

HOME PRODUCT CENTER PLC

No. 206/2023
20 October 2023

CORPORATES

Company Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
Outlook:	Stable

Last Review Date: 14/09/23

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 leading market presence in the home improvement retail business in Thailand, satisfactory profit margin, and efficient working capital management. The ratings take into consideration our expectation of the company’s ability to sustain low financial leverage and adequate liquidity. The ratings also incorporate our concerns over an unfavorable economic environment caused by interest rate hikes and high household debt as well as intense competition in the home improvement retail business.

KEY RATING CONSIDERATIONS

Ratings underpinned by strong market position

We expect HMPRO to retain its market presence as a leading home improvement retailer in Thailand. HMPRO’s revenue and earnings base have ranked the first in the industry for decades. HMPRO reported total operating revenue of THB69 billion in 2022. Its revenue continued to increase by 9% year-on-year (y-o-y) to THB37 billion in the first six months of 2023 (6M2023). HMPRO’s earnings before interest, taxes, depreciation, and amortization (EBITDA) in 6M2023 increased by 8% y-o-y to THB5.9 billion. Its EBITDA margin remained at 16% in 2020-6M2023, in line with the industry average.

As of June 2023, HMPRO owned and operated 115 stores in Thailand, comprising 91 HomePro stores and 24 MegaHome stores. Its stores cover every region of Thailand, with total commercial area of 953,800 sq.m. HMPRO has also expanded its retail business in Malaysia since debuting there in 2014. HMPRO currently operates seven stores in Malaysia, with commercial area of 35,400 sq.m.

Moderate revenue growth expected

We anticipate HMPRO’s total operating revenues to reach the THB75-THB85 billion level in 2023-2025, representing a 5%-8% y-o-y growth. HMPRO’s revenue growth follows our base-case assumption of softer same-store sales growth (SSSG) and ongoing store expansion during the forecast period.

HMPRO’s total SSSG was 4%-5% per annum in 2022-6M2023. However, in the second half of 2023 through 2025, we expect SSSG will be hindered by unfavorable economic conditions stemming from rising interest rates and high household debt levels, which directly impact the purchasing power of target customers. As a result, we expect the company’s same-store sales to grow at a slower pace of 1%-2% per annum.

We expect HMPRO to continue launching multiple new stores in 2023-2025. More than half of these will be MegaHome stores. Based on the rapid expansion of the MegaHome stores, we project the revenue contribution from HomePro will decrease to 70%-80% of total revenue in 2023-2025, while the revenue contribution from MegaHome will likely increase to 20% from 13%-14% in 2020-2022.

Satisfactory profit margin

We expect HMPRO’s profitability to remain in line with the industry average. In 2023-2025, the company’s profit margin is likely to be challenged by rising

utility costs, high pre-opening costs from store expansions, and intense competition among the leading home improvement retailers. However, HMPRO's strategy to focus more on private branded products, which generally have higher profit margins than other branded products, should alleviate the pressure on profitability.

HMPRO reported a gross profit margin from sales of 25%-26% and EBITDA margin of 16%-17% in the past five years, thanks to a greater proportion of sales from high-margin products and high-volume discounts received from vendors. Our base-case scenario expects HMPRO will be able to sustain its gross profit margin from sales above 25% in 2023-2025. We project its EBITDA to hover around THB12 billion per annum, with an EBITDA margin of above 15% throughout the forecast period.

Efficient working capital management

HMPRO has consistently outperformed the industry in terms of working capital management. The company has been able to efficiently manage inventory stock with turnover of 80-100 inventory days, lower than the 150-250 days of rated peers. Thus, HMPRO's cash conversion cycle has been consistently shorter than its peers. HMPRO's cash conversion cycle in 2021-6M2023 lengthened, however, due to the needs to stock more inventory to address the concerns over supply chain disruption during the COVID-19 pandemic. The rapid expansion of MegaHome stores also contributed to the lengthened inventory period. Nonetheless, its cash conversion remained below 10 days.

Looking into 2023-2025, HMPRO plans to launch 11 new stores in 2023 and 5-7-new stores per year in 2024 and 2025. New stores in 2023 are mostly in the MegaHome format while new stores in 2024-2025 will be both in HomePro and MegaHome format. MegaHome is characterized by a greater proportion of construction material products than HomePro. MegaHome requires inventory for bulk stock sales to contractors and project owners. We expect the MegaHome strategy to result in increased inventory days and a longer cash conversion cycle.

Low financial leverage

We expect HMPRO's financial leverage, as measured by the debt to EBITDA ratio, to slightly elevate to 1.6-1.8 times in 2023-2025 from 1.5 times in 2021-2022. The ratio of its funds from operations (FFO) to debt is likely to drop to 47%-50% in 2023-2025 from 55%-57% in 2021-2022. Given its rapid business expansion, we view that HMPRO's prudent financial discipline to maintain low financial leverage plus efficient working capital management should alleviate the pressure on the company's financial profile.

Under our base-case scenario, we assume capital expenditures of THB5.0-THB8.5 billion per annum in 2023-2025, mainly for store expansion. We incorporate land costs (including freehold and leasehold costs), construction costs, and renovation costs in our assumptions.

As of June 2023, HMPRO had total consolidated debts of THB13.2 billion. Its priority debt, including total debts of all subsidiaries, was THB0.2 billion. This translates to a priority debt to total consolidated debt ratio of 2%.

Expected to maintain adequate liquidity

As of June 2023, HMPRO's sources of liquidity consisted of THB2 billion in cash and cash equivalents plus THB6.1 billion in undrawn credit facilities from banks. We forecast HMPRO's FFO to be THB9.8 billion in the next 12 months.

On the flip side, HMPRO's maturing debts over the next 12 months amounted to THB4.1 billion, comprising THB4.0 billion debentures and THB0.1 billion bank loans. The uses of funds will include planned capital expenditures of THB8.5 billion in 2023 and a dividend payout ratio of 83%. HMPRO normally refinances maturing debentures with new debenture issuances. We expect HMPRO to be able to refinance most of its maturing debentures and bank loans to maintain sufficient liquidity and to fund its business operations.

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 June 2023, the ratio was 0.8 times. We expect HMPRO to have no problem remaining in compliance with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for HMPRO's operations in 2023-2025 are as follows:

- Total operating revenue to grow by 5%-8% per annum
- Gross profit margin from sales in the range of 25%-26% and EBITDA margin of 15%-16%
- Total capital spending of THB8.5 billion in 2023 and THB5.0 billion per year in 2024-2025

RATING OUTLOOK

The “stable” outlook reflects our expectation that HMPRO will be able to retain its strong competitive position as a leading home improvement retailer. Despite its ongoing business expansion, we expect the company to keep its financial leverage at a low level.

RATING SENSITIVITIES

A credit upside would materialize if HMPRO significantly enlarges cash generation while maintaining a strong financial profile. On the contrary, a downward revision of the ratings could occur if HMPRO operating results and/or financial position turn out to be considerably weaker-than-expected. A net debt to EBITDA ratio exceeding 2 times for a prolonged period could also trigger a rating and/or outlook downward revision.

COMPANY OVERVIEW

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 June 2023, 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 various types of home-related products in 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 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.

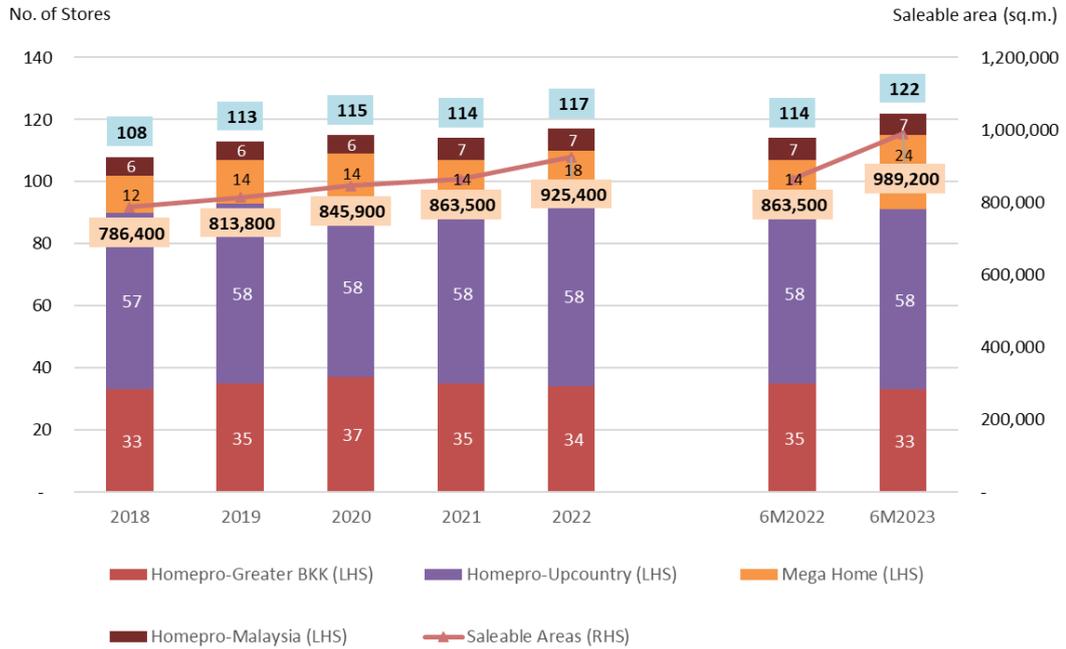
In November 2020, HMPRO expanded its retail business in Vietnam by establishing a subsidiary named Home Product Center (Vietnam) Co., Ltd. The total investment was THB30.4 million. Currently, this subsidiary operates a retail business through online channels as an e-marketplace.

In February 2022, HMPRO purchased a 30% stake in preferred shares of OneStockHome Co.,Ltd., with a total investment of THB68.7 million. OneStockHome Co.,Ltd. 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.

As of June 2023, the company operated 122 stores in total, including 91 stores under the HomePro and HomePro S formats (33 in Greater Bangkok and 58 upcountry), 24 Mega Home stores (6 in Greater Bangkok and 18 upcountry), and seven HomePro stores in Malaysia. The total saleable area covered 989,200 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-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	37,155	69,389	63,926	61,749	67,374
Earnings before interest and taxes (EBIT)	4,275	8,111	7,059	6,657	8,284
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,963	11,269	10,266	9,838	11,446
Funds from operations (FFO)	4,918	9,321	8,629	8,143	9,327
Adjusted interest expense	263	453	424	467	681
Capital expenditures	2,867	5,596	1,618	3,236	3,113
Total assets	63,150	65,185	58,586	56,091	52,049
Adjusted debt	17,912	16,898	15,171	15,498	14,694
Adjusted equity	24,714	24,246	22,890	21,565	21,138
Adjusted Ratios					
EBITDA margin (%)	16.05	16.24	16.06	15.93	16.99
Pretax return on permanent capital (%)	19.03 **	18.19	17.02	16.84	20.67
EBITDA interest coverage (times)	22.65	24.88	24.21	21.08	16.82
Debt to EBITDA (times)	1.53 **	1.50	1.48	1.58	1.28
FFO to debt (%)	53.91 **	55.16	56.88	52.54	63.48
Debt to capitalization (%)	42.02	41.07	39.86	41.82	41.01

* 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)

Company Rating:	AA-
Issue Ratings:	
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-
Rating Outlook:	Stable

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