

HOME PRODUCT CENTER PLC

No. 190/2018
6 December 2018

CORPORATES

Company Rating: AA-
Outlook: Stable

Last Review Date :

Date	Rating	Outlook/Alert
29/11/17	A+	Positive

Company Rating History:

Date	Rating	Outlook/Alert
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 upgrades the company rating on Home Product Center PLC (HMPRO) to “AA-” from “A+”, with a “stable” outlook. The upgrade reflects an improved profit margin and strong cash flow of HMPRO. The rating also reflects HMPRO’s position as the leading home improvement retailer in Thailand over the past 10 years. The rating also takes into consideration the intense competition among home improvement retailers and the slower-than-expected recovery in consumer purchasing power.

KEY RATING CONSIDERATIONS

Leading market position in the home improvement retailers

HMPRO is the leading home improvement retailer in Thailand, ranked first in the industry, in terms of total sales, over the past 10 years. The top six operators in the industry, by sales revenue, are HomePro, Do Home, Siam GLOBAL House, CRC Group (Homework and Thai Wasadu), Boon Thavorn, and Index Living Mall.

HMPRO’s total revenues rose to Bt59,888 million in 2017 from Bt18,540 million in 2008, a compound annual growth rate (CAGR) of 14%. HMPRO’s profitability consistently exceeded the industry average. The operating margin, defined as adjusted operating income before depreciation and amortization as a percentage of sales, has ranged between 14%-15% during the last five years, higher than the average of 8%-9% of the other major players.

Changing product mix to widen margins

HMPRO’s gross margin impressively widened to 27.1% during the first nine months of 2018, a record high, up from 26.4% for the full year of 2017.

The improving gross margin was supported by a change in HMPRO’s product mix. Sales of house brands and imported brands, which carry higher margins, accounted for 19%-21% of sales during 2013 through 2017. HMPRO aims to make a proportion of house brands and imported brands to 25% of sales in the longer term.

Same-store sales recovered

Same-store sales fell by 0.8% in 2017. However, same-store sales improved modestly in the first nine months of 2018, growing by 1.9% year-on-year (y-o-y). The improvement was attributed to recovery in the Thai economy, especially among middle-income and high-income customers in the Greater Bangkok area.

TRIS Rating expects that domestic demand will recover as the economy regains. The Bank of Thailand (BOT) projects the gross domestic product (GDP) of Thailand will grow by 4.4% in 2018, from 3.9% in 2017. Hence, we forecast HMPRO’s revenues will rise by 4.8% y-o-y. The ratio of selling and administrative expenses to revenues is expected to stay under control and hold at 23%.

Leverage is expected to decline

Total debt to capitalization is likely to decline gradually as HMPRO will spend lower amount of capital expenditures on the back of small-scaled store expansion from 2018 through 2023. HMPRO plans to open from 108 to 150 stores for all stores format. The debt to capitalization ratio is forecast to fall

to 31% by 2021 from 46% in 2018.

HMPRO forecasts its capital expenditures will total Bt15,250 million during 2018-2021. The investment will be funded by cash flow from operations and new borrowings. TRIS Rating expects HMPRO's cash flow protection will remain strong. The ratio of funds from operations (FFO) to total debt will range between 62%-95%.

Adequate liquidity

HMPRO has a negative cash cycle which means it has surplus working capital. HMPRO had high negotiating power over its suppliers, derived from its strength in economies of scale, while the inventory levels and accounts receivable are under a careful control. Earnings before interest, taxes, depreciation, and amortization (EBITDA) is forecast at approximately Bt10,000 million per year. This level is enough to pay interest expenses and scheduled debt repayments over the next 12 months. At the end of September 2018, cash on hand and short-term investments were Bt898 million.

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 will remain at an acceptable level even as the company grows.

RATING SENSITIVITIES

Any rating upside is unlikely in the short term due to the current upgrade. On the contrary, the outlook could be revised downward if the financial performance is weaker than expected or if leverage is significantly higher, either from 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 "MegaHome", which are the company's trademarks. As of September 2018, its major shareholders were Land and Houses PLC (LH) (30%) and Quality Houses PLC (QH) (20%).

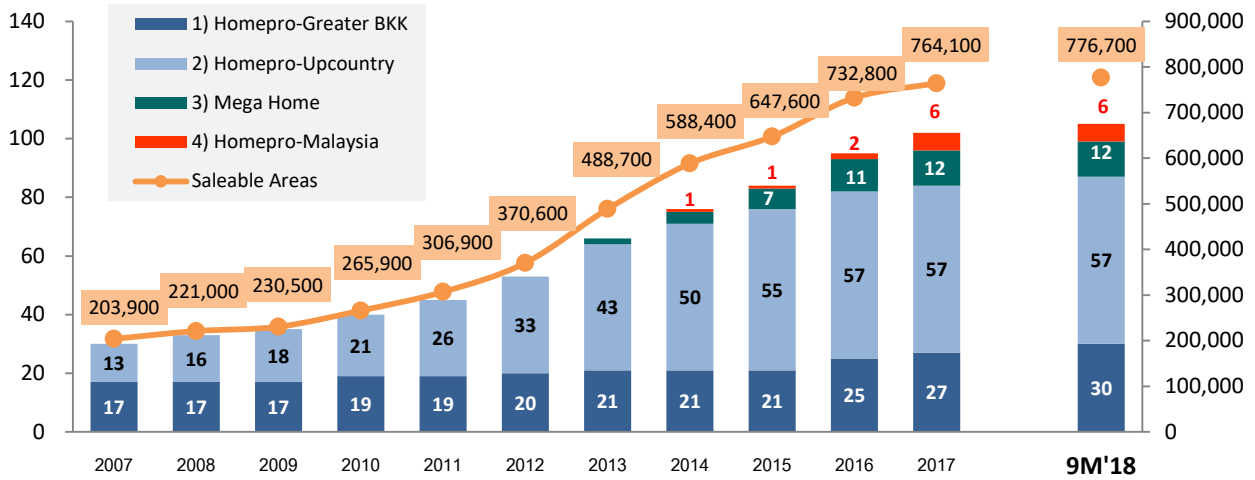
The company caters primarily to do-it-yourself homeowners by offering home-related products, such as home improvement products, bathroom and sanitary wares, kitchen equipments, home appliances, audio visual equipments, electrical and lighting products, and home decorations.

HMPRO owns two types of stores, HomePro stores and Mega Home stores. A typical HomePro store, the company's initial retailing format, offers a wide range of home-related products and services in 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 in a store area of 10,000-20,000 sq.m.

HMPRO has expanded continuously. As of September 2018, the company operated 93 stores under the HomePro format: 30 in Greater Bangkok, 57 upcountry, and six stores in Malaysia. The company operates 12 MegaHome stores: two in Greater Bangkok and 10 upcountry. The total sales area covers 776,700 sq.m.

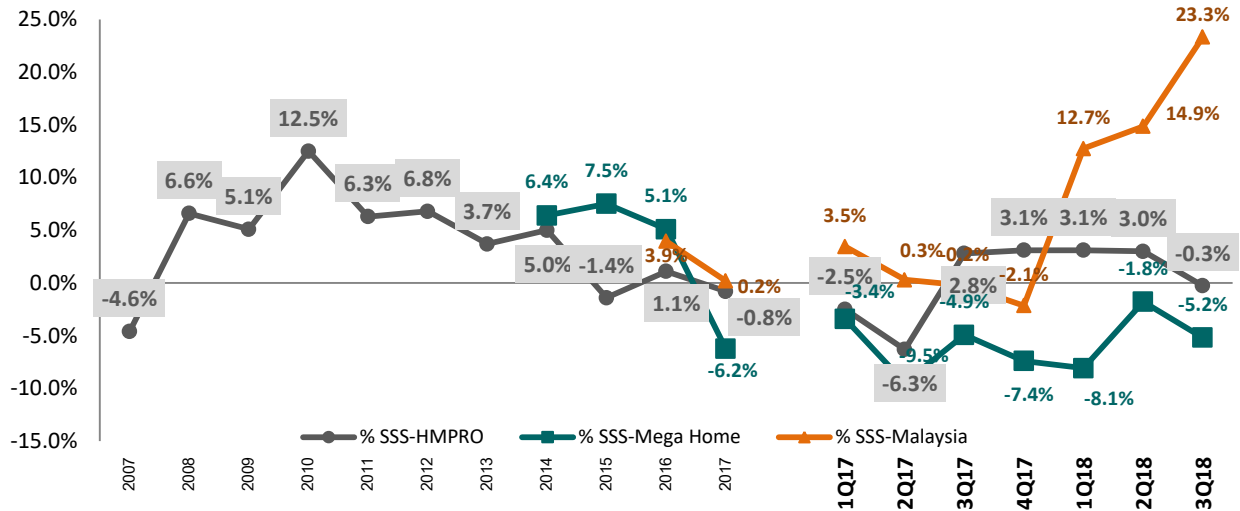
KEY OPERATING PERFORMANCE

Chart 1: HMPRO's Expansion



Source: HMPRO

Chart 2: Same-Store Sales (Y-O-Y)



Source: HMPRO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	48,859	64,234	61,144	56,243	51,209
Operating income	7,636	9,743	8,731	7,911	7,177
Earnings before interest and taxes (EBIT)	5,279	6,633	5,776	5,121	4,781
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,618	9,739	8,719	7,888	7,116
Funds from operations (FFO)	6,266	7,992	7,069	6,266	5,649
Adjusted interest expense	441	646	681	704	630
Capital expenditures	1,956	3,073	5,143	4,807	7,058
Total assets	48,510	50,949	51,746	46,991	44,313
Adjusted debt	15,642	15,609	16,012	14,091	13,753
Adjusted equity	18,221	18,635	17,490	16,903	15,702
Adjusted Ratios					
Operating income as % of total operating revenues (%)	15.63	15.17	14.28	14.07	14.01
Pretax return on permanent capital (%)	20.74 **	17.93	16.29	15.62	16.82
EBITDA interest coverage (times)	17.28	15.07	12.81	11.20	11.29
Debt to EBITDA (times)	1.50 **	1.60	1.84	1.79	1.93
FFO to debt (%)	54.74 **	51.20	44.15	44.46	41.07
Debt to capitalization (%)	46.19	45.58	47.79	45.46	46.69

Note: All ratios have been adjusted by operating leases.

** Consolidated financial statements*

*** Annualized with trailing 12 months*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Home Product Center PLC (HMPRO)

Company Rating:	AA-
Rating Outlook:	Stable

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