

HOME PRODUCT CENTER PLC

No. 150/2021
20 September 2021

CORPORATES

Company Rating: AA-
Outlook: Stable

Last Review Date: 28/09/20

Company Rating History:

Date	Rating	Outlook/Alert
06/12/18	AA-	Stable
29/11/17	A+	Positive
18/11/11	A+	Stable
17/11/10	A	Positive
22/10/08	A	Stable
23/01/07	A-	Stable
15/10/04	BBB+	Stable
12/07/04	BBB	Positive
05/11/03	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on Home Product Center PLC (HMPRO) at “AA-” with a “stable” outlook. The rating reflects HMPRO’s leading competitive position in the home improvement retail business in Thailand, its sound financial standing, and well managed working capital. However, HMPRO’s strengths are offset by cyclicity in the housing market and soft market demand from the prolonged impacts of the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

Impact from COVID-19 lockdown

We expect HMPRO’s operating revenues to be pressured by the impact of the COVID-19 lockdown during the second half of 2021. We estimate HMPRO’s total operating revenues will drop by 11% year-on-year (y-o-y) to THB27.6 billion following a contraction in same-store sales and store closures during the second half of 2021. HMPRO temporarily closed its 29 “HomePro” stores (31% of total stores), three “Mega Home” stores (21% of total stores), and all HomePro stores in Malaysia from late July until end of August 2021. The decline in in-store sales were however partially offset by an increase in online sales.

We also expect rental income to drop by 35% y-o-y to THB600 million during the second half of 2021, before a projected rebound with an increase by 62% in 2022, then staying flat in 2023.

The prolonged impacts of the COVID-19 pandemic have induced weak domestic demand in 2021. We forecast that HMPRO’s total operating revenues will drop by 1% y-o-y in 2021, and will grow by 6%-7% per year during 2022-2023.

Improved operating results

HMPRO’s gross margin slightly widened to 25.9% during the first six months of 2021, up from 25.4% over the same period of the prior year. The improved gross margin was driven by a more favorable product mix, led by sales of more high-margin products. We expect HMPRO’s gross margin to improve slightly during the fourth quarter 2021 following the gradual easing of COVID-19 restrictions.

Sales of house and imported brands, which carry higher margins, accounted for 17%-19% of HMPRO’s sales in 2020 through the first six months of 2021. HMPRO aims to maintain the proportion of house and imported brands at 19% of sales in 2021.

HMPRO’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin also widened in the first half of 2021, rising to 16% compared with 15.3% for the same period of 2020.

However, the company’s selling general and administrative expenses (SG&A) have increased, primarily in repair maintenance, employee compensation, and marketing expenses. TRIS Rating expects an EBITDA margin of HMPRO to be in the range of 15%-16% during 2021-2023.

Financial leverage likely to improve

HMPRO's adjusted debt increased by THB5.2 billion following a rise in operating lease, caused primarily by the adoption of the Thai Financial Reporting Standards (TFRS) 16. However, the company's total debt to capitalization ratio declined to 41.4% at the end of June 2021, from 41.7% at the end of 2020.

HMPRO plans to open two to five stores per annum across all store formats over the next few years, unchanged from 2019-2020. HMPRO has set a capital budget totaling THB3-THB5 billion per year during 2021-2023. However, TRIS Rating forecasts that the company's debt to capitalization ratio will improve to the 36%-39% range during 2021-2023 due to lower working capital needs and an increasing capital base following COVID-19, from 41%-44% in 2019-2020.

We forecast a slight increase in HMPRO's ratio of adjusted net debt to EBITDA to 1.5 times in 2021, owing to the impacts of the COVID-19 pandemic. The ratio should then improve to 1.3-1.4 times in 2022-2023.

Sound liquidity

We expect HMPRO to maintain sound liquidity over the next 12-18 months. The company has scheduled debt repayments of THB2-THB5 billion per year during 2021-2023. Our base-case forecast assumes its EBITDA of THB9.4-THB10.8 billion per annum. At the end of June 2021, cash on hand and short-term investments stood at THB3.2 billion.

Leading market position among home improvement retailers

HMPRO is the leading home improvement retailer in Thailand, ranked first in the industry in terms of total sales for more than a decade. The top six operators in the industry are "HomePro", "CRC Thai Watsadu", "Siam GLOBAL House", "Do Home", "Boon Thavorn", and "Index Living Mall".

HMPRO's total revenues from sales rose to THB57.9 billion in 2020 from THB24.1 billion in 2010, a compound annual growth rate of 9%. HMPRO's profitability has ranked above the industry average. The EBITDA margin has been in the 14%-17% range for the last five years, higher than the 9%-10% average of other major players.

BASE-CASE ASSUMPTIONS (For 2021-2023)

- Total operating revenues to drop by 1% in 2021, and will grow by 6%-7% in 2022-2023.
- Gross profit and EBITDA margins to be in the 26%-27% and 15%-16% ranges, respectively.
- Total capital spending of around THB3-THB5 billion per year in 2021-2023.
- Other assumptions are in line with historical trends.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that HMPRO will remain Thailand's leading home improvement retailer. We expect the company's leverage to remain at an acceptable level even as the company continues to grow.

RATING SENSITIVITIES

The rating could be upgraded if the company enlarges cash flow generation while maintaining a strong balance sheet. In contrast, HMPRO's rating could be revised downward if its financial performance is weaker than expected or if leverage rises significantly, either as a result of an aggressive expansion or a drop in operating performance.

COMPANY OVERVIEW

Founded in 1995 and listed on the Stock Exchange of Thailand (SET) in 2001, HMPRO is the leading home improvement retailer in Thailand. The company owns and operates one-stop shopping home centers under the trade names "HomePro" and "Mega Home", which are the company's trademarks. As of June 2021, its major shareholders were Land and Houses PLC (LH) (30%) and Quality Houses PLC (QH) (20%).

The company caters primarily to do-it-yourself homeowners by offering home-related products, such as home improvement products, bathroom and sanitary wares, kitchen furnishings, home appliances, audio visual equipment, electrical and lighting products, and home décor products.

HMPRO owns three types of store; HomePro stores, Mega Home stores, and HomePro S stores. A typical HomePro store, the company's initial retailing format, offers a wide range of home-related products and services with a store area of 3,000-12,000 square meters (sq.m.). A Mega Home store is a large-scale warehouse-style store, designed to serve the needs of contractors, construction project owners, resellers, and end-users, with a store area of 10,000-20,000 sq.m.

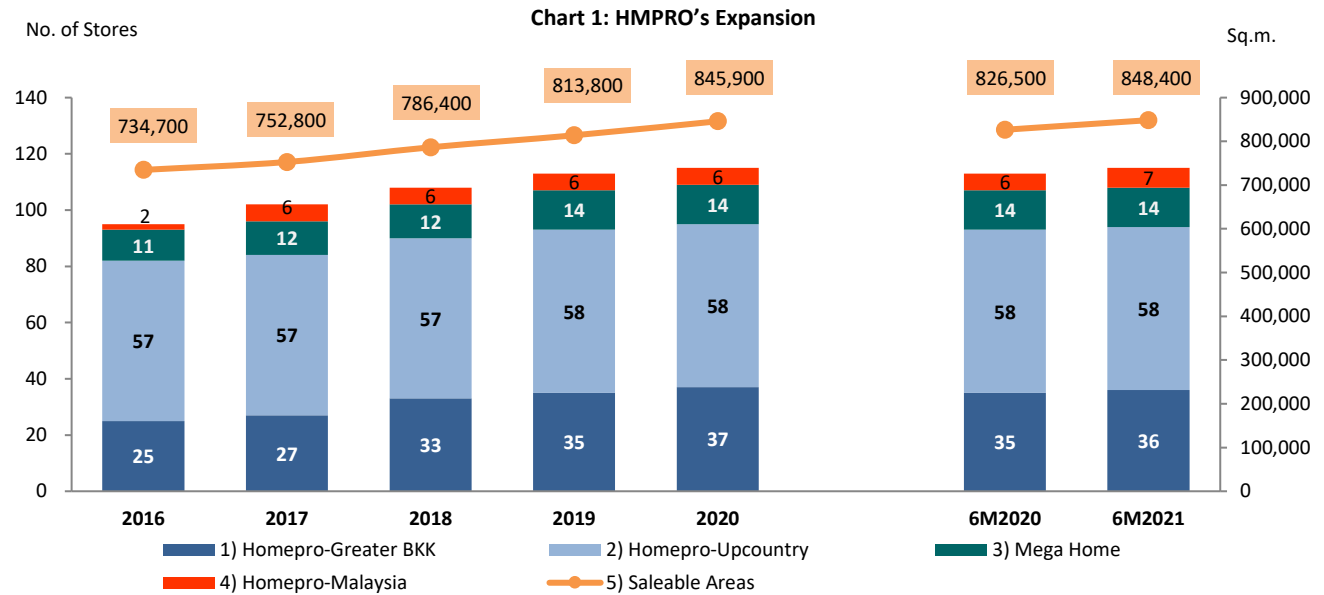
HMPRO introduced a new store format called "HomePro S". A HomePro S is a small store, located in a shopping mall, with

a store area of 1,200-1,500 sq.m. A HomePro S store is designed under the “small, selected, and service” concept to serve urban customers and condominium residents with a variety of home-related products to match metropolitan lifestyles. A HomePro S store offers service, just like the original HomePro stores.

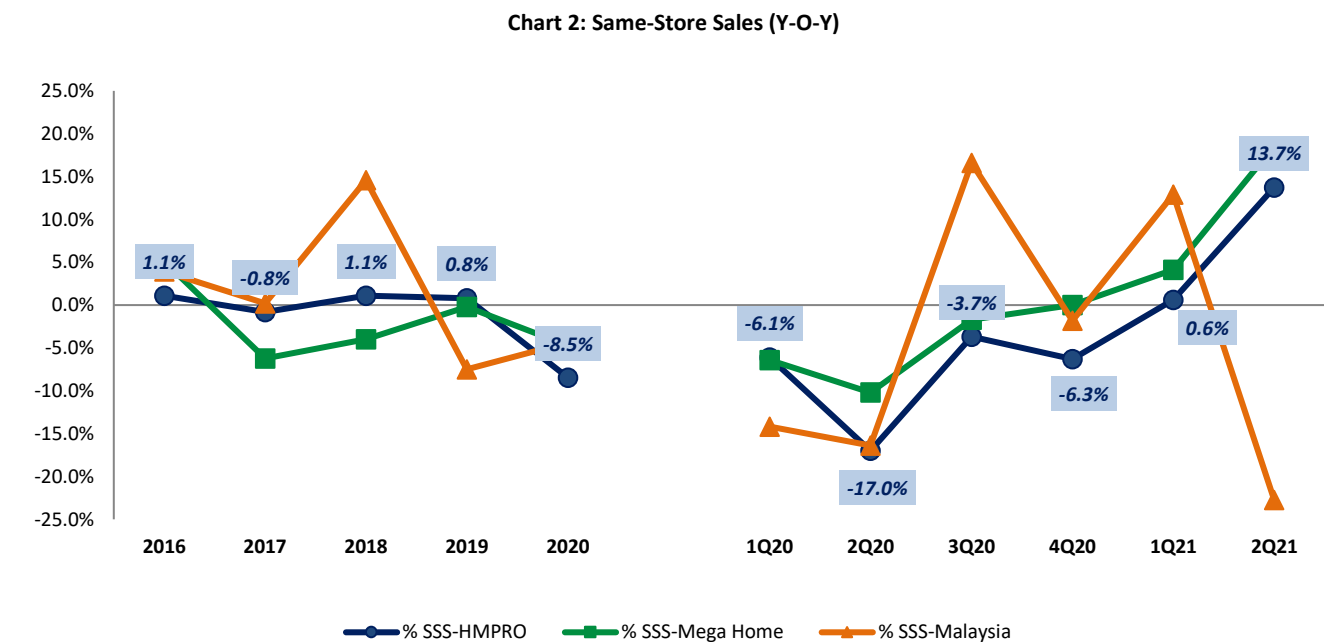
HMPRO has expanded continuously. As of June 2021, the company operated 115 stores in total, including 94 under the HomePro and HomePro S formats: 36 in Greater Bangkok, 58 upcountry. In addition, the company also operated seven HomePro stores in Malaysia; and 14 Mega Home stores: three in Greater Bangkok and 11 upcountry. The total saleable area covers 848,400 sq.m.

In November 2020, HMPRO’s board of directors approved investment in Home Product Center Vietnam Co., Ltd, which operates a retail business in Vietnam. The total investment was THB30.4 million.

KEY OPERATING PERFORMANCE



Source: HMPRO



Source: HMPRO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	32,787	61,749	67,374	66,050	64,234
Earnings before interest and taxes (EBIT)	3,645	6,657	8,284	7,603	6,669
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,242	9,838	11,446	10,826	9,739
Funds from operations (FFO)	4,392	8,336	9,338	8,836	7,956
Adjusted interest expense	209	467	681	681	682
Capital expenditures	533	3,236	3,113	2,836	3,073
Total assets	56,581	56,091	52,049	54,811	50,949
Adjusted debt	15,399	15,438	14,694	15,304	16,634
Adjusted equity	21,754	21,565	21,138	19,914	18,635
Adjusted Ratios					
EBITDA margin (%)	15.99	15.93	16.99	16.39	15.16
Pretax return on permanent capital (%)**	18.34	16.86	20.67	19.19	17.78
EBITDA interest coverage (times)	25.13	21.08	16.82	15.90	14.28
Debt to EBITDA (times)	1.46	1.57	1.28	1.41	1.71
FFO to debt (%)**	57.82	54.00	63.55	57.74	47.83
Debt to capitalization (%)	41.45	41.72	41.01	43.45	47.16

Note: All ratios have been adjusted by operating leases

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Home Product Center PLC (HMPRO)

Company Rating:	AA-
Rating Outlook:	Stable

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