BUY (From: HOLD)

Change in Recommendation

TP: Bt 48.00 (From: Bt 38.00)

Upside : 18.5%

26 AUGUST 2022

Central Retail Corp Pcl (CRC TB)

A turnaround and more

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Thanachart Securities

We upgrade CRC to BUY as we like its adjusted plans for next-stage growth while its post-COVID recovery has been faster than we'd expected earlier. We project a strong EPS turnaround of 9,526/45/28% in 2022-24F with the next stage growth of another 18/13% in 2025-26F.

Upgrading to BUY; one of our top sector picks

This report includes our ESG comments and it is a part of *Retail Sector – Next-leg recovery,* dated 26 August. We upgrade CRC to BUY (from Hold). *First*, its post-COVID business recovery has been stronger than we'd expected earlier in all three countries it operates in. *Second*, we like CRC's expansion plans for its next growth stage, especially a new food store format. *Third*, CRC offers has a strong earnings outlook both in the short and long term at 9,526/45/28% in 2022-24F and another 18/13% in 2025-26F. This makes its PE multiples of 29.4/23.0x in 2023-24F look inexpensive to us. In this report, we lift our earnings estimates by 18% on average over 2022-33F and roll over our DCF-based 12-month TP to a 2023F base year, raising it to Bt48 (from Bt38).

Faster-than-expected recovery

CRC is seeing a business turnaround in all three countries – Thailand, Vietnam and Italy with 69/26/5% of 1H22 sales revenues. For the fashion or department-store business, sales in Italy recovered to 91% of the pre-COVID level in 2Q22 while sales in Thailand (Central & Robinson) rebounded to 81% of the pre-COVID level in 2Q22 and 90% in July. Its food business (convenience stores [CVS], supermarkets, hypermarkets) also recovered to 89% of the pre-COVID level in 2Q22, vs. 79% in 2021. We expect a quicker recovery going forward when each country it operates in sees more foreign tourist arrivals.

Expansion strategy add-ons

Earlier, CRC's expansion story was mainly from its home-improvement business, Thai Watsadu, and food outlets (GO! Hyper/supermarket, Tops market) in Vietnam. But now CRC is adding the expansion strategy to its food business in Thailand. In 1H22, Tops market and the Tops Food Hall standalone format were successfully introduced. Tops Care (drugstore) and Tops Vita (vitamin shop) were also launched to capture the growing health-consciousness trend. The first Tops Club, a membership supermarket selling 70% imported goods, is also due to open next month. From 3Q21, CRC closed down 47% of its Family Mart CVS, and operated 448 branches at end-2Q22. Family Mart made losses of Bt0.3/1.0bn in 2020-21.

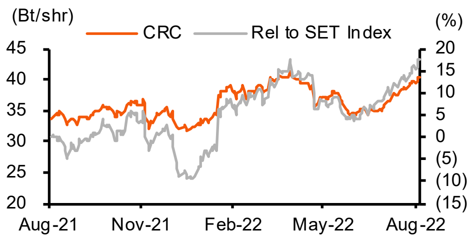
Successful omni-channel model

1H22 omni-channel sales grew by 29% y-y and contributed 18% of total sales vs. only 3% in 2019. This is ahead of other retailers. Given its multi-product categories with many varieties of decent brands, CRC expects to expand omni-channel services across all businesses with a plan to launch single-page checkout in 1Q23. We see room for it to grow online sales further and this is one of the company's long-term growth drivers.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	181,791	217,810	251,241	282,699
Net profit	59	5,715	8,296	10,606
Consensus NP	—	5,756	8,157	10,507
Diff frm cons (%)	—	*(0.7)*	*1.7*	*0.9*
Norm profit	59	5,715	8,296	10,606
Prev. Norm profit	—	5,280	7,408	9,258
Chg frm prev (%)	—	*8.2*	*12.0*	*14.6*
Norm EPS (Bt)	0.0	0.9	1.4	1.8
Norm EPS grw (%)	24.5	9,525.9	45.2	27.8
Norm PE (x)	4,114.1	42.7	29.4	23.0
EV/EBITDA (x)	15.6	10.8	9.5	8.4
P/BV (x)	4.3	4.1	3.7	3.4
Div yield (%)	0.7	0.9	1.4	1.7
ROE (%)	0.1	9.8	13.2	14.7
Net D/E (%)	102.8	82.9	80.6	67.0

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 25-Aug-22 (Bt)	40.50
Market Cap (US$ m)	6,818.2
Listed Shares (m shares)	6,031.0
Free Float (%)	53.1
Avg Daily Turnover (US$ m)	13.6
12M Price H/L (Bt)	41.25/31.75
Sector	Commerce
Major Shareholder	Central Group 35.06%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: 12-month DCF-based TP Calculation Using A Base Year Of 2023F

(Bt m)		2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA		22,554	26,528	29,608	32,547	34,557	36,640	38,818	41,106	43,413	45,497	47,486	
Free cash flow		2,151	7,584	10,411	12,981	16,895	18,881	20,808	22,823	27,832	35,585	37,712	570,374
PV of free cash flow		2,145	6,526	8,311	9,614	11,356	11,719	11,928	12,084	13,610	16,069	14,991	226,726
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.9												
WACC (%)	7.8												
Terminal growth (%)	2.0												
Enterprise value - add investments	345,080												
Net debt	52,404												
Minority interest	3,163												
Equity value	289,513												
# of shares (m)	6,031												
Equity value/share (Bt)	**48**												

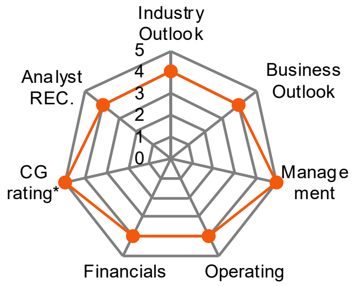
Source: Company, Thanachart estimates

COMPANY DESCRIPTION

Central Retail Corporation Pcl (CRC) is Thailand's leading retailer under Central Group's Chirathivat family. It operates multi-retail businesses (fashion, hardline, food) in eight retail formats (department stores, specialty stores, brand shops, supermarkets, hypermarkets, convenience stores, retail plazas, sales counters) in three countries (Thailand, Vietnam, Italy). As of end-2021, it was running 1,851 retail stores in three countries with a net selling area of 3.2m sqm and net leasable area of 0.69m sqm.

Source: Thanachart

COMPANY RATING



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

Source: Thanachart; * No CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Leader in retail market in Thailand with multiple retail formats.
- Accelerating omni-channel platform in response to new consumption trends.
- Strong market position in each retail segment.

W — Weakness

- Low returns on some businesses with model adjustments needed.
- Highly capital-intensive business and high operating expenses.

O — Opportunity

- Room to open more Thai Watsadu stores in the growing home-improvement sector.
- Strong growth opportunities in Vietnam from robust economic growth and low modern-trade penetration.
- More M&As.

T — Threat

- Competition from new entrants.
- Weak Thai economy.
- Pandemic.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	44.43	48.00	8%
Net profit 22F (Bt m)	5,756	5,715	-1%
Net profit 23F (Bt m)	8,157	8,296	2%
Consensus REC	**BUY: 16**	**HOLD: 5**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F net profits are in line with the Bloomberg consensus estimates.
- Our DCF-based TP is 8% higher than the Street's. This could be due to us having a higher store number assumption.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

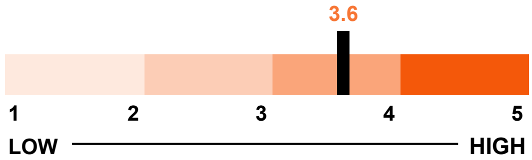
- There would be downside risk to our earnings forecasts if CRC were to fail to open new stores in line with our current expectations.
- Earnings growth could be hindered if competitors become more aggressive in store expansion than we presently expect.
- An economic slowdown would be a secondary downside risk to our call.

Source: Thanachart

ESG & Sustainability Report

CRC is a multi-category retailer with various types of retail store formats in the fashion, food and hardline segments in Thailand, Vietnam and Italy. Its runs a total selling area of 3.9m sqm. Our ESG score for CRC is relatively high at 3.6 as its business doesn't create much greenhouse gas and the company has targets and plans for ESG issues.

Thanachart ESG Rating



	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	Arabesque S-Ray (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
CRC	YES	YES	-	BB	-	62.52	59.22	-	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, Arabesque S-Ray®, Refinitiv ESG Information, S&P Global Market Intelligence, Moody's ESG Solutions, Thai IOD (CG rating)
Note: Please see third party on "term of use" in the following back page.

Factors	Our Comments

ENVIRONMENT

- **Environmental Policies & Guidelines**
- **Energy Management**
- **Carbon Management**
- **Water Management**
- **Waste Management**

- Despite its business nature not creating much greenhouse gas (GHG), CRC still sets ESG targets. Its goals to achieve by 2030 are to use 100% friendly packaging, reduce food loss and waste by 30% (from 3,785 tonnes of food waste in 2021), and reduce GHG emissions by 30% from 0.4m tonnes of emissions of CO_2 equivalent in 2021.
- Since 2018, it has complied with its "Central Retail Love the Earth" campaign that focuses on waste reduction (journey to zero), an increase in green area (Central Green) and forest restoration. It increased its forest restoration area to 2,154 rai in 2021.
- In 2021, CRC increased the use of clean energy to 67% of its total usage via solar rooftops. A total of 15 additional solar cell rooftops were installed in 2021, bringing the total to 40 (16 Robinson Department Stores, 15 Thai Watsadu stores in Thailand, and nine GO! Malls in Vietnam).

SOCIAL

- **Human Rights**
- **Staff Management**
- **Health & Safety**
- **Product Safety & Quality**
- **Social Responsibility**

- In 2021, average hours of employee training and development were 13.8 hours/person/year with an average cost of Bt2,800/person.
- CRC promotes talent development for career progression and its internal succession plan. In 2021, job rotations stood at 61% of total new hires.
- The Employee Joint Investment Program (EJIP) was established to encourage employee ownership of the company. The project timeline is from 1 April 2021 – 31 March 2024.
- CRC says it selects products that are safe and of the highest quality by conducting inspections for the whole supply chain in compliance to the Food Safety System Certification (FSSC 22000). In 2021, total product recalls were 25 SKUs with expenses of Bt0.8m incurred.

GOVERNANCE & SUSTAINABILITY

- **Board**
- **Ethics & Transparency**
- **Business Sustainability**
- **Risk Management**
- **Innovation**

- The board of directors (BOD) comprises 15 members, five of whom are independent directors. Three directors are female and eight directors are from the Chirathivat family.
- Confirmed breaches of business ethics fell from 77 cases in 2019 to 62 in 2020 and 49 in 2021. Most involved internal regulatory non-compliance.
- CRC has established risk-management guidelines according to international standards.
- CRC aims to effectively promote a "risk culture" within the organization. This starts with raising risk awareness among employees at all levels through training in risk management, which includes workplace safety and personal data privacy issues.
- CRC has an information system that enhances risk-management efficiency. The system helps support risk information, performance data and risk-management reporting to communicate risk-management results to stakeholders.

Source: Thanachart

EBITDA hit by COVID and lockdowns in 2020-21

We expect a full earnings recovery in 2023F

Well-controlled debt with net gearing at around 1x despite continuing M&A

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	179,947	181,791	217,810	251,241	282,699
Cost of sales	134,948	135,847	159,593	182,109	204,564
Gross profit	**44,999**	**45,944**	**58,217**	**69,132**	**78,135**
% gross margin	25.0%	25.3%	26.7%	27.5%	27.6%
Selling & administration expenses	57,088	57,068	63,304	72,683	80,587
Operating profit	**1,973**	**2,518**	**10,013**	**13,057**	**15,926**
% operating margin	1.1%	1.4%	4.6%	5.2%	5.6%
Depreciation & amortization	16,558	17,041	17,538	18,398	19,156
EBITDA	**18,531**	**19,559**	**27,551**	**31,456**	**35,082**
% EBITDA margin	10.3%	10.8%	12.6%	12.5%	12.4%
Non-operating income	14,364	13,863	15,298	16,812	18,592
Non-operating expenses	0	0	0	0	0
Interest expense	(2,950)	(3,113)	(3,105)	(2,934)	(2,931)
Pre-tax profit	**(675)**	**(374)**	**7,106**	**10,328**	**13,209**
Income tax	(884)	(372)	1,421	2,066	2,642
After-tax profit	**209**	**(2)**	**5,685**	**8,262**	**10,567**
% net margin	0.1%	0.0%	2.6%	3.3%	3.7%
Shares in affiliates' Earnings	132	279	500	574	644
Minority interests	(295)	(217)	(470)	(539)	(606)
Extraordinary items	0	0	0	0	0
NET PROFIT	**46**	**59**	**5,715**	**8,296**	**10,606**
Normalized profit	**46**	**59**	**5,715**	**8,296**	**10,606**
EPS (Bt)	0.0	0.0	0.9	1.4	1.8
Normalized EPS (Bt)	0.0	0.0	0.9	1.4	1.8

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	67,177	69,918	79,394	89,653	99,214
Cash & cash equivalent	17,742	18,088	18,181	19,204	20,040
Account receivables	4,570	4,860	5,967	8,260	9,294
Inventories	34,296	36,516	42,850	47,897	53,803
Others	10,570	10,455	12,396	14,292	16,077
Investments & loans	2,634	5,559	5,559	5,559	5,559
Net fixed assets	41,654	43,359	53,072	60,152	64,551
Other assets	127,715	144,392	127,047	122,576	114,358
Total assets	**239,180**	**263,228**	**265,073**	**277,941**	**283,682**
LIABILITIES:					
Current liabilities:	89,049	111,662	106,025	116,271	121,408
Account payables	31,569	35,632	39,352	44,903	50,440
Bank overdraft & ST loans	31,625	36,905	35,292	37,495	35,719
Current LT debt	2,763	13,418	3,529	3,749	3,572
Others current liabilities	23,091	25,707	27,852	30,123	31,677
Total LT debt	**29,492**	**28,517**	**31,763**	**33,745**	**32,147**
Others LT liabilities	64,924	63,968	64,066	58,673	53,443
Total liabilities	**183,465**	**204,147**	**201,854**	**208,689**	**206,998**
Minority interest	2,321	2,693	3,163	3,702	4,308
Preferreds shares	0	0	0	0	0
Paid-up capital	6,031	6,031	6,031	6,031	6,031
Share premium	66,885	66,885	66,885	66,885	66,885
Warrants	0	0	0	0	0
Surplus	(30,299)	(24,951)	(24,951)	(24,951)	(24,951)
Retained earnings	**10,777**	**8,424**	**12,091**	**17,585**	**24,411**
Shareholders' equity	53,394	56,388	60,056	65,550	72,375
Liabilities & equity	**239,180**	**263,228**	**265,073**	**277,941**	**283,682**

Sources: Company data, Thanachart estimates

Positive FCF resumed in 2021

PE looks justified given its high EPS growth

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(675)	(374)	7,106	10,328	13,209
Tax paid	108	694	(1,525)	(1,902)	(2,641)
Depreciation & amortization	16,558	17,041	17,538	18,398	19,156
Chg In working capital	(2,578)	1,552	(3,721)	(1,788)	(1,403)
Chg In other CA & CL / minorities	(14,761)	3,913	(330)	(193)	(320)
Cash flow from operations	**(1,349)**	**22,826**	**19,068**	**24,842**	**28,002**
Capex	(16,350)	(18,745)	(18,000)	(16,577)	(15,000)
Right of use	(67,029)	1,691	85	4	4
ST loans & investments	(4)	(98)	102	0	0
LT loans & investments	(1,443)	(2,926)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	60,750	(20,297)	9,141	(8,849)	(4,837)
Cash flow from investments	**(24,076)**	**(40,375)**	**(8,672)**	**(25,422)**	**(19,833)**
Debt financing	2,953	14,960	(8,255)	4,405	(3,552)
Capital increase	55,177	0	0	0	0
Dividends paid	(12,187)	(2,412)	(2,048)	(2,802)	(3,780)
Warrants & other surplus	(14,452)	5,348	0	0	0
Cash flow from financing	**31,491**	**17,895**	**(10,303)**	**1,603**	**(7,333)**
Free cash flow	**(17,699)**	**4,080**	**1,068**	**8,265**	**13,002**

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	5,120.3	4,114.1	42.7	29.4	23.0
Normalized PE - at target price (x)	6,068.5	4,876.0	50.7	34.9	27.3
PE (x)	5,120.3	4,114.1	42.7	29.4	23.0
PE - at target price (x)	6,068.5	4,876.0	50.7	34.9	27.3
EV/EBITDA (x)	15.3	15.6	10.8	9.5	8.4
EV/EBITDA - at target price (x)	17.6	17.9	12.4	11.0	9.7
P/BV (x)	4.6	4.3	4.1	3.7	3.4
P/BV - at target price (x)	5.4	5.1	4.8	4.4	4.0
P/CFO (x)	(175.6)	10.7	12.8	9.8	8.7
Price/sales (x)	1.4	1.3	1.1	1.0	0.9
Dividend yield (%)	1.0	0.7	0.9	1.4	1.7
FCF Yield (%)	(7.5)	1.7	0.4	3.4	5.3
(Bt)					
Normalized EPS	0.0	0.0	0.9	1.4	1.8
EPS	0.0	0.0	0.9	1.4	1.8
DPS	0.4	0.3	0.4	0.6	0.7
BV/share	8.9	9.3	10.0	10.9	12.0
CFO/share	(0.2)	3.8	3.2	4.1	4.6
FCF/share	(3.0)	0.7	0.2	1.4	2.2

Sources: Company data, Thanachart estimates

Net margin looks to be on the way up

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(11.8)	1.0	19.8	15.3	12.5
Net profit (%)	(99.6)	28.3	9,525.9	45.2	27.8
EPS (%)	(99.7)	24.5	9,525.9	45.2	27.8
Normalized profit (%)	(99.4)	28.3	9,525.9	45.2	27.8
Normalized EPS (%)	(99.5)	24.5	9,525.9	45.2	27.8
Dividend payout ratio (%)	5,214.2	3,047.5	40.0	40.0	40.0
Operating performance					
Gross margin (%)	25.0	25.3	26.7	27.5	27.6
Operating margin (%)	1.1	1.4	4.6	5.2	5.6
EBITDA margin (%)	10.3	10.8	12.6	12.5	12.4
Net margin (%)	0.1	(0.0)	2.6	3.3	3.7
D/E (incl. minor) (x)	1.1	1.3	1.1	1.1	0.9
Net D/E (incl. minor) (x)	0.8	1.0	0.8	0.8	0.7
Interest coverage - EBIT (x)	0.7	0.8	3.2	4.5	5.4
Interest coverage - EBITDA (x)	6.3	6.3	8.9	10.7	12.0
ROA - using norm profit (%)	0.0	0.0	2.2	3.1	3.7
ROE - using norm profit (%)	0.1	0.1	9.8	13.2	14.7
DuPont					
ROE - using after tax profit (%)	0.5	na	9.8	13.2	14.6
- asset turnover (x)	0.9	0.7	0.8	0.9	1.0
- operating margin (%)	na	na	4.7	5.3	5.7
- leverage (x)	5.4	4.6	4.5	4.3	3.9
- interest burden (%)	(29.7)	(13.7)	69.6	77.9	81.8
- tax burden (%)	na	na	80.0	80.0	80.0
WACC (%)	7.8	7.8	7.8	7.8	7.8
ROIC (%)	2.7	2.5	6.8	9.3	10.5
NOPAT (Bt m)	1,973	2,518	8,010	10,446	12,741
invested capital (Bt m)	99,532	117,140	112,459	121,336	123,773

Sources: Company data, Thanachart estimates

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SET has created a Thailand Sustainability Investment (THSI) list since 2015 for using as an alternative investment in the high performance ESG stocks for investors while, supporting the sustainable Thai companies. SET defines the sustainable companies as the companies that embrace risk management, supply chain management and innovations together with responsibility for environmental, social and governance aspects
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Score range	Description
CCC - B	**LAGGARD:** A company lagging its industry based on its high exposure and failure to manage significant ESG risks
BB - BBB - A	**AVERAGE :** A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
AA - AAA	**LEADER:** A company leading its industry in managing the most significant ESG risks and opportunities

The Dow Jones Sustainability Indices (DJSI)
The Dow Jones Sustainability Indices (DJSI) are a family of best-in-class benchmarks for investors who have recognized that sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios. The family was launched in 1999 as the first global sustainability benchmark and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Created jointly by S&P Dow Jones Indices and SAM, the DJSI combine the experience of an established index provider with the expertise of a specialist in Sustainable Investing to select the most sustainable companies from across 61 industries. The indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for investors who wish to encourage companies to improve their corporate sustainability practices.

S&P Global Market Intelligence

ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Moody's ESG Solutions

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> 25 to 50	Second Quartile	Scores within this range indicates satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly.
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90-100	△△△△△	Excellent
80-89	△△△△	Very Good
70-79	△△△	Good
60-69	△△	Satisfactory
50-59	△	Pass
Below		N/A

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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.

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