

BUY (Unchanged)

Change in Numbers

TP: Bt 18.50 (Unchanged)**Upside : 32.1%****20 JULY 2023**

Home Product Center (HMPRO TB)

New sales strategies bear fruit

We estimate HMPRO to post 3% y-y earnings growth in 2Q23F on 4.5% SSSG. Since new sales strategies have begun to bear fruit and aggressive store expansion this year looks on track, we stand by our BUY call with a TP of Bt18.5.

**PHANNARAI TIYAPITTAYARUT**

662-779-9109

phannarai.von@thanachartsec.co.th

Some growth in 2Q23F

Despite higher expenses from electricity and store expansion, we expect HMPRO to weather the cost pressure with higher sales and gross margin. We estimate 2Q23F profit of Bt1.56bn, increasing by 3% y-y, backed by 7% sales growth (4.5% SSSG for HomePro stores and negative SSSG of 1-2% for Mega Home). Despite a rising sales mix from its lower-margin Mega Home business via more store openings, we expect its gross margin to improve slightly y-y to 25.8%. As June's SSSG is likely to weaken to 2-3% as consumption slows partly because of the early rainy season, we lower our SSSG to 2.8/4/4% in 2023-25F from 5% previously for those years.

Branch expansion on track

With its plan to speed up Mega Home openings post-COVID to reach a medium-term target of 50 branches from 18 as of last year, HMPRO launched six Mega Home stores in 1H23. This year, it plans to open eight to nine new Mega Home branches and two HomePro stores. Store expansion is a key driver after COVID, on top of positive SSSG each year in 2023-25F. By year-end, we expect it to operate 89 HomePro stores in Thailand, five HomePro S outlets, 26 Mega Home stores, and seven HomePro branches in Malaysia.

New sales strategies doing well

HMPRO has initiated various strategies to boost sales. E-commerce channels are the area where it continues to focus via its own website, the HomePro app, and the marketplace (Shopee, Lazada). It just launched "HomePro for Business", an online platform for B2B customers. Air conditioner sales were strong in April, boosted by its new services, i.e., trade-ins, resales and same-day delivery. These services are popular for electronics products.

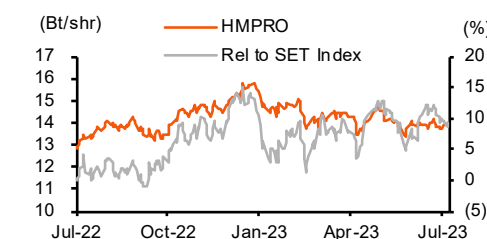
Decent momentum continues

We expect HMPRO to deliver stronger earnings growth y-y in 2H23F, towards the high spending season in 4Q, to reach 11% EPS growth this year. Drivers are: 1) sales from new stores as ten new branches this year are scheduled for launch from 1Q23 to 4Q23, 2) a boost from new sales strategies and a recovery in spending at tourist-destination stores, and 3) easing cost pressure from solar roof installation and a lower fuel tariff. With a 3-6% cut in our 2023-25F earnings, we reaffirm our BUY call on HMPRO for decent earnings growth of a 13% three-year EPS CAGR over 2023-25F with an unchanged DCF-based 12-month TP of Bt18.5 as we roll over our base year to 2024F.

COMPANY VALUATION

Y/E Dec (Bt m)	2022A	2023F	2024F	2025F
Sales	66,811	72,974	81,606	89,293
Net profit	6,217	6,903	7,931	8,981
Consensus NP	—	6,875	7,603	8,202
Diff frm cons (%)	—	0.4	4.3	9.5
Norm profit	6,217	6,903	7,931	8,981
Prev. Norm profit	—	7,112	8,333	9,588
Chg frm prev (%)	—	(2.9)	(4.8)	(6.3)
Norm EPS (Bt)	0.5	0.5	0.6	0.7
Norm EPS grw (%)	14.3	11.0	14.9	13.2
Norm PE (x)	29.6	26.7	23.2	20.5
EV/EBITDA (x)	17.3	15.3	13.7	12.3
P/BV (x)	7.6	7.3	6.8	6.3
Div yield (%)	2.7	3.0	3.4	3.9
ROE (%)	26.4	28.0	29.3	31.9
Net D/E (%)	40.8	46.5	48.5	45.7

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 19-Jul-23 (Bt)	14.00
Market Cap (US\$ m)	5,403.4
Listed Shares (m shares)	13,151.2
Free Float (%)	40.9
Avg Daily Turnover (US\$ m)	9.7
12M Price H/L (Bt)	15.80/12.80
Sector	Commerce
Major Shareholder	Land & Houses 30.23%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P74

Ex 1: 12-month DCF-based TP Calculation Using A Base Year Of 2024F

(Bt m)		2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	Terminal Value
EBITDA		14,174	15,787	17,699	19,660	21,576	23,634	25,741	27,637	29,656	31,762	33,861	
Free cash flow		5,192	7,297	10,095	13,123	14,670	16,332	19,523	21,035	22,648	24,827	26,497	389,398
PV of free cash flow		5,192	6,258	8,018	9,653	9,771	10,030	11,055	10,982	10,899	11,016	10,325	151,738
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.8												
WACC (%)	8.0												
Terminal growth (%)	2.0												
Enterprise value - add	254,936												
Net debt	11,657												
Minority interest	0												
Equity value	243,279												
# of shares (m)	13,151												
Equity value/share (Bt)	18.50												

Source: Thanachart estimates

COMPANY DESCRIPTION

Home Product Center Pcl (HMPRO) is the leader in home-improvement retailing in Thailand with 50,000 SKUs for HomePro stores and 60,000-80,000 SKUs for Mega Home, and it offers a full range of services from design to maintenance, installation, and improvement. It operated 87 HomePro stores nationwide, seven Malaysia branches, five HomePro S stores, and 24 Mega Home outlets as of 2Q23. We believe it is capturing the so-called lifestyle trend by focusing more on the home renovation and lifestyle segments.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

S — Strength

- Leader in the home-improvement business in Thailand with the largest store network.
- Prime locations are locked in.
- Strong bargaining power reflected in high rebate and other income.

O — Opportunity

- Room to open more stores domestically along with the country's infrastructure development and EEC plan.
- New product coverage and new target groups.
- Expansion opportunities in other countries, starting with Malaysia and followed by Vietnam.

CONSENSUS COMPARISON

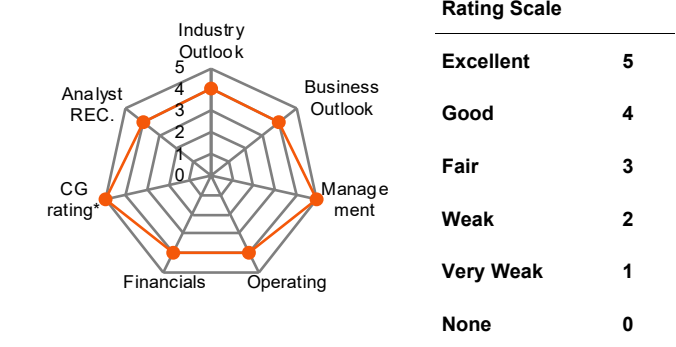
	Consensus	Thanachart	Diff
Target price (Bt)	17.03	18.50	9%
Net profit 23F (Bt m)	6,875	6,903	0%
Net profit 24F (Bt m)	7,603	7,931	4%
Consensus REC	BUY: 21	HOLD: 5	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our net profit for 2024F is 4% above the street's, which we attribute to us having higher gross margin and new-store-expansion assumptions.
- Our DCF-based TP is 9% above the Bloomberg consensus number, likely because we have more aggressive long-term assumptions for gross margins and Mega Home expansion.

Sources: Bloomberg consensus, Thanachart estimates

COMPANY RATING



Source: Thanachart; *CG Rating

W — Weakness

- Cash conversion cycle turned a slight positive.
- Highly capital-intensive business.

T — Threat

- Intense competition for Mega Home as rivals are also speeding up branch openings.
- Weak Thai economy.

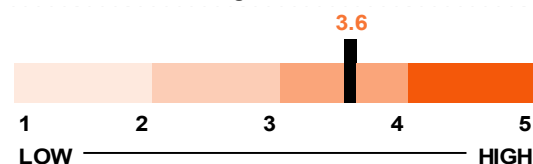
RISKS TO OUR INVESTMENT CASE

- The key downside risk to our earnings forecasts would be if HMPRO were to fail to open new stores in line with our current expectations.
- Earnings growth could be hindered if competitors become more aggressive with store expansion than we presently expect.
- An economic slowdown and a property market downturn would represent secondary downside risks.
- If HMPRO is unsuccessful with its stores abroad, this would represent another downside risk.

Source: Thanachart

HMPRO is a leading home-improvement retailer with 87 large HomePro branches and five HomePro S in Thailand, and seven HomePro stores in Malaysia. It also has 24 rural-model home construction materials under Mega Home stores. Our ESG score is 3.62, in the top range for the sector, as HMPRO is dedicated to ESG issues with a clear roadmap.

Thanachart ESG Rating



	SETTHSI Index	THSI Index	DJSI Index	Thanachart ESG Rating (1.0-5.0)	MSCI (CCC-AAA)	Arabesque S-Ray (0-100)	CG Rating (0-5)
HMPRO	YES	YES	YES	3.62	AA	66.79	5.0

Sources: SETTRADE, SET, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, Arabesque S-Ray®, Thai IOD (CG rating)

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Factors	Our Comments
ENVIRONMENT - Environmental Policies & Guidelines - Energy Management - Carbon Management - Water Management - Waste Management	- HMPRO aims to cut greenhouse gas (GHG) emissions/store by 50% by 2030, with 36% achieved in 2022. In 2022, it released GHG emissions of 0.097mt CO2e (scope 1, 2, 3). - HMPRO targets to use 100% renewable energy in its company-owned store buildings by 2030. Solar cells have been installed since 2015, and there are 65 solar-roof installed stores to date, accounting for 25.6% renewable energy usage. 100% zero waste is targeted by 2030, with 84% achieved in 2022. - HMPRO intends to stop selling single-use plastic by 2025. - ESG Award: Dow Jones Sustainability Indices, MSCI Global Sustainability Indexes, MSCI ESG Rating Indices, FTSE4Good Index, Sustainalytics (low-risk rating), CDP Sustainability Index.
SOCIAL - Human Rights - Staff Management - Health & Safety - Product Safety & Quality - Social Responsibility	- HMPRO conducts an associate satisfaction survey annually and analyzes results in order to improve in every aspect, such as welfare, occupational health, safety, and working environment. There was 86.6% employee engagement in 2022. - In 2022, women had a 49% share of all management positions. - It targets zero accidents with a 0.16% accident rate/store in 2022. - Ninety-four disabled people were employed as of 2022, of 1.05% of total staff, higher than the 1% standard of the Empowerment of Persons With Disabilities Act, B.E. 2007. - HMPRO has set a 50% target for eco-product sales by 2025, with 46.9% achieved in 2022.
GOVERNANCE & SUSTAINABILITY - Board - Ethics & Transparency - Business Sustainability - Risk Management - Innovation	- The board of directors (BOD) comprises 12 members, four of whom are independent directors. There is one woman on the board. - The BOD stipulates a corporate governance policy to have content that covers the vital principles of shareholders' rights, the equitable treatment of shareholders, the roles of stakeholders, disclosure and transparency. This is to be in line with the new Corporate Governance Code (CG Code) from The Securities and Exchange Commission, the regulations of the Thai Institute of Directors (IOD), and the international criteria at the regional level of the ASEAN CG Scorecard. - HMPRO has complied with good corporate governance though its chairman of the Nomination and Remuneration Committee is not an independent director. - HMPRO allocates human resources to have the responsibility to receive business ethics complaints, which employees can send directly by post or email.

Sources: Company data, Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Sales	61,791	66,811	72,974	81,606	89,293
Cost of sales	45,534	48,783	53,037	59,085	64,390
Gross profit	16,257	18,029	19,937	22,521	24,903
% gross margin	26.3%	27.0%	27.3%	27.6%	27.9%
Selling & administration expenses	11,326	12,519	13,798	15,483	16,907
Operating profit	7,066	8,088	9,084	10,373	11,690
% operating margin	11.4%	12.1%	12.4%	12.7%	13.1%
Depreciation & amortization	3,208	3,156	3,705	4,058	4,353
EBITDA	10,274	11,244	12,790	14,431	16,043
% EBITDA margin	16.6%	16.8%	17.5%	17.7%	18.0%
Non-operating income	2,142	2,595	2,946	3,335	3,694
Non-operating expenses	(23)	(0)	0	0	0
Interest expense	(416)	(445)	(562)	(581)	(603)
Pre-tax profit	6,634	7,660	8,522	9,792	11,087
Income tax	1,194	1,441	1,619	1,860	2,107
After-tax profit	5,441	6,219	6,903	7,931	8,981
% net margin	8.8%	9.3%	9.5%	9.7%	10.1%
Shares in affiliates' Earnings	0	(2)	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	0	0	0	0	0
NET PROFIT	5,441	6,217	6,903	7,931	8,981
Normalized profit	5,441	6,217	6,903	7,931	8,981
EPS (Bt)	0.4	0.5	0.5	0.6	0.7
Normalized EPS (Bt)	0.4	0.5	0.5	0.6	0.7

BALANCE SHEET

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Current assets:	18,920	21,430	22,558	23,971	25,716
Cash & cash equivalent	4,546	5,420	5,489	4,945	5,213
Account receivables	1,675	2,069	2,199	2,459	2,446
Inventories	12,572	13,630	14,531	16,188	17,641
Others	127	311	339	379	415
Investments & loans	0	0	0	0	0
Net fixed assets	27,584	29,469	34,018	37,217	39,620
Other assets	12,082	14,286	14,659	15,162	15,582
Total assets	58,586	65,185	71,236	76,350	80,918
LIABILITIES:					
Current liabilities:	20,511	24,485	26,893	29,520	31,624
Account payables	13,973	15,812	16,710	18,616	20,287
Bank overdraft & ST loans	1,232	1,074	857	903	930
Current LT debt	3,183	5,174	6,516	6,866	7,070
Others current liabilities	2,124	2,425	2,810	3,134	3,336
Total LT debt	8,943	9,056	9,773	10,300	10,605
Others LT liabilities	6,242	7,398	9,502	9,466	9,408
Total liabilities	35,696	40,939	46,169	49,286	51,637
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	13,151	13,151	13,151	13,151	13,151
Share premium	646	646	646	646	646
Warrants	0	0	0	0	0
Surplus	(29)	(25)	(25)	(25)	(25)
Retained earnings	9,122	10,473	11,294	13,292	15,508
Shareholders' equity	22,890	24,246	25,067	27,065	29,281
Liabilities & equity	58,586	65,185	71,236	76,350	80,918

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Earnings before tax	6,634	7,660	8,522	9,792	11,087
Tax paid	(1,351)	(1,277)	(1,632)	(1,751)	(2,061)
Depreciation & amortization	3,208	3,156	3,705	4,058	4,353
Chg In working capital	(1,211)	387	(133)	(12)	231
Chg In other CA & CL / minorities	231	(176)	210	10	(49)
Cash flow from operations	7,511	9,750	10,673	12,097	13,561
Capex	(2,051)	(5,041)	(8,000)	(7,000)	(6,500)
Right of use	(547)	(1,788)	(89)	(4)	(4)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	488	869	1,724	(626)	(560)
Cash flow from investments	(2,111)	(5,960)	(6,365)	(7,631)	(7,064)
Debt financing	(22)	1,946	1,843	923	536
Capital increase	0	0	0	0	0
Dividends paid	(4,208)	(4,866)	(5,260)	(5,934)	(6,765)
Warrants & other surplus	92	4	(822)	0	0
Cash flow from financing	(4,137)	(2,916)	(4,239)	(5,011)	(6,229)
Free cash flow	5,460	4,709	2,673	5,097	7,061

VALUATION

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	33.8	29.6	26.7	23.2	20.5
Normalized PE - at target price (x)	44.7	39.1	35.2	30.7	27.1
PE (x)	33.8	29.6	26.7	23.2	20.5
PE - at target price (x)	44.7	39.1	35.2	30.7	27.1
EV/EBITDA (x)	18.8	17.3	15.3	13.7	12.3
EV/EBITDA - at target price (x)	24.5	22.5	19.9	17.8	16.0
P/BV (x)	8.0	7.6	7.3	6.8	6.3
P/BV - at target price (x)	10.6	10.0	9.7	9.0	8.3
P/CFO (x)	24.5	18.9	17.3	15.2	13.6
Price/sales (x)	3.0	2.8	2.5	2.3	2.1
Dividend yield (%)	2.3	2.7	3.0	3.4	3.9
FCF Yield (%)	3.0	2.6	1.5	2.8	3.8
(Bt)					
Normalized EPS	0.4	0.5	0.5	0.6	0.7
EPS	0.4	0.5	0.5	0.6	0.7
DPS	0.3	0.4	0.4	0.5	0.5
BV/share	1.7	1.8	1.9	2.1	2.2
CFO/share	0.6	0.7	0.8	0.9	1.0
FCF/share	0.4	0.4	0.2	0.4	0.5

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate					
Sales (%)	3.2	8.1	9.2	11.8	9.4
Net profit (%)	5.5	14.3	11.0	14.9	13.2
EPS (%)	5.5	14.3	11.0	14.9	13.2
Normalized profit (%)	5.5	14.3	11.0	14.9	13.2
Normalized EPS (%)	5.5	14.3	11.0	14.9	13.2
Dividend payout ratio (%)	77.4	80.4	80.0	80.0	80.0
Operating performance					
Gross margin (%)	26.3	27.0	27.3	27.6	27.9
Operating margin (%)	11.4	12.1	12.4	12.7	13.1
EBITDA margin (%)	16.6	16.8	17.5	17.7	18.0
Net margin (%)	8.8	9.3	9.5	9.7	10.1
D/E (incl. minor) (x)	0.6	0.6	0.7	0.7	0.6
Net D/E (incl. minor) (x)	0.4	0.4	0.5	0.5	0.5
Interest coverage - EBIT (x)	17.0	18.2	16.2	17.8	19.4
Interest coverage - EBITDA (x)	24.7	25.3	22.8	24.8	26.6
ROA - using norm profit (%)	9.5	10.0	10.1	10.4	11.4
ROE - using norm profit (%)	24.5	26.4	28.0	29.3	31.9
DuPont					
ROE - using after tax profit (%)	24.5	26.4	28.0	29.3	31.9
- asset turnover (x)	1.1	1.1	1.1	1.1	1.1
- operating margin (%)	11.4	12.1	12.4	12.7	13.1
- leverage (x)	2.6	2.6	2.8	2.8	2.8
- interest burden (%)	94.1	94.5	93.8	94.4	94.8
- tax burden (%)	82.0	81.2	81.0	81.0	81.0
WACC (%)	8.0	8.0	8.0	8.0	8.0
ROIC (%)	18.3	20.7	21.6	22.9	23.6
NOPAT (Bt m)	5,794	6,566	7,358	8,402	9,469
invested capital (Bt m)	31,702	34,129	36,725	40,189	42,673

Sources: Company data, Thanachart estimates

ESG Information - Third Party Terms

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ESG Scores by Third Party data from www.SETTRADE.com

1. MSCI (CCC- AAA)
2. Arabesque S-Ray (0-100)

SET THSI Index (SETTHSI)

Nowadays, long-term investment tends to be more focused on sustainable companies. The financial statement performance and the consideration in environmental, social and governance (ESG) perspective are keys aspects for analysis.

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

As a result, SET has created the SETTHSI for the purpose of indicating the price of these sustainable companies that pass the market capital size and liquidity criteria.

Arabesque S-Ray®

The S-Ray data here is published with a 3 month delay. For the latest data, please contact sray@arabesque.com

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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.

CG Report : by Thai Institute of Directors Association (Thai IOD), Established in December 1999, the Thai IOD is a membership organization that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

90-100	▲▲▲▲▲	Excellent
80-89	▲▲▲▲	Very Good
70-79	▲▲▲	Good
60-69	▲▲	Satisfactory
50-59	▲	Pass
Below		N/A

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Thanachart Securities Pcl.

Research Team

18 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 779-9119

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research, Strategy

Tel: 662-779-9199

pimpaka.nic@thanachartsec.co.th

Nuttapop Prasitsuksant

Telecom, Utilities

Tel: 662-483-8296

nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom

Auto, Industrial Estate, Media, Prop. Fund

Tel: 662-483-8297

rata.lim@thanachartsec.co.th

Siriporn Arunothai

Small Cap, Healthcare, Hotel

Tel: 662-779-9113

siriporn.aru@thanachartsec.co.th

Sittichet Rungrassameephat

Analyst, Quantitative

Tel: 662-483-8303

sittichet.run@thanachartsec.co.th

Adisak Phupipathirungul, CFA

Retail Market Strategy

Tel: 662-779-9120

adisak.phu@thanachartsec.co.th

Pattadol Bunnak

Electronics, Food & Beverage, Shipping

Tel: 662-483-8298

pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak

Construction, Transportation

Tel: 662-779-9112

saksid.pha@thanachartsec.co.th

Yupapan Polpornprasert

Energy, Petrochemical

Tel: 662-779-9110

yupapan.pol@thanachartsec.co.th

Thaloengsak Kucharoenpaisan

Analyst, Retail Market

Tel: 662-483-8304

thaloengsak.kuc@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst

Tel: 662-779-9105

pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut

Property, Retail

Tel: 662-779-9109

phannarai.von@thanachartsec.co.th

Sarachada Sornsong

Bank, Finance

Tel: 662-779-9106

sarachada.sor@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst

Tel: 662-779-9123

witchanan.tam@thanachartsec.co.th

Nariporn Klangpremchitt

Analyst, Retail Market

Tel: 662-779-9107

nariporn.kla@thanachartsec.co.th