

BUY (Unchanged)

TP: Bt 80.00

(From: Bt 77.00)

Change in Numbers

Upside: 14.7%

31 AUGUST 2021

**COM7 Pcl.** (COM7TB)**A crisis winner**

COM7 is a big fish in the Thai market which only gets stronger after crises when smaller players lose market share or close down. This time round, COM7 kept expanding its new-format stores during the lockdown and those stores are performing well. Together with the lockdown ending this week, we reaffirm BUY.



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**Not just a post-lockdown play**

We see COM7 as both a post-lockdown play with stores reopening and a long-term big fish that keeps gaining market share, expanding product lines and enjoying rising profitability. We reaffirm our BUY call. *First*, 520 stores (52% of 993 total) are to reopen from 1 September and we expect 3Q21F to be the bottom quarter with an earnings decline of 14% y-y and 45% q-q. *Second*, the high season is coming with pent-up post-lockdown demand. Despite 4Q21F's EPS y-y growth likely to be only 3% in the first quarter post lockdown, we expect 78% q-q growth. *Third*, new-format, standalone shops opened in 3Q21 are doing well and should add to growth. COM7 has opened 82 new stores YTD, up 9% from 911 in 2020. *Lastly*, COM7 remains a structural growth stock, in our view, with 37/24% EPS growth in 2022-23F.

**Standalone shops doing well**

COM7 opened over 50 standalone shops so far in 3Q21. They have performed strongly with sales/store surpassing main stores in shopping malls in the pre-lockdown period. Stripping out help from lockdown boosting demand at these stores, it still considers this to be a successful model. With similar sales, standalone stores generate higher profit due to far lower rent per sqm. COM7 plans to open over 100 shops this year in both existing and standalone formats. It opened 124 shops in 2020 and it sees room to open over 100 stores p.a. over the next three years.

**Not a disastrous 3Q21F**

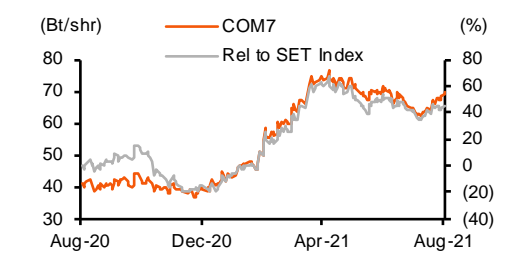
We estimate 3Q21F earnings at Bt320m, down 14% y-y and 45% q-q due to the lockdown. The more significant drop q-q is due to COM7's much higher earnings base this year. During the lockdown in August, 520 stores in malls were closed while over 50 new standalone stores were opened. COM7 also sold more online. Online sales were around Bt800m in 2Q21, or 7% of sales, on our estimate. Due to the revenue switch because of mall closures, we estimate they increase 50% q-q in 3Q21F.

**Earnings revisions**

Our earnings this year are unchanged as the hit from the lockdown is offset by the surprisingly strong 2Q21 earnings (+115% y-y, +5% q-q and +100% from 2Q19) on very strong demand for IT products and COM7's market share gains. We also adjust up our earnings by 2% in 2022-23F as COM7 will likely open more standalone shops than we had expected. We foresee COM7's earnings growth at 41/37/24% in 2021-23F and that is after 19% growth in 2020. With larger scale and new standalone stores earning higher profits, we see ROE rising further from 40% in 2020 to 61% in 2023F. Both strong EPS growth and rising ROE are supporters of its valuation at 30x 2022F PE and 24x 2023F.

**COMPANY VALUATION**

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	37,306	45,188	54,190	61,004
Net profit	1,491	2,040	2,798	3,457
Consensus NP	—	2,163	2,669	3,245
Diff frm cons (%)	—	(5.7)	4.8	6.5
Norm profit	1,449	2,040	2,798	3,457
Prev. Norm profit	—	2,041	2,746	3,392
Chg frm prev (%)	—	(0.0)	1.9	1.9
Norm EPS (Bt)	1.2	1.7	2.3	2.9
Norm EPS grw (%)	19.1	40.8	37.1	23.6
Norm PE (x)	57.8	41.0	29.9	24.2
EV/EBITDA (x)	35.9	27.2	20.6	17.0
P/BV (x)	21.7	18.7	15.8	13.7
Div yield (%)	1.4	2.0	2.7	3.6
ROE (%)	40.1	49.0	57.3	60.6
Net D/E (%)	22.4	4.8	(0.8)	(6.8)

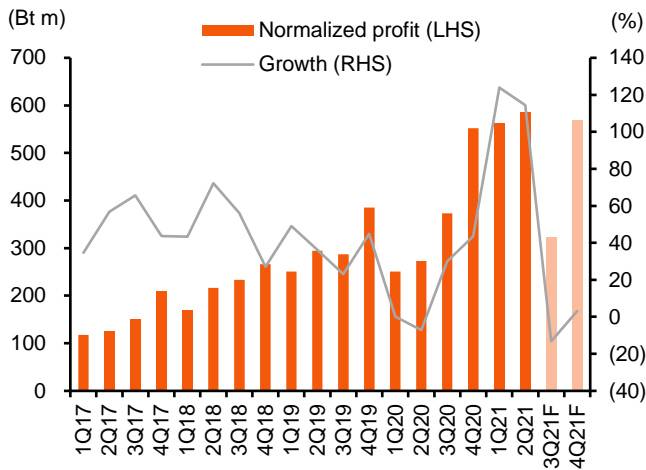
**PRICE PERFORMANCE****COMPANY INFORMATION**

Price as of 31-Aug-21 (Bt)	69.75
Market Cap (US\$ m)	2,596.2
Listed Shares (m shares)	1,200.0
Free Float (%)	45.7
Avg Daily Turnover (US\$ m)	18.1
12M Price H/L (Bt)	76.50/36.75
Sector	Commerce
Major Shareholder	Khun Sura Kanittavikul 25.05%

Sources: Bloomberg, Company data, Thanachart estimates

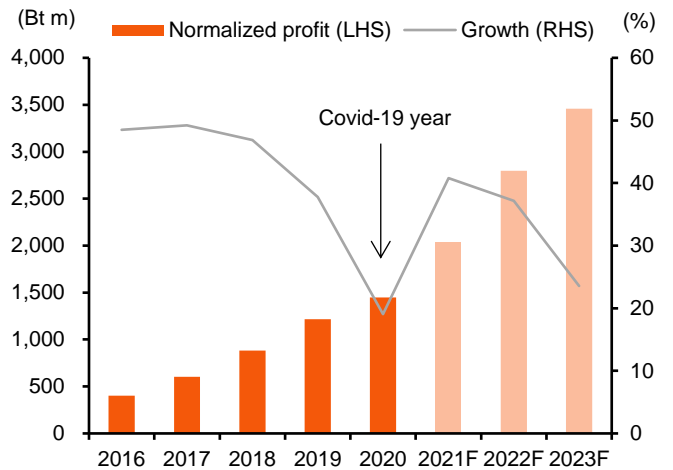


**Ex 1: Quarterly Earnings**



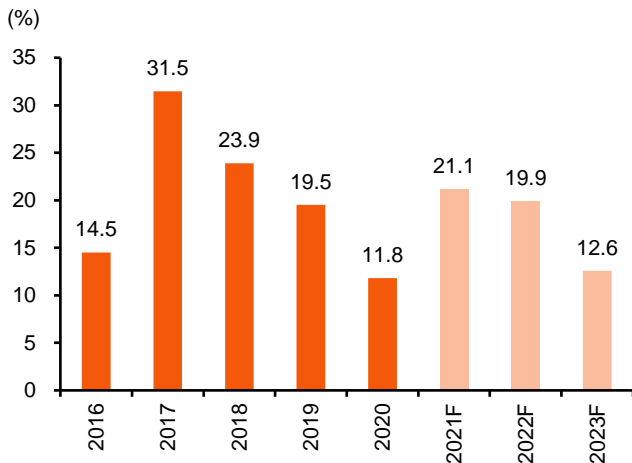
Sources: Company data, Thanachart estimates

**Ex 2: Annual Earnings**



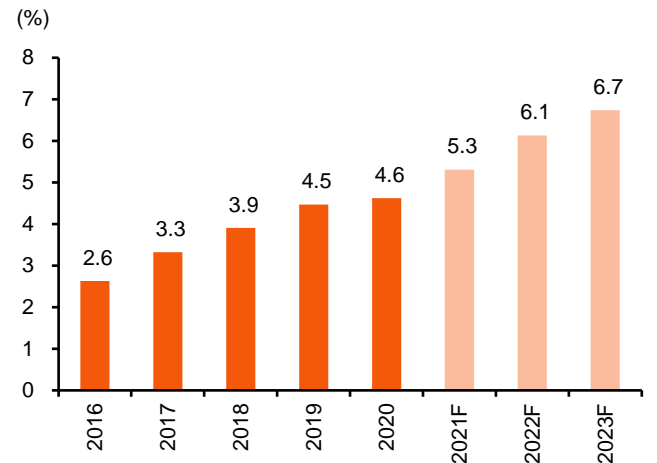
Sources: Company data, Thanachart estimates

**Ex 3: Sales Growth**



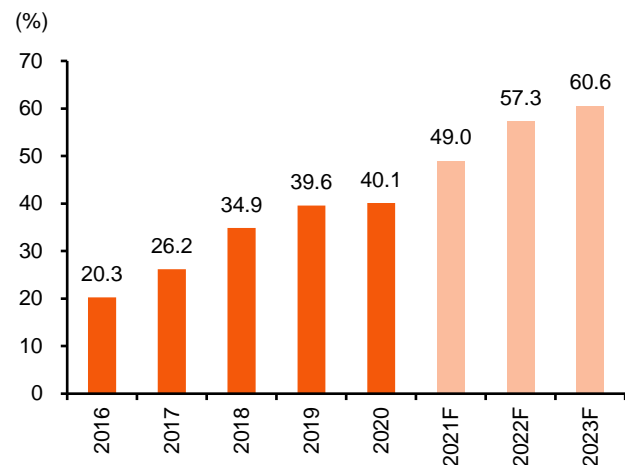
Sources: Company data, Thanachart estimates

**Ex 4: EBIT Margin Expansion**



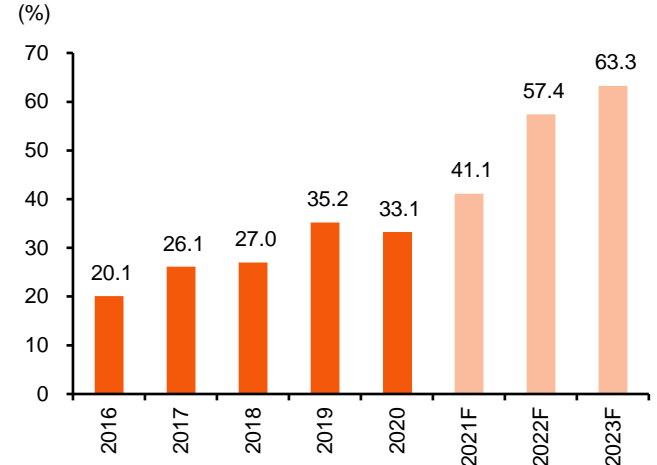
Sources: Company data, Thanachart estimates

**Ex 5: High ROE...**



Sources: Company data, Thanachart estimates

**Ex 6: ...And ROIC**



Sources: Company data, Thanachart estimates

Due to mall closures because of COVID-19 from mid-July to 1 September, COM7 had to shut 520 stores (52% of 993 total) during the lockdown period. The company then decided to rent space that was allowed to open outside malls, eg, in independent buildings, to open over 50 standalone stores to serve demand. Surprisingly, demand was very strong and sales per store of the standalone format surpassed those of the mall format in the pre-COVID period. Stripping out the demand flow to them due to the mall closures, COM7 still considers the format to be successful. Also, with lower rental expenses per sq m, the standalone format generates higher profits with a similar sales level.

Having been reluctant to expand via the standalone format earlier given its lack of experience outside of malls, COM7, seeing the success of the standalone outlets during the lockdown, now believes its IT product sales can expand outside of malls. Post lockdown, COM7 plans to continue to open more standalone shops than it intended earlier. COM7 already opened over 60 standalone stores this year (50-plus opened since the shutdown of malls from mid-July). Size will likely vary, according to the company, but they will be larger on average than its stores inside malls. Looking forward, the standalone model should help COM7 to expand into new product lines, eg, digital-based home appliance products, which require more space.

#### Ex 7: Example Of Standalone Stores



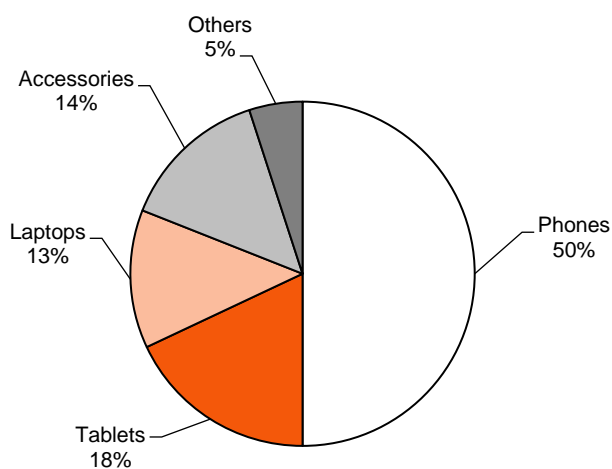
Source: Company data

## Ex 8: Earnings Revisions

	2019	2020	2021F	2022F	2023F
<b>Sales (Bt m)</b>					
New	33,362	37,306	45,188	54,190	61,004
Old			44,825	52,686	59,357
<i>Change (%)</i>			0.8	2.9	2.8
<b>Same-store-sales growth (%)</b>					
New	7.0	7.0	12.0	11.0	9.0
Old			12.0	11.0	9.0
<b># stores</b>					
New	787	991	1,111	1,211	1,311
Old			1,041	1,131	1,221
<b>Gross margin (%)</b>					
New	13.2	12.6	12.9	12.9	13.2
Old			12.6	12.9	13.2
<i>Change (pp)</i>			0.3	0.0	0.0
<b>SG&amp;A/sales (%)</b>					
New	8.8	8.0	7.6	6.82	6.4
Old			7.2	6.7	6.4
<i>Change (pp)</i>			0.3	0.1	0.1
<b>Normalized profit (Bt m)</b>					
New	1,217	1,449	2,040	2,798	3,457
Old			2,041	2,746	3,392
<i>Change (%)</i>			0.0	1.9	1.9

Sources: Company data, Thanachart estimates

## Ex 9: Product Breakdown



Source: Company data

**Ex 10: 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	3,560	4,373	5,323	6,375	7,337	8,395	9,532	10,787	12,198	13,753	15,468	—
Free cash flow	2,271	3,024	3,609	4,544	5,508	6,333	7,218	8,196	9,297	10,509	11,779	158,148
PV of free cash flow	2,265	2,554	2,800	3,240	3,545	3,732	3,894	4,049	4,205	4,353	4,296	57,683
Risk-free rate (%)	3.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	9.6											
Terminal growth (%)	2.0											
Enterprise value - add investments	96,616											
Net debt (2021F)	214											
Minority interest	19											
Equity value	96,384											
# of shares	1,200											
<b>Target price/share (Bt)</b>	<b>80</b>											

Sources: Company data, Thanachart estimates

## Valuation Comparison

### Ex 11: 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	19.7	8.0	12.9	10.8	1.4	1.3	6.3	6.1	0.6	3.8
J Sainsbury	SBRY LN	UK	100.6	6.0	14.0	13.2	1.0	1.0	5.7	5.7	3.8	3.9
Tesco	TSCO LN	UK	56.7	9.6	13.7	12.5	1.5	1.2	7.4	7.1	3.7	4.1
Carrefour SA	CA FP	France	12.2	12.4	12.0	10.7	1.3	1.3	6.7	6.3	3.2	3.6
Casino Guichard	CO FP	France	0.8	16.5	11.4	9.8	0.9	0.8	7.3	7.0	4.2	6.4
Aeon	8267 JP	Japan	na	35.5	88.4	65.3	2.6	2.5	8.8	8.2	1.2	1.3
Lotte Shopping	023530 KS	S. Korea	na	328.5	59.3	13.3	0.3	0.3	10.2	9.3	2.6	2.8
Shinsegae	004170 KS	S. Korea	na	24.3	10.8	8.7	0.7	0.7	8.3	8.2	0.7	0.7
Amore Pacific Group	002790 KS	S. Korea	na	19.8	27.6	22.0	1.6	1.5	6.2	5.2	0.7	0.6
Wal-Mart Stores	WMT US	USA	14.9	4.1	23.5	22.5	4.8	4.5	12.0	11.6	1.5	1.5
Home Depot Inc	HD US	USA	21.3	4.2	22.4	21.5	na	na	15.6	15.3	2.0	2.2
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	37.1	41.0	29.9	18.7	15.8	27.2	20.6	2.0	2.7
CP All*	CPALL TB	Thailand	(34.9)	70.9	60.3	35.3	5.8	5.3	16.9	14.5	0.8	1.4
Central Pattana *	CPN TB	Thailand	(44.7)	127.5	83.0	36.5	3.3	3.1	22.6	16.6	0.8	1.4
Central Retail Corp. Pcl *	CRC TB	Thailand	na	106.4	75.3	36.5	3.8	3.5	11.3	9.9	0.5	1.1
Siam Global House *	GLOBAL TB	Thailand	57.3	20.2	32.3	26.9	5.2	4.6	24.2	20.3	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	27.9	25.8	8.3	7.7	16.1	15.1	2.7	3.1
MC Group *	MC TB	Thailand	0.4	(20.6)	16.6	20.9	2.1	2.1	7.4	8.3	5.9	4.9
<b>Average</b>			<b>16.9</b>	<b>43.2</b>	<b>35.3</b>	<b>24.1</b>	<b>3.8</b>	<b>3.5</b>	<b>12.7</b>	<b>11.3</b>	<b>2.1</b>	<b>2.6</b>

Sources: Company data, Thanachart estimates

Note: \* Thanachart estimates using normalized EPS growth

\*\* MC's fiscal year ends in June.

Based on 31-Aug-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

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

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

### O — Opportunity

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

### W — Weakness

- Low-margin retail business
- Risk from obsolete inventory

### T — Threat

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

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	81.49	80.00	-2%
<b>Net profit 21F (Bt m)</b>	2,163	2,040	-6%
<b>Net profit 22F (Bt m)</b>	2,669	2,798	5%
<b>Consensus REC</b>	<b>BUY: 10</b>	<b>HOLD: 0</b>	<b>SELL: 0</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

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

## 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.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	33,362	37,306	45,188	54,190	61,004
Cost of sales	28,946	32,596	39,375	47,174	52,969
<b>Gross profit</b>	<b>4,416</b>	<b>4,710</b>	<b>5,813</b>	<b>7,016</b>	<b>8,035</b>
% gross margin	13.2%	12.6%	12.9%	12.9%	13.2%
Selling & administration expenses	2,925	2,986	3,414	3,693	3,924
<b>Operating profit</b>	<b>1,491</b>	<b>1,724</b>	<b>2,399</b>	<b>3,323</b>	<b>4,110</b>
% operating margin	4.5%	4.6%	5.3%	6.1%	6.7%
Depreciation & amortization	200	630	689	738	789
<b>EBITDA</b>	<b>1,691</b>	<b>2,354</b>	<b>3,088</b>	<b>4,061</b>	<b>4,900</b>
% EBITDA margin	5.1%	6.3%	6.8%	7.5%	8.0%
Non-operating income	28	47	57	68	77
Non-operating expenses	0	0	0	0	0
Interest expense	(52)	(53)	(52)	(53)	(36)
<b>Pre-tax profit</b>	<b>1,467</b>	<b>1,718</b>	<b>2,404</b>	<b>3,338</b>	<b>4,151</b>
Income tax	289	328	459	638	793
<b>After-tax profit</b>	<b>1,178</b>	<b>1,390</b>	<b>1,944</b>	<b>2,700</b>	<b>3,357</b>
% 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
<b>NET PROFIT</b>	<b>1,216</b>	<b>1,491</b>	<b>2,040</b>	<b>2,798</b>	<b>3,457</b>
<b>Normalized profit</b>	<b>1,217</b>	<b>1,449</b>	<b>2,040</b>	<b>2,798</b>	<b>3,457</b>
EPS (Bt)	1.0	1.2	1.7	2.3	2.9
Normalized EPS (Bt)	1.0	1.2	1.7	2.3	2.9

*Strong sales growth  
despite the COVID crisis*

*Multi-year strong  
earnings growth, based  
on our estimates*

## BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<b>ASSETS:</b>					
Current assets:	7,217	5,861	6,645	8,006	8,460
Cash & cash equivalent	1,304	1,121	1,000	1,400	1,200
Account receivables	926	864	1,047	1,255	1,413
Inventories	4,819	3,664	4,426	5,174	5,664
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	1,979	1,795	1,533
<b>Total assets</b>	<b>9,160</b>	<b>9,207</b>	<b>9,954</b>	<b>11,267</b>	<b>11,578</b>
<b>LIABILITIES:</b>					
Current liabilities:	5,629	4,430	4,851	5,248	4,925
Account payables	3,349	2,464	2,977	3,631	4,077
Bank overdraft & ST loans	2,139	1,283	782	873	506
Current LT debt	0	0	0	0	0
Others current liabilities	142	683	1,092	743	342
<b>Total LT debt</b>	<b>5</b>	<b>708</b>	<b>432</b>	<b>482</b>	<b>279</b>
Others LT liabilities	149	198	178	214	240
<b>Total liabilities</b>	<b>5,784</b>	<b>5,336</b>	<b>5,460</b>	<b>5,943</b>	<b>5,444</b>
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)
<b>Retained earnings</b>	<b>2,175</b>	<b>2,668</b>	<b>3,287</b>	<b>4,117</b>	<b>4,923</b>
Shareholders' equity	3,374	3,852	4,471	5,301	6,107
<b>Liabilities &amp; equity</b>	<b>9,160</b>	<b>9,207</b>	<b>9,954</b>	<b>11,267</b>	<b>11,578</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Earnings before tax	1,467	1,718	2,404	3,338	4,151
Tax paid	(266)	(276)	(448)	(588)	(772)
Depreciation & amortization	200	630	689	738	789
Chg In working capital	(567)	332	(432)	(302)	(202)
Chg In other CA & CL / minorities	1	492	492	(305)	(323)
<b>Cash flow from operations</b>	<b>835</b>	<b>2,896</b>	<b>2,704</b>	<b>2,881</b>	<b>3,642</b>
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)	(230)	(202)	(159)
<b>Cash flow from investments</b>	<b>(429)</b>	<b>(1,917)</b>	<b>(628)</b>	<b>(654)</b>	<b>(621)</b>
Debt financing	452	(149)	(777)	142	(570)
Capital increase	0	0	0	0	0
Dividends paid	(600)	(960)	(1,421)	(1,968)	(2,651)
Warrants & other surplus	(13)	(52)	0	0	0
<b>Cash flow from financing</b>	<b>(161)</b>	<b>(1,161)</b>	<b>(2,198)</b>	<b>(1,827)</b>	<b>(3,221)</b>
<b>Free cash flow</b>	<b>680</b>	<b>2,868</b>	<b>2,524</b>	<b>2,691</b>	<b>3,442</b>

**VALUATION**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Normalized PE (x)	68.8	57.8	41.0	29.9	24.2
Normalized PE - at target price (x)	78.9	66.2	47.1	34.3	27.8
PE (x)	68.8	56.1	41.0	29.9	24.2
PE - at target price (x)	78.9	64.4	47.1	34.3	27.8
EV/EBITDA (x)	50.0	35.9	27.2	20.6	17.0
EV/EBITDA - at target price (x)	57.3	41.1	31.2	23.6	19.5
P/BV (x)	24.8	21.7	18.7	15.8	13.7
P/BV - at target price (x)	28.5	24.9	21.5	18.1	15.7
P/CFO (x)	100.2	28.9	30.9	29.1	23.0
Price/sales (x)	2.5	2.2	1.9	1.5	1.4
Dividend yield (%)	1.1	1.4	2.0	2.7	3.6
FCF Yield (%)	0.8	3.4	3.0	3.2	4.1
<b>(Bt)</b>					
Normalized EPS	1.0	1.2	1.7	2.3	2.9
EPS	1.0	1.2	1.7	2.3	2.9
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	2.9

Sources: Company data, Thanachart estimates

**FINANCIAL RATIOS**

<b>FY ending Dec</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Growth Rate</b>					
Sales (%)	19.5	11.8	21.1	19.9	12.6
Net profit (%)	36.5	22.6	36.9	37.1	23.6
EPS (%)	36.5	22.6	36.9	37.1	23.6
Normalized profit (%)	37.8	19.1	40.8	37.1	23.6
Normalized EPS (%)	37.8	19.1	40.8	37.1	23.6
Dividend payout ratio (%)	78.9	80.5	80.5	82.0	87.0
<b>Operating performance</b>					
Gross margin (%)	13.2	12.6	12.9	12.9	13.2
Operating margin (%)	4.5	4.6	5.3	6.1	6.7
EBITDA margin (%)	5.1	6.3	6.8	7.5	8.0
Net margin (%)	3.5	3.7	4.3	5.0	5.5
D/E (incl. minor) (x)	0.6	0.5	0.3	0.3	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	45.8	62.4	113.3
Interest coverage - EBITDA (x)	32.2	44.3	58.9	76.3	135.0
ROA - using norm profit (%)	14.5	15.8	21.3	26.4	30.3
ROE - using norm profit (%)	39.6	40.1	49.0	57.3	60.6
<b>DuPont</b>					
ROE - using after tax profit (%)	38.3	38.5	46.7	55.3	58.9
- asset turnover (x)	4.0	4.1	4.7	5.1	5.3
- operating margin (%)	4.6	4.7	5.4	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	99.1
- 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	57.4	63.3
NOPAT (Bt m)	1,198	1,395	1,941	2,688	3,325
invested capital (Bt m)	4,213	4,721	4,685	5,256	5,692

Sources: Company data, Thanachart estimates

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