

# HOME PRODUCT CENTER PLC

No. 206/2024  
7 November 2024

## CORPORATES

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
Senior unsecured	AA-
<b>Outlook:</b>	Stable

**Last Review Date:** 07/12/23

### 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) and the ratings on its senior unsecured debentures at “AA-”, with a “stable” rating outlook. The ratings reflect HMPRO’s prominent market presence in Thailand’s home improvement retail sector, satisfactory profit margin, and efficient working capital management. The ratings also take into consideration our expectation that HMPRO will maintain low financial leverage and adequate liquidity. However, the ratings incorporate our concerns regarding unfavorable market sentiment due to persistently high interest rates, elevated household debt, and intense competition in the home improvement retail industry.

## KEY RATING CONSIDERATIONS

### Dominant market presence in the industry

We expect HMPRO to maintain its status as a leading home improvement retailer in Thailand. HMPRO’s revenue and earnings base have consistently ranked the first in the industry for decades. HMPRO’s total operating revenue reached a peak of THB73 billion in 2023, increasing from the THB60-THB70 billion level in the past seven years. Its revenue slightly dropped to THB54 billion in the first nine months of 2024 (9M24). HMPRO’s EBITDA also achieved the highest at THB12 billion in 2023, up from THB9-THB11 billion in previous years. Its EBITDA grew by 2% year-on-year (y-o-y) to THB9 billion in 9M24. EBITDA margin has steadily ranged 16%-17% over the past five years, aligning with the industry average.

In addition, HMPRO’s stores are reasonably diversified in terms of numbers and locations. As of September 2024, HMPRO owned and operated 126 stores in Thailand, comprising 97 HomePro stores and 29 MegaHome stores. Its stores cover every region of Thailand, with total commercial area of 1,034,900 square meter (sq.m.). HMPRO has also expanded its retail business in Malaysia since 2014. Currently, the company operates seven stores in Malaysia, with commercial area of 35,400 sq.m.

### Revenue growth mainly driven by new store expansion, despite a decline in same-store sales

We project HMPRO’s total operating revenue to increase by 2%-5% y-o-y, heading to the THB74-THB80 billion level in 2024-2026. The revenue growth will primarily be fueled by the continued expansion of new stores, while same-store sales growth (SSSG) is expected to be softer. HMPRO is expected to open around 20 new stores over 2024-2026. Around 60%-70% of new stores will be HomePro format and the remaining will be MegaHome. Although HomePro stores will continue to account for the majority of total revenues, we expect the revenue contribution from MegaHome stores to rise steadily, reaching 20% of total revenues in 2026 from 17% in 2023 and 14% in 2022.

However, HMPRO’s y-o-y same-store sales (SSS) has declined for five consecutive quarters since the third quarter of 2023 (3Q23). Its SSS experienced a slight drop in 2023 and continued to decrease by 5% in 9M24, following the 4%-5% growth in 2021-2022. We expect SSS over 2024-2026 will remain under pressure due to unfavorable economic conditions. However, we anticipate that SSS will gradually improve from the last quarter of 2024, supported by the government budget disbursement and an increase in home renovation activities in flood-affected areas. As a result, we expect SSS to grow slightly, with a 1% y-o-y increase in 2025-2026.

### Satisfactory profit margin

Although HMPRO's profit margin continues to be challenged by high pre-opening costs associated with new store expansions and intense competition among leading home improvement retailers, we expect the company's profitability to remain aligned with the industry average. We view that HMPRO's ability to boost sales volume of private branded products, implement efficient supply chain management through the sourcing of lower-cost products, and effectively control operational expenses should alleviate the pressure on profit margin.

HMPRO's gross profit margin from sales has consistently ranged between 25%-27% and its EBITDA margin has maintained at 16%-17% in the past five years. This stability is attributable to a 20%-21% portion of the private branded products, which typically offer higher profit margins compared to other branded products. Our base-case forecast projects HMPRO's gross profit margin from sales to remain above 25% in 2024-2026. EBITDA is expected to hover around THB12-THB13 billion, with an EBITDA margin exceeding 15% throughout the forecast period.

### Efficient working capital management

HMPRO has consistently outperformed the industry in terms of working capital management. The company has effectively controlled its inventory levels, achieving a turnover of around 100 days over the past three years, which is significantly lower than the 180-250 days of rated peers. As a result, HMPRO's cash conversion cycle has consistently been shorter than that of its peers. However, HMPRO's cash conversion cycle lengthened in 2021-9M24 primarily due to the rapid expansion of MegaHome stores. The MegaHome format features a higher proportion of construction material products compared to HomePro, necessitating larger inventory levels for bulk sales to contractors and project owners. Nonetheless, its cash conversion cycle remained below 25 days.

In 2024, HMPRO plans to open six HomePro stores and two MegaHome stores. The company intends to launch an equal mix of HomePro and MegaHome formats in 2025-2026. The increasing number of MegaHome stores indicates a longer inventory turnover period and an extended cash conversion cycle. However, we expect the company to keep its cash conversion cycle around 10 days over the forecast period.

### Low financial leverage

Despite the ongoing expansion of both stores and distribution centers (DC), we expect HMPRO's financial leverage to remain relatively stable at its current level. The company's prudent financial discipline in maintaining low debt level, coupled with effective working capital management, will help mitigate the pressure on financial leverage.

Our baseline projects HMPRO's debt to EBITDA ratio to sustain at 1.5-1.7 times, the same level as 2020-9M24. The funds from operations (FFO) to debt ratio may decrease to 48%-50% in 2024-2025, down from 52%-55% in 2022-2023, due primarily to large capital expenditures (CAPEX) in these two years. However, the FFO to debt ratio is expected to improve to 54% in 2026 in tandem with the revenue and earnings growth. Our base case assumes that HMPRO's annual CAPEX will range around THB4-THB5 billion in 2024-2026. Its CAPEX will be primarily allocated for new store expansion, with additional funds for the DC expansion and store renovation.

### Adequate liquidity

We assess HMPRO's liquidity as adequate over the next 12 months. As of September 2024, HMPRO's sources of liquidity comprised THB3.1 billion cash and cash equivalents plus THB11.2 billion undrawn credit facilities from banks. We forecast HMPRO's FFO to be THB9.7 billion in the next 12 months.

On the other hand, debts due over the next 12 months will amount to THB6 billion, comprising THB3 billion debentures and THB3 billion bill of exchange (B/Es). The company's uses of funds will include planned CAPEX of THB5 billion and a dividend payout ratio of 82% in 2024. HMPRO normally refinances the majority of its maturing debentures through the issuance of new debentures and either rolls over or repays maturing B/Es.

The financial covenants on HMPRO's debentures require the company's interest-bearing debt to equity ratio to remain below 2.5 times. As of September 2024, the ratio was 0.8 times. We expect HMPRO to remain in compliance with the financial covenants over the next 12 to 18 months.

### Debt structure

As of September 2024, HMPRO's total consolidated debt, excluding lease liability, was THB16.6 billion. Its priority debt, including total debts of all subsidiaries, was THB0.1 billion. This translates to a priority debt to total consolidated debt ratio of 1%.

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## BASE-CASE ASSUMPTIONS

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

- Total operating revenue to grow by 2%-5% per annum
- Gross profit margin from sales in the range of 25%-26% and EBITDA margin of 15%-16%
- Annual CAPEX of THB4-THB5 billion

## RATING OUTLOOK

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The "stable" outlook reflects our expectation that HMPRO will be able to sustain its strong competitive position as a prominent home improvement retailer. Despite its continuing business expansion, we expect HMPRO's financial leverage to remain low over the forecast period.

## RATING SENSITIVITIES

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The ratings and/or outlook could be revised upward should HMPRO substantially enlarge its cash generation while maintaining a strong financial position. On the contrary, a downward revision could occur if HMPRO's operating results and/or financial profile significantly deviate from our expectations. A net debt to EBITDA ratio exceeding 2 times for an extended period could also trigger a downward revision of the ratings and/or outlook.

## COMPANY OVERVIEW

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HMPRO is the leading home improvement retailer in Thailand. The company was founded in 1995 and listed on the Stock Exchange of Thailand (SET) in 2001. HMPRO owns and operates one-stop shopping home centers under the trade names "HomePro" and "Mega Home", which are the company's trademarks. As of April 2024, its major shareholders were Land and Houses PLC (LH) (30%) and Quality Houses PLC (QH) (20%).

The company caters primarily to do-it-for-you homeowners by offering various types of home-related products along with services in various categories, such as kitchen and appliances, construction materials, mattress and home décor, ceramic and bathroom, and electric and lighting.

HMPRO stores are categorized into three types; "HomePro" stores, "Mega Home" stores, and "HomePro S" stores. A typical HomePro store, the company's original retail format, offers a wide range of home-related products and services with a store area of 3,000-12,000 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. HomePro S is a compact store with an area of 1,000-2,000 sq.m., designed to serve urban residents who need home-related products and services.

In November 2020, HMPRO expanded its retail business in Vietnam by establishing a subsidiary named Home Product Center (Vietnam) Co., Ltd. The total investment was THB30.4 million. Currently, this subsidiary operates a retail business through online channels as an e-marketplace.

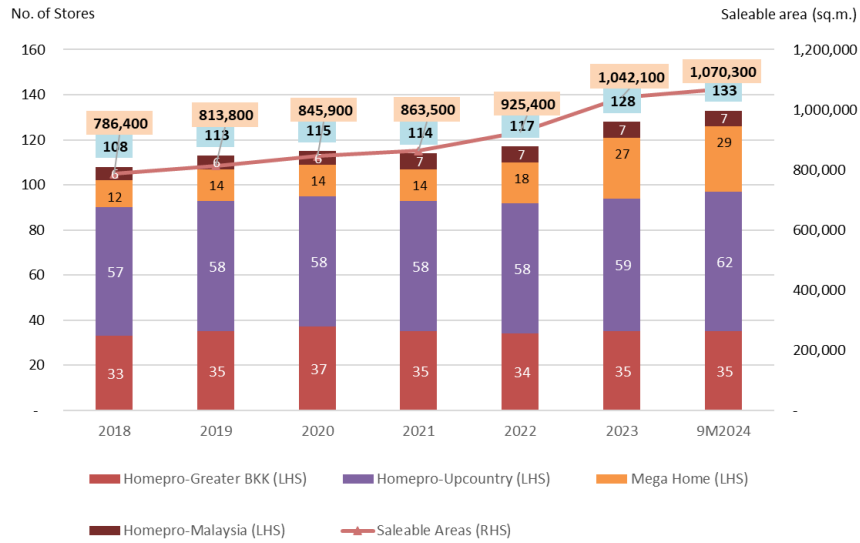
In February 2022, HMPRO purchased a 30% stake in preferred shares of OneStockHome Co.,Ltd., with a total investment of THB68.7 million. OneStockHome is an online platform for selling building and decorative materials. HMPRO expects this platform will help expand the sales and distribution channels of Mega Home.

In July 2024, HMPRO decided to cease operations in Vietnam. The dissolution and termination of the business license are underway. The entire process is anticipated to be finalized within the first quarter of 2025.

As of September 2024, the company operated 133 stores in total, including 97 stores under the HomePro and HomePro S formats (35 in Greater Bangkok and 62 upcountry), 29 Mega Home stores (six in Greater Bangkok and 23 upcountry), and seven HomePro stores in Malaysia. The total saleable area covered 1,070,300 sq.m.

**KEY OPERATING PERFORMANCE**

**Chart 1: No. of Store Breakdown by Format and Saleable Area**



Source: HMPRO

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

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	54,294	72,822	69,389	63,926	61,749
Earnings before interest and taxes (EBIT)	6,435	8,549	8,111	7,059	6,657
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,049	11,982	11,269	10,266	9,838
Funds from operations (FFO)	7,391	9,866	9,321	8,629	8,143
Adjusted interest expense	499	575	453	424	467
Capital expenditures	2,604	5,247	5,596	1,618	3,236
Total assets	65,588	69,048	65,185	58,586	56,091
Adjusted debt	21,107	18,868	16,898	15,171	15,498
Adjusted equity	25,079	25,559	24,246	22,890	21,565
<b>Adjusted Ratios</b>					
EBITDA margin (%)	16.7	16.5	16.2	16.1	15.9
Pretax return on permanent capital (%)	18.2 **	17.6	18.2	17.0	16.8
EBITDA interest coverage (times)	18.1	20.8	24.9	24.2	21.1
Debt to EBITDA (times)	1.7 **	1.6	1.5	1.5	1.6
FFO to debt (%)	47.1 **	52.3	55.2	56.9	52.5
Debt to capitalization (%)	45.7	42.5	41.1	39.9	41.8

\* 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
- Issue Rating Criteria, 15 June 2021

**Home Product Center PLC (HMPRO)**

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
HMPRO257A: THB3,000 million senior unsecured debentures due 2025	AA-
HMPRO25NA: THB2,000 million senior unsecured debentures due 2025	AA-
HMPRO261A: THB2,000 million senior unsecured debentures due 2026	AA-
HMPRO269A: THB1,000 million senior unsecured debentures due 2026	AA-
HMPRO269B: THB700 million senior unsecured debentures due 2026	AA-
HMPRO26DA: THB3,000 million senior unsecured debentures due 2026	AA-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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