

DOHOME PLC

No. 166/2024
26 September 2024

CORPORATES

Company Rating: BBB
Outlook: Negative

Last Review Date: 31/08/23

Company Rating History:

Date	Rating	Outlook/Alert
31/08/23	BBB	Negative
15/08/22	BBB	Positive

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Jutamas Bunyanichkul
jutamas_b@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Dohome PLC (DOHOME) at “BBB”, with a “negative” rating outlook. The rating reflects DOHOME’s acceptable market position in the modern trade home improvement business and its improving profit margins. However, the rating is constrained by its relatively high leverage, resulting from branch expansion and elevated funding requirements for inventory. The rating also reflects concerns over its exposure to economic cycles, volatility in construction material prices, especially steel, and intense competition in the home improvement industry.

The “negative” outlook reflects DOHOME’s slow progress of recovery in operating performance. Despite improvements in profit margins and relatively stable debt levels, DOHOME’s debt to EBITDA ratio remains above our 7-times threshold for a “stable” outlook.

KEY RATING CONSIDERATIONS

Slow recovery in operating results

DOHOME reported total operating revenue of THB31.5 billion in 2023, relatively stable year-on-year (y-o-y) despite several store expansion in both large and small formats. Revenue in the first six months of 2024 (6M24) dropped by 3% y-o-y to THB16.1 billion. Its revenue remained lower than our previous forecast of THB33-THB37 billion per annum.

The slow revenue recovery was due mainly to a steeper decline in same-store sales (SSS) than our previous forecast. DOHOME reported an 8%-10% drop in SSS in 2023-6M24, worse than our previous forecast of a 6% decline in 2023 and a 4% growth in 2024. DOHOME’s sales were severely affected by delays in government budget disbursement for public construction projects and a slowdown in housing demand amid elevated household debt and persistently high interest rates.

Our base-case scenario projects DOHOME’s revenue to remain around THB32 billion in 2024, and then grow by 5%-7% per annum in 2025-2026. This is based on our assumptions of a decline in SSS by 4% y-o-y this year, followed by a growth in SSS of 1%-2% per annum in 2025-2026. DOHOME is expected to benefit from the start of government budget disbursement in the second quarter of 2024 (2Q24) and an increase in home renovation activities following the current flood situation in the northern and northeastern provinces of Thailand.

Volatile, despite improving profit margin

DOHOME’s profit margins have been quite volatile, largely influenced by fluctuations in steel prices, which have accounted for around 30% of total revenue. Due to a downward trend in steel prices since the second half of 2022, combined with increased promotional campaigns to boost sales and clear slow-moving stock, DOHOME’s gross profit margin decreased to 16% in 2022-2023, down from 21% in 2021. EBITDA also fell to THB2.0-THB2.2 billion per annum in 2022-2023, compared with THB3.1 billion in 2021, as EBITDA margin declining to 7% from 12% in 2021.

However, in 6M24, DOHOME’s profit margins showed slight improvement due to more stringent internal cost management, a greater focus on high-margin products, and more efficient supply chain management, including the sourcing of lower-cost products. As a result, DOHOME’s gross profit margin

increased to 18% and the EBITDA margin rose to 8%. Looking ahead, we expect DOHOME to sustain its gross profit margin at around 17%-18% and EBITDA margin at around 7%-8% over the forecast period. However, DOHOME's profitability could be challenged by volatile construction material prices and intense competition among leading players.

Financial leverage to remain high due to working capital funding needs and continuing store expansion

Given DOHOME's substantial need for working capital and ongoing store expansion, we anticipate that DOHOME's financial leverage, as measured by the debt to EBITDA ratio, will remain elevated at around 7 times in 2024-2026. We expect the fund from operation (FFO) to debt ratio to slightly improve to 10%, up from 8%-9% in 2022-6M24. 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 2024, the ratio was 1.4 times. We believe that DOHOME should remain in compliance with the financial covenants over the next 12 to 18 months.

According to the company policy, DOHOME maintains a large inventory volume to ensure product availability. DOHOME has maintained inventory level at 180-190 days in 2022-6M24, compared with an average of 155-165 days among top five players. DOHOME's cash conversion cycle is approximately 150-160 days, significantly longer than the 100-110 days average of most leading players in the home improvement sector. A prolonged cash conversion cycle indicates a higher requirement for working capital financing.

Additionally, DOHOME is expected to continue its store expansion and renovation. Our baseline projects DOHOME to spend THB1 billion on capital expenditures (CAPEX) in 2024, mainly in existing store renovations. This year, DOHOME will expand only small stores, with an estimated CAPEX of THB100 million. We project the annual CAPEX budget to increase to THB1.5-THB2.0 billion for 2025-2026, as DOHOME is expected to expand by 2-3 large stores and 12 small stores per year.

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 revolve most of its maturing short-term bank loans to maintain sufficient liquidity and to fund its business operations. As of June 2024, DOHOME's sources of funds comprised THB209 million cash on hand and THB5 billion short-term undrawn facilities from banks. We forecast DOHOME's FFO in the next 12 months to be THB1.7 billion.

On the flip side, DOHOME's maturing debts over the next 12 months amounted to THB11.7 billion, comprising THB10.5 billion short-term borrowings and THB1.2 billion long-term loans. The uses of funds will include planned CAPEX of THB1 billion in 2024.

Debt structure

As of June 2024, DOHOME's total consolidated debt, as per our priority debt calculation, was approximately THB17.3 billion. DOHOME's priority debt, including secured debts at the parent company, was about THB15.9 billion. This translates to a priority debt to total debt ratio of 92%. 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.

BASE CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for DOHOME's operations in 2024-2026 are as follows:

- Total operating revenue to reach THB32 billion in 2024, with an annual growth of 5%-7% per annum in 2025-2026.
- Gross profit margin to range around 17%-18% and the EBITDA margin around 7%-8%.
- CAPEX for store expansion and renovation to be THB1 billion in 2024, before increasing to THB1.5-THB2.0 billion per year in 2025-2026.

RATING OUTLOOK

The "negative" outlook reflects our concerns over DOHOME's protracted recovery in operating performance and financial position, resulting from declining same-store sales over several consecutive quarters and relatively high financial leverage. In addition, there is uncertainty regarding DOHOME's ability to sustain its favorable profit margin.

RATING SENSITIVITIES

A rating downgrade could occur if DOHOME's operating results and/or financial profile deteriorate materially from our forecast, such that the debt to EBITDA ratio exceeds 7 times, with no signs of improvement. Conversely, the outlook could be revised to "stable" if DOHOME is able to execute an improving operating performance and financial profile, with the debt to EBITDA ratio remaining consistently below 7 times.

COMPANY OVERVIEW

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 June 2024, the Tangmitrphracha Family held about 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 square meters (sq.m.) to 80,000 sq.m. per store. DOHOME’s first store was opened in Ubon Ratchathani in 1993. After doing a fundraising in 2019, the company expanded its large store formats aggressively in 2021-2023. Its large stores currently cover provinces in the northeastern, central (including Bangkok and vicinities), eastern, northern, and southern regions of Thailand. Also, DOHOME launched small store format, with the scale of 500-1,700 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 2024, DOHOME had 37 stores, consisting of 24 large stores and 13 small stores (ToGo) with a total store area of nearly 1.2 million sq.m. DOHOME also has one distribution center in Pathum Thani.

KEY OPERATING PERFORMANCE

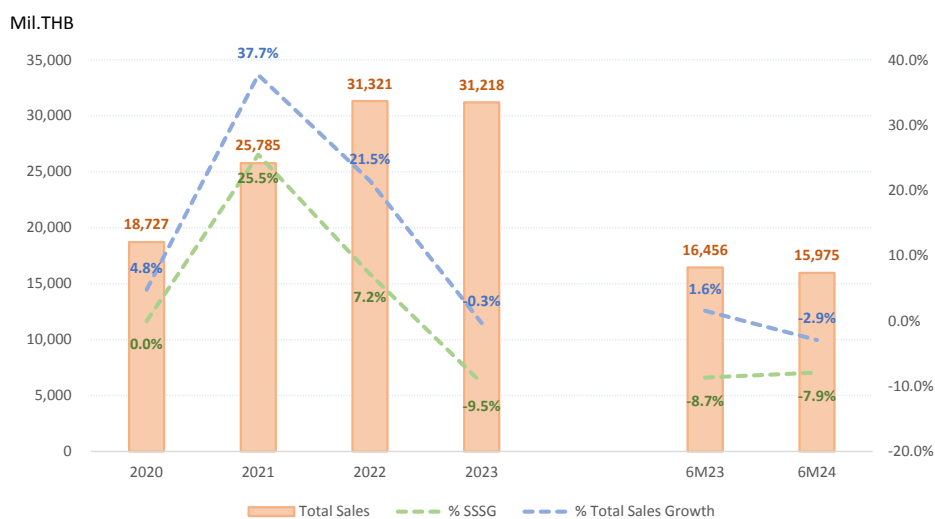
Table 1: DOHOME’s Revenue from Sales and Services Breakdown by Product Group

Unit: % of Revenue from sales and services

Product Groups	2020	2021	2022	2023	Jan-Jun 2024
Construction materials product	42	46	46	45	45
Repair materials product	38	35	35	37	37
Decoration materials product	20	19	19	18	18
Revenue from sales and services	100	100	100	100	100
Revenue from sales and services (Mil. THB)	18,727	25,785	31,321	31,218	15,975

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 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	16,108	31,450	31,487	25,909	18,837
Earnings before interest and taxes (EBIT)	837	1,201	1,378	2,520	1,145
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,332	2,098	2,163	3,110	1,649
Funds from operations (FFO)	932	1,377	1,570	2,388	1,216
Adjusted interest expense	300	586	376	275	255
Capital expenditures	104	2,440	4,641	2,570	1,541
Total assets	34,310	33,983	33,318	27,227	20,765
Adjusted debt	17,700	17,552	16,977	11,911	10,587
Adjusted equity	12,601	12,176	11,603	10,880	7,090
Adjusted Ratios					
EBITDA margin (%)	8.3	6.7	6.9	12.0	8.8
Pretax return on permanent capital (%)	4.6 **	4.1	5.3	12.3	6.8
EBITDA interest coverage (times)	4.4	3.6	5.8	11.3	6.5
Debt to EBITDA (times)	7.5 **	8.4	7.9	3.8	6.4
FFO to debt (%)	8.9 **	7.8	9.2	20.0	11.5
Debt to capitalization (%)	58.4	59.0	59.4	52.3	59.9

* 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)

Company Rating:	BBB
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2024, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria