

# DOHOME PLC

No. 162/2023  
31 August 2023

## CORPORATES

**Company Rating:** BBB  
**Outlook:** Negative

**Last Review Date:** 15/08/22

### Company Rating History:

Date	Rating	Outlook/Alert
15/08/22	BBB	Positive

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## RATIONALE

TRIS Rating affirms the company rating on Dohome PLC (DOHOME) at “BBB” but revises the rating outlook to “negative” from “positive”. The downward outlook revision reflects the company’s lower-than-expected operating performance, coupled with our concerns over the uncertainty of revenues and earnings before interest, taxes, depreciation, and amortization (EBITDA) as well as expected rise in financial leverage.

The rating takes into consideration DOHOME’s ability to manage working capital efficiently and its tight but manageable liquidity. The rating also incorporates our concerns over the unfavorable economic environment caused by interest rate hikes and high household debt, intense competition in the home improvement retail business, and the volatility of construction material prices, especially the steel price.

### KEY RATING CONSIDERATIONS

#### Outlook constrained by weaker-than-expected operating results

DOHOME’s operating performance in 2022 to the first six months of 2023 (6M2023) was below our expectation. With an unexpected event risk of the flood in the Northeast provinces in the fourth quarter of 2022 (4Q2022) and the large-scale store renovation in 2Q2023, DOHOME reported the negative same-store sales growth (SSSG) of 9%-12% for three latest consecutive quarters. This was much below the double-digit SSSG in 2021-1H2022, and lower than our previous projected SSSG at 12% in 2022 and 4% in 2023.

Despite a drop in same-store sales, DOHOME’s total operating revenue in 2022 grew by 22% year-on-year (y-o-y) to THB31.5 billion, thanks to sales generated by new stores. Its total operating revenue in 6M2023 achieved around 45% of our previous full-year target, caused by the negative SSSG and no new store expansion.

DOHOME’s profitability is influenced to a large degree by the movement of steel prices as steel products contribute around one-third of total revenue. The company also resorted to more promotional campaigns to boost sales and clearance of slow-moving stock. As a result, DOHOME’s gross profit margin decreased to 16% in 2022-6M2023, lower than our previous target of 18%. Its EBITDA margin also contracted, declining to 6%-7% from 9%-12% in 2019-2021. DOHOME reported EBITDA of THB2.2 billion in 2022 and THB1.1 billion in 6M2023, significantly below our previous forecast of THB3.0-THB3.5 billion per annum.

#### Future revenue and earnings to remain challenging

We view that DOHOME’s revenues and earnings will come under pressure from volatile steel prices and unfavorable economic conditions. Interest rate hikes and continuing weak purchasing power could hinder the company’s revenue growth and profitability. Intense competition from leading players in the market might result in DOHOME experiencing a reduction in profit margin.

Our base-case scenario revises down DOHOME’s total operating revenue to THB32-THB37 billion per annum in 2023-2025. We project the negative SSSG of 6% in 2023 and revive up by 4%-5% per annum in 2024-2025. DOHOME’s profitability could be threatened by decreasing steel prices and intense

competition among leading home improvement retailers. We expect DOHOME to sustain its gross profit margin at least 16% and EBITDA margin of 7%-8% over the forecast period.

### **Elevated financial leverage**

We expect DOHOME's financial leverage, as measured by the debt to EBITDA ratio, to remain high in 2023-2024. The ratio of its funds from operations (FFO) to debt is poised to fall below our target. DOHOME's rapid business expansion and the volatile construction material prices will put pressure on the company's financial profile.

DOHOME's debt to EBITDA ratio was relatively high at 8-10 times as of December 2022 and June 2023. Its FFO to debt ratio was 6%-9% in 2022-6M2023, well below our previous target of 14%. Aggressive store expansion at the same time of declining steel prices, the floods in the Northeast provinces, and promotional campaigns to clear non-performing inventory, caused higher debt and lower profit margin.

Under our base-case scenario, we project DOHOME to spend capital expenditures of THB3.4 billion in 2023, mainly in store expansion. We lower the annual budget for capital expenditures to THB0.8 billion in 2024-2025 as we assume that DOHOME will focus on small-scale store expansion at a time of uncertain market environment. We incorporate land cost (including freehold and leasehold cost), construction cost, and renovation cost for stores and distribution center in our assumptions.

Given its contemplated store expansion coupled with uncertain revenue and EBITDA, DOHOME's debt to EBITDA ratio is likely to stand at 7-9 times in 2023-2024 but should improve to 6-7 times from 2025 onwards, while its cash flow protection remains a challenge to improve.

The financial covenants on DOHOME's bank loans and debentures require the company's interest-bearing debt (excluding lease liabilities) to equity ratio to remain below 2.5 times and 3 times, respectively. As of June 2023, the ratio was 1.5 times. We believe that DOHOME should remain in compliance with the financial covenants over the next 12 to 18 months.

### **Manageable working capital anticipated**

DOHOME's construction material products comprised 45%-50% of total revenue and its sales through salespersons and sales team channel contributed 50%-60% of total revenue in the past three years. To ensure the availability of wide-range products for resellers and contractors, DOHOME normally carries large amounts of inventory. The company also sources around 30% of its products from overseas, requiring a longer lead time than local products. Thus, DOHOME had a long cash conversion cycle of 160 days on average in 2020-2022. Its cash conversion cycle improved to below 150 days in 6M2023, supported by the attempt to reduce slow-moving stocks and attain more efficient product assortment.

With its large store expansion in the second half of 2023, we view that DOHOME needs to stock some inventory in advance. This will push longer inventory and cash-conversion-cycle days. However, inventory and cash-conversion days should be shorter from 2024 onwards as the company will slow its investment in large store format. We expect DOHOME to continue managing working capital efficiently. DOHOME normally uses short-term loans for day-to-day operations and financing inventory, while using long-term loans for funding capital expenditures.

### **Tight but manageable liquidity**

We assess DOHOME's liquidity as tight but should be manageable over the next 12 months. We expect DOHOME to be able to refinance most of its maturing short-term bank loans to maintain sufficient liquidity and to fund its business operations. As of June 2023, DOHOME's sources of funds comprised THB153 million in cash on hand plus THB1.2 billion in undrawn committed credit facilities and THB4.1 billion in undrawn uncommitted credit facilities from banks. We forecast DOHOME's funds from operations (FFO) in 2023 to be THB1.4 billion.

On the flip side, DOHOME's maturing debts over the next 12 months amounted to THB12.8 billion, comprising THB12 billion short-term borrowings and THB0.8 billion long-term loans. The uses of funds will include planned capital expenditures of THB3.4 billion.

At the end of June 2023, DOHOME's total debt, as per our priority debt calculation, was approximately THB17.8 billion. DOHOME's priority debt, including secured debts at the parent, was about THB15.8 billion. This translates to a priority debt to total debt ratio of 89%. As the priority debt ratio was above our trigger level of 50%, we view that DOHOME's senior unsecured creditors could be at a significantly disadvantaged position to its priority debt holders with respect to claims against the company's assets.

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## BASE CASE ASSUMPTIONS

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The key assumptions in TRIS Rating's base-case forecast for DOHOME's operations in 2023-2025 are as follows:

- Total operating revenue to grow at slower pace of 4%-10% per annum
- Gross profit margin to range from 16%-17% and EBITDA margin from 7%-8%
- Total capital spending of THB3.4 billion in 2023 and THB0.8 billion per year in 2024-2025

## RATING OUTLOOK

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The "negative" outlook reflects our concerns over DOHOME's weaker-than-expected operating and financial performance amid unfavorable market conditions and intense competition in the home improvement retail industry. We expect DOHOME's financial leverage to remain high in 2023-2024.

## RATING SENSITIVITIES

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A rating downgrade could emerge if DOHOME's operating results and/or financial position deteriorate materially from our forecast, such that the debt to EBITDA ratio exceeds 7 times, with no signs of improvement. On the contrary, the outlook could be revised to "stable" if DOHOME is able to execute an improving operating performance and financial profile, such that the debt to EBITDA ratio stays below 7 times, on a sustained basis.

## COMPANY OVERVIEW

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DOHOME is one of the leading warehouse-style home improvement retailers in Thailand. It was founded in 1983 by Mr. Adisak Tangmitrphracha and Mrs. Nattaya Tangmitrphracha. The company was listed on the Stock Exchange of Thailand (SET) in August 2019. Since its inception, the Tangmitrphracha family has been the major shareholder and is actively involved in the management of the company. As of March 2023, the Tangmitrphracha family held approximately 70% of the outstanding shares of the company.

The company's key strategy is to offer an extensive range of products and services under the concept of "Completed Assortment, Competitive Price, and Good Quality" to meet the needs of contractors, resellers, and end-users. Each store carries about 100,000 stock-keeping units (SKUs), covering a wide range of construction materials, repair materials, and home decoration products. The company offers various products with competitive prices and displays them to serve the needs of both retail and wholesale customers.

DOHOME operates retail and wholesale businesses for construction materials and home decoration products in a large-store format with total area ranging from 20,000 sq.m.-80,000 sq.m.per store. DOHOME's first store was opened in Ubon Ratchathani Province in 1993. After its fund raising in 2019, the company had aggressively expanded its large store formats in 2021-2022. Its large stores currently cover the provinces in the Northeast, Central (including Bangkok and vicinities), East, North, and South parts of Thailand. In addition, DOHOME launched small store format, with the scale of 500 sq.m.-1,700 sq.m., under "DOHOME ToGo" brand in late 2019. DOHOME ToGo focuses more on repair and decoration materials for end-users in Bangkok and major provincial areas. As of June 2023, DOHOME had 29 stores, consisting of 21 large stores and eight small stores (ToGo) with a total store area of 1,070,882 sq.m. DOHOME also has one distribution center in Pathum Thani Province.

**KEY OPERATING PERFORMANCE**

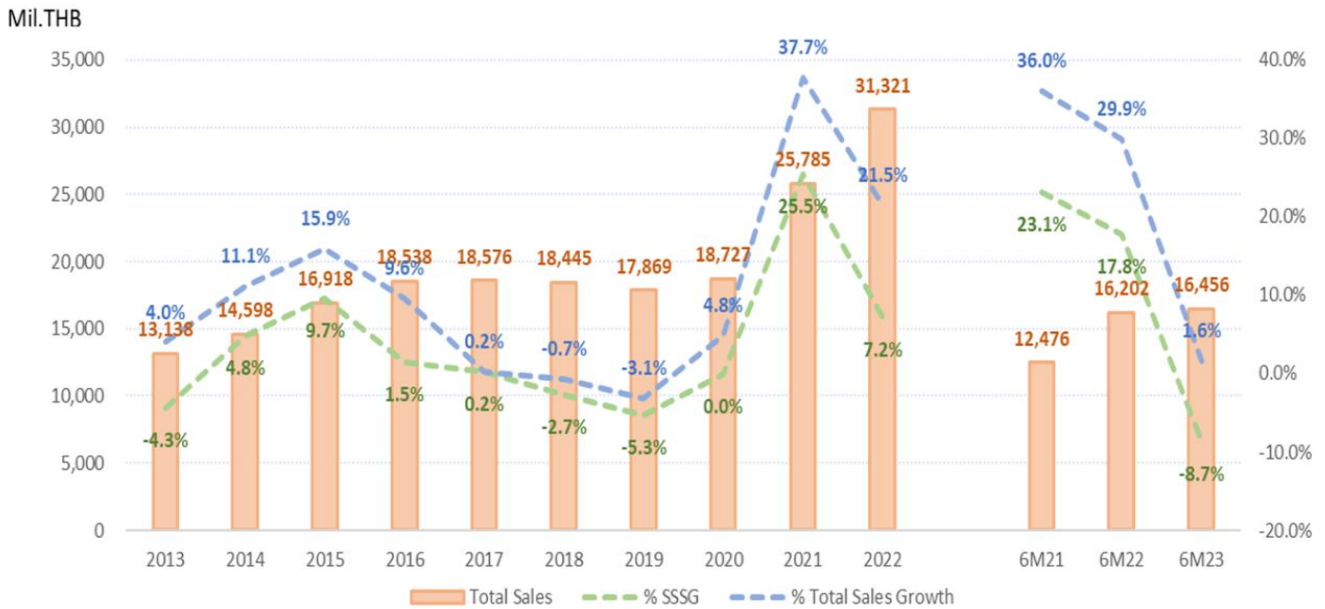
**Table 1: DOHOME's Revenue from Sales and Services Breakdown by Product Group**

Unit: % of Revenue from sales and services

Product groups	2019	2020	2021	2022	Jan-Jun 2023
Construction materials product	44	42	46	46	46
Repair materials product	38	38	35	35	36
Decoration materials product	18	20	19	19	18
<b>Revenue from sales and services</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Revenue from sales and services (Mil. THB)</b>	<b>17,869</b>	<b>18,727</b>	<b>25,785</b>	<b>31,321</b>	<b>16,456</b>

Source: DOHOME

**Chart 1: DOHOME's Same-Store-sales Growth and Total Sales Growth**



Source: DOHOME

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	16,560	31,491	25,909	18,837	17,967
Earnings before interest and taxes (EBIT)	633	1,383	2,520	1,145	1,165
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,071	2,168	3,111	1,649	1,572
Funds from operations (FFO)	730	1,576	2,389	1,216	1,145
Adjusted interest expense	268	376	275	255	309
Capital expenditures	1,577	4,641	2,570	1,541	1,169
Total assets	33,757	33,318	27,227	20,765	18,152
Adjusted debt	18,250	16,977	11,911	10,587	8,837
Adjusted equity	11,895	11,603	10,880	7,090	6,460
<b>Adjusted Ratios</b>					
EBITDA margin (%)	6.47	6.89	12.01	8.75	8.75
Pretax return on permanent capital (%)	3.12 **	5.34	12.33	6.83	7.69
EBITDA interest coverage (times)	3.99	5.77	11.30	6.45	5.08
Debt to EBITDA (times)	10.31 **	7.83	3.83	6.42	5.62
FFO to debt (%)	6.49 **	9.28	20.06	11.48	12.96
Debt to capitalization (%)	60.54	59.40	52.26	59.89	57.77

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

**Dohome PLC (DOHOME)**

<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Negative

**TRIS Rating Co., Ltd.**

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