TQM Corporation Pcl (TQM TB) - BUY, Price Bt43.75, TP Bt60

Results Comment

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Weaker-than-expected profits

- TQM reported weak net profits of Bt180m, down 19% y-y and 16% q-q. Results fell short of our estimates on lower revenues but higher SG&A expenses. 1H22 profits accounted 39% of full-year projection. We see downsides to our estimates.
- TQM announced to pay interim dividends of Bt0.7 per share. XD and payment dates are set on 26 August and 9 September 2022.
- The company restated its financial statement since 2Q21 to reflect the 44.35% consolidation of TQR in late April 2022. So, the y-y and comparison were as if it had been invested in TQR since last year.
- Leaving TQR, TQM's revenues fell 11% y-y and 7% in 2Q22. The y-y drop was due to absence of Covid-19 of Bt125m. Excluding Covid-19 impact, TQM's revenues could have grown 10% y-y. While the q-q drop was due to seasonality effect and high base effect in 1Q22.
- Gross margin came down on lower revenues. As it adds back-office staff to support new business, SG&A expenses went up 13% y-y to 27% of total revenues.
- TQR made profits of Bt27m in the quarter, down 53% y-y on extra income book in 2Q21 but up 9% q-q. TQR's profits contribution to TQM for 2-mth holding was around Bt8mb or 4% of total profits in the quarter.
- Easy lending ended the quarter at Bt174m, up slightly q-q. Note that loans duration was quite short less than a year so TQM actually extended installment loans to support insurance sales up to Bt600m already.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Revenue	901	769	731	928	845
Gross profit	**492**	**393**	**388**	**512**	**441**
SG&A	200	190	187	238	226
Operating profit	292	203	200	274	215
EBITDA	**328**	**246**	**256**	**329**	**215**
Other income	50	19	4	21	29
Other expense	0	0	0	0	0
Interest expense	1	0	0	1	1
Profit before tax	**342**	**221**	**204**	**295**	**243**
Income tax	63	43	45	59	49
Equity & invest. income	(2)	0	0	0	1
Minority interests	1	1	(4)	2	(8)
Extraordinary items	(57)	64	69	(25)	(6)
Net profit	**222**	**243**	**224**	**214**	**180**
Normalized profit	**279**	**179**	**155**	**238**	**186**
EPS (Bt)	0.74	0.81	0.75	0.71	0.60
Normalized EPS (Bt)	0.93	0.60	0.52	0.79	0.62

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Revenue	(9)	(6)	46	3,824	4,343
Gross profit	**(14)**	**(10)**	**45**	**2,140**	**2,559**
SG&A	(5)	13	54	866	908
Operating profit	(22)	(26)	38	1,274	1,651
EBITDA	**(35)**	**(34)**	**40**	**1,351**	**1,708**
Other income	34	(43)	72	69	70
Other expense			na	0	0
Interest expense	88	82	29	6	11
Profit before tax	**(18)**	**(29)**	**40**	**1,337**	**1,711**
Income tax	(17)	(22)	41	267	342
Equity & invest. income		na	na	0	0
Minority interests	na	na	8	(72)	(105)
Extraordinary items	na	na	na	0	0
Net profit	**(16)**	**(19)**	**39**	**997**	**1,263**
Normalized profit	**(22)**	**(33)**	**43**	**997**	**1,263**
EPS (Bt)	(16)	(19)	79	1.66	2.11
Normalized EPS (Bt)	(22)	(33)	85	1.66	2.11

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Cash & equivalent	1,240	486	953	1,638	1,281
A/C receivable	302	562	603	328	487
Personal loans	0	0	118	171	174
Other current assets	572	584	824	159	356
Investment	789	875	1,096	987	853
Fixed assets	91	86	83	77	79
Other assets	590	1,312	1,307	1,233	1,227
Total assets	**3,584**	**3,905**	**4,984**	**4,593**	**4,457**
S-T debt	8	9	15	12	13
A/C payable	345	371	535	395	467
Other current liabilities	187	199	234	367	353
L-T debt	444	422	411	377	362
Other liabilities	114	268	319	278	296
Minority interest	3	319	336	331	562
Shareholders' equity	**2,483**	**2,318**	**3,134**	**2,832**	**2,402**
Working capital	(43)	192	186	104	194
Total debt	452	430	425	390	376
Net debt	**(788)**	**(56)**	**(527)**	**(1,248)**	**(905)**

Financial Ratios					
(%)	2Q21	3Q21	4Q21	1Q22	2Q22
Sales growth	23.7	1.3	(6.2)	6.4	(6.3)
Operating profit growth	59.4	4.5	(10.9)	8.6	(26.4)
EBITDA growth	48.2	6.8	(1.6)	14.1	(34.3)
Norm profit growth	71.1	5.5	(18.3)	11.5	(33.1)
Norm EPS growth	71.1	5.5	(18.3)	11.5	(33.1)
Gross margin	54.6	51.1	53.0	55.2	52.2
Operating margin	32.4	26.4	27.4	29.6	25.5
EBITDA margin	36.3	32.0	35.1	35.5	25.5
Norm net margin	30.9	23.3	21.2	25.7	22.1
D/E (x)	0.2	0.2	0.1	0.1	0.1
Net D/E (x)	(0.3)	(0.0)	(0.2)	(0.4)	(0.3)
Interest coverage (x)	551	591	4,135	573	199
Interest rate	0.5	0.4	0.1	0.6	1.1
Effective tax rate	18.4	19.6	22.1	20.1	20.2
ROA	30.1	19.1	14.0	19.9	16.5
ROE	43.8	29.8	22.8	31.9	28.5

Sources: Company data, Thanachart estimates

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