

**DISCOUNTED CASH FLOW VALUATION OF HOME PRODUCT
CENTER PUBLIC COMPANY LIMITED**



**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2022**

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Thematic paper
entitled
**DISCOUNTED CASH FLOW VALUATION OF HOME PRODUCT
CENTER PUBLIC COMPANY LIMITED**

was submitted to the College of Management, Mahidol University
for the degree of Master of Management

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May 1, 2022



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ACKNOWLEDGEMENTS

I would like to express my gratitude and appreciation to my advisor, Dr. Simon Zaby, for his guidance, comments, and engagement through the process of this thematic paper. Besides my advisor, I would like to thank my committee members, Dr. Roy Kouwenberg, and Dr. Worapong Janyangyuen for their insightful suggestions, and expertise knowledge sharing, especially the guideline to choose the company for thematic paper.

Special thanks to my friends, Miss. Teerarat Sarakwan, Miss Jiaxing Lin, and Suthipoj Rugtrakul for their precious knowledge sharing, shared their time during the course with the fantastic collaboration.

I would also like to express my warm thanks to program coordinators at the CMMU for facilitating me to complete this thematic paper. Lastly, a special thank you to my family and Miss Piyanuch Rojbowornwitthaya for offering support throughout the program of Master of Management to accomplish the success of this thematic paper.

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**DISCOUNTED CASH FLOW VALUATION OF HOME PRODUCT CENTER
PUBLIC COMPANY LIMITED**

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M.M. (CORPORATE FINANCE)

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ABSTRACT

This thematic paper applied the principle of discounted cash flow valuation approach to evaluate the intrinsic value of Home Product Center Public Company Limited (HMPRO)'s share price.

Home Product Center Public Company Limited is a Thailand-based company engaged in retail home improvement business under the name of HomePro that is listed in the commerce sector on the stock exchange of Thailand (SET50). The Company is principally engaged in the trading of a range of goods and materials for construction, addition, refurbishment, renovation, and improvement of buildings, houses, and residences place, and provision for related services to retail business, together with space rental and provide utilities service. The Company's subsidiaries include Market Village Company Limited, Home Product Center (Malaysia) Sendirian Berhad, Mega Home Center Company Limited and DC Service Center Company Limited, and Home Product Center Vietnam Company Limited.

According to the DCF analysis, the sales revenue of the company forecast to increases by 3.90 % CAGR from 2022 to 2026 based on the home sector trend and driven by GDP growth in the construction sector. After the year 2026, I assume the sales growth of the company is 3.90% per annum (perpetual growth), which is a conservative rate considering the past five years' performance of the company. The target stock price of HMPRO is 13.22 baht per share, with a 15.82% downside compared to the latest stock price as of 18 March 2022 which is 15.70 baht per share. The current stock price is overvalued based on the DCF valuation. As the difference is in the range of "Lower than 10% or Downside", so my recommendation for HMPRO is "SELL".

KEY WORDS: HMPRO/ Valuation/ Discounted Cash Flow

51 Pages

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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BOT	Bank of Thailand
BSF	Corporate Bond Stabilization Fund
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
CAPM	Capital Asset Pricing Model
CLMV	Cambodia, Laos, Myanmar, and Vietnam
COGS	Cost of Goods Sold
COVID-19	Coronavirus Disease Starting in 2019
DCF	Discounted Cash Flow
DOHOME	Dohome Public Company Limited
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
EEC	Eastern Economic Corridor
EPS	Earnings Per Share
EV	Enterprise Value
GDP	Gross Domestic Product
GLOBAL	Siam Global House Public Company Limited
GDP	Gross Domestic Product
HMPRO	Home Product Center Public Company Limited
ILM	Index Living Mall Public Company Limited
IMF	International Monetary Fund
MRDI	MR D.I.Y. Group (M) Sdn. Bhd.
OEM	Original Equipment Manufacturer
PE	Ratio Price to Earnings Ratio
REER	Real Effective Exchange Rate
ROE	Return on Equity
SD	Standard deviation
SEC	Securities and Exchange Commission of Thailand
SET	Stock Exchange of Thailand
SMEs	Small and Medium-Sized Enterprises
TRIS	Thai Rating and Information Services Company Limited
WLCON	Wilcon Depot

CHAPTER I

INVESTMENT SUMMARY

Home Product Center PCL is leading home improvement retail company, the number 1 ranking in Thailand. HMPRO stock was traded SET Thai market index (SET50). The Stock is currently of interest with a P/E of 38.68. The company faces big challenges during the COVID-19 situation. However, it is gradually improving, but it did not increase that much when compared to the pre-COVID-19 period.

The recommendation is SELL for Home Product Center Public Company Limited with a target price of THB 13.22 applying the discount free cash flow to firm. Its offer 15.82% downside from its closing price of THB 15.70 on March 18, 2022 as shown in **Figure 1.1** HMPRO’s Share Price. The HMPRO has the potential to grow as a result of the addition of seven new branches and the government policy of "Shop Dee Mee Kuen" spending stimulus. Also, some companies are using the working from home format as the new normal, which is a result of increasing home improvement products. Furthermore, consumer behavior has changed to prevent infection and the spread of COVID-19. So, these are some of the reasons why the home improvement market is improving.



Figure 1.1 HMPRO’s Share Price
Source: <https://www.reuters.com/companies/HMPRO.BK>

CHAPTER II

BUSINESS OF HOMEPRO

First outlined will be the HomePro background (2.1) that discusses the company's history, vision and mission, nature of business, and subsidiary's business. Following that the future strategy of the company (2.2) and revenue structure (2.3).

2.1 HomePro Background

Home Product Center Public Company Limited operates as a one-stop shop for products and services related to the construction, extension, renovation, and enhancement of buildings, houses, and residences. As HomePro is the leading home improvement retailer in Thailand, its product range covers 50,000 SKUs (HomePro annual report 2021).

The company was established in 1995, being a joint venture between Land and Houses Public Company Limited and Quality Houses Public Company Limited under the company trademark of HomePro (HomePro annual report 2021). Homepro became public in the year 2001 with an initial registered capital of 150 million baht.

There were 87 HomePro branches, 6 HomePro S branches, 14 Mega Home branches, 7 HomePro Malaysia branches at the end of 2021 (**Figure 2.1**). In January 2021, the company invested in a retail business in Vietnam. Furthermore, the company got a rating AA- from TRIS Rating Affirms Company.

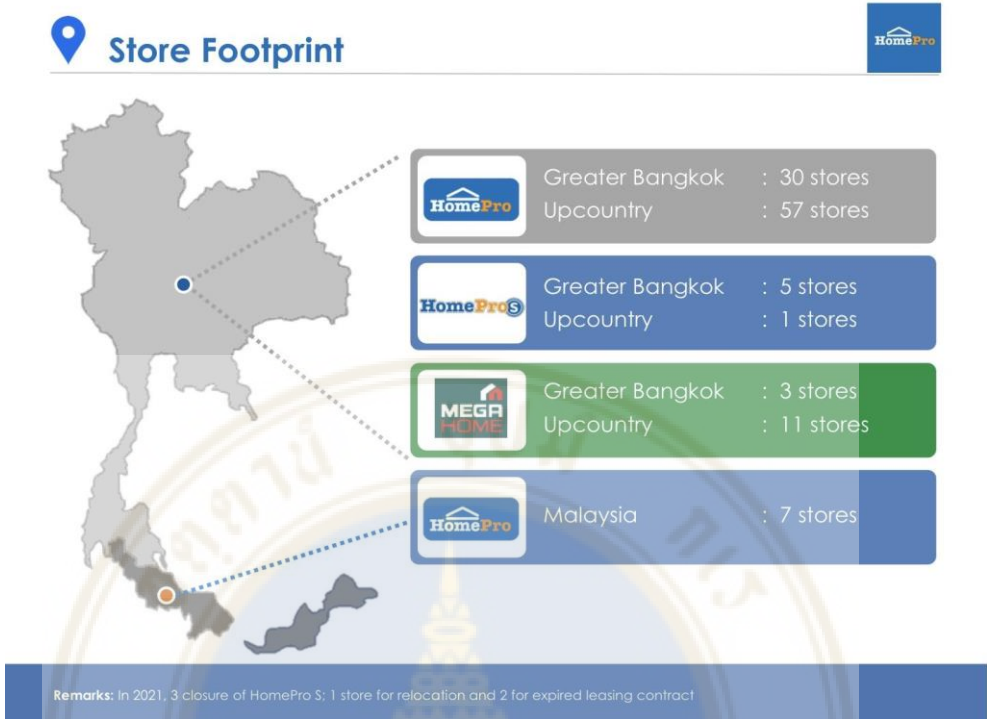


Figure 2.1 The Number of Store in 2021
Source: Opportunity Day Presentation Year end 2021

Vision and Mission

The company’s vision is “To become a leader in Home Solution and Living Experience in Thailand and Southeast Asia” (HomePro annual report 2021). HomePro has a mission divided into five aspects. First, the company will provide great products and services with value and sufficiency to customers that will go beyond their expectations and improve the standard of living. Second, the company recognizes the value of growing their employees and enabling them to exceed expectations, increasing productivity, adhering to company culture, maintaining a high standard of living, and devoting to the organization. Third, the company will look for new opportunities in business and the added value to its stakeholders. Fourth, the company works together with business partners in order to have mutual success, in terms of developing new products and services, and improving managerial effectiveness. Fifth, their management team is committed to strong governance

and social responsibility, as well as having a good community and environmental connections.

Nature of Business

HomePro's nature can be divided into two sectors. The first sector is home improvement retail, which includes two sub-sectors such as products and services relating to retail business. There are two groups of product categories. The first category is Hard-Line, which consists of tools, paint, home improvement, bathroom, sanitary ware, kitchen, home appliances, and electrical equipment (HomePro Annual Report 2020). Soft-Line would include bedding, home textiles, furniture, lighting, decorative products for the home, and household accessories (HomePro Annual Report 2020). The second sub-sector is services relating to retail businesses. There are several related service offerings that provide consultation and useful information to customers. For example, installation, maintenance, cleaning, home makeover, and home improvement services. The second sector is space rental service. The company rents out space in several of its HomePro stores to retail tenants. The company has also created the "Market Village" retail concept, which functions as a full-service shopping mall simultaneously. The company has 5 stores located in Suvarnabhumi, Ratchapruk, Rangsit Klong 4, Hua-Hin, and Phuket-Chalong at the end of December 31, 2021. In addition to the HomePro store, the property contains a retail area with supermarkets, restaurants, banks, booksellers, and IT shops among its tenants.

Subsidiaries Business

The firm's subsidiaries include Market Village Company Limited, Home Product Center (Malaysia) Sendirian Berhad, Mega Home Center Company Limited, DC Service Center Company Limited, and Home Product Center (Vietnam) Company Limited (**Figure 2.2**). The details in each subsidiary will be described as follows.

1. Market Village Co., Ltd. ("Market Village"), located in Hua-Hin, Prachuap Khiri Khan Province, was established on May 26, 2005, with the objectives of managing rental space and providing tenants with facility services. Home Product Center Plc. owns

99.99% of the company's total shares and the company operates 5 Market Village stores in total at the end of 2021

2. Home Product Center (Malaysia) SDN. BHD. was established on June 28, 2011, with the objective of operating a home improvement retail business in Malaysia. Home Product Center Plc. owns the whole of the company's stock. The Company will have 7 HomePro Stores in Malaysia by the end of 2021.

3. Mega Home Center Co., Ltd. located in Tambon Bangkhen, Amphoe Muang Nonthaburi, Nonthaburi, was established on July 4, 2012, with the objective of operating a retail and wholesale business in construction and home improvement products. Home Product Center Plc owns 99.99% of the company's total shares. The Company operates 14 MegaHome stores at the end of 2021.

4. DC Service Center Co., Ltd. was established on September 4, 2013, with the objective of operating a business of warehousing and distribution of goods which Home Product Center Plc. holds 99.99% of the total shares.

5. Home Product Center (Vietnam) Co., Ltd. was established in November 2020 with the objective of operating a retail business in Vietnam. Home Product Center Plc. owns the whole of the company's total shares. At the end of 2021, it was operated through the E-market place channel.



Figure 2.2 Corporate Group Structure of Homepro

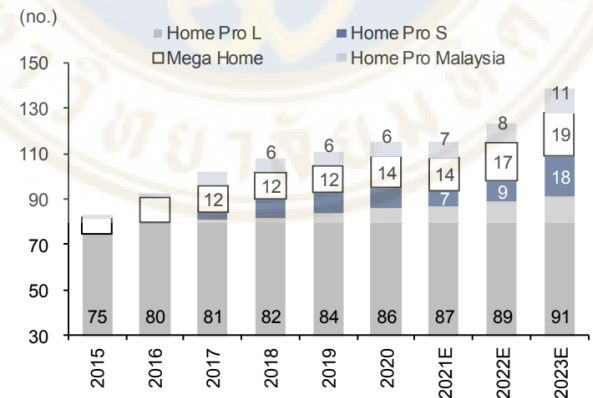
Source: Opportunity Day Presentation Year-end 2021

2.2 Business Strategy

HomePro aims to become a One-Stop Shopping place and has expansion planning to increase business opportunities to continue to serve the needs of home improvement for the New Normal lifestyle. Currently, the Company realizes the importance of developing and adapting to the current situation. Also, the company faces risks from the government's uncertain announced lockdown that affect the temporary store closures and increase the number of stores closed. The Company has developed its services to match the changing needs of customers to provide more convenience to the customers.

In 2021, the company opened only two stores of the HomePro format that including one store in Thailand in 4Q21 and another store in Malaysia in 2Q21. However, the company has a more aggressive expansion plan in 2022, especially three to four new stores in the Mega Home format. By the end of 2021, there are 114 stores nationwide and overseas. Regarding business expanding in ASEAN, the Company has expanded 7 stores HomePro in Malaysia and has planned to invest in Vietnam in 2021.

Finally, the Company expects to expand up to 139 stores by the year 2023 (Figure 2.3). The economic situations and the purchasing power of customers will be taken as the main factors of the business model for expansion consideration.



Sources: HMPRO; FSSIA estimates

Figure 2.3 New Store Opening Plan from 2015 to 2023 Breakdown by Format

Source: Finansia Equity Research Report on 28 January 2022

In 2021, the company's management strategy will be divided into four sectors. First, the company is well prepared in advance to handle the changing lifestyle from the COVID-19 situation by developing distribution channels with omnichannel strategies to improve the efficiency of distribution. They also provide a helping service that customers can shop the product without going to physical stores. Second, the stability of supply chain management is one of the most important strategies for retail businesses. The company recognizes the importance of enhancing the operational effectiveness of the supply chain and they have a distribution center where products can be delivered on time and the risk of a stock outage is reduced. Third, the company has a strategy for workforce management because of the COVID-19 pandemic, the implementation of 'Work from Home' policies to decrease the risk of infection in the office and support units. The company also supported immunization and formed the HR Clinic for internal communication in order to assist infected employees and their families in receiving treatment as quickly as possible. Infected associates in the green level were given medical boxes to treat for themselves at their home isolation. As a result, work plans were able to proceed without interruption. The vaccination was pushed as much and as quickly as possible in order to boost client confidence when they shop in the stores. Over 90% of associates had been vaccinated by the third quarter. For our Home Services team, every week 100% of our technicians are tested for coronavirus with the Antigen Test Kit (ATK) to keep our customers confident. Fourth, the strategy of closed stores management has been implemented to connect with the warehouse in each store for the order fulfillment system. The delivery is linked to the customer's order in the system. This not only keeps costs down, but it also speeds up delivery (same day/next day). Furthermore, the company offers the Shop4You platform, which enables the best service to complete the loop from an order to delivery. Associates can also prepare goods for customers to pick up in the shop under the service name "Click and Collect". As a result, the company can make better use of its shop space and human resources.

2.3 Revenue Structure

Sales revenue and other income are included in the revenue of the company and its subsidiaries. The following **table 2.1** is a categorization of the overall revenue structure:

Table 2.1 HomePro's Revenue Structure from 2019 to 2021

Item	Unit: Million Baht					
	2019		2020		2021	
	Amount	%	Amount	%	Amount	%
1. Revenue from contracts with customers						
- Hard Line	43,970.2	65.3	40,325.9	65.3	41,864.2	65.5
- Soft Line	10,466.0	15.5	9,062.0	14.7	9,450.0	14.8
- Home Service	451.8	0.7	484.1	0.8	598.2	0.9
2. Revenue from Subsidiaries	8,158.2	12.1	8,474.8	13.7	8,655.5	13.5
- Revenue from Thailand	6,905.2	10.2	7,303.8	11.8	7,664.5	12.0
- Revenue from CLMV countries	1,253.0	1.9	1,171.0	1.9	991.0	1.6
Total Revenue from sales	63,046.2	93.6	58,346.8	94.5	60,567.9	94.7
3. Other income ¹	4,327.5	6.4	3,402.2	5.5	3,357.9	5.3
Total	67,373.7	100.0	61,749.0	100.0	63,925.8	100.00

Remarks: 1. Other income includes revenue from space rental, in-store promotion fee, etc.

Source: Home Product Center Annual Report 2021

The company's whole revenue comes from home product retailing, which accounts for 94.7 percent of its total revenue. Construction materials, electrical equipment, decorative products, and household equipment are among the products offered by the company. It also offers house and building installation, inspection, and repair services.

As illustrated in **Figure 2.4**, Market Village (rental service), Home Product Center (Malaysia) SDN BHD (Retailers of home goods), Mega Home Center (retail and wholesale of construction products), and DC Service Center warehouses contributed for 3% of total income, with HMPRO owning 99.99 percent of the four subsidiaries.

Other income includes revenue from space rental, marketing fees, promotional activities, and home service, all of which account for 3% of total income.



Figure 2.4 Revenue Structure by Percentage Breakdown

Source: Country Group Securities Research Report on 7 February 2022



CHAPTER III

HOMEPRO IN THE CURRENT ENVIRONMENT

First outlined will be macroeconomic analysis (3.1) that discusses the world and the country's GDP. Also, Interest rate, Inflation rate and exchange rate. Following that Industry analysis (3.2) and company's benchmark (3.3).

3.1 Macroeconomic Analysis

Macroeconomic analysis comprises the world and the country's GDP and interest rate, Inflation rate and exchange rate that is the key economic indicators.

3.1.1 The world and the country's GDP

In response to the COVID-19 rebound, the global economy saw recovery through vaccine rollout, maintained supportive financial conditions, and policy support. In 2022, the IMF predicted that major economies will develop slowly, with the exception of ASEAN and Japan which grew at a faster rate in 2022.

Thailand's economy will continue to improve. However, the spread of the Omicron variant is a major concern in the future. The outlook for Thailand's economic recovery is highly unpredictable. Among the most important factors are domestic containment measures' implementation and relaxation, government stimulus continuity, and external factors. Following the relaxation of containment procedures, the number of new cases could increase in the future.

However, progress in immunization would help to lower the frequency of severe cases and the risks of a public health system with insufficient resources. As a result, the requirement for strict containment measures would be reduced. Government stimulus would be key in boosting the economy in the future.

According to the IMF World Economic Outlook in October 2021, the recovery during a pandemic, health concerns, supply disruptions, and price pressures are shown as follows in **Figure 3.1.** and **Table 3.1.**

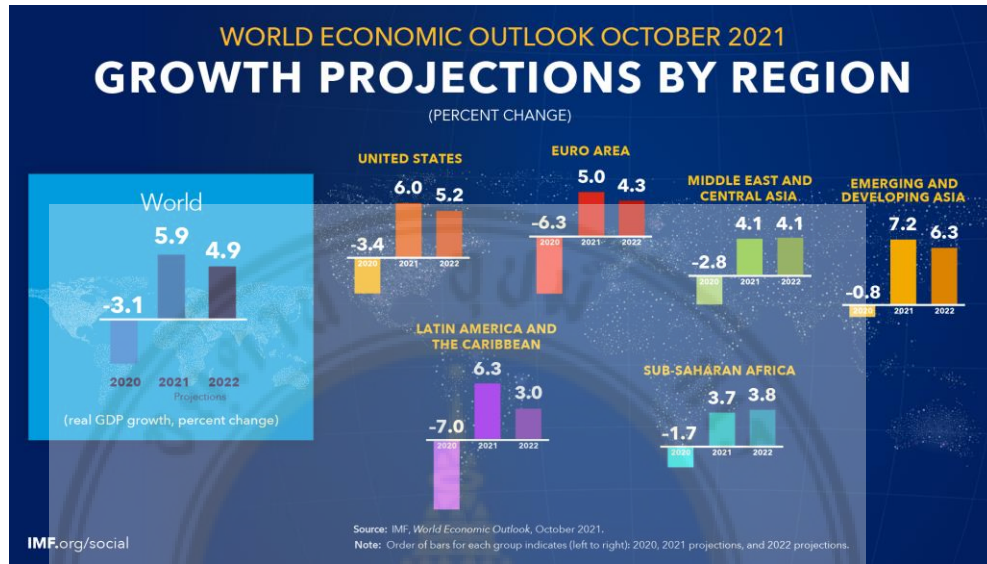


Figure 3.1 Growth Projection by Region

Source: IMF, World Economic Outlook October 2021

Table 3.1 World Economic Outlook Growth Projections

**Latest World Economic Outlook
Growth Projections**

(real GDP, annual percent change)

	2020	PROJECTIONS	
		2021	2022
World Output	-3.1	5.9	4.9
Advanced Economies	-4.5	5.2	4.5
United States	-3.4	6.0	5.2
Euro Area	-6.3	5.0	4.3
Germany	-4.6	3.1	4.6
France	-8.0	6.3	3.9
Italy	-8.9	5.8	4.2
Spain	-10.8	5.7	6.4
Japan	-4.6	2.4	3.2
United Kingdom	-9.8	6.8	5.0
Canada	-5.3	5.7	4.9
Other Advanced Economies	-1.9	4.6	3.7
Emerging Market and Developing Economies	-2.1	6.4	5.1
Emerging and Developing Asia	-0.8	7.2	6.3
China	2.3	8.0	5.6
India	-7.3	9.5	8.5
ASEAN-5	-3.4	2.9	5.8
Emerging and Developing Europe	-2.0	6.0	3.6
Russia	-3.0	4.7	2.9
Latin America and the Caribbean	-7.0	6.3	3.0
Brazil	-4.1	5.2	1.5
Mexico	-8.3	6.2	4.0
Middle East and Central Asia	-2.8	4.1	4.1
Saudi Arabia	-4.1	2.8	4.8
Sub-Saharan Africa	-1.7	3.7	3.8
Nigeria	-1.8	2.6	2.7
South Africa	-6.4	5.0	2.2
<i>Memorandum</i>			
Emerging Market and Middle-Income Economies	-2.3	6.7	5.1
Low-Income Developing Countries	0.1	3.0	5.3

Source: IMF, *World Economic Outlook*, October 2021

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2020/2021 starting in April 2020. For the October 2021 WEO, India's growth projections are 8.3 percent in 2021 and 9.6 percent in 2022 based on calendar year.

Source: IMF, World Economic Outlook October 2021

The global economy is expected to grow at a 5.9% annual rate in 2021 and a 4.9 percent annual rate in 2022. The downward estimate for 2021 indicates a slowdown in the economy as a result of disrupted supply. Because of the worsening epidemic dynamics, this includes low-income developing countries. This is partially offset by improved near-term prospects in developing economies and some commodity-exporting emerging

markets. The threat of new variants as Delta spreads rapidly has raised concerns about how quickly the pandemic can be resolved. Moreover, policy decisions have become more difficult when there is limited space to implement strategies.

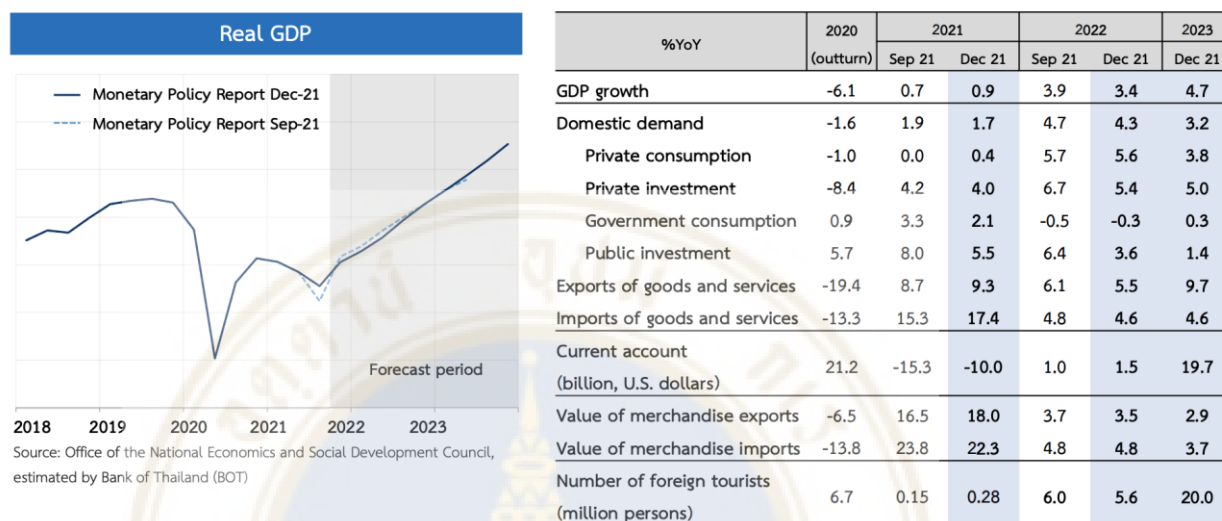


Figure 3.2 Real Growth and GDP Growth

Source: BOT, Analyst Meeting No. 4/2021 Presentation on 10 January 2022

Thailand's economy is projected to increase at 2.5 percent according to Bank of Thailand presentation in 2022 (**Figure 3.2**). There are many prospects for recovery in Thailand, although, Thailand has many economic challenges. First, the pandemic has a significant negative impact on tourism sector. Thailand's GDP dropped around 6.1 percent in 2020, which is the largest shrinkage since the Asian financial crisis. The tourism sector contributed around a fifth of GDP or 20 percent which means the related interruption of tourist travel has had a particularly negative impact on employment. Second, the government took an action in the following steps in response to crisis. Authorities' timely and strict quarantine measures have successfully reduced the infection line in almost 2020. Effective quarantine combined with timely and diverse policy packages. These included stimulus policies to boost the economy by about 10% of GDP. In addition, lowering the policy rate by 75 basis points to 0.5 percent by 2020, and financial sector measures were implemented to support the smooth operation of financial markets and receivables affected

by COVID 19. Third, the most important for economic recovery is the vaccine policy. Thailand plans to reach herd immunity to respond to the ongoing pandemic in the country that put an end to the pandemic.

3.1.2 Interest rate, Inflation rate and Exchange rate

During its February meeting, the Bank of Thailand held the key interest rate unchanged of 0.5 percent at a low record (**Figure 3.3**). The accommodative monetary policy will help to boost the economic recovery in accord with market consensus. The economy of Thailand is anticipated to rise 0.9 percent in 2022, 3.4 percent, and 4.7 percent in 2023, respectively. These are driven by domestic expenditure and a steady recovery in international tourism. The Omicron outbreak would have an economic impact in early 2022 and it would require monitoring very closely because it could have a more serious and long-standing impact than expected.



Figure 3.3 Thailand Interest Rate

Source: Tradingeconomics.com

Thailand faced deflation in 2020 because of lower oil and commodity prices, weak domestic demand, and government initiatives to lower the cost of living during the epidemic. For example, the government has authorized a plan to reduce water and electricity prices during April and June 2020. Inflation is expected to continue below the central bank's

target between 1.0 percent to 3.0 percent in 2021 (**Figure 3.4**), due to a delayed recovery in oil prices and domestic consumption. As the COVID-19 pandemic subsides and economic activity starts up, inflation is expected to climb and stay within the target range during 2022 and 2025. To stimulate economic development and mitigate the negative effects of the coronavirus epidemic, the Bank of Thailand (BOT) lowered its key policy rate by 75 basis points to 0.5 percent by 2020. In addition, the central bank took a number of steps to assist local businesses, including a THB500 billion loan scheme for SMEs and a modification of repayment terms. To support liquidity and maintain financial stability, the BOT formed the Corporate Bond Stabilization Fund (BSF) and purchased approximately THB1000 billion in government bonds. The central bank is likely to maintain its accommodative policy stance in the medium term in order to accelerate economic recovery.

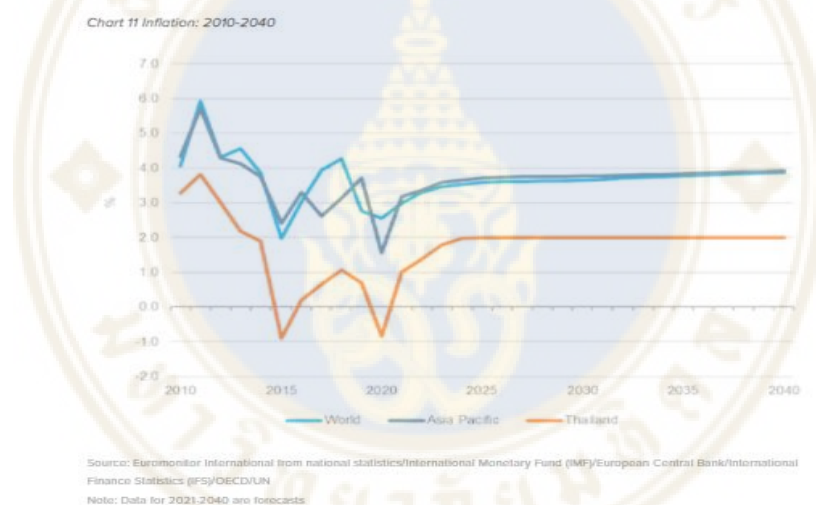


Figure 3.4 Inflation from 2010 to 2040

Source: Euromonitor

As of October 2021, the Thai baht's Real Effective Exchange Rate (REER) had declined by 7.9% year-to-date. According to **Figure 3.4**, the Thai baht depreciated as a result of the COVID-19-induced risk-off sentiment. As well as the huge current account deficit resulting from a drop in tourism receipts. Outflows from EMDE equities markets, including Thailand, were driven by expectations that the US Federal Reserve would lower the size of asset purchases under the quantitative-easing program. Nevertheless, the

currency has become more stable since September, when the easing of the lockdown has been announced and the borders were reopened in October. When compared to regional peers, the Thai baht has had the worst year-to-date performance following by Malaysia's REER and the Philippines' REER, which have both depreciated by 2.2 percent and 2.8 percent, respectively.

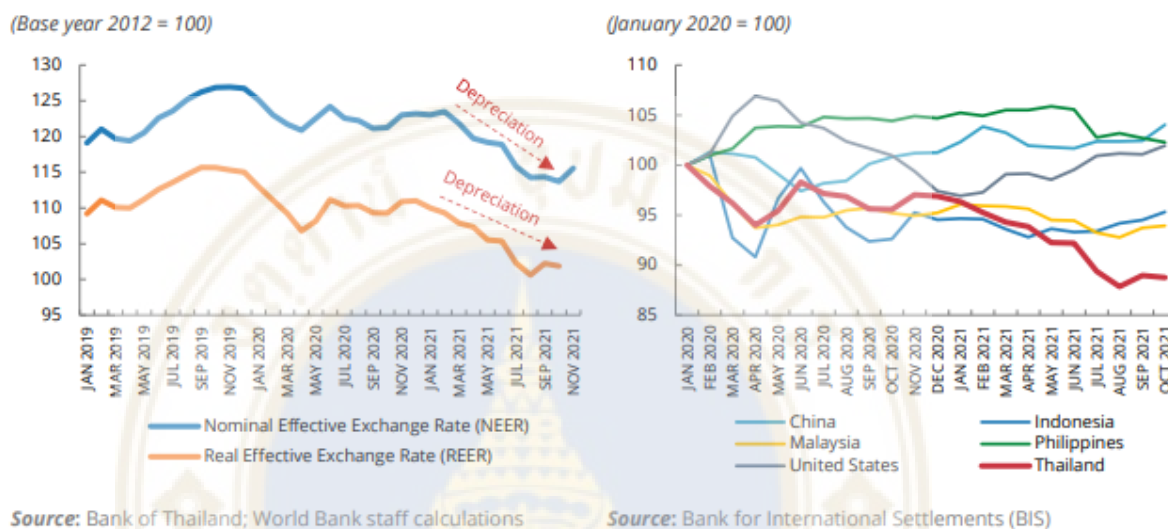


Figure 3.5 The Thai Baht has Depreciated since the Beginning of 2021 and The Thai Baht, Malaysian ringgit, and Philippine peso depreciated.

Source: Bank of Thailand; World Bank Group

3.2 Industry analysis

HomePro group plan to keep expanding to reach the Asian market and recently expanded the new branches in Malaysia. So, Industry analysis contains ASEAN home improvement market, Home improvement in Malaysia and Thailand.

3.2.1 The forecast of the ASEAN home improvement market from 2021 to 2025

In 2025, the ASEAN home improvement market is expected to be worth \$10.90 billion USD, with a compound annual growth rate (CAGR) of 9.22% from 2021 to 2025

(Figure 3.5). Because of ASEAN countries' population increase, rapidly rising property prices, rapid urbanization, and a beneficial demographic structure, aided growth in the ASEAN home renovation market. The ASEAN home improvement industry is expected to benefit from increased e-commerce penetration as well as increased work from home and freelance jobs. However, market growth is expected to grow slowly because of labor shortages and the economic slowdown. In addition, Malaysia had the largest share of home improvement retail space in 2020, followed by Thailand.

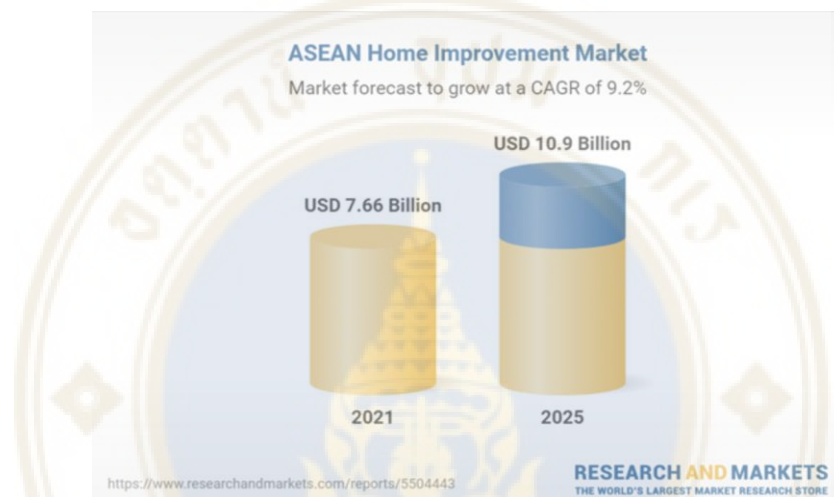


Figure 3.6 ASEAN Home Improvement Market

Source: <https://www.researchandmarkets.com>

3.2.2 Home improvement in Malaysia

The property market in Malaysia is expected to remain constrained on the recovery of the home improvement category, the negative impact on the slowdown property market maybe subsides gradually and it is offset by consumers who are choosing to renovated and redecorated their existing homes rather than move. Prior to the pandemic, busy urban lifestyles contributed to many Malaysian consumers hiring professionals to perform home improvement tasks. Rising disposable incomes, particularly among millennials, were making such services more affordable, limiting the growth of home improvement. Many young consumers preferred to keep things simple by purchasing readymade products, whereas those who desired a more personalized touch tended to hire

professionals. While the immediate threat from COVID-19 fades, the importance of convenience for this consumer group, who generally value speed and efficiency above all else, will be reawakened.

3.2.3 Home improvement in Thailand

The effects of the COVID-19 pandemic on home improvement. The majority of Thais prefer "do it for me" to "do it yourself." which means hiring professionals to do the work for them, but movement restrictions have temporarily suspended these projects. Even after these restrictions were eased, some local consumers were still hesitant to have workers in their homes due to the perceived risk of epidemic. The temporary closure of retail outlets, as well as the economic shock of the pandemic, played a role, leading many local consumers to limit their expenditures.

Customers who want to renovate their homes can do through e-commerce or LINE application. Although, HomePro as a retail chain business has seen significant growth in online sales. However, because of the lengthy closure of the physical storefront, overall sales were lost. For orders placed through LINE, HomePro also provided a drive-thru collection option. Customers could also use the app to inquire about products and schedule appointments to pick up their orders without having to leave their vehicles. In June and July 2020, HomePro offered a service called "Buy paint, get a technician," in which the consumer could get a package deal that included paint as well as the services of a professional to apply it within 30 days. Earlier in the review period, HomePro expanded its store network and started opening smaller outlets in urban areas under the HomePro S sub-brand.

According to Krungsri Research on Industry Outlook 2021-2023 Modern Trade, the sales of modern trade stores are predicted to increase by 1.5-2.5% of an annual average over the year 2021-2023 (**Figure3.6**). These follow the recovering economy from improved vaccine accessibility and the eased government of many lockdown restrictions. Moreover, the government takes action to support and encourage the economy in order to boost domestic consumption and also has a greater public-sector investment. However, many businesses will still face difficulty from intense competition and uncertain customer

purchasing power among the rising cost of living. Therefore, they try to look for new opportunities in the retail sector such as e-commerce.

In the year 2019, the sector of modern trade created a combined value of THB2.8trn up 7.7% from the previous year and reporting for 16.5% of GDP. It is second place and followed the manufacturing sector which reported for 25.3% of GDP. However, overall are shrinking continually in comparison to 2019

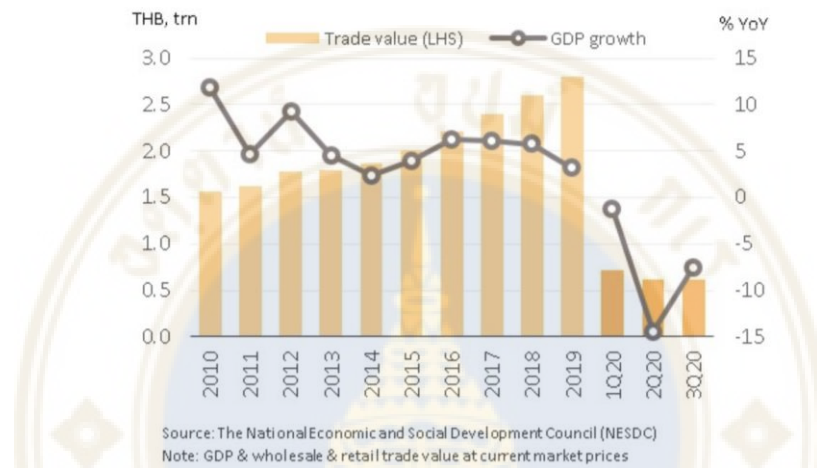


Figure 3.7 Wholesale and Retail Trade Value VS GDP Growth

Source: Krungsri research, Industry Outlook 2021-2023 Modern Trade

Currently, traditional retail store formats have developed into modern stores and operated on a large scale and continue increasing the number of branches. They also have bargaining power with producers so less dependent on the wholesaler. In addition, they have managed and applied many innovations that give advantages and help their tasks in terms of having new technology to apply in their system.

The modern trade sector has been quickly increasing, especially in Bangkok and other fast urbanizing regional centers. There are two following reasons. First, the government has allowed foreign investors about technology innovation to invest in retail in the domestic sector. Second, modern trade stores have the potential to meet consumer demand while also providing customers with convenience. For instance, by providing a

wide range of goods in a single store, such as food & drink, household goods, and personal care as shown in **Figure 3.7**.

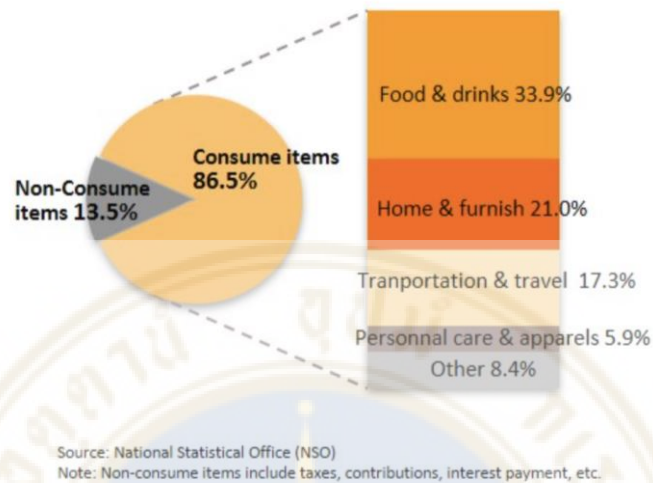


Figure 3.8 Distribution of Household Expenditure by type (2019)

Source: Krungsri research, Industry Outlook 2021-2023 Modern Trade

According to Krungsri Research on industry outlook 2021-2023 for construction contractors, Krungsri Research views that the construction industry conditions will improve and predict investment will increase by 4.5-5.0% in the year 2021 and then by 5.0-5.5% in the year 2022 to 2023 (**Figure 3.8**). Also, the government spending on mega projects will be the major growth drivers, especially for the development project of the Eastern Economic Corridor (EEC) that had supported, and the overall economic recovery after the 2020 recession which will help to increase spending on housing.



Figure 3.9 Construction Spending

Source: Krungsri research, Industry Outlook 2021-2023: Construction Contractor

3.3 Company's Benchmark

A company's competitors are other companies who offer the same or similar goods and services to the same people. The types of goods that compete against the company have been classified as construction materials, home improvement, decorative accessories, tools and equipment to be used for construction. Furthermore, there are 5 benchmark companies as follows.

1. Dohome Public Company Limited

Do Home's original location in Ubon Ratchathani province, was established in 1983 as S.Ubon Watsadu Partnership Limited. In 2007, the Company opened a new branch in Muang District, Nakhon Ratchasima Province, under the new trade name "Do home under the Ubon Watsadu Company Limited," and has been continuously opening new branches with their vision of committedly being a center of products and services of

construction materials and home decoration products for all groups of customers under the concept "Complete, Cheap, and Good". In 2017, the company became a publicly-traded company, also known as an IPO and the company become a part of the SET100 Index in June 2020. The Company has 2 subsidiaries, namely the Group's land holding (DHG) and the production and distribution of electricity from solar electronics (Solar Rooftop) installed for the Group (Dohome Energy).

2. Siam Global House Public Company Limited

Siam Global House Public Company Limited's original location in RoiEt, was established in 2007 when two companies of Siam Global House Company Limited and Siam Global House KhonKaen Company Limited combined together to form one company with initial registered capital of 700,000,000 million Baht. On August 19, 2009, the company began trading at the Stock Exchange of Thailand which is part of the construction materials merchant retail industry. The company's main objective is offering many types of products in large warehouse shops as one-stop home center with the concept of "All Inclusive for Your House" under the trade name "Global House". Additionally, drive-through systems have been implemented to easy access and more convenient for customers. As of September 30, 2021, the company has a total of 74 branches.

3. Index Living Mall Public Company Limited

Index Living Mall Public Company Limited is a Thai corporation that was established in 1973 and was listed company in the Thai market (SET) on 26 July 2019. Tummada Panich Family CoLtd. (40.26% shareholding) and Patamasatayasonthi Family (29.04% shareholding) was the Company's major shareholder throughout the financial year. Retail and wholesale furniture, electronic and home decorative products, rental, and services are the company and subsidiaries' primary activities. Manufacturing, import and export, and distribution of furniture, home appliances, rental area, warehouse rental, and franchise are all subsidiaries of the company. Other subsidiaries were established in Thailand, with the exception of Index Living Mall Malaysia Sdn. Bhd., which was incorporated in Malaysia. The Company has continued to develop new technology for

production, and other management, including transportation management in order to maintain the changing consumer demands and behavior.

4. Wilcon Depot

Wilcon Depot is a leading retailer of home improvement and construction supplies in the Philippines. The firm officially began operations on April 1, 2016, and became a publicly-traded company in March 2017. The company operates in trading business segments and has local and international brands of tiles, furnishings and housewares, paints, and building materials, among others. The company operates approximately 40 stores across the country and sells its products through two retail formats, the Depot store format, and the home Essentials store format.

5. MR D.I.Y. Group (M) Sdn. Bhd.

MR D.I.Y. Group (M) Sdn. Bhd. or MRDIY was established in 2005 with its first store in Malaysia that was listed on Oct 26, 2020. The company currently become the largest home improvement retailer in the region and stores spread over Malaysia, Singapore, Thailand, Brunei, Indonesia, Philippines, Cambodia, Turkey, and Spain, as well as online store. The products of the company have a variety of categories including Household and Furnishing, Hardware, Electrical, Stationery and sports, and etc. with brand concept of 'Always Low Prices'.

In summary, HomePro is a competitor of Dohome, Siam Global, Index Living Mall, Wilcon Depot and MR D.I.Y. Group (M) Sdn. Bhd. When compared to the size and nature of the business, HomePro is a home improvement retailer and provides retail-related services. As a result, Siam Global House Public Limited Company will be regarded as a fierce competitor that provides the same goods as HomePro. In addition, Dohome and BuilderSmart are also considered as another competitors because their business is a building materials manufacturer and they have home decoration products as well. Furthermore, ILM operates a space rental and rendering service business, as well as OEM businesses that manufacture products for foreign operators that are similar to HomePro. So, Index Living

Mall (ILM) is a fierce competitor of Homepro including the reason that HomePro operates not only in Thailand but also in Malaysia. Next, when taking into account international countries such as Philippines and Malaysia as it was the Thailand neighbor. The first foreigner competitor would be Wilcon Depot. This company's benchmark was chosen based on both its operating activities and its performance in the valuation multiple. They are very similar to HMPRO. Finally, MRDIY Group (M) Bhd, a Malaysian home improvement retailer, is another competitor. The company also has a store in Thailand and operates in the same category, which includes Household, furnishing and etc. Nevertheless, HomePro heads towards being the leading home improvement retailer in Thailand with the biggest store network system that offers completion of home-related products as well as services to meet the needs of customers. HomePro has shops located in Bangkok and upcountry. Also, the company has store expansions that took place overseas. There are many competitive differentiate a product or service between HomePro from competitors. The company offers products from both international brands, private labels, and selected in-house brands that are available for choice. The company also offers a one-stop shop through in-house services including interior design and decoration, installation, home maintenance, and home repairs.

CHAPTER IV

VALUATION

Discounted Cash Flow (DCF) Valuation

Discounted cash flow (DCF) analysis is an intrinsic valuation method that is used to determine the value of a business and investment based on its expected future cash flows. It calculates a rate of return or discount rate based on dividends, earnings, free cash flow, which is then used to determine the value of the business in separation from other market factors. It means that DCF analysis estimates the present value based on projections of how much money will create in the future.

4.1 Pro Forma analysis

Pro forma is a method of analysis and the resulting financial statement based on historical information, operating indicator, and anticipating change. A pro forma statement lists actual and estimated revenues, costs, then the profit of the company as details in **Table 4.2**.

Total Revenue

Based on the perpetual growth concept that regards growth in all aspects along with the economy and human population in terms of demand for products and leading to higher output and higher consumption with the desired effect on the Gross Domestic Product (GDP). So, Table Growth rate show comparison for the growth rate of sales revenue and GDP by 4 years historical data and forecast for the next 5 years.

Refer to **Table 4.1**, the CAGR of HMPRO's sales revenue of historical data over years 2018-2021 is -1.08% and (2022F-2026F) forecasted data is 3.90%. In accord with the growth rate comparison, the growth rate stayed in this range between -1.08% to 6.23%. It

is realized that the suitable rate of perpetual growth rate is 3.90% because of referring to the home sector trend and forecasts (ReportLinker, Home and Garden Retailing in Thailand). Furthermore, the GDP of the construction sector and the growth rate are close together for forecast 2022-2026. Finally, home improvement is one of the construction sectors in terms of housing developments such as repairing and renovation.

Table 4.1 Growth Rate Comparison

HMPRO	Historical data (2018-2021)	-1.08%
	Forecast (2022-2026)	3.90%
Thailand GDP	Historical data (2018-2021)	2.56%
	Forecast (2022-2026)	5.84%
Construction Investment to GDP	Historical data (2018-2021)	6.23%
	Forecast (2022-2026)	5.25%

Source: Krungsri Research for Industry Outlook 2021-2023: Construction Contractor, Statista Thailand Gross domestic product (GDP)

Total Cost

The cost of goods sold (COGs) refers to cost of rental and related services of goods. COGS projections were based on a proportion of sales that were computed as the percentage of sales that will remain 71% from 2022 to 2026. Also, it is based on the average of the previous four years' proportion in total sales. An increasing in cost was due to expenses related to additional rental space and the new store of HomePro. The Selling and Administrative Expenses (SG&A) increased because of HomePro Expo event and higher expenses based on sales amount, comprised of over-time compensation, associate's sales incentive, salaries, and marketing expense.

Finance costs have been reduced because of the issuance of corporate bonds with lower interest rates for debt refinancing starting in 2021. The effective interest for the

year 2022 was calculated from the average of the last 4 consecutive years at 3.07% and 3% for the years 2023–2026. The effective interest approach is used to forecast financial costs by multiplying with the estimated interest-bearing-debt based on capital structure forecasts from 2022 to 2026.

HMPRO has previously calculated an effective tax rate that is lower than the corporate tax rate of 20%. As tax exemption and tax reduction incentives under the government’s investment promotion can help reduce base income tax rates. For this reason, the forecast tax rate is applied by 18.12% that calculate from the average of the past four years for effective tax rate.

Net Profit

The company’s net profit for the year 2021 was Baht 5,440.53 million, representing an decrease of Baht 215.88 million or down 1.29% as compared between 2018 and 2021. In addition, net profit had forecast an increase gradually of 4.10% from 2022-2026 that lead from sale growth and economic recovery. Earnings per share in 2022 is at 0.44 baht per share and it will continue to climb to 0.52 baht per share in 2026, representing a 4.10 percent CAGR. However, the CAGR from 2018 to 2021 is only -1.58 percent.

Table 4.2 Proforma statement

Year	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Revenue from Sales	61,951.30	63,046.20	58,346.80	60,567.91	62,775.65	65,411.51	68,082.42	70,654.11	73,269.05
Other Income	4,098.60	4,327.50	3,402.20	3,357.88	3,898.95	3,996.76	4,032.79	4,201.45	4,431.02
Total Revenue	66,049.91	67,373.72	61,748.99	63,925.79	66,674.60	69,408.26	72,115.18	74,855.56	77,700.07
Cost of Goods Sold	46,757.32	47,469.98	44,151.88	45,534.17	47,335.72	49,311.92	51,341.19	53,234.35	55,235.18
SG&A	11,926.56	11,944.88	10,964.71	11,348.87	11,884.13	12,330.98	12,818.48	13,308.97	13,819.83
Total Expense	58,683.88	59,414.86	55,116.59	56,883.05	59,219.85	61,642.90	64,159.67	66,543.32	69,055.01
EBIT	7,366.03	7,958.86	6,632.40	7,042.74	7,454.75	7,765.35	7,955.51	8,312.24	8,645.06
Financial Income	0.00	50.16	16.44	7.36	0.00	0.00	0.00	0.00	0.00

Financial Cost	400.10	405.50	458.80	415.60	336.74	295.66	287.27	279.28	284.73
Tax	1,309.51	1,426.98	1,035.35	1,193.97	1,289.75	1,353.47	1,389.44	1,455.53	1,514.85
Net Profit	5,656.41	6,176.53	5,154.68	5,440.53	5,828.26	6,116.23	6,278.80	6,577.42	6,845.48
EPS (BT)	0.43	0.47	0.39	0.41	0.44	0.47	0.48	0.50	0.52

4.2 Weighted Average Cost of Capital (WACC)

The company's weighted average cost of capital (WACC) is used as the discount rate in DCF analysis. In this calculation, it can be used to calculate over period of 5 years.

The formula to calculate the WACC is:

$$\text{WACC} = (W_e \times R_e) + ((W_d \times R_d) \times (1 - T))$$

Where:

W_d = Weight of Debt

W_e = Weight of Equity

R_d = Cost of Debt

R_e = Cost of Equity

T = Tax Rate

According to HMPRO's capital structure, the market value of equity is THB 206,474 million that is calculated from the recent market capitalization as of 18 March 2022. Also, the market value of debt is THB 5,624 million, so the proportions of debt (W_d) and equity (W_e) in the capital structure are 2.76% and 97.24% respectively.

HMPRO's debts include all interest-bearing debt. The majority is derived from the issuance of corporate bonds in the form of short-term and long-term borrowings from financial institutions. The cost of debt (R_d) is calculated by using the interest expense

divided by interest bearing debt, that is 3.44%. In addition, tax calculation is applying the standard rate of 20% from the revenue department to calculate the tax.

The formula to calculate the Capital Asset Pricing Model (CAPM) is:

$$Re = Rf + \text{Beta} * \text{MRP}$$

Where:

Re = Cost of Equity

Rf = The Risk-Free Interest Rate

Beta = The Parameter of the Market Risk.

MRP = Market Risk Premium

Table 4.3 WACC Calculation

WACC	
RISK FREE	2.31%
EQUITY RISK PREMIUM	5.82%
BETA	0.97
RQD. RETURN ON EQUITY	7.96%
COST OF DEBT	3.44%
AFTER TAX COST OF DEBT	2.75%
Tax	20%
WACC	7.78%

The cost of equity can be applied by using the CAPM (Capital Asset Pricing Model) as above equation. Since government bond yield is considered as a risk-free investment, the ten-year government bond yield is used for the calculation so the risk-free rate is 2.31% as of 18 March 2022 (The Thai Bond Market Association). The market risk

										Value
	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	
EBIT	7,366	7,959	6,632	7,043	7,455	7,765	7,956	8,312	8,645	
TAX	(1,310)	(1,427)	(1,035)	(1,194)	(1,290)	(1,353)	(1,389)	(1,456)	(1,515)	
EBIT AFTER TAX	6,057	6,532	5,597	5,849	6,165	6,412	6,566	6,857	7,130	
DEPRECIATION	3,064	2,942	3,182	3,208	3,130	3,084	3,037	2,985	2,943	
WORKING CAPITAL CHANGE	(197)	501	218	838	(890)	(838)	10	12	10	
CAPEX	(2,242)	(2,671)	(2,044)	(1,245)	(2,600)	(2,600)	(2,500)	(2,500)	(2,500)	
FCFF	6,682	7,304	6,953	8,650	5,806	6,058	7,113	7,354	7,582	203,232
DISCOUNTED CASHFLOW					5,806	5,621	6,124	5,874	5,620	150,625

	2022F
PV OF FIRM VALUE	179,670
NET DEBT	5,864
PV OF EQUITY VALUE	173,806
No. OF SHARES (MN)	13,151
EST. SHARE VALUE	13.22

For rating criteria of stock, it is a measure of a stock's expected performance to recommendations to stock traders regarding the changing between the current share price and the target price. There are three scales of rating include buy, hold, and sell as shown in **Table 4.5**.

Table 4.5 Rating Criteria

Rating Criteria:	
Buy	Equal to 10% or higher
Hold	Less than 10% Upside or Greater than 10% Downside

Sell	Lower than 10% Downside
------	-------------------------

HMPRO's share value or target price is 13.22 and the updated stock price on 18 March 2022 is 15.70 baht per share. So, it is lower than the updated stock by -15.82%. From the DCF model, we can recommend to "SELL" because the scale is fall in rating criteria "Lower than 10% Downside"

4.3 Sensitivity Analysis

In order to analyze how different values of independent variables effect on a specific dependent variable, we run a sensitivity analysis by calculating a discounted cash flow valuation with many key input factors such as WACC, cost of debt, cost of equity, and growth rate on share price. These factors have an impact on the stock price. In the analysis, we created scenarios that demonstrate the sensitivity of these key factors of $\pm 5\%$, $\pm 10\%$, $\pm 15\%$, $\pm 20\%$, and $\pm 25\%$, as shown in **Table 4.6**.

Table 4.6 Sensitivity Analysis

Deviation	Cost of debt	Price(baht) 13.22	Cost of equity	Price(baht) 13.22	WACC	Price(baht) 13.22	Terminal growth	Price(baht) 13.22
25%	6.85%	13.25	16.02%	8.82	9.72%	8.78	4.88%	17.19
20%	5.48%	13.25	12.81%	9.44	9.33%	9.41	4.68%	16.19
15%	4.57%	13.24	10.68%	10.17	8.94%	10.14	4.49%	15.31
10%	3.97%	13.23	9.29%	11.01	8.55%	10.99	4.29%	14.53
5%	3.61%	13.21	8.44%	12.01	8.17%	12.00	4.10%	13.83
0%	3.44%	13.20	8.04%	13.20	7.78%	13.20	3.90%	13.20
-5%	3.27%	13.19	7.64%	14.66	7.39%	14.68	3.71%	12.64
-10%	2.94%	13.17	6.87%	16.47	7.00%	16.53	3.51%	12.12
-15%	2.50%	13.15	5.84%	18.80	6.61%	18.90	3.32%	11.65
-20%	2.00%	13.13	4.67%	21.89	6.22%	22.07	3.12%	11.22

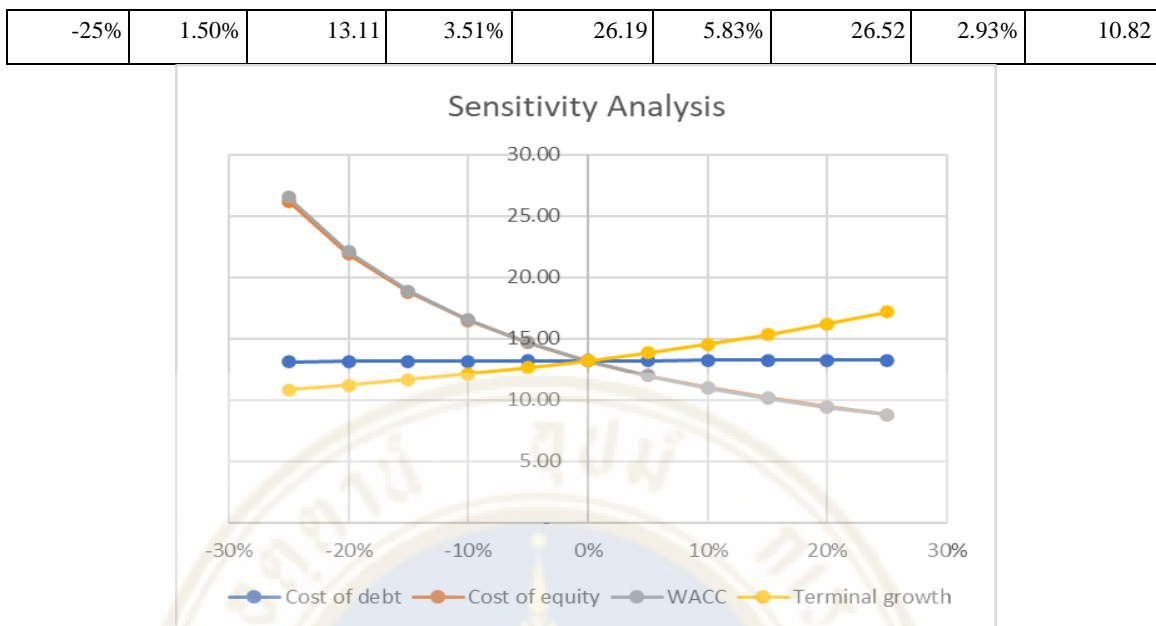


Figure 4.1 Spider Charts

The spider charts for sensitivity analysis measure the many input variables that have on the output and which one is the most influence on one chart. **Figure 4.1** of spider charts shown that the stock price is most sensitive to the WACC and cost of equity, as the slope is higher than others of terminal growth and cost of debt, indicating that one unit of WACC and cost of equity changes can have a major impact on the stock price. From the calculation, WACC is 7.78% and cost of equity is 7.96% which drives the target price to 13.22 Baht per share. On the other hand, the stock price is less sensitive to the cost of debt because debt on capital structure of the company has only 3.44%.

4.4 Valuation Recommendation

According to the DCF valuation, the forecast stock price is 13.22 baht per share, while the market price on 18 March 2022 is 15.70 baht per share, indicating that the HMPRO stock price has a 7.84 percent potential decline. However, because many factors can influence stock price, we would like to perform a scenario analysis of its EBIT for the

worst case and best-case scenarios to determine the possible range of stock price. The following is the worst and best cases.

- The best case: EBIT increases 25% from the base case
- The worst case: EBIT decreases 25% from the base case

Table 4.7 scenario case

Million baht	Base case	EBIT up 25% Best case	EBIT down 25% Worst case
EBIT 2022	7,455	9,318.44	5,591.06
EBIT 2023	7,765	9,706.69	5,824.02
EBIT 2024	7,956	9,944.39	5,966.63
EBIT 2025	8,312	10,390.30	6,234.18
Share price	13.22	18.74	10.20

The table shows that if the best-case scenario occurs, or its EBIT increases by 25%, the HMPRO's share value will be 18.74 baht, while if the worst-case scenario occurs, the company will go bankrupt and have a negative share value. One of the primary reasons for this outcome is the company's debt, which is quite high in comparison to the total EBIT that the company can generate. As a result, if the HMPRO performs poorly, the enterprise value may fall, resulting in a negative share value.

However, in the stock market, share value cannot be negative. In the worst-case scenario, it can only fall to zero. To summarize, we advise investors to "SELL," but they should be aware of how volatile the market is and be prepared if something bad happens.

CHAPTER V

INVESTMENT RISK AND DOWNSIDE POSSIBILITIES

5.1 Strategic Risk

The risks associated with the company's operational policies, the economy, investment, and competition. The spread of Coronavirus will have a huge impact on Thailand's and the world's economies in 2021. Due to measures to prohibit travel into and out of the country, economic activities, particularly tourism, were directly impacted. Domestic consumption decreased as well. HomePro was well aware of the risk indicated above, so it conducted an initial risk assessment and established a policy of careful store development to minimize the chance of operating results falling short of expectations. The company also encourages employees to improve internal work processes and procedures in order to lower total costs, also known as lean management. Marketing plans are also in place to entice more customers to visit and shop at stores (HomePro annual report 2021).

HomePro intends to keep expanding its storefronts. As a result, there may be risks associated with new store operations. The first store internally is in Malaysia. This was determined by a variety of factors, including consumer spending power, lifestyles, transportation systems, and infrastructure. By approval from the Board director in 2020, the second country is to operate a home-related retail company in Vietnam and the Company planned to proceed within the year 2021. To assess the impact and likelihood of risks in order to help in decision-making. The company managed foreign investment risks by studying the market, taxes, and other regulations, including government policy.

Many building materials retailers and home-related product shops are still trying to expand their shops in order to reach a larger market. The company minimized risk by focusing on the differentiation of various products and services such as "Home Service," which offers inspection, cleaning, sanitary ware replacement, painting, home renovation,

and home makeover. Although this income is tiny, it is a business strategy for customer pleasure (HomePro annual report 2021).

5.2 Operational Risk

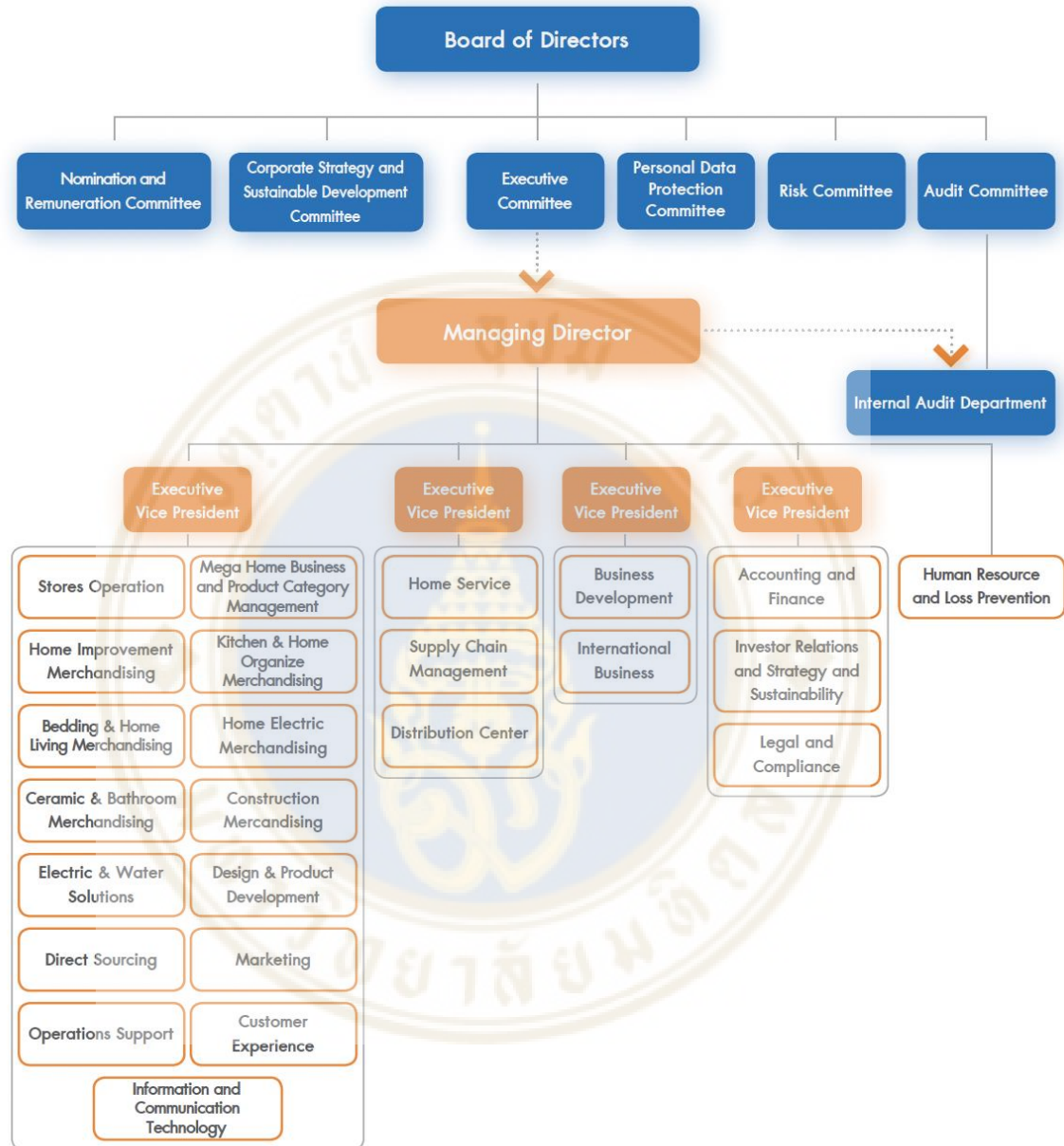
The risks of operating systems and personnel readiness for information and communication technology (ICT). The company may face the risk of losing skilled workers to competitors or other retail enterprises in highly competitive business industry. As a result, the company tried to mitigate this risk by enhancing associate abilities and skills, promoting all levels for mutual benefit. In addition, technology and current management systems are being implemented in order to increase efficiency and reduce labor costs (HomePro annual report 2021). One of the most significant threats in the retail business is product loss. There was a loss during the transit process and the management system failed. To handle this risk, the company has a loss prevention department that plans and prevents the loss of the company's assets by collaborating with associated departments to define operating procedures and minimize the loss to the lowest extent possible (HomePro annual report 2021).

5.3 Financial Risk

Homepro's investments, foreign exchange rates, and sourcing for appropriate sources of finances for business operations are all factors to consider. The majority of the company's customers were retail consumers, who accounted for the majority of sales. Only projects with strong financial positions would be considered for credit term sales. They mainly traded receivables from sales through credit cards and sales of projects (HomePro annual report 2021). Business activities that rely on external funding were also impacted by the interest rate change. Interest rates and inflation are all quite low the previous year. To mitigate the risk, the company enters into foreign exchange forward contracts when it considers it necessary.



Appendix A: Organization Chart as of December 31,2021



Source: HomePro Annual Report 2021

Appendix B: Shareholding Structure as of September 16, 2021

Rank	Name of Person / Juristic Person	No. of Shares	% of Total Paid-Up Share
1	Land and Houses Public Company Limited	3,975,878,432	30.23%
2	Quality Houses Public Company Limited	2,613,023,098	19.87%
3	Thai NVDR Company Limited	745,352,759	5.67%
4	Mr. Niti Osathanuklor	665,764,862	5.06%
5	Social Security Office	385,589,412	2.93%
6	THE BANK OF NEW YORK MELLON	275,644,531	2.10%
7	Mr. Manit Udomkunnatum	268,989,197	2.05%
8	SOUTH EAST ASIA UK (TYPE C) NOMINEES LIMITED	224,743,925	1.71%
9	STATE STREET EUROPE LIMITED	173,979,978	1.32%
10	Sarasin Co., Ltd	167,557,971	1.27%

Remark: - As of September 16, 2021, free float rates of the Company were at 40.85% and holding by institutions was at 18.32%
The following are top 3 major shareholders:
- Land and Houses Plc., in which Mr. Anant Asavabhokhin is the major shareholder holding 23.93% of paid up capital (as of 25 August 2021)
- Quality Houses Plc., in which Land and Houses Plc. is the major shareholder holding 24.98% of paid up capital (as of 24 August 2021)
- The Social Security Office, a division of the Ministry of Labour and Social Welfare, is classified as an institutional investor and is responsible for managing the social security fund and compensation fund.
- The Company has no governmental institutions owning more than 5% of shares

Source: Homepro Annual Report 2021

Appendix C: Corporate Governance

Home Product Center Public Company Limited has a corporate governance policy which is the structure of rules, policies, and practices used to direct and manage a company to reach the company's objectives and goals. The Board of Directors of the company attach great importance to corporate governance and believes that it is the crucial point for an effective and efficient business operation. Also, it can transfer sustainable long-term success to the company and fairness to all stakeholders

The Board of Directors of the company has been committed to the responsibility, the principles of systematic management, transparency and disclosure of good corporate governance, equal treatment to all shareholders. Furthermore, the board of directors has updated the policies for clearness and completeness through the strategy and sustainable development committee (HomePro annual report 2021).

The company has four Independent Directors consist of Mr. Pornwut Sarasin, Mr. Boonsom Lerdhirunwong, Mr. Chanin Roonsamrarn, and Mr. Thaweewat

Tatiyamaneekul. These people have appropriate skill, knowledge, and experience in a particular subject of the Retail Business. They have been giving valuable and helpful advice in the role of independent directors and audit committee all along. Specifically, Mr. Chanin Roonsamrarn is an expert in Finance and Accounting. The details of the position of Independent Directors are shown as below.

Name - Surname		Date of Appointment	Number of Service Years (Date of Appointment - 31 Dec 2021)
1. Mr. Pornwut	Sarasin	1 Oct 2015	6 years 3 months
2. Mr. Boonsom	Lerdhirunwong	1 Oct 2014	7 years 3 months
3. Mr. Chanin	Roonsamrarn	3 Oct 2005	16 years 3 months
4. Mr. Thaveevat	Tatiyamaneekul	29 May 2001	20 years 7 months

Source: Home Product Center Annual Report 2021

The survey and evaluation results of the Corporate Governance Report of Thai Listed Companies 2021, operated by the Thai Institute of Directors (IOD) with support from the Stock Exchange of Thailand. The company has received 5-Star CG scoring or highest levels of excellence.

Appendix D: HomePro's Financial Analysis

In the industry of the home improvement products and services retailers. HMPRO's main competitors are two companies that are Siam Global House Public Company Limited (GLOBAL) and Dohome Public Company Limited (DOHOME). These three are still good fundamental stocks in 2021. However, HomePro is the leader in home improvement, ahead of Global and Dohome. Homepro's market capitalization is almost 2 times higher than Global and 4 times higher than DoHome as shown in shown in **Figure A**.



Figure A Market Capitalization as of 5 Mar 2022

Source: www.reuters.com

Dupont analysis of return on equity (ROE)

DuPont analysis of ROE and growth analysis for some financial ratios will be calculated over the last 5 years that are shown in Table A, B, and C.

ROE of HMPRO is decreased because of the majority of store closure from lockdown policy. For example, the company have temporarily closed 29 HomePro stores and 4 MegaHome stores in Thailand starting from July 20th. Also, a closing down all of 7 stores in early May of HomePro Malaysia due to the lockdown restriction of Malaysian Government. As the result, in a drop in the total revenue and net profit margin since covid-19 outbreak in 2019.

The formula to calculate the percentage Return on Equity is:

$$\text{ROE} = \text{Net Profit Margin} \times \text{Total Asset Turnover} \times \text{Equity Multiplier}$$

where:

$$\text{Net Profit Margin (NPM)} = \text{Net Income} / \text{Revenue}$$

$$\text{Asset Turnover (AT)} = \text{Revenue} / \text{Average Total Assets}$$

$$\text{Equity Multiplier (EM)} = \text{Average Total Assets} / \text{Average Shareholders' Equity}$$

Table A Dupont Analysis of ROE

Dupont Analysis	2017	2018	2019	2020	2021	2021 Global	2021 Dohome
Revenue (Million Baht)	64,234.49	66,049.91	67,423.88	61,765.43	63,925.79	34,116.11	25,937.13
Net Income	4,886.39	5,612.62	6,176.59	5,154.70	5,440.52	3,436.71	1,823.86
Avg Total Asset	51,347.79	52,880.35	53,430.16	54,069.87	57,338.56	37,647.45	23,995.84
Avg Shareholders' Equity	18,062.58	19,274.44	20,526.09	21,351.66	22,227.84	18,524.95	8,984.75
Net Profit Margin	7.61%	8.50%	9.16%	8.35%	8.51%	10.07%	7.03%
Asset Turnover	1.25	1.25	1.26	1.14	1.11	0.91	1.08
Equity Multiplier	2.84	2.74	2.60	2.53	2.58	2.03	2.67
ROE by Dupont	27.05%	29.12%	30.09%	24.14%	24.48%	18.55%	20.30%

Except for the covid-19 outbreak period, HomePro has performed well over the last five years. When comparing competitors in 2021, HomePro's net profit margin was higher than Dohome while HomePro's net profit margin was lower than GLOBAL because Global house focus on building materials and have continuously added lifestyle products. Also, this company want to develop into a shopping mall format. This allows Global House to grow from a continuous increase in revenue per branch in 2021. In terms of asset turnover, HomePro can use its assets to generate more sales than Global and Dohome. In addition, HomePro can adapted and improved products and services to align with the new normal lifestyle and continued to develop online distribution channels to increase consumers' convenience in purchasing products and services via an Omni Channel Platform. For equity multiplier, HomePro has a considerably high equity multiplier as at 2.8 times on average because they were mainly financed by debt. Nevertheless, the equity multiplier tends to decrease because they have repaid a long-term loan from a financial institution in order to minimize the debt.

Next, the growth analysis has explained the trend and predicted a stock's future worth. Four financial data including total revenues, total expenses, net income, and earning per share (EPS) from 2017 to 2021 are taken into consideration. As shown in Table 4.2, the total revenue's compound annual growth rate for Homepro is decreasing to -0.12% compare

to the positive CAGR of Global and Dohome of 12.17% and 8.57% respectively. Due to the economic downturn and the outbreak of COVID-19, it seems that Global and Dohome are better management. However, Homepro' revenue is slightly increased in 2021 from the company's adaptation to the current situation. In addition, HomePro can manage its expenses better than competitors, but revenue growth is slower, resulting in a lower CAGR for net income during 2017-2021 around 2.72%. As a consequence, HomePro has a lower CAGR for EPS when compared to Global and Dohome.

Table B Growth Analysis of HomePro, Global and Dohome

Growth	Homepro					CAGR (2017-2021)		
	2017	2018	2019	2020	2021	Homepro	Global	Dohome
Total Revenues	64,234.49	66,049.91	67,423.88	61,765.43	63,925.79	-0.12%	12.17%	8.57%
Total Expenses	57,800.05	58,727.72	59,414.84	55,116.58	56,883.05	-0.40%	11.38%	8.03%
Net Income	4,886.39	5,612.62	6,176.59	5,154.70	5,440.52	2.72%	21.02%	17.90%
EPS	0.37	0.43	0.47	0.39	0.41	2.73%	14.78%	6.65%

The outbreak of the COVID-19 began at the end of 2019, however the effect on it has begun in early 2020 for Thailand. During the last two years, people spent more time and money on home improvement projects than ever before. Their life has been restricted during several lockdown periods since the coronavirus pandemic. So, they spent more time at home and choose to upgrade and improve their homes. Moreover, COVID-19 forced the home improvement industry to focus on the direction of the business as an increased in-home repair activity. Therefore, the comparison between 2020 and 2021 would be appropriate for the analysis.

Table C Growth Analysis for year 2020 and 2021

Growth	Homepro			Global			Dohome		
	2020	2021	Growth	2020	2021	Growth	2020	2021	Growth
Total Revenues	61,765.43	63,925.79	3.50%	27,353.89	34,116.11	24.72%	18,924.82	25,937.13	37.05%
Total Expenses	55,116.58	56,883.05	3.20%	24,701.05	29,874.16	20.94%	17,775.76	23,413.56	31.72%
Net Income	5,154.70	5,440.52	5.54%	1,967.00	3,436.71	74.72%	717.49	1,823.86	154.20%
EPS	0.39	0.41	5.54%	0.44	0.73	63.51%	0.34	0.76	127.48%

In the comparison in 2020 and 2021, these three home improvement stocks experienced positive growth in net profit and EPS, particularly Dohome, which increased by 154.20 percent and 127.48 percent, respectively. The main reasons are as follows. First, revenue from sales and services of Dohome approximately increase around by 37.7% that are from matured branches and revenues from branches that have been operational for one year in 2021. Also, revenues from new branches opening in 2021. In addition, Dohome's other income increase by 5.4% over the previous year which was mainly due to an increase of subsidy from suppliers. Finally, the incremental gross profit margin from all product groups, improved efficiency in cost management together with the lower cost of goods sold due to satisfying performance from Distribution Center (DC), and the higher gross profit of the house brand group.

Appendix E: SWOT Analysis

1. Strengths

HMPRO has 114 branches with four different formats including HomePro Thailand, Home Pro Malaysia, Homepro S, and MegaHome. The company also provided a diverse range of goods along with one-stop services such as shipping, installation, and repair. Moreover, as a product sales strategy, private-label products or hiring an OEM to create products directly are good alternatives in terms of cost advantages in producing private brands. It allows HMPRO to communicate directly with manufacturers while also

growing sales by reaching niche markets and increasing profit margins. To help increase the proportion of sales via e-commerce as well as margins, a furniture product with a high margin was sold through the shopee channel under the brand Homepro Living Mall. This is almost one of the reasons why profit growth in 4Q21 is expected to be 3.4 percent, before returning to normal at 16.4 percent in 2022.

2. Weakness

Most of the stores are in Bangkok, and the stores in the countryside are relatively expensive when compared to local retail stores. In addition, the global economy is slowly increasing, having various impacts on the company. For example, foreign demand for Thai real estate has decreased, and the company has also lost customers and revenue due to the closures of stores.

3. Opportunities

The Thai government has started a program “shop dee mee kuen” which runs from January 1 to February 15, in 2022. When individuals use tax invoices from their purchases, HomePro has consistently conducted attractive programs. Tax deduction of 30,000 baht from Individual income is predicted to boost same-store sales in 1Q22 by mid to high single digit percentage, while the company’s revenues are estimated to increase by a high single digit percentage year over year. Also, Houses are being repaired in provinces in Thailand following the flooding event. This will boost HMPRO sales.

4. Threats

Coronavirus (COVID-19) control measures have impacted the economy in a variety of activities. As a result of the above actions, expenditure has decreased and the private sector employment rate has decreased, also it was reducing purchasing power. Other expenses related to COVID-19 prevention, such as building costs for the field hospital, COVID-19 testing, and medical care, increased overall Homepro’s SG&A expenses. There were also additional costs associated with improving Company systems, such as data privacy and information security systems to follow with the Personal Data Protection Act.

In addition, there is also some impact from Increased shipping expenses for imported goods via ship, as well as the impact of the baht's depreciation.

Appendix F: Five Forces Analysis

1. Barrier to Entry: Average

Even though the One-Stop Shopping business is required high costs of running a business such as investment, management, and stocking. There is a new entrant and also small and medium enterprises can still compete. However, the brand reputation and success of the company are barriers to entering into this market.

2. Rivalry among Existing Competitors: High

There is more intense competition from major and minor existing players in retailing of home improvement products. Nonetheless, the company still turned out the strong leader as one-stop shopping in the home improvement retailing which provides a full range of products and complete services. Moreover, the company offered competitive prices and high-quality standards to customers and continuously developed its private brand.

3. Bargaining Power of Suppliers: Low

The Company has the policy to buy products from many manufacturers' agents to decrease business's dependence on suppliers. Also, the company has negotiation power in the long run. In addition, the company is focused on expanding margin and contributing its sales through private label because these products have higher gross margins than the other brands. Therefore, it can reduce the bargaining power of suppliers.

4. Bargaining Power of Buyers: High

It refers to customers' pressure from the business to get quality products, better service, and lower prices. The location also motivates customers as most customers tend to buy where they are near. So, the company continues to expand its stores to reach

customers. Moreover, the power of the buyer of the company is strong because of the low switching costs of the buyer, a similar product from other competitors, and the availability of several substitutes in the market.

5. Threats of Substitute Product: High

The threat of substitutes is one of the most important problems for company that have a strong competitive position. As there are many substitutes' products related to home improvement goods and services. So, the company has to be differentiated from the competitors then they offer private labels products which is different and unique design and provide very good customer service with professionalism.



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