

**BUY** (Unchanged)  
Change in Numbers

**TP: Bt 87.00**  
Upside: 23.0%

(From: Bt 80.00)

15 SEPTEMBER 2021

Small Cap Research

## COM7 Pcl. (COM7 TB)

### New revenue sources

We now factor in new revenue sources from sales at hypermarkets, exclusive co-branded IoT products and product financing and lift our earnings by 2-7% in 2021-23F. We reaffirm BUY on COM7 as we see it as a growth stock and a fast turnaround post-lockdown play.



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#### Raising our earnings

We boost our earnings for COM7 by 2/4/7% in 2021-23F and our DCF-based 12-month TP, using a 2022F base year, to Bt87 (from Bt80) as we now factor in three new revenue sources. *First*, COM7 has secured a contract to sell its products at BigC Supercenter hypermarkets owned by Berli Jucker (BJC, SELL, Bt34.25). *Second*, COM7 intends to introduce exclusive product items which should yield higher margins. *Third*, COM7 is planning to enter product financing. We reaffirm BUY on COM7 as we see it as a growth stock with 44/40/26% EPS growth in 2021-23F and as a fast turnaround post-lockdown play. Note that its sales so far in September, supposedly the low season, have surpassed the level seen during pre-lockdown in July this year.

#### New sales channel

COM7 has secured contracts to sell its products under its shop brand Banana IT at BigC Supercenters. This is not a shop model but space in a hypermarket. The revenue model is revenue sharing with no rental expenses. COM7 now has a presence at 50 BigC branches (out of BigC's total of 152). If the business works well, it is likely that COM7 can open up at other BigC branches. Note that COM7 still has low exposure in this sales format at hypermarkets. Most revenues still come from the shop model. As for the mobile phone industry, a rough revenue breakdown is 30% store chains, 30% mobile operators, 30% independent stores and 10% department stores and hypermarkets.

#### Higher-margin, exclusive product items

COM7 is planning to introduce exclusive product items. The targeted products are IoT-based and would be co-branded with brand owners. COM7 has IoT-based products from many brands, including Xiaomi and Oppo. The plan is to choose exclusive or limited edition items to be sold only in COM7's shops. COM7 targets exclusive products to account for 5% of its sales over the next few years. However, as margin is likely to be higher than for non-exclusive items, profit contribution should be higher.

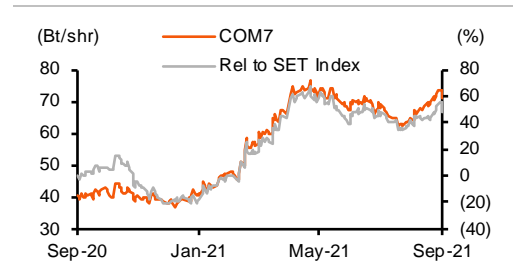
#### Entering product financing business

Having explored this opportunity for some time, COM7 has started offering financing for its products. Many of its customers pay installments on credit cards and they can now do so with COM7 directly. The company also targets customers who can't access bank and non-bank financing and it hopes to gain a larger share of the mobile phone and IT markets. COM7, with its Bt3.1bn of EBITDA in 2021F and strong balance sheet, uses its own balance sheet to carry out this business though leveraging on the expertise of its 34%-owned motorcycle hire-purchase company, Next Capital Pcl (NCAP, unrated).

#### COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	37,306	45,291	55,610	62,605
Net profit	1,491	2,091	2,920	3,685
Consensus NP	—	2,163	2,676	3,262
Diff frm cons (%)	—	(3.3)	9.1	13.0
Norm profit	1,449	2,091	2,920	3,685
Prev. Norm profit	—	2,040	2,798	3,457
Chg frm prev (%)	—	2.5	4.4	6.6
Norm EPS (Bt)	1.2	1.7	2.4	3.1
Norm EPS grw (%)	19.1	44.3	39.6	26.2
Norm PE (x)	58.6	40.6	29.1	23.0
EV/EBITDA (x)	36.4	27.0	20.2	16.3
P/BV (x)	22.0	18.9	15.8	13.5
Div yield (%)	1.4	2.0	2.8	3.8
ROE (%)	40.1	50.1	59.1	63.3
Net D/E (%)	22.4	4.2	(0.7)	(7.6)

#### PRICE PERFORMANCE

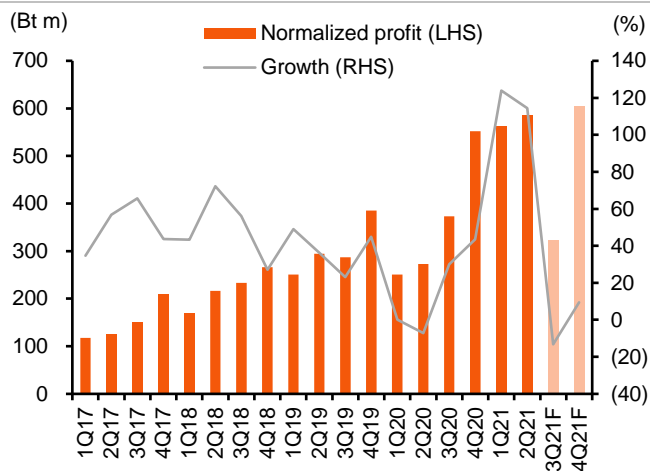


#### COMPANY INFORMATION

Price as of 15-Sep-21 (Bt)	70.75
Market Cap (US\$ m)	2,582.5
Listed Shares (m shares)	1,200.0
Free Float (%)	45.7
Avg Daily Turnover (US\$ m)	17.9
12M Price H/L (Bt)	76.50/36.75
Sector	Commerce
Major Shareholder	Khun Sura Kanittavikul 25.05%

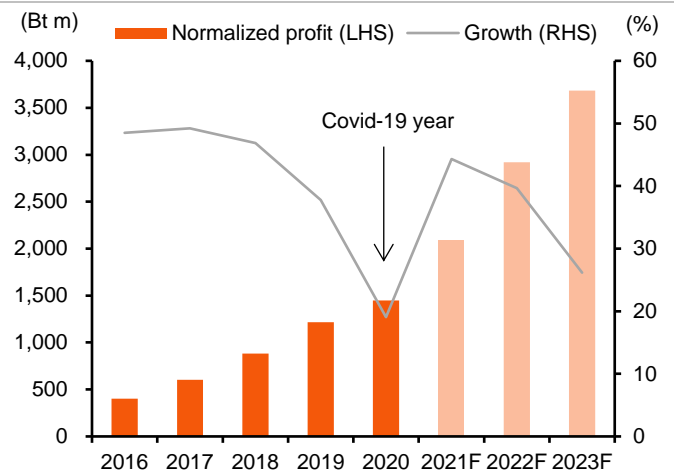
Sources: Bloomberg, Company data, Thanachart estimates

## Ex 1: Quarterly Profits



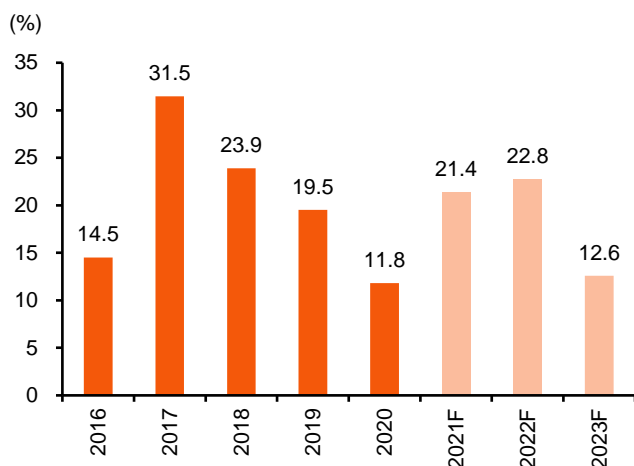
Sources: Company data, Thanachart estimates

## Ex 2: Annual Profits



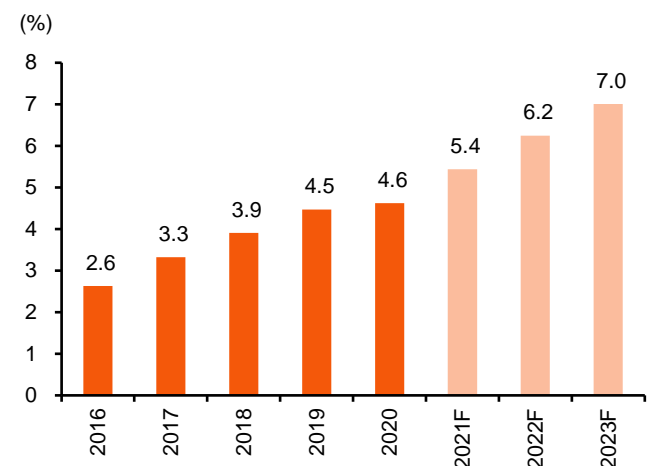
Sources: Company data, Thanachart estimates

## Ex 3: Sales Growth



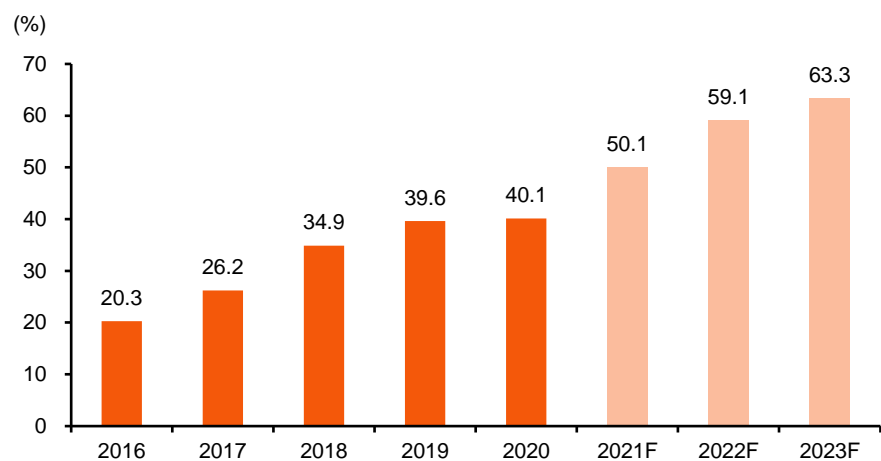
Sources: Company data, Thanachart estimates

## Ex 4: EBIT Margin



Sources: Company data, Thanachart estimates

## Ex 5: A High ROE Company



Sources: Company data, Thanachart estimates

Com7 Pcl (COM7) has secured contracts to sell its products under its shop brand Banana IT at BigC Supercenter hypermarkets. This is not COM7's shop model but space in the hypermarket. COM7 so far has a presence at 50 of BigC branches (out of BigC's total of 152 branches). If the business works well, it is likely that COM7 can expand to other BigC branches. Note that the overall IT product-trading business under the department store and hypermarket model hasn't done well over the years given the department stores' lack of experience and focus in IT products. However, with COM7's largest, well-recognized Banana IT shops and its expertise over the years of having built up its business to have the largest market share in the IT products industry, we expect COM7 to also succeed with this business model. Another good thing for COM7 is that it still has low exposure in this sales format at hypermarkets as most of its revenues still come from the shop model. As for the mobile phone industry, a rough revenue breakdown is 30% store chains, 30% mobile operators, 30% independent stores and 10% department stores and hypermarkets.

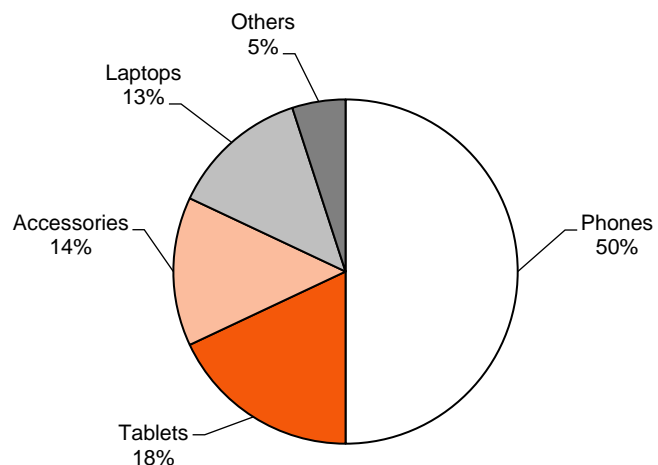
COM7's other new sales format is standalone shops, located outside of malls. COM7 has opened more than 30 standalone outlets so far this year. Performance of the standalone outlets have been satisfactory, and COM7 is opening more outlets in the format. With a similar revenue level, standalone shops generate higher profits than its main shops in malls thanks to lower rental expenses per sqm. Also, thanks to their larger area than for COM7's main shops in malls, standalone outlets should help COM7 to expand into new product lines, e.g., IoT-based TV and home appliances, which require a larger display area.

COM7 has opened around 100 branches this year (including malls, franchise outlets, standalones and in BigC's hypermarket format) so far this year (+11% from 911 total shops in 2020). COM7 will continue to open more stores this year. COM7 also plans to open around 100 new stores p.a. over the next three years.

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#### Ex 6: Sales Breakdown By Product

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Source: Company data

**Ex 7: Our Key Assumptions**

	2019	2020	2021F	2022F	2023F
#Stores	787	911	1,030	1,150	1,260
Sales growth from incremental stores (%)	8	5	9	11	3
Same-store-sales growth (%)	12	7	12	12	10
Total sales growth (%)	20	12	21	23	13
Gross margin (%)	12.6	12.9	13.2	13.6	13.8
Sg&a to sales(%)	8.8	8.0	7.5	7.0	6.6

Sources: Company data, Thanachart estimates

**Ex 8: Earnings Revisions**

	2019	2020	2021F	2022F	2023F
<b>Sales (Bt m)</b>					
New	33,362	37,306	45,291	55,610	62,605
Old			45,188	54,190	61,004
Change (%)			0.2	2.6	2.6
<b>Same-store-sales growth (%)</b>					
New	7.0	7.0	12	12	10
Old			12	11	9
<b># stores</b>					
New	787	991	1,030	1,150	1,260
Old			1,021	1,121	1,221
<b>Gross margin (%)</b>					
New	13.2	12.6	12.9	13.2	13.6
Old			12.6	12.9	13.2
Change (pp)			0.3	0.3	0.4
<b>SG&amp;A/sales (%)</b>					
New	8.8	8.0	7.5	7.0	6.6
Old			7.2	6.7	6.4
Change (pp)			0.2	0.3	0.2
<b>Normalized profit (Bt m)</b>					
New	1,217	1,449	2,091	2,920	3,685
Old			2,040	2,798	3,457
Change (%)			2.5	4.4	6.6

Sources: Company data, Thanachart estimates

**Ex 9: 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	3,709	4,652	5,688	6,773	7,828	8,993	10,247	11,638	13,180	14,888	16,783	—
Free cash flow	2,329	3,245	3,893	4,853	5,895	6,806	7,784	8,871	10,076	11,411	12,825	172,185
PV of free cash flow	2,322	2,741	3,020	3,460	3,794	4,011	4,200	4,382	4,558	4,726	4,678	62,803
Risk-free rate (%)	3.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	9.6											
Terminal growth (%)	2.0											
Enterprise value - add investments	104,696											
Net debt (2021F)	189											
Minority interest	19											
Equity value	104,488											
# of shares	1,200											
<b>Target price/share (Bt)</b>	<b>87</b>											

Sources: Company data, Thanachart estimates

## Valuation Comparison

### Ex 10: 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	15.8	13.0	11.2	1.5	1.5	6.4	6.2	0.6	3.6
J Sainsbury	SBRY LN	UK	102.3	5.2	13.2	12.5	0.9	0.9	5.6	5.5	4.0	4.1
Tesco	TSCO LN	UK	59.1	7.7	13.5	12.5	1.5	1.2	7.4	7.2	3.8	4.0
Carrefour SA	CA FP	France	11.4	13.5	10.8	9.5	1.2	1.1	6.3	6.0	3.6	4.0
Casino Guichard	CO FP	France	1.9	16.9	10.7	9.2	0.8	0.8	7.3	6.9	4.6	5.5
Aeon	8267 JP	Japan	na	35.5	92.9	68.5	2.7	2.7	9.1	8.4	1.2	1.2
Lotte Shopping	023530 KS	S. Korea	na	na	86.1	14.4	0.3	0.3	10.4	9.5	2.7	2.8
Shinsegae	004170 KS	S. Korea	na	27.5	11.3	8.9	0.7	0.7	8.4	8.2	0.7	0.7
Amore Pacific Group	002790 KS	S. Korea	na	18.9	25.4	20.3	1.5	1.4	5.8	4.9	0.8	0.7
Wal-Mart Stores	WMT US	USA	15.8	4.1	22.7	21.8	4.8	4.4	11.7	11.3	1.5	1.6
Home Depot Inc	HD US	USA	21.1	4.4	22.9	21.9	na	na	15.9	15.6	2.0	2.1
Berli Jucker *	BJC TB	Thailand	(0.5)	25.7	35.1	27.9	1.2	1.2	14.0	13.5	1.4	1.8
COM7 *	COM7 TB	Thailand	44.3	39.6	40.6	29.1	18.9	15.8	27.0	20.2	2.0	2.8
CP All*	CPALL TB	Thailand	(34.9)	70.9	58.7	34.3	5.7	5.1	16.5	14.2	0.9	1.5
Central Pattana *	CPN TB	Thailand	(44.7)	127.5	82.6	36.3	3.3	3.1	22.5	16.5	0.8	1.4
Central Retail Corp. Pcl *	CRC TB	Thailand	na	106.4	73.7	35.7	3.7	3.5	11.1	9.7	0.5	1.1
Siam Global House *	GLOBAL TB	Thailand	62.8	20.1	30.7	25.5	5.1	4.5	23.2	19.5	1.3	1.6
Home Product*	HMPRO TB	Thailand	(1.0)	19.8	36.3	30.3	8.5	7.9	19.1	16.8	2.2	2.6
Siam Makro *	MAKRO TB	Thailand	10.2	8.0	36.0	33.3	10.7	9.9	21.0	19.7	2.1	2.4
MC Group *	MC TB	Thailand	0.4	(20.6)	16.9	21.2	2.1	2.1	7.5	8.4	5.9	4.8
<b>Average</b>			<b>17.7</b>	<b>28.8</b>	<b>36.7</b>	<b>24.2</b>	<b>4.0</b>	<b>3.6</b>	<b>12.8</b>	<b>11.4</b>	<b>2.1</b>	<b>2.5</b>

Sources: Company data, Thanachart estimates

Note: \* Thanachart estimates using normalized EPS growth

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

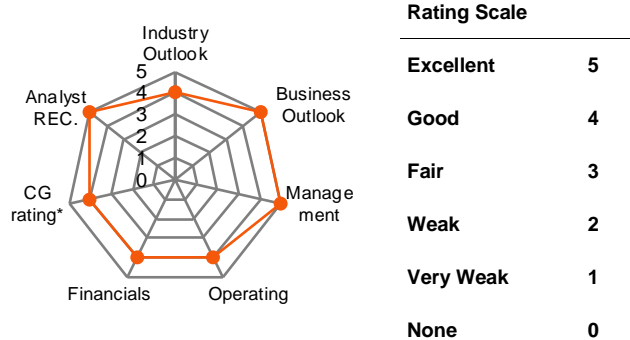
Based on 15-Sep-2021 closing prices

## 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



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
Target price (Bt)	81.79	87.00	6%
Net profit 21F (Bt m)	2,163	2,091	-3%
Net profit 22F (Bt m)	2,676	2,920	9%
Consensus REC	BUY: 10	HOLD: 0	SELL: 0

## 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.

## 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 numbers and the Street's as conservative as they look to have yet to factor in growth from COM7's potential new businesses.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	33,362	37,306	45,291	55,610	62,605
Cost of sales	28,946	32,596	39,435	48,246	54,116
<b>Gross profit</b>	<b>4,416</b>	<b>4,710</b>	<b>5,857</b>	<b>7,364</b>	<b>8,489</b>
% gross margin	13.2%	12.6%	12.9%	13.2%	13.6%
Selling & administration expenses	2,925	2,986	3,395	3,892	4,101
<b>Operating profit</b>	<b>1,491</b>	<b>1,724</b>	<b>2,462</b>	<b>3,472</b>	<b>4,389</b>
% operating margin	4.5%	4.6%	5.4%	6.2%	7.0%
Depreciation & amortization	200	630	689	738	789
<b>EBITDA</b>	<b>1,691</b>	<b>2,354</b>	<b>3,151</b>	<b>4,211</b>	<b>5,178</b>
% EBITDA margin	5.1%	6.3%	7.0%	7.6%	8.3%
Non-operating income	28	47	57	70	79
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>2,467</b>	<b>3,489</b>	<b>4,432</b>
Income tax	289	328	471	667	847
<b>After-tax profit</b>	<b>1,178</b>	<b>1,390</b>	<b>1,995</b>	<b>2,822</b>	<b>3,585</b>
% net margin	3.5%	3.7%	4.4%	5.1%	5.7%
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>2,091</b>	<b>2,920</b>	<b>3,685</b>
<b>Normalized profit</b>	<b>1,217</b>	<b>1,449</b>	<b>2,091</b>	<b>2,920</b>	<b>3,685</b>
EPS (Bt)	1.0	1.2	1.7	2.4	3.1
Normalized EPS (Bt)	1.0	1.2	1.7	2.4	3.1

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	6,654	8,157	8,620
Cash & cash equivalent	1,304	1,121	1,000	1,400	1,200
Account receivables	926	864	1,049	1,288	1,450
Inventories	4,819	3,664	4,433	5,292	5,787
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	1,982	1,829	1,571
<b>Total assets</b>	<b>9,160</b>	<b>9,207</b>	<b>9,966</b>	<b>11,451</b>	<b>11,777</b>
<b>LIABILITIES:</b>					
Current liabilities:	5,629	4,430	4,840	5,342	4,979
Account payables	3,349	2,464	2,981	3,714	4,165
Bank overdraft & ST loans	2,139	1,283	766	878	465
Current LT debt	0	0	0	0	0
Others current liabilities	142	683	1,092	750	349
<b>Total LT debt</b>	<b>5</b>	<b>708</b>	<b>423</b>	<b>485</b>	<b>256</b>
Others LT liabilities	149	198	179	219	247
<b>Total liabilities</b>	<b>5,784</b>	<b>5,336</b>	<b>5,441</b>	<b>6,046</b>	<b>5,482</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>3,318</b>	<b>4,199</b>	<b>5,084</b>
Shareholders' equity	3,374	3,852	4,502	5,383	6,268
<b>Liabilities &amp; equity</b>	<b>9,160</b>	<b>9,207</b>	<b>9,966</b>	<b>11,451</b>	<b>11,777</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	2,467	3,489	4,432
Tax paid	(266)	(276)	(460)	(611)	(826)
Depreciation & amortization	200	630	689	738	789
Chg In working capital	(567)	332	(437)	(365)	(206)
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>2,751</b>	<b>2,946</b>	<b>3,866</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)	(232)	(229)	(162)
<b>Cash flow from investments</b>	<b>(429)</b>	<b>(1,917)</b>	<b>(630)</b>	<b>(681)</b>	<b>(624)</b>
Debt financing	452	(149)	(801)	174	(642)
Capital increase	0	0	0	0	0
Dividends paid	(600)	(960)	(1,442)	(2,039)	(2,800)
Warrants & other surplus	(13)	(52)	0	0	0
<b>Cash flow from financing</b>	<b>(161)</b>	<b>(1,161)</b>	<b>(2,243)</b>	<b>(1,865)</b>	<b>(3,442)</b>
<b>Free cash flow</b>	<b>680</b>	<b>2,868</b>	<b>2,571</b>	<b>2,756</b>	<b>3,666</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)	69.8	58.6	40.6	29.1	23.0
Normalized PE - at target price (x)	85.8	72.0	49.9	35.8	28.3
PE (x)	69.8	57.0	40.6	29.1	23.0
PE - at target price (x)	85.8	70.0	49.9	35.8	28.3
EV/EBITDA (x)	50.7	36.4	27.0	20.2	16.3
EV/EBITDA - at target price (x)	62.2	44.7	33.2	24.8	20.1
P/BV (x)	25.2	22.0	18.9	15.8	13.5
P/BV - at target price (x)	30.9	27.1	23.2	19.4	16.7
P/CFO (x)	101.7	29.3	30.9	28.8	22.0
Price/sales (x)	2.5	2.3	1.9	1.5	1.4
Dividend yield (%)	1.1	1.4	2.0	2.8	3.8
FCF Yield (%)	0.8	3.4	3.0	3.2	4.3
<b>(Bt)</b>					
Normalized EPS	1.0	1.2	1.7	2.4	3.1
EPS	1.0	1.2	1.7	2.4	3.1
DPS	0.8	1.0	1.4	2.0	2.7
BV/share	2.8	3.2	3.8	4.5	5.2
CFO/share	0.7	2.4	2.3	2.5	3.2
FCF/share	0.6	2.4	2.1	2.3	3.1

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
<b>Growth Rate</b>					
Sales (%)	19.5	11.8	21.4	22.8	12.6
Net profit (%)	36.5	22.6	40.3	39.6	26.2
EPS (%)	36.5	22.6	40.3	39.6	26.2
Normalized profit (%)	37.8	19.1	44.3	39.6	26.2
Normalized EPS (%)	37.8	19.1	44.3	39.6	26.2
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	13.2	13.6
Operating margin (%)	4.5	4.6	5.4	6.2	7.0
EBITDA margin (%)	5.1	6.3	7.0	7.6	8.3
Net margin (%)	3.5	3.7	4.4	5.1	5.7
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	47.3	65.5	123.5
Interest coverage - EBITDA (x)	32.2	44.3	60.5	79.4	145.7
ROA - using norm profit (%)	14.5	15.8	21.8	27.3	31.7
ROE - using norm profit (%)	39.6	40.1	50.1	59.1	63.3
<b>DuPont</b>					
ROE - using after tax profit (%)	38.3	38.5	47.8	57.1	61.5
- asset turnover (x)	4.0	4.1	4.7	5.2	5.4
- operating margin (%)	4.6	4.7	5.6	6.4	7.1
- leverage (x)	2.7	2.5	2.3	2.2	2.0
- interest burden (%)	96.5	97.0	97.9	98.5	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	42.2	59.9	66.4
NOPAT (Bt m)	1,198	1,395	1,992	2,809	3,550
invested capital (Bt m)	4,213	4,721	4,691	5,346	5,788

Sources: Company data, Thanachart estimates

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