

# HOME PRODUCT CENTER PLC

No. 161/2022  
23 September 2022

## CORPORATES

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

**Last Review Date:** 30/06/22

### 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 rating on its senior unsecured debentures at “AA-” with a “stable” outlook. The ratings reflect HMPRO’s leading competitive position in the home improvement retail business in Thailand, its sound financial standing, and manageable working capital. However, HMPRO’s strengths are offset by cyclicalities in the housing market, intensifying competitive pressures, and decelerating economic growth in Thailand.

## KEY RATING CONSIDERATIONS

### Same-store sales gradually improve

HMPRO’s same-store sales growth improved to 3.5% in 2021, following a contraction of 8.5% in 2020. However, it grew by only 1% year-on-year (y-o-y) in the first half of 2022 following a slight consumption recovery in Thailand, especially among middle- and high-income customers in provincial areas.

TRIS Rating expects that domestic demand will recover as the economy regains traction. The Bank of Thailand (BOT) projects Thailand’s gross domestic product (GDP) growth at 3%-4% in 2022-2024, from 1.5% in 2021. Hence, we forecast HMPRO’s revenues will rise by 4%-5% y-o-y during 2022-2024. The ratio of selling and administrative expenses to revenues will likely stay under control and below 20% of sales in the same period.

### Improving operating results

HMPRO’s gross margin increased to 25.8% in 2021, compared with 25.3% in 2020. The company’s strategy is to focus more on high-margin products. Sales of house and imported brands, which carry higher margins, accounted for 19.5% of its total sales in 2021. HMPRO aims to increase the proportion of house and imported brands to 20%-20.5% of sales in 2022. The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) increased by 4% y-o-y to THB10.3 billion in 2021. The company reported a net profit of THB5.4 billion in 2021, compared with THB5.2 billion in 2020.

During the first half of 2022, its total operating revenue grew by 3.6% y-o-y. EBITDA improved by 12% y-o-y, rising to THB5.9 billion in the first half of 2022. HMPRO reported a net profit of THB3.0 billion in the first half of 2022, compared with THB2.8 billion in the same period of the prior year. Under our base-case scenario, HMPRO’s EBITDA margin is projected to stay in the 15%-17% range during 2022-2024.

### Financial leverage likely to stay at low levels

HMPRO’s total debt to capitalization ratio increased to 41.2% at the end of June 2022, from 39.8% at the end of 2021, following higher working capital needs and lease liability.

HMPRO plans to open five to seven stores per annum across all store formats over the next few years, up from one to two stores per year in 2020-2021. HMPRO has set a capital budget totaling THB6 billion per year during 2022-2024. However, we forecast that the adjusted net debt to EBITDA ratio of HMPRO will stay at around 1.4-1.6 times during 2022 through 2024, due mainly to improvement of EBITDA during the post-COVID-19 period.

## Sound liquidity

We expect HMPRO to maintain sound liquidity over the next 12-18 months. The company has scheduled debt repayments of THB3.2-THB5.2 billion per year during 2022-2024. Our base-case forecast projects its EBITDA of THB11 billion per annum. At the end of June 2022, its cash on hand and short-term investments stood at THB4.2 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 “HMPRO”, “CRC Thai Watsadu”, “Siam GLOBAL House”, “Do Home”, “Boon Thavorn”, and “Index Living Mall”.

HMPRO’s total revenues from sales rose to THB60.0 billion in 2021 from THB28.4 billion in 2011, a compound annual growth rate of 8%. HMPRO’s profitability has ranked above the industry average. The EBITDA margin has been in the 15%-17% range for the last five years, higher than the 9%-10% average among other major players.

## BASE-CASE ASSUMPTIONS

- Total operating revenues to grow by 4%-5% in 2022-2024.
- Gross profit and EBITDA margins to be around 25% and 15%-17%, respectively.
- Total capital spending of around THB6 billion per year in 2022-2024.
- 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 financial leverage to remain at low levels even as the company continues its business expansion.

## RATING SENSITIVITIES

The ratings could be upgraded if the company significantly enlarges cash generation while maintaining a strong balance sheet. In contrast, HMPRO’s ratings 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 material 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 (DIY) 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.

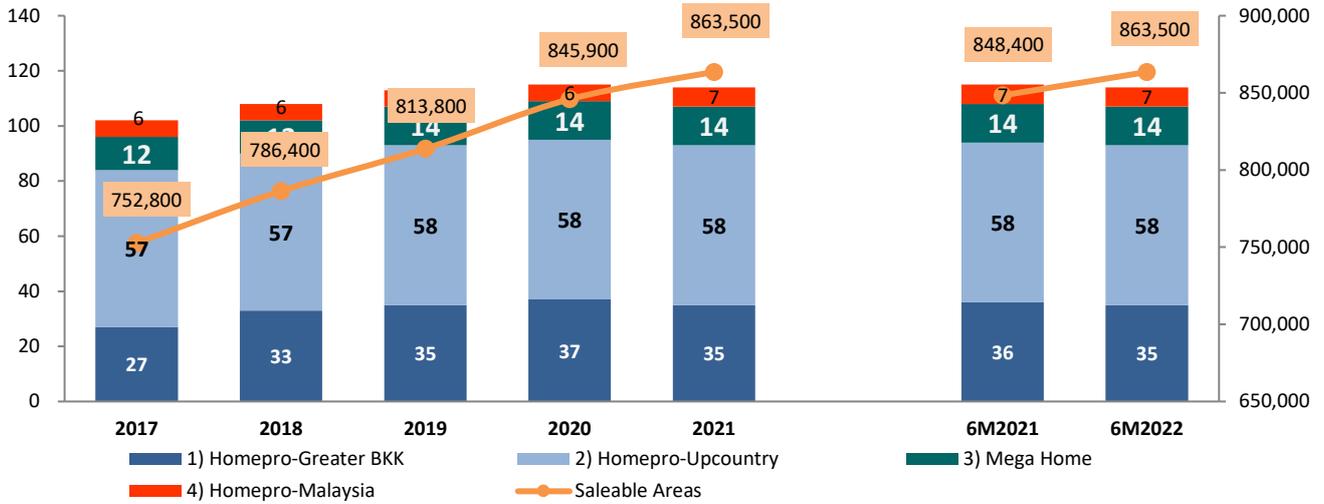
HMPRO owns three types of store; “HomePro” stores, “Mega Home” stores, and “HomePro S” stores. A typical HomePro store, the company’s initial retailing format, offers a wide range of home-related products and services with a store area of 3,000-12,000 square meters (sq.m.). A Mega Home store is a large-scale 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. HomePro S is a compact store with an area of 2,000 sq.m., designed to serve urban residents who need home-related products and services.

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.

HMPRO has expanded continuously. As of June 2022, the company operated 114 stores in total, including 93 under the HomePro and HomePro S formats: 35 in Greater Bangkok, 58 upcountry. In addition, the company operated seven HomePro stores in Malaysia; and 14 Mega Home stores: three in Greater Bangkok and 11 upcountry. The total saleable area covers 863,500 sq.m.

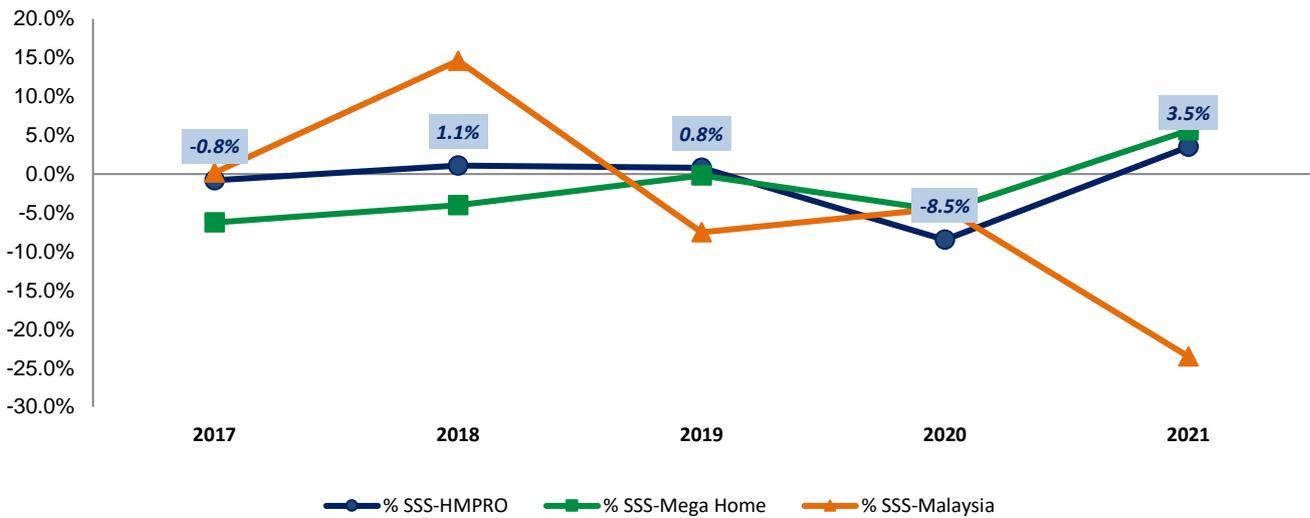
**KEY OPERATING PERFORMANCE**

**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 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	33,980	63,926	61,749	67,374	66,050
Earnings before interest and taxes (EBIT)	3,997	7,086	6,657	8,284	7,603
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,869	10,294	9,838	11,446	10,826
Funds from operations (FFO)	4,903	8,629	8,143	9,327	8,840
Adjusted interest expense	223	452	467	681	681
Capital expenditures	1,676	1,618	3,236	3,113	2,836
Total assets	58,871	58,586	56,091	52,049	54,811
Adjusted debt	16,330	15,125	15,438	14,694	15,304
Adjusted equity	23,296	22,890	21,565	21,138	19,914
<b>Adjusted Ratios</b>					
EBITDA margin (%)	17.27	16.10	15.93	16.99	16.39
Pretax return on permanent capital (%) **	17.68	17.11	16.86	20.67	19.19
EBITDA interest coverage (times)	26.32	22.77	21.08	16.82	15.90
Debt to EBITDA (times)	1.50	1.47	1.57	1.28	1.41
FFO to debt (%) **	55.82	57.05	52.75	63.48	57.77
Debt to capitalization (%)	41.21	39.79	41.72	41.01	43.45

Note: All ratios have been adjusted by operating leases

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

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**Home Product Center PLC (HMPRO)**

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<b>Company Rating:</b>	AA-
<b>Issue Rating:</b>	
HMPRO257A: THB3,000 million senior unsecured debentures due 2025	AA-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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