Siam Makro Pcl (MAKRO TB) - BUY, Price Bt34.00, TP Bt46.00

Results Comment

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Weaker-than-expected 2Q22

- MAKRO reported 2Q22 net profit of Bt1,573m, 6% below our forecast but missed consensus by 15%.
- With profit from Lotus Thailand and Malaysia, 2Q22 profit grew by 22% y-y while EPS fell by 45% y-y from rising shares from capital increase.
- Disappointing results were due to 1) higher-than-expected SG&A for wholesale business from new B2B Marketplace Maknet project, 2) rising interest expense q-q despite some Lotus's debt repayment in late April.
- 1H22 sales revenues were strong, in line, at 50% of our 2022F.
- **Wholesale business:** 2Q22 profit was Bt1,356m, up 5% y-y. Merchandise sales grew by 10% y-y to Bt59.4bn on a 7.4% SSSG. Gross margin on sales improved by 30bp y-y to 9.9% on higher fresh food sales mix. However, SG&A/sales rose to 8.7% vs 8.3% in 2Q21 and 1Q22.
- **Retail business:** Lotus generated Bt217m 2Q22 profit, down from Bt309m profit in 1Q22. Falling profit q-q was due to declining gross margin on sales (18.2% vs 18.8% in 1Q22), rising SG&A expenses by 7% (store expansion, new IT system, rebranding cost) and increasing interest cost by Bt104m q-q to Bt1,454m on higher cost of debt as majority are a floating-rate debt (despite debt falling by 14%). Total revenues grew by 8% q-q from both sales revenues and rental income.
- 1H22 profit made up 37% of our full-year forecast. We see downside to our 2022F earnings.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Revenue	54,723	54,739	100,205	110,777	117,933
Gross profit	**6,078**	**6,557**	**16,914**	**18,263**	**18,763**
SG&A	4,560	4,616	12,674	14,616	15,776
Operating profit	1,518	1,941	4,240	3,648	2,987
EBITDA	**2,312**	**2,739**	**6,710**	**7,265**	**6,487**
Other income	233	232	206	439	530
Other expense	0	0	0	0	0
Interest expense	142	137	1,148	1,494	1,598
Profit before tax	**1,608**	**2,036**	**3,299**	**2,593**	**1,920**
Income tax	331	473	862	767	549
Equity & invest. income	0	0	149	224	202
Minority interests	10	10	(9)	0	0
Extraordinary items	0	0	6,517	0	0
Net profit	**1,287**	**1,572**	**9,094**	**2,050**	**1,573**
Normalized profit	**1,287**	**1,572**	**2,577**	**2,050**	**1,573**
EPS (Bt)	0.27	0.33	0.86	0.19	0.15
Normalized EPS (Bt)	0.27	0.33	0.24	0.19	0.15

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	6	116	50	457,902	500,418
Gross profit	**3**	**209**	**49**	**75,180**	**83,037**
SG&A	8	246	50	60,184	64,513
Operating profit	(18)	97	38	17,283	21,024
EBITDA	**(11)**	**181**	**44**	**31,303**	**36,686**
Other income	21	128	42	2,287	2,500
Other expense			na	0	0
Interest expense	7	1,022	57	5,426	5,020
Profit before tax	**(26)**	**19**	**38**	**11,856**	**16,003**
Income tax	(28)	66	37	3,536	4,327
Equity & invest. income	(10)		30	1,419	1,997
Minority interests	3	(96)	5	16	42
Extraordinary items			na	0	0
Net profit	**(23)**	**22**	**37**	**9,755**	**13,715**
Normalized profit	**(23)**	**22**	**37**	**9,755**	**13,715**
EPS (Bt)	(23)	(45)	37	0.92	1.30
Normalized EPS (Bt)	(23)	(45)	37	0.92	1.30

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Cash & ST investment	7,442	5,260	68,530	64,007	43,160
A/C receivable	822	957	2,301	1,955	1,937
Inventory	13,884	14,030	31,967	32,925	33,716
Other current assets	2,053	2,136	7,203	6,823	9,169
Investment	0	0	0	0	0
Fixed assets	30,205	30,161	118,444	117,392	116,187
Other assets	15,726	16,125	341,046	341,384	343,604
Total assets	**70,131**	**68,669**	**569,490**	**564,486**	**547,773**
S-T debt	2,634	983	31,199	31,436	13,731
A/C payable	22,550	22,677	54,845	52,253	52,067
Other current liabilities	7,755	7,844	32,167	27,865	26,439
L-T debt	5,002	5,001	105,120	104,521	108,197
Other liabilities	9,333	9,585	57,661	58,193	58,554
Minority interest	483	497	501	499	521
Shareholders' equity	**22,374**	**22,081**	**287,997**	**289,719**	**288,265**
Working capital	(7,845)	(7,690)	(20,577)	(17,373)	(16,413)
Total debt	7,636	5,984	136,319	135,957	121,928
Net debt	**194**	**724**	**67,790**	**71,951**	**78,767**

Financial Ratios					
(%)	2Q21	3Q21	4Q21	1Q22	2Q22
Sales growth	7.1	1.6	75.3	98.2	115.5
Operating profit growth	2.8	(1.6)	47.1	73.5	96.8
EBITDA growth	11.2	(7.9)	52.6	152.1	180.5
Norm profit growth	9.1	(0.0)	21.0	18.3	22.2
Norm EPS growth	9.1	(0.0)	(45.1)	(46.3)	(44.6)
Gross margin	11.1	12.0	16.9	16.5	15.9
Operating margin	2.8	3.5	4.2	3.3	2.5
EBITDA margin	4.2	5.0	6.7	6.6	5.5
Norm net margin	2.4	2.9	2.6	1.9	1.3
D/E (x)	0.3	0.3	0.5	0.5	0.4
Net D/E (x)	0.0	0.0	0.2	0.2	0.3
Interest coverage (x)	16.2	20.0	5.8	4.9	4.1
Interest rate	7.4	8.1	6.5	4.4	5.0
Effective tax rate	20.6	23.3	26.1	29.6	28.6
ROA	7.8	9.8	4.7	2.5	2.3
ROE	22.2	28.3	6.6	2.8	2.2

Sources: Company data, Thanachart estimates

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