

HOME PRODUCT CENTER PLC

No. 146/2020
28 September 2020

CORPORATES

Company Rating: AA-
Outlook: Stable

Last Review Date: 06/12/19

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, together with its sound financial standing. However, HMPRO’s strengths are offset by intensifying competitive pressures and increasing uncertainty concerning consumption owing to the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

Fallout from COVID-19 likely to set back revenue by about 6% in 2020

HMPRO’s total revenues from sales plummeted during the COVID-19 lockdown. During the first half of 2020, total revenues from sales plunged 11.5% year-on-year (y-o-y) to THB28.4 billion following a contraction in same-store sales of 11.6%. HMPRO temporarily closed 79 stores (70% of total stores) in the second half of March, 83 stores (73%) in April, and 46 stores (41%) in the first half of May. Nevertheless, the company’s declining in-store sales were partially offset by an increase in online sales. HMPRO generated revenue of around THB400-THB500 million per month from online channels, compared with THB70-THB80 million per month before the lockdown.

HMPRO’s rental income also shrank by 44.4% y-o-y to THB595 million during the first six months of 2020 after the company reduced tenant rental fees by 50% on average. TRIS Rating expects rental income to drop by 46% in 2020, then grow by 25%-30% during 2021-2022.

The ongoing and persistent economic slowdown is likely to dampen domestic demand in 2020. We forecast that HMPRO’s total revenues from sales will drop by 6% y-o-y in 2020, then grow by 2%-4% per year during 2021-2022.

Narrowing but acceptable profitability

HMPRO’s gross margin narrowed to 24.8% during the first six months of 2020, down from 25.0% over the same period of the prior year. The softening gross margin was driven by a less favorable product mix, led by sales of more low-margin appliance products. However, HMPRO’s gross margin should gradually improve during the remainder of the year.

Sales of house and imported brands, which carry higher margins, accounted for 19%-20% of sales in 2019 through the first six months of 2020. HMPRO aims to increase the proportion of house and imported brands to 20.5% of sales in 2020, rising to 25% in the longer term.

HMPRO’s earnings before interest, tax, depreciation, and amortization (EBITDA) margin also declined to 15.3% in the first half of 2020, compared with 16.2% for the same period of 2019.

However, the company has reduced its selling general and administrative expenses (SG&A), primarily overtime compensation, sales incentives, rental expenses, and marketing expenses. Thus, the ratio of SG&A to sales remained unchanged at 17.4% during the first half of 2020. TRIS Rating expects an EBITDA margin in the range of 13%-15% during 2020-2022.

Financial leverage likely to improve

HMPRO's adjusted debt increased by THB4.5 billion following a rise in operating lease, caused primarily by the adoption of the Thai Financial Reporting Standards (TFRS) 16. Hence, the company's total debt to capitalization ratio rose to 45.0% at the end of June 2020, up from 41.0% at the end of 2019.

HMPRO plans to open two to four stores per annum across all store formats over the next few years, compared with five to six stores per year in 2018-2019. HMPRO has set a capital budget totaling around THB3-THB3.5 billion per year during 2020-2022. As a result, the debt to capitalization ratio is forecast to improve to the 35%-39% range during 2020-2022, from 43%-44% in 2018-2019.

TRIS Rating forecasts a slight increase in HMPRO's ratio of adjusted net debt to earnings before interest, tax, depreciation, and amortization (EBITDA) to 1.7 times in 2020, owing to the impacts of the COVID-19 pandemic. The ratio should then improve to 1.2-1.4 times in 2021-2022.

Sound liquidity

TRIS Rating expects HMPRO to maintain sound liquidity over the next 12-18 months. The company has scheduled debt repayments of THB3.2-THB4 billion per year during 2020-2022. Our base-case forecast assumes EBITDA of THB8.3-THB10.3 billion per annum. At the end of June 2020, cash on hand and short-term investments stood at THB3.7 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 THB62.6 billion in 2019 from THB20.3 billion in 2009, a compound annual growth rate of 12%. 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 the other major players.

BASE-CASE ASSUMPTIONS

- Total revenues from sales to drop by 6% in 2020, then grow by 2%-4% in 2021-2022.
- Gross profit and EBITDA margins in the 25%-28% and 13%-15% ranges, respectively.
- Total capital spending of THB3-THB3.5 billion per year in 2020-2022.
- 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 financial performance is weaker than expected or if leverage is significantly higher, 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 2020, 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.

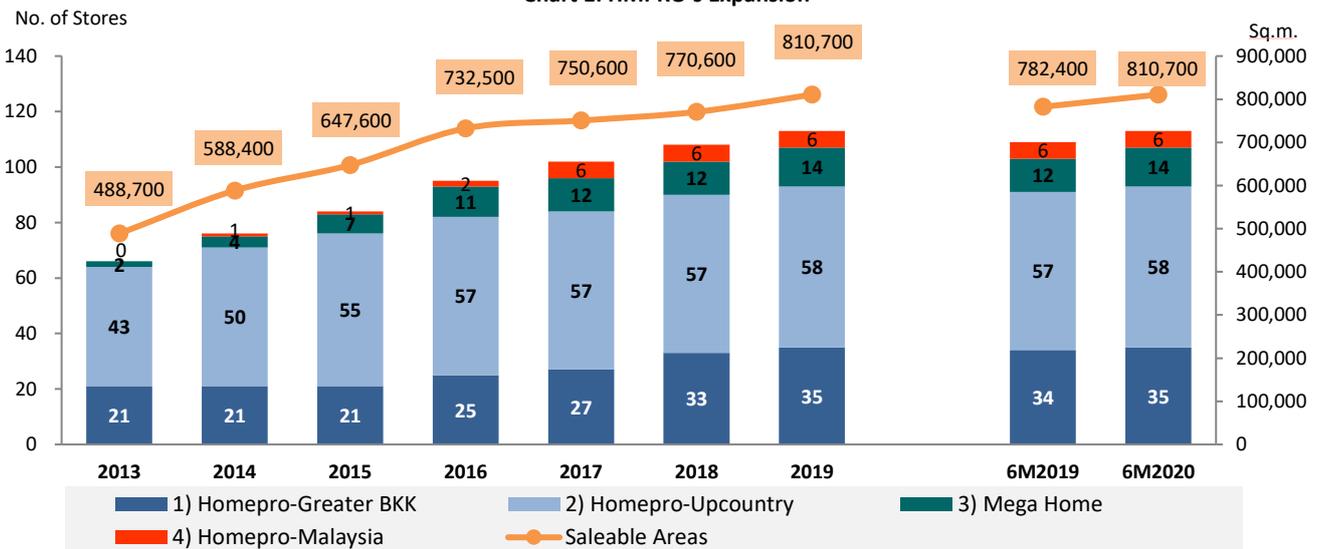
HMPRO owns three types of store; HOMEPRO stores, Mega Home stores, and HomePro S stores. A typical HomePro store, the company's initial retailing format, offers a wide range of home-related products and services with a store area of 3,000-12,000 square meters (sq.m.). A Mega Home store is a large-scale 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.

Recently, HMPRO introduced a new store format called “HomePro S”. A HomePro S store 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 still offers service just like the original HomePro stores.

HMPRO has expanded continuously. As of June 2020, the company operated 113 stores in total, including 99 under the HomePro and HomePro S formats: 35 in Greater Bangkok, 58 upcountry, and six stores in Malaysia; and 14 MegaHome stores: three in Greater Bangkok and 11 upcountry. The total saleable area covers 810,700 sq.m.

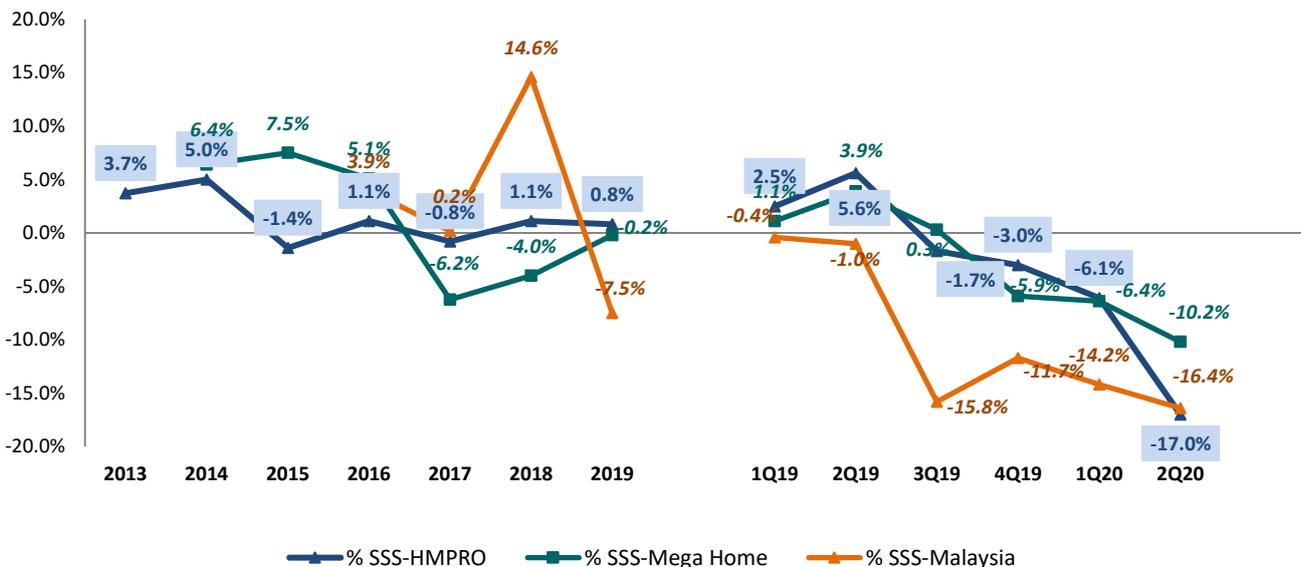
KEY OPERATING PERFORMANCE

Chart 1: HMPRO's Expansion



Source: HMPRO

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



Source: HMPRO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	29,707	67,424	66,050	64,234	61,144
Earnings before interest and taxes (EBIT)	2,939	8,284	7,603	6,669	5,776
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,556	11,446	10,826	9,739	8,719
Funds from operations (FFO)	3,825	9,338	8,836	7,956	7,069
Adjusted interest expense	241	681	681	682	681
Capital expenditures	1,140	3,113	2,836	3,266	5,143
Total assets	54,438	52,049	54,811	50,949	51,746
Adjusted debt	16,276	14,694	15,304	16,634	16,012
Adjusted equity	19,931	21,138	19,914	18,635	17,490
Adjusted Ratios					
EBITDA margin (%)	15.34	16.98	16.39	15.16	14.26
Pretax return on permanent capital (%)**	17.84	20.67	19.19	17.78	16.29
EBITDA interest coverage (times)	18.90	16.82	15.90	14.28	12.81
Debt to EBITDA (times)	1.55	1.28	1.41	1.71	1.84
FFO to debt (%)**	53.25	63.55	57.74	47.83	44.15
Debt to capitalization (%)	44.95	41.01	43.45	47.16	47.79

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
- Group Rating Methodology, 10 July 2015

Home Product Center PLC (HMPRO)
Company Rating:

AA-

Rating Outlook:

Stable

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