.6	0.7	0.7
- operating margin (%)	15.6	17.0	16.0	17.3	18.6
- leverage (x)	1.2	1.3	1.5	1.5	1.5
- interest burden (%)	100.0	94.9	94.0	95.2	95.7
- tax burden (%)	89.9	84.9	81.0	80.0	80.0
WACC (%)	#N/A	#N/A	11.7	11.7	11.7
ROIC (%)	17.7	20.9	11.8	15.7	16.7
NOPAT (Bt m)	415	440	351	451	523
invested capital (Bt m)	2,101	2,970	2,868	3,126	3,229

Sources: Company data, Thanachart estimates

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