

# Home Product Center - HMPRO

## Gross margin likely to be wider

Bloomberg | Reuters  
HMPRO.TB | HMPRO.BK

Phillip Securities Research  
31 August 2012

### Report type: Company Update

#### Company Overview

HMPRO operates a retail business in home improvement segment by selling goods and providing complete range of services related to construction, addition, renovation of buildings, houses, and residence places, including various products through "One Stop Shopping Home Center" under the "HomePro" trademark.

- Less distance store location and fears on flood dragged same-store-sales-growth lower in 2QCY12, which is expected to fall further in 3QCY12.
- Gross margin is likely to continue to widen.
- Given aggressive branch addition, HMPRO plans to open eight branches in 2013 and is in feasibility study for overseas investment.
- We maintain an 'ACCUMULATE' stance for HMPRO shares with pre-XD target price of Bt13.50/share or diluted price of Bt11.25.

#### What is the news?

SSSG stood at 2.7% in 2QCY12, near the 3-year low of 1.3% made in 3QCY09. Gross margin continued to increase. HMPRO has adopted an aggressive branch addition—the company has planned to open eight branches in 2012, compared to 4-5 branches in the past; and plans to open eight locations in 2013. For overseas investment, the company is in feasibility study, targeting the Philippines, Vietnam and Indonesia.

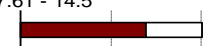
#### How do we view this?

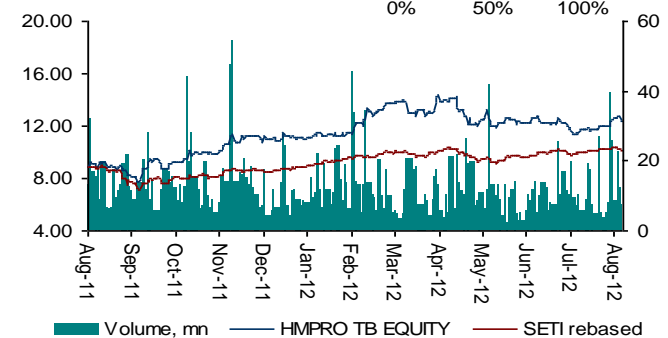
SSSG is expected to stay below 5% in 3QCY12 but gross margin would be slightly wider as HMPRO has aimed to increase proportion of house brand product to 20% this year from 19% in 1QCY12. For overseas market, Malaysia is likely to be the first international landmark for HMRPO where we think it will be opened in late 2013 the soonest.

#### Investment Actions?

We compute CY12 pre-XD target price at Bt13.50/share and post-XD price at Bt11.25/share. Our target prices are based on P/E of 29.5x.

#### Home Product Center

<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	2.00	Accumulate
<b>Target Price (Bt)</b>	<b>13.50</b>	
- Previous Target Price (Bt)	13.50	
Closing Price (Bt)	12.40	
Expected Capital Gains (%)	8.9%	
Expected Dividend Yield (%)	2.6%	
<b>Expected Total Return (%)</b>	<b>11.5%</b>	
Raw Beta (Past 2yrs weekly data)	0.90	
Market Cap. (USD mn)	2,318	
Enterprise Value (USD mn)	2,401	
Market Cap. (Bt mn)	72,735	
Enterprise Value (Bt mn)	75,346	
3M Average Daily T/O (mn)	10.9	
52 week range	7.61 - 14.5	
Closing Price in 52 week range		



#### Major Shareholders

	(%)
1. Land & House Plc	30.3
2. QH Plc	19.9
3. Mr. Niti Osathanugrah	4.8

#### Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	25,915	30,502	35,989	43,832
Net Profit (Btmn)	1,638	2,005	2,649	3,360
EPS (Bt)	0.28	0.34	0.45	0.57
Net Profit, adj. (Btmn)	1,638	2,005	2,649	3,360
EPS, adj. (Bt)	0.28	0.34	0.45	0.57
P/E (X), adj.	44.3	36.5	27.8	21.9
BVPS (Bt)	1.43	1.39	1.56	1.78
P/B (X)	8.7	8.9	7.9	7.0
DPS (Bt)	0.37	0.31	0.32	0.40
Div. Yield (%)	3.0	2.5	2.6	3.2

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

P/E12 (29.50x)

#### Analyst

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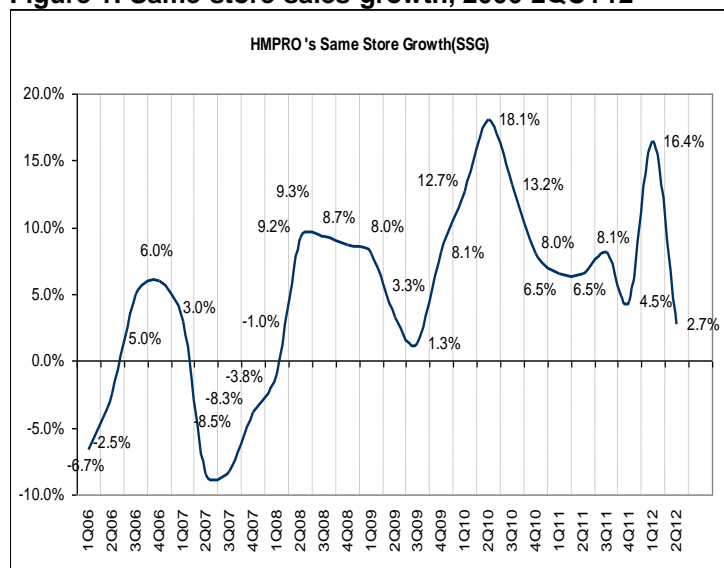
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**Less distance store location and customer fears on flood seen as drag on 2QCY12 SSSG and likely on 3QCY12**

In 2QCY12, same-store-sales-growth (SSSG) fell to 2.7%, near the 3-year low of 1.3% made in 3QCY09. Major factors resulting to 3.8% y-y and 13.7% q-q drop were attributable to (i) a delay in buying repairing/renovation products as customers are afraid of flood; and (ii) cannibalization effect as HMPRO opened two locations at Megabangna and Hat Yai in 2012, which were not far from existing branches at Paradise Park and Hat Yai 1. Excluding cannibalization effect, 2QCY12 SSSG stood at 3.6%, while we expect SSSG to see improvement around Oct when Thailand faced severe flood last year. For these reasons, SSSG is likely to stay below 5% in 3QCY12.

**Figure 1: Same-store-sales-growth, 2006-2QCY12**

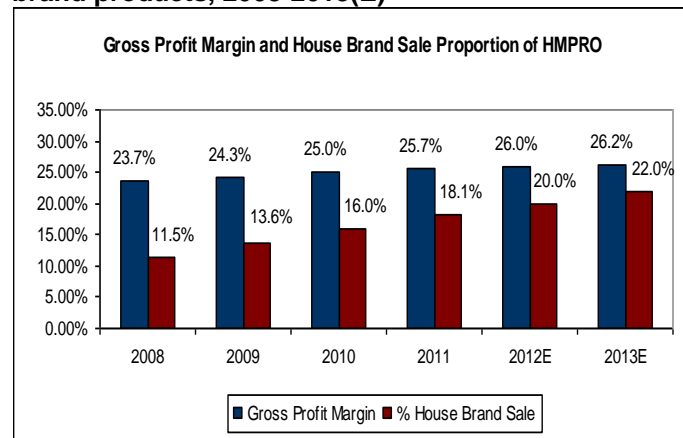


Source: Company

**Gross margin likely to grow sequentially**

In 2009-2011, gross margin continued to increase by an annualized 0.67% from 23.7% to 25.7%, driven by (i) rising sales proportion of house brand products—up by 2.2% per year from 11.5% to 18.1%; and (ii) remarkably higher sales, leading to economic of scales and more bargaining power with its suppliers. Sales grew by an average of 15.2% per year from Bt18,540mn in 2008 to Bt28,363 in 2011. In 2012, we expect gross margin to continue to grow as HMPRO reshaped its marketing strategy by (i) increasing proportion of house brand products—1QCY12 house brand proportion was 19% where HMPRO has aimed to increase to 20% this year, (ii) negotiating with its suppliers for compelling trade conditions, and (iii) improving further product-mix marketing.

**Figure 2: Gross margin and sales proportion of house brand products, 2008-2013(E)**



Source: Company, PSR

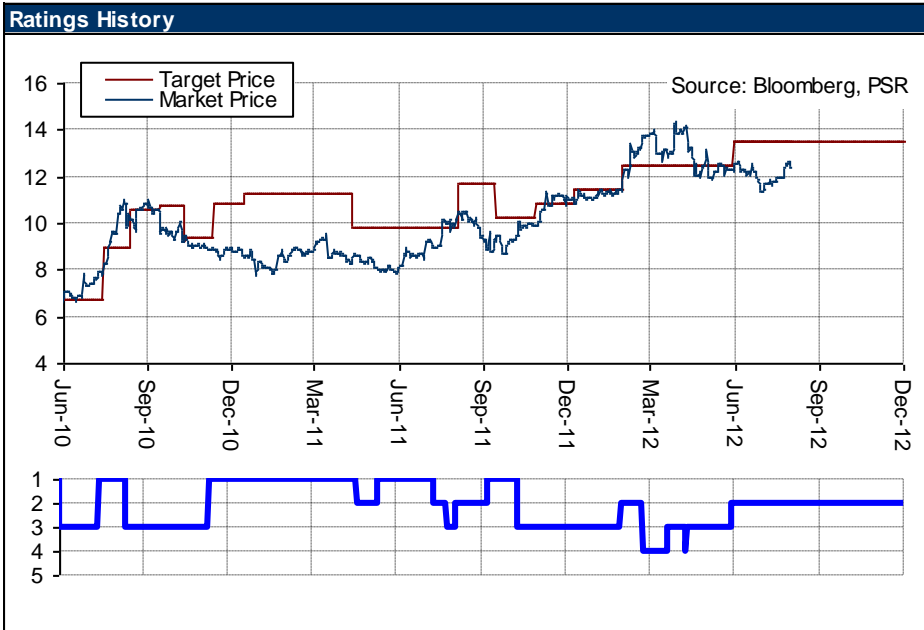
**Aggressive branch addition strategy: 8 branches to open in 2013; feasibility study on overseas investment**

In 2012, HMPRO has planned to open eight branches, which is the record high level, compared to 4-5 branches per annum in the past. All of new branches have been located in the provinces nationwide. So far, HMPRO opened 5 branches and three more branches to meet the target will be launched between Sep-Nov. At end-CY12, total number of branches will reach 53 with 365k sq. m. for sales and 92k sq. m. for lease.

In 2013, HMPRO plans to open eight branches; some of which the company already bought land plots. For overseas investment, Malaysia branch already received a license but pricey land plots have been slowing progress; nonetheless we think it will be launched in late year the soonest. HMPRO also plans to penetrate into other countries which are under feasibility study. First target group includes the Philippines, Vietnam and Indonesia.

**'ACCUMULATE' maintained with a pre-XD target price of Bt13.50/share and post-XD price of Bt11.25/share**

We compute CY12 pre-XD target price at Bt13.50/share and post-XD price is Bt11.25/share. Our target prices are based on P/E of 29.5x.



**Phillip Group Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
>-20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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