

# DOHOME PLC

No. 138/2022  
15 August 2022

## CORPORATES

**Company Rating:** BBB  
**Outlook:** Positive

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## RATIONALE

TRIS Rating assigns a company rating to Dohome PLC (DOHOME) at “BBB” with a “positive” rating outlook. The rating reflects the company’s long track records in the retail and wholesale businesses of construction materials and home decoration products, as well as its sound performance and efficient cost control.

Nonetheless, these strengths are constrained by the stiff competition among modern home improvement retailers, as well as the company’s long cash conversion cycle and large capital outlays for store expansions. The rating also incorporates our concerns over the fragile economic recovery following the Coronavirus Disease 2019 (COVID-19) pandemic and the volatility of steel prices.

## KEY RATING CONSIDERATIONS

### Strong revenue growth

DOHOME’s operating revenue grew significantly, despite facing the lockdowns and temporary store closures following the COVID-19 pandemic. Operating revenue surged by 37.5% year-on-year (y-o-y) to THB25.9 billion in 2021 and 30.1% y-o-y to THB16.3 billion in the first half of 2022, owing to strong same-store sales and contributions from new stores.

DOHOME has satisfactory same store sale growth. Its same-store sales increased by 25.5% y-o-y in 2021 and 17.8% in the first half of 2022. This growth was mainly attributed to the rise in steel prices and construction materials as well as increases in customer traffic and basket size following the company’s better merchandise assortments and store renovations.

Our baseline projection forecasts DOHOME’s operating revenue to be THB32-THB43 billion during 2022-2024, posting a 15%-25% growth per year. The solid growth would be supported by the revenue from five new stores each year, as well as the company’s strategy to focus on upselling, offering new products, and marketing activities.

### Satisfactory profit margin

DOHOME reported a satisfactory profit margin in 2021. Earnings before interest, taxes, depreciation, and amortization (EBITDA) surged by 88.7% y-o-y to THB3.1 billion in 2021, while the EBITDA margin widened to 12.0% in 2021, from the level of 8.8% in 2019-2020. This was attributed to the increased margin on steel products. Profitability was also enhanced by a more favorable product mix and a greater revenue contribution from house brand products, which carry higher profit margins.

However, owing to the higher cost of products and the change of product mix, DOHOME’s EBITDA margin declined to 9.0% in the first half of 2022. Despite the recent drop in margins, TRIS Rating expects DOHOME to maintain sound profitability, in line with its strategy to focus on house brand products, an improved product assortment, and cost reductions, which will be achieved by streamlining operating processes. We forecast DOHOME’s EBITDA to hover around THB3.0-THB4.2 billion in 2022-2024, while EBITDA margin to stay in the 9%-10% range during the same period.

### Leading position in home improvement industry

DOHOME's business profile is underpinned by its track record of 39 years in the construction material and home improvement industry. The company started its business in Ubon Ratchathani province and expanded to other regions in Thailand. As of June 2022, DOHOME had 27 stores, consisting of 18 large stores and 9 small stores (ToGo) with a total store area of 910,445 square meters (sq.m.).

In terms of total sales, DOHOME ranks fourth in the modern home improvement retail industry. The top six operators in the industry are "HomePro", "Siam GLOBAL House", "CRC Thai Watsadu", "DOHOME", "Boon Thavorn", and "Index Living Mall".

Over the past 10 years, DOHOME's total revenues rose to THB25.8 billion in 2021 from THB10.5 billion in 2011, a compound annual growth rate of 9.4%. The primary growth driver has been new store openings, capitalizing on the rapid urbanization of Thailand's provincial areas over the past decade.

### Pursuing growth with smaller stores

DOHOME entered the construction material and home improvement market as a big-box format stores, with an average store area of 55,000 sq.m. However, to pursue its growth strategy, DOHOME has accelerated the expansion plan through smaller stores with an average size of 30,000 sq.m. instead. Despite the lesser store areas, the company can provide a diverse range of products to serve customer needs by utilizing automated storage and retrieval system (ASRS) warehousing, to improve efficiency and reduce the area used for product storage.

The company plans to open an additional five stores annually over the next few years. We view that this store format is aligned with the company's growth strategy to expand its footprint in major provinces using lower capital outlays. Smaller stores mean lower capital spending and fewer staff, while the company can expedite its expansion plan in major cities with a lower payback period.

### Long cash conversion cycle

Given the focus on making available a wide range of products, DOHOME carries a high level of inventory. The company also has a policy of providing credit terms to some of its customers who are contractors and resellers. As a result, DOHOME has a relatively long cash conversion cycle compared with its competitors. The average cash conversion cycle among major home improvement industry peers during 2017 to 2021 ranged between 96 and 115 days. DOHOME's cash conversion cycle was 121 days in 2017, rising to 174 days in 2021.

In our view, DOHOME's cash conversion cycle will likely remain high during the period of rapid expansion, with gradual improvements from management actions. The company plans to tackle the problem by implementing an automatic inventory replenishment system, together with more efficient inventory procurement and diminishing slow-moving products.

### Capital structure improved, but leverage likely to increase from expansions

Thanks to solid operating performance and a capital increase, DOHOME's leverage ratio has improved significantly. In 2021, the company raised funds by issuing newly ordinary shares through a private placement with proceeds totaling THB1.98 billion. DOHOME's net debt to EBITDA ratio was 3.8 times in 2021 and 5.8 times in the first half of 2022, improving from 6.4 times in 2020. The debt to capitalization ratio was 57.9% as of June 2022, compared with 59.9% in 2020.

In the next three years, we expect DOHOME's capital expenditures to be around THB3-THB4 billion per year for five large store openings to support its growth strategy. We project the company's debt to EBITDA ratio to be around 4.9-5.4 times in 2022-2024, while its debt to capitalization ratio is projected to hover around 56%-57% during the same period.

As of June 2022, the company's interest-bearing debt was reported at THB15.8 billion. Most of the debt was made up of project loans from commercial banks and secured by store assets. The company's secured debt accounted for about 79% of total debt, suggesting significant subordination risk for the company's unsecured creditors in the event of insolvency and inability to repay debt.

### Acceptable liquidity

We assess DOHOME to have adequate liquidity over the next 12 months. Primary sources of funds comprise cash on hand of around THB129 million as of June 2022, and funds from operations (FFO) expected at around THB2.2 billion per year. The company also has undrawn credit facilities available from commercial banks of THB2.0 billion. On the other hand, during the next 12 months, uses of funds will include repayment of financial obligations totaling THB0.7 billion and planned capital expenditures of around THB4 billion.

## BASE CASE ASSUMPTIONS

- Operating revenue to surge by 25% in 2022 and increase by 15%-17% in 2023-2024, driven by new store openings.
- Gross profit margin to range from 17%-18%; adjusted EBITDA margin to remain in the 9%-10% in 2022-2024.
- Total capital spending of around THB3-THB4 billion per year during 2022-2024.

## RATING OUTLOOK

The “positive” outlook reflects our expectation that DOHOME will maintain its market position in the home improvement retail industry and sustain profitability and leverage at an acceptable level while pursuing its growth strategy.

## RATING SENSITIVITIES

A rating upgrade could occur if DOHOME continues to deliver solid operating performance without causing a deterioration in its balance sheet. On the other hand, a rating downside case could emerge if profitability and earnings fall significantly short of expectations. A combination of debt load and/or weakening cash flow that elevates the net debt to EBITDA ratio to a level of 7 times or above for a sustained period could also lead to a downgrade scenario.

## COMPANY OVERVIEW

DOHOME is one of the leading warehouse-style home improvement retailers in Thailand. It was founded in 1983 by Mr. Adisak Tangmitrphracha and Mrs. Nattaya Tangmitrphracha. The company was listed on the Stock Exchange of Thailand (SET) in August 2019. Since its inception, the Tangmitrphracha family has been the major shareholder and is actively involved in the management of the company. As of March 2022, the Tangmitrphracha family held approximately 83% of the outstanding shares of the company.

The company’s key strategy is to offer an extensive range of products and services under the concept of “Completed Assortment, Competitive Price, and Good Quality” to meet the demand of contractors, resellers, and end-users. Each store carries about 100,000 stock-keeping units (SKUs), covering a wide range of construction materials, repair materials, and home decoration products. The company also offers competitive prices with a variety of prices and displays to serve the needs of both retail and wholesale customers.

The company operates retail and wholesale businesses for construction materials and home decoration products in a large-store format with total area ranging from 26,000-80,000 sq.m. per store. DOHOME’s first store is located in Ubon Ratchathani province. The company opened its second stores in Nakhon Ratchasima province in 2007. Subsequently, the company expanded its footprint in the North, Northeast, East, as well as Bangkok and vicinity. The company launched small-format “DOHOME ToGo” stores in late 2019. With a total area of 300-800 sq.m., DOHOME ToGo focuses more on repair and decoration materials for end-users in Bangkok and major provincial areas. As of June 2022, DOHOME had 27 stores, consisting of 18 large stores and 9 small stores (ToGo) with a total store area of 910,445 sq.m. Additionally, the company has one distribution center in Pathum Thani province.

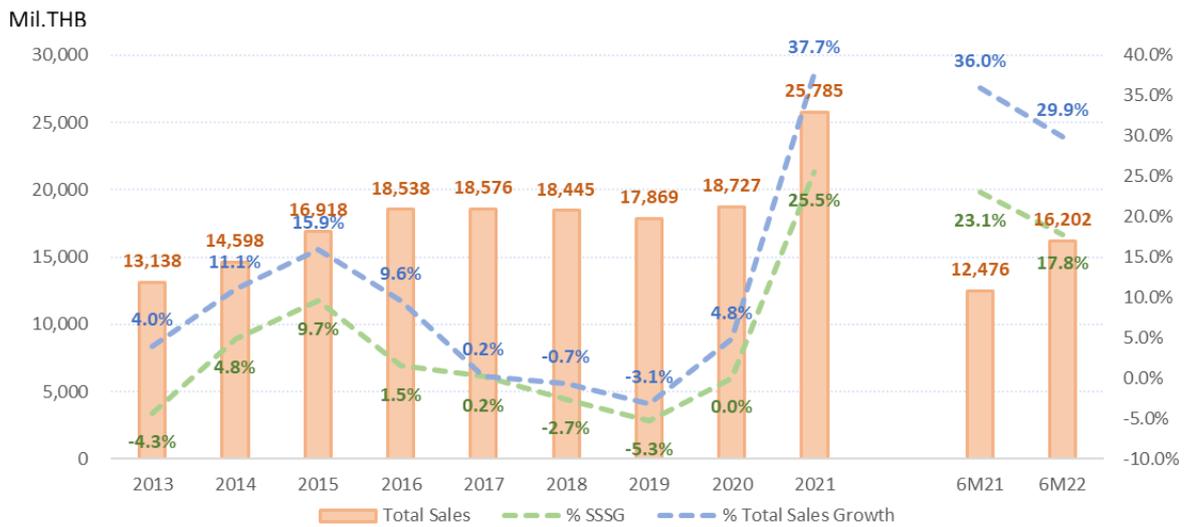
## KEY OPERATING PERFORMANCE

**Table 1: DOHOME’s Revenue Breakdown by Product Group**

<i>Unit: %</i>					
Product Group	2018	2019	2020	2021	Jan-Jun 2022
Construction material products	48	44	42	46	
Repair material products	35	38	38	35	
Decoration material products	17	18	20	19	
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total sales (Mil. THB)</b>	<b>18,445</b>	<b>17,869</b>	<b>18,727</b>	<b>25,785</b>	<b>16,202</b>

Source: DOHOME

Chart 1: DOHOME's Same-Store-sales Growth and Total Sales Growth



Source: DOHOME

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	16,298	25,909	18,837	17,967	18,525
Earnings before interest and taxes (EBIT)	1,111	2,520	1,145	1,165	865
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,468	3,111	1,649	1,572	1,256
Funds from operations (FFO)	1,120	2,389	1,216	1,145	800
Adjusted interest expense	161	275	255	309	338
Capital expenditures	2,684	2,570	1,541	1,169	1,107
Total assets	32,506	27,227	20,765	18,152	16,675
Adjusted debt	15,997	11,911	10,587	8,837	9,119
Adjusted equity	11,619	10,880	7,090	6,460	4,792
<b>Adjusted Ratios</b>					
EBITDA margin (%)	9.01	12.01	8.75	8.75	6.78
Pretax return on permanent capital (%)	8.74	12.33	6.83	7.69	6.14
EBITDA interest coverage (times)	9.13	11.30	6.45	5.08	3.72
Debt to EBITDA (times)	5.82	3.83	6.42	5.62	7.26
FFO to debt (%)	13.02	20.06	11.48	12.96	8.77
Debt to capitalization (%)	57.93	52.26	59.89	57.77	65.55

## RELATED CRITERIA

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

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**Dohome PLC (DOHOME)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Positive

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