

**DISCOUNTED CASH FLOW VALUATION OF
COM7 PUBLIC COMPANY LIMITED**



**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
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entitled
**DISCOUNTED CASH FLOW VALUATION OF
COM7 PUBLIC COMPANY LIMITED**

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ABSTRACT

The purpose of this valuation report is to find the target price of COM7 Public Company Limited (COM7), one of the most growing IT products retailers in Thailand. In 2017-2021, COM7 has achieved 22.7% of CAGR from vigorous branch expansion nationwide. Based on the company's ongoing expansion plan, it is expected to keep double digits of CAGR in 2022-2026 and 3.8% of terminal growth rate is estimated at the end of 2026. After discounting the free cash flow to the firm in the projection period, estimated share value was found as 42.34 THB. The target price is 0.4% downside compared to the current stock price at 42.50, 6th of April 2022. There is no doubt about the previous enormous growing momentum of COM7 driven by long-served management. However, in terms of profit and free cash flow generating power in the future, there are still some limitations due to the company's retail-based business portfolio. Thus, the recommendation for the current/potential investors to COM7 is "Hold", till any further new business plan comes out from the company.

KEY WORDS: COM7/ Valuation/ Discounted Cash Flow/ IT product
Computers and Peripherals

42 pages

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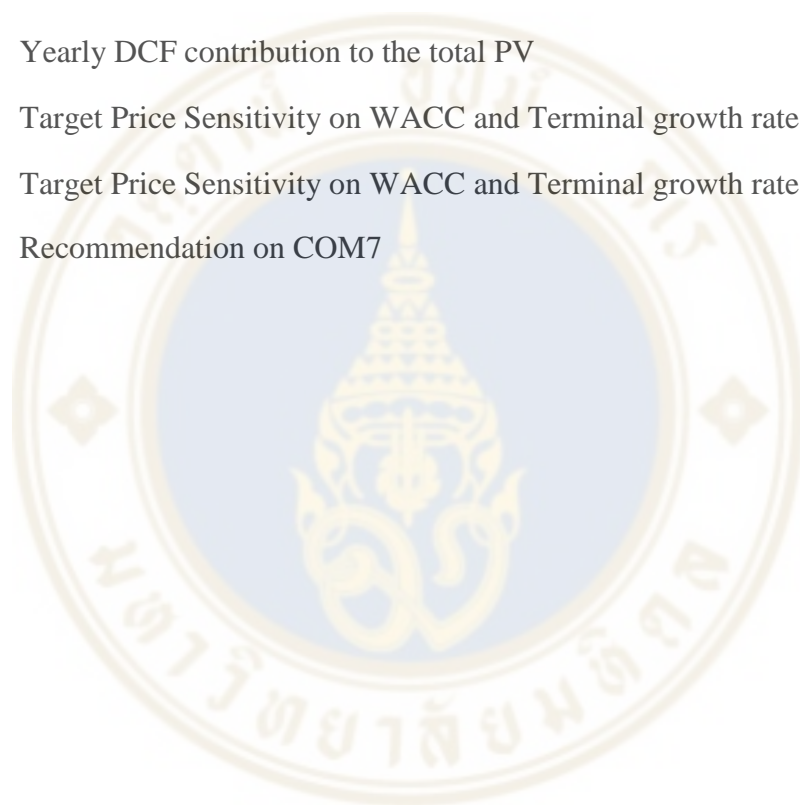
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LIST OF ABBREVIATIONS



COM7	COM7 Public Company Limited
IT	Information Technology
CAGR	Compound Annual Growth Rate
SET	The Stock Exchange of Thailand
B2C	Business to Consumer
B2B	Business to business
CEO	Chief Executive Officer
BOD	Board of Directors
SEC	Securities and Exchange Commission
AGM	Annual General Meeting of Shareholders
GDP	Gross Domestic Product
4P	Products, Price, Place, and Promotion
DCF	Discounted Cash Flow
EBIT	Earning Before Interest and Tax
CAPEX	Capital Expenditures
ROE	Return on Equity
D/E	Debt-to-Equity
AR	Account Receivable
AP	Account Payable
THB	Thai Baht
WACC	Weighted Average Cost of Capital
FCFF	Free Cash Flow to the Firm
COGS	Cost of Goods Sold

LIST OF ABBREVIATIONS (cont.)

PDPA	Personal Data Protection Act
ERP	Enterprise Resource Planning



CHAPTER I

ABOUT COM7

In this chapter, overall information on the target valuation company will be introduced focusing on its main business portfolio and previous financial performance. The company's vision, mission and goals will be followed to examine its business plan in the future. Detailed information on its revenue/growth sources will be summarized based on its annual report, which would be essential to understand its business model. Analysis on the company's ownership structure with major shareholders information will be one of key factors to gain meaningful insight on its management and governance. Lastly, the company's latest decision on dividends will be introduced to explain current stock price change in the market.

1.1 Overview

COM7 Public Company Limited (COM7) is one of the retail giants in Thailand, dealing in various Information Technology (IT) products such as mobile devices, laptop computers and accessories manufactured and imported from abroad. The company has around 1,000 shops nationwide especially at the high consumer traffic areas such as large shopping malls, and currently has begun to focus on online sales as well. It has developed strong strategic relationships with many global IT product manufacturers, especially Apple, and currently has been trying to find new partners such as Xiaomi from China. (Annual report & related market news)

Previous 3 years, COM7 has shown remarkable performance in terms of revenue growth, profitability. Its total revenue showed double digit growth during previous years, and it recorded 37% of revenue growth in 2021. The company's Compound Annual Growth Rate (CAGR) of total revenue during the last 5 years was 24.3%. In terms of profitability, COM7's net profit margin was not that impressive in the past, however, the company improved to 5.1% of net profit margin in 2021, which jumped up more than double compared to 2016. (Figure 1.1)

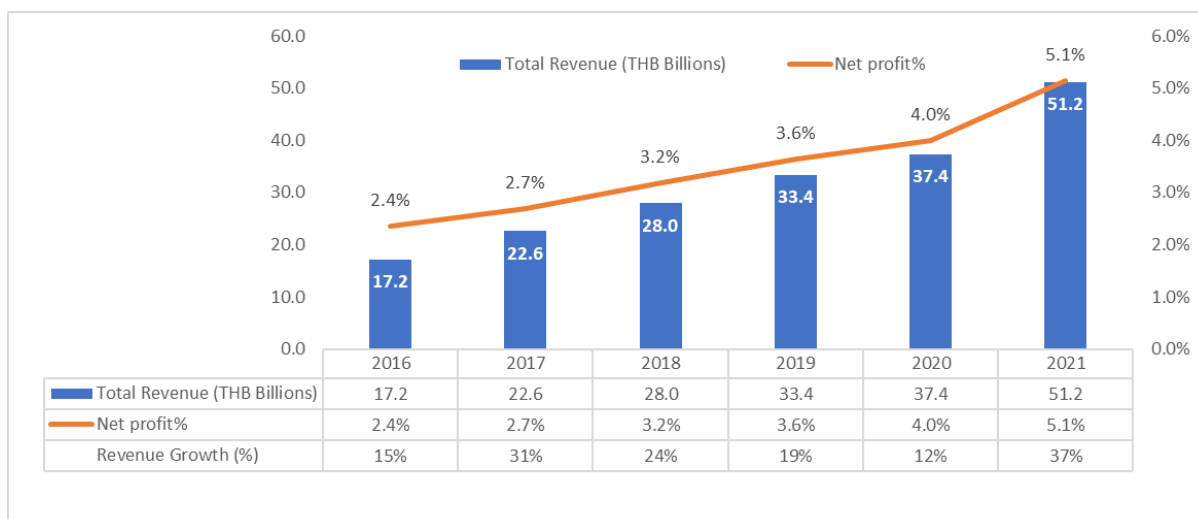


Figure 1.1: COM7's Revenue, Profit History

Source: SET SMART

COM7 has a policy to pay dividends to shareholders at a rate of not less than 40% of the net profit after deducting corporate income tax and allocating legal reserves based on the Company's separate financial statements. (2020 Annual report) And it actually has paid dividends more than 40% during the previous years and its dividend yield has never dropped below 1 during the years. (Table 1.1)

Table 1.1: COM7's annual Payout Ratio and Dividend Yield

	2016	2017	2018	2019	2020	2021
Payout Ratio	44.4%	49.3%	47.0%	49.3%	64.2%	45.6%
Dividend Yield	1.15	1.53	2.26	1.89	2.05	1.22

Source: SET SMART

Thanks to its business growth and financial improvement, COM7's stock price overperformed the market during the previous years, and the price skyrocketed since 2020, jumping from 13.4 in March 2020 to 81.8 by the end of February 2021. So, its stock price went up by more than 600% in only one year, while The Stock Exchange of Thailand (SET) index improved 162% during the period. (Figure 1.2)

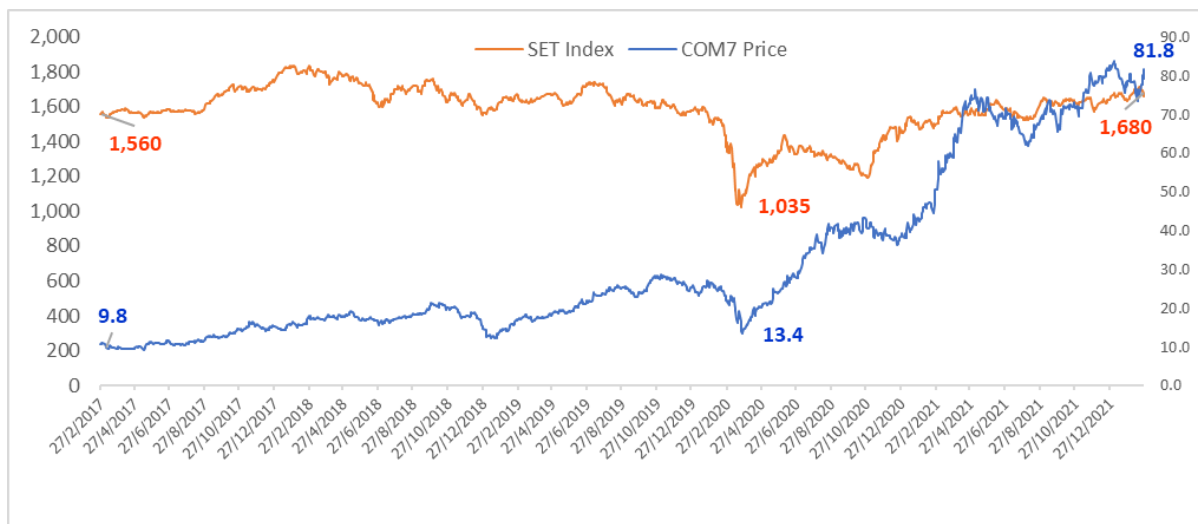


Figure 1.2: COM7's Price & SET Index history

Source: Yahoo Finance, Investing.com

1.2. Vision, Mission, and Goals

COM7 has declared its vision as “to be a leader in the modern technology products distribution with the excellent service management by our proficient team.” (2020 Annual Report). To achieve its vision, the company defined its missions as 1. Improve the quality, efficiency, and service strategies of each business to be able to compete effectively 2. Give importance to the development of employees and personnel’s quality and efficiency 3. Focus on expanding service channels that reach customers in all areas of the country 4. Seek new business opportunities for the future and create appropriate added value.

The Company’s goal for the next five years is to maintain its leadership in the retail business of IT products, smartphones, and digital products and expand the market share of each product category. Besides, there are plans to expand the storefront by new product categories, such as scooter stores, gaming stores, IoT stores, accessories stores, and modern fashion. So, even during the Covid-19 pandemic, the company kept expanding its IT stores by opening more than 200 new shops from 2020 to 2021. Previously, the company mainly focused on operating stores in large shopping malls, however, now it is planning to expand to outside malls, by opening stand-alone shops with more enlarged shop size. (Analysis report, Thanachart Securities)

Finally, COM7 aims to reach 30% market share of Thailand IT market in the near future, up from 15% at present. The company plans to drive the revenue growth from expanding new shops and online sales volume. (Bangkok Post) Com7 plans to have 1,500 shops over the longer term, and bring other home appliances to customers such as TV, washing machine, vacuum cleaner, and small home devices, to diversify its sales portfolio in the near future.

1.3. Sources of Revenues and Growth

COM7 has 4 types of business models, which are Business to Consumer (B2C) retail business, Business to Business (B2B), Service Business, and Online Retail Business. Most of the company's revenue came from its retail shops, which accounted for 93% of sales and service revenue in FY 2020. The company didn't break down its revenue by product group and segment in its annual report, however, it is estimated that mobile phone accounts for 56% of the company's whole sales revenue, followed by tablet 15%, accessories & watches 14%, laptop 12%, desktop 2%, and other services 1%. (Analyst report, Pi Research)

Currently, the Company's branches cover 75 provinces from 77 provinces in Thailand, and operates under the brand of BaNANA, Studio7, BKK, KingKong Phone, and other brand shops. The shops are divided into four types, i.e., retail IT products, Apple brand stores, stores that focus on selling mobiles, and other brand shops. The company has a strong relationship with Xiaomi as well, and has the exclusive right to sell Xiaomi's product in Thailand, except for smartphones.

COM7 has many B2B customers as well, including educational institutions in Thailand. The Company calls this business "Commercial and Education." (2020 Annual Report) It is a direct sale to a general corporation that is a legal entity, including the universities and schools. With the rapid growth of IT products that are more efficient and sophisticated, the business and education sectors need to acquire and modernize equipment and technology. The Company sees such demand in all departments, such as small, medium, and large businesses or government organizations, and views an opportunity to sell and business expansion. Therefore, there is a department for this particular business.

The Company is providing after-sales service as well. As of December 2020, the company had 28 iCare branches, which was the operator with the largest number of Apple-certified iCare service centers in Thailand. iCare provides repair services for Apple-branded products,

including iPod, iPhone, iPad, iMac, MacBook. (2020 Annual Report). COM7 also operates repair services for TRUE customers, under the service shops named TRUE by Com7.

Lastly, now the company looks for the online retail business as a future sales channel, by establishing an online ordering channel under the name www.bnn.in.th. Selling products online will help strengthen the Company's retail business. The online shop distributes IT products, Apple products, smartphones, tablets, notebooks, gadgets, computer accessories, smart watches, and it covers various global brands such as Apple, Asus, Acer, Toshiba, Dell, Samsung, Lenovo, Microsoft, HP, JBL, and many more from leading national distributors. (2020 Annual Report)

1.4 Management and Governance

COM7 was founded in 1997 and became a listed company in 2015. The company's Chief Executive Officer (CEO) is Mr. Sura Kanittaweekul, who has been managing the company since starting business in 1997 and most of the executive team have worked with him for a long time. Currently Mr. Sura is the company's number one shareholder, with 25.05% of total issued shares as of April 2022. He has reduced his shareholding proportion from 32.72% in 2015 to 25.05% in 2020. (SET SMART)

However, there is still a certain risk that Mr. Sura and the other major shareholders have the power to manage and control almost all of the major voting rights. The sum of top 10 major shareholders is exceeding 67% (Table 1.2), and many of major individual investors are in close relationship with Mr. Sura. Mr. Pongsak Thammathataree, the second largest shareholder with 19.98 of total shares, is a pure investor who purchased COM7 stocks from 2017 and is well-known as an investment partner of Mr. Sura. Thus, investors should be aware of management risk regarding the owner's governance matters.

Table 1.2: COM7's Major Shareholders

Rank	Major Shareholders	Nationality	# Shares (Shares)	% Shares
1	Mr. Sura Khanittaweekul	THAI	300,655,200	25.05
2	Mr. Pongsak Thammathataree	THAI	239,723,500	19.98
3	Thai NVDR Company Limited	THAI	79,723,991	6.64
4	MR. BUNCHA PHANTUMKOMOL	THAI	50,796,800	4.23
5	Ms. Aree Preechanukul	THAI	40,600,000	3.38
6	STATE STREET EUROPE LIMITED	BRITISH	25,669,825	2.14
7	MR. AMNUEY PICHITPONGCHAI	THAI	21,052,000	1.75
8	SOUTH EAST ASIA UK (TYPE C) NOMINEES LIMITED	BRITISH	19,459,100	1.62
9	Maybank Securities	THAI	15,873,000	1.32
10	Ms. Orawan Wichienkawee	THAI	15,137,900	1.26
			808,691,316	67.37

Source: SETSMART

COM7 itself, also realizes the importance of a balance of power in management. So, the company set a policy on the Board of Directors (BOD) operation. The BOD of COM7 consists of 7 members, including four directors from the company's internal executives and three independent external directors. (Table 1.3) It is in line with the regulation of the Office of the Securities and Exchange Commission (SEC), which forces a listed company to have more than one-third of independent directors in BOD.

Table 1.3 : Board of Directors

Board of Directors	Position	% Shares
Mr. Siripong Sombutsiri	Chairman, Independent director, Chairman of the audit committee	None
Mr. Sura Khanittaweekul	Chief executive officer, Director	25.05
Miss Aree Preechanukul	Director	3.38
Mr. Kritchawat Voravanich	Director	1.07
Mr. Kongsak Bannasathitgul	Director	0.03
Mr. Kashpol Chulajata	Independent director, Audit committee	None
Mr. Somboon Aueatchasai	Independent director, Audit committee	None

Source: SETSMART

The BOD is responsible for setting policies and overseeing the executives' operations at the policy level. It monitors the performance of the management in quarterly board meetings. The results of the Company's performance are required to be reported, especially financial goals and plans to be following the prescribed strategy. Besides, the BOD has appointed various sub-committees to supervise the company's business, including Audit Committee and Risk Management Committee which are independent from the executive committee led by Mr. Sura. (2020 Annual Report)

1.5 Latest News - Stock Dividends Payment Decision

On 7th of March 2022, COM7 announced an important decision that the Board of Directors approved to propose to the 2022 Annual General Meeting of Shareholders (AGM) to consider and approve the payment of the dividends in the form of stock dividends and cash dividends. (COM7's official press release) Previously, the company has kept 1.2 billions of common shares with book value of 0.25 THB, and from the announcement, it will pay a stock dividend at the payout ratio of 1 existing shares to 1 dividend share. And the cash dividend will be paid at the rate of 1 THB per share for 1.2 billion shares.

Above decision should be regarded as relatively large stock dividends, aiming to keep its existing cash for the further investment in the future. And since the total market value of the firm will not be changed while the number of shares doubled after the decision, the dilution effect followed immediately, similar to stock splits. Thus, the stock price of the company dropped to 42.55 THB right after the announcement. The valuation and target price analysis in this report will be based on the newly adjusted stock price.

CHAPTER II

External factors on COM7's business

In this chapter, it is indicated the macroeconomic analysis which explains the trend of Thailand's Gross Domestic Product (GDP) and the effect of Covid-19 crisis which would affect the industry. In terms of industry analysis, it will indicate the Thai population who tend to be IT commerce customers separated into 2 groups as smartphone users and IT devices users. Lastly, in terms of Competitors, it will indicate peer selections as IT commerce market shares, 4Ps table, and 5 Years CAGR among the peers.

2.1. Macroeconomic analysis

According to the figure below, since 2012 to 2019, Thai economy tends to be slightly increased about 22.7% which would be shown that Thai economy became great. It would be that the stable growth came from Thailand policy supporting the E-commerce market which had a significant positive impact on the GDP of Thailand. However, in 2020, the GDP of Thailand declined by -6.1%. It would be that there is a Covid-19 pandemic which has a significant impact on the economy. As Thai government regulation against Covid-19 and the regulation around the world as locking down the country. It would provide a negative impact for the whole world, especially the country which has revenue that rely on tourism activity as Thailand. Because of this, from 2020, the consumption of Thailand will decrease. People as citizens of Thailand tend to save more money due to the pandemic situation. However, the analysts said that the GDP of Thailand would be increased from the pandemic recovery.

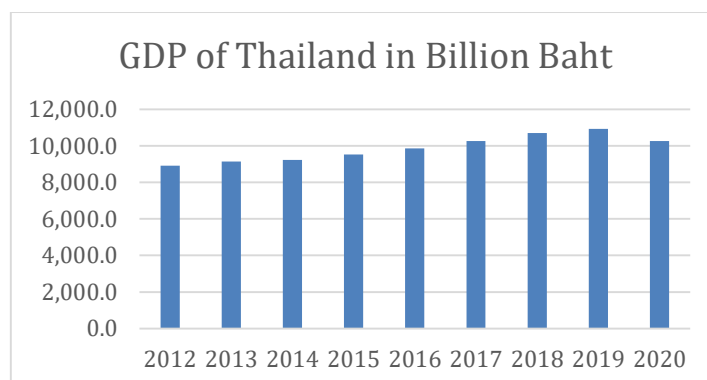


Figure 2.1: GDP of Thailand in Billion THB

Source: Office of the National Economic and Social Development Council

According to Figure 2.2, it is indicated that Thailand tourism would be the important key of the GDP. There is a large number of revenues from tourism. In 2019, before Covid-19 crisis, Thai GDP had the revenue from tourism by 3,077 billion THB. Compared to Thai GDP, it would be a huge number by 30%. However, in 2020, Thailand had a Covid-19 crisis which affected GDP negatively. The revenue from tourism decreased by 65.4% or only 1,064.39 billion THB left. However, in 2020, Most of Thai households had a decline in their income by 80% of the households in rural areas (The World Bank, 2020). Overall, Covid-19 crisis would have a negative effect on overall industries in Thailand.

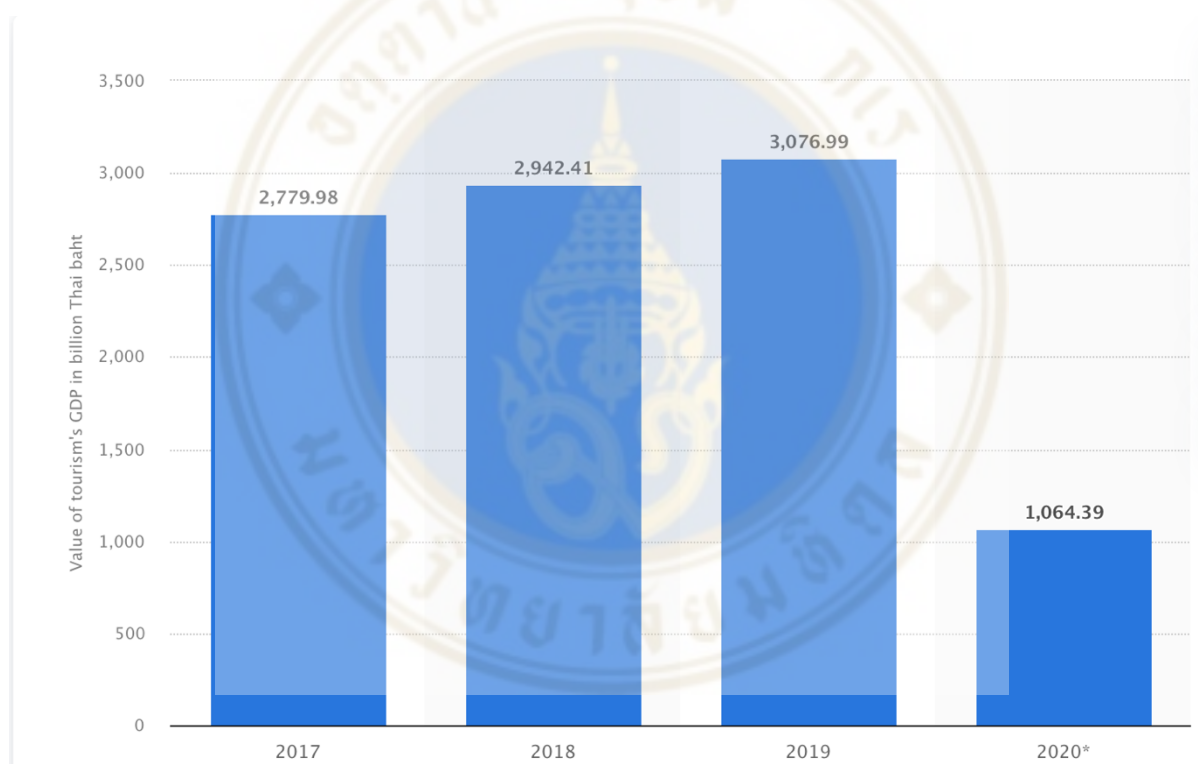


Figure 2.2: Value of tourism's GDP in billion Thai THB

Source: Statista

2.2. Industry Analysis

As the innovative era, all of the people around the world have started to use IT devices for their life daily as using smartphones, laptop, and internet for send message or

information over the time. It probably means that most people tend to consume IT devices more and more nowadays, especially smartphones. Smart phones literally become necessary products, the same as food or clothing.

In Thailand, as the observation of national statistical office of Thailand in 2020, it is indicated that the population of Thai citizen who are above 6 years old which is total of 63.8 million people uses smartphone around 60.5 million (94.8%), internet around 49.7 million (77.8%), and computers or laptop around 16.8 million (26.4%). It would indicate that IT devices especially smartphones tends to be necessary product for Thai people.

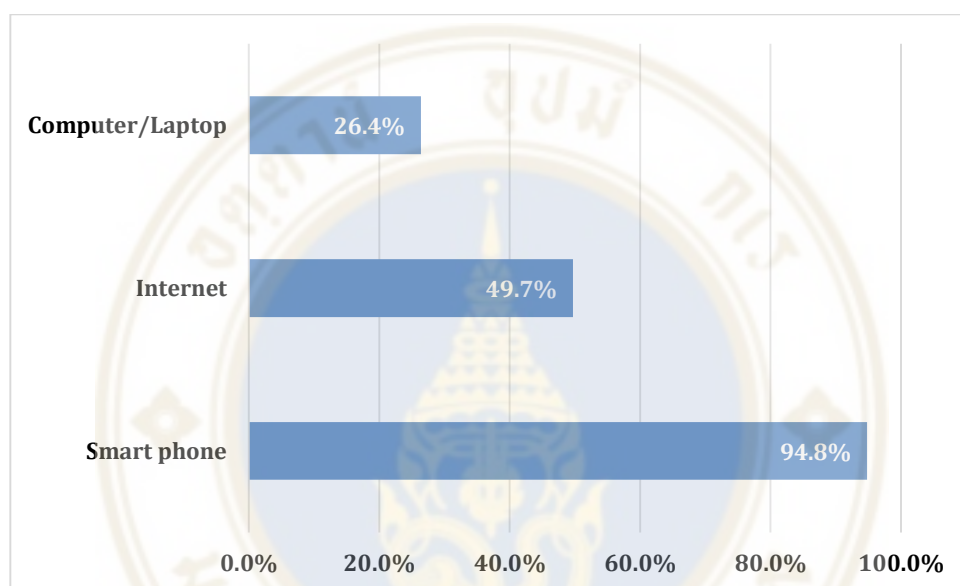


Figure 2.3: The population of IT users in Thailand

Source: National Statistical Office of Thailand

According to the figure of sales performance of mobile phones in Thailand, since 2007 to 2014, the sales performance of mobile phones had drastically increased. It would be indicated that mobile phone was on the trend among Thai people especially young people. It would be because touchable smartphones would become popular as iPhone or Samsung phones. Most of users would be excited new innovation and wanted to become to be users.

However, from 2015 to 2020, sales performance of mobile phones has drastically declined, it would be that the smartphone market tends to mature as most people would spend less for new phones. Smart phones which they had purchased were still usable. The lifespan of smartphones was extended.

On the contrary, since 2021, sales performance of mobile phones tends to increase. It may be because of the covid-19 pandemic, most people tend to spend more on smartphones to handle the government regulation of virus pandemic as social distancing. Most of the operating places as working offices or schools have to be shut down. Most people have to stay safe in their home. Because of this, IT devices such as smartphones really play an important role during the pandemic. Most people have to do their daily activity through the internet because of social distancing regulation such as working and studying online.

Sales Performance of Mobile Phones in Thailand

% Y-O-Y Retail Volume Growth 2007-2026

6.5%

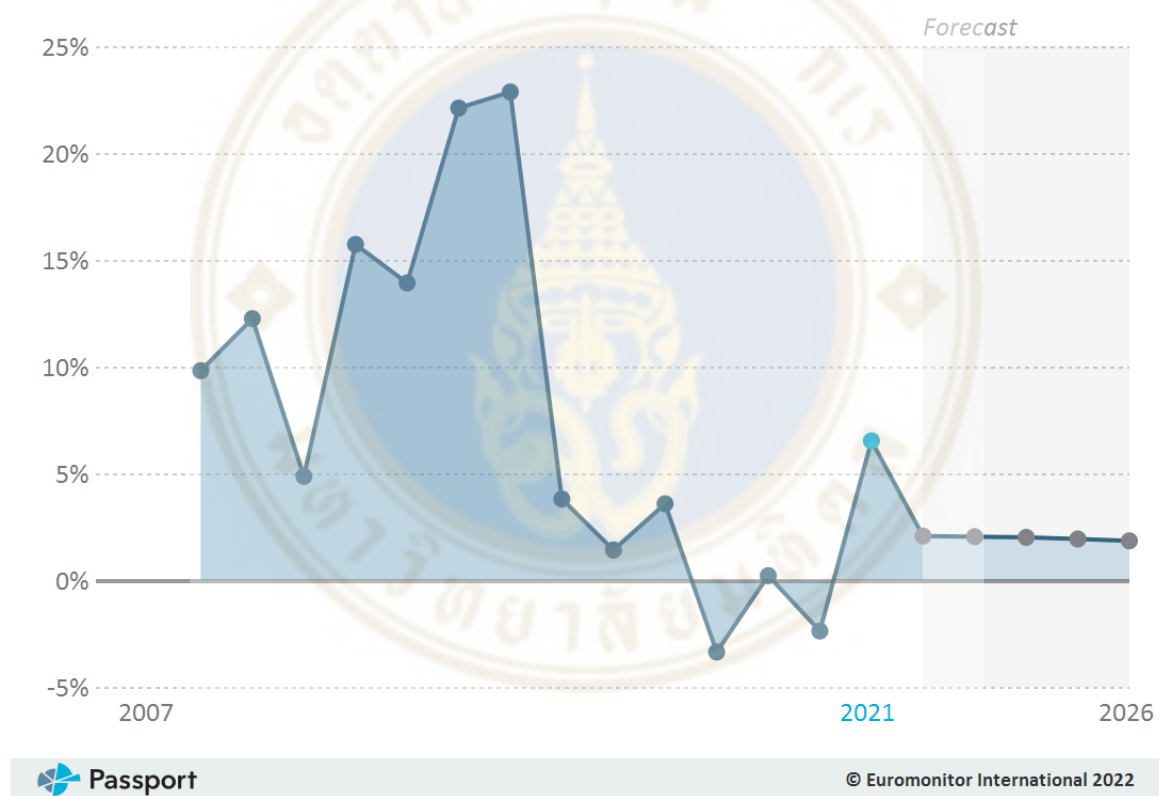


Figure 2.4: Sales Performance of Mobile Phones in Thailand

Source: Euromonitor

In term of sales performance of computers and peripherals in Thailand, since 2007 to 2012, the sales performance was increased. It might be cause of new innovation technology in computer or laptop. Most of Thai people might to purchase it for upgrade their computer for using in daily life as working or wanted to be on the trend. However, since 2013, the sales

performance would become to drastically decrease. It would be that a new innovative smartphone would become a computer or laptop instead or the life spans of computer and laptop still be existing. Moreover, smartphones would be cheaper and more portable than computers, and during the pandemic situation, most people would want to save more money by purchasing smartphones instead of computers or laptops.

Sales Performance of Computers and Peripherals in Thailand

% Y-O-Y Retail Volume Growth 2007-2026

-5.0%

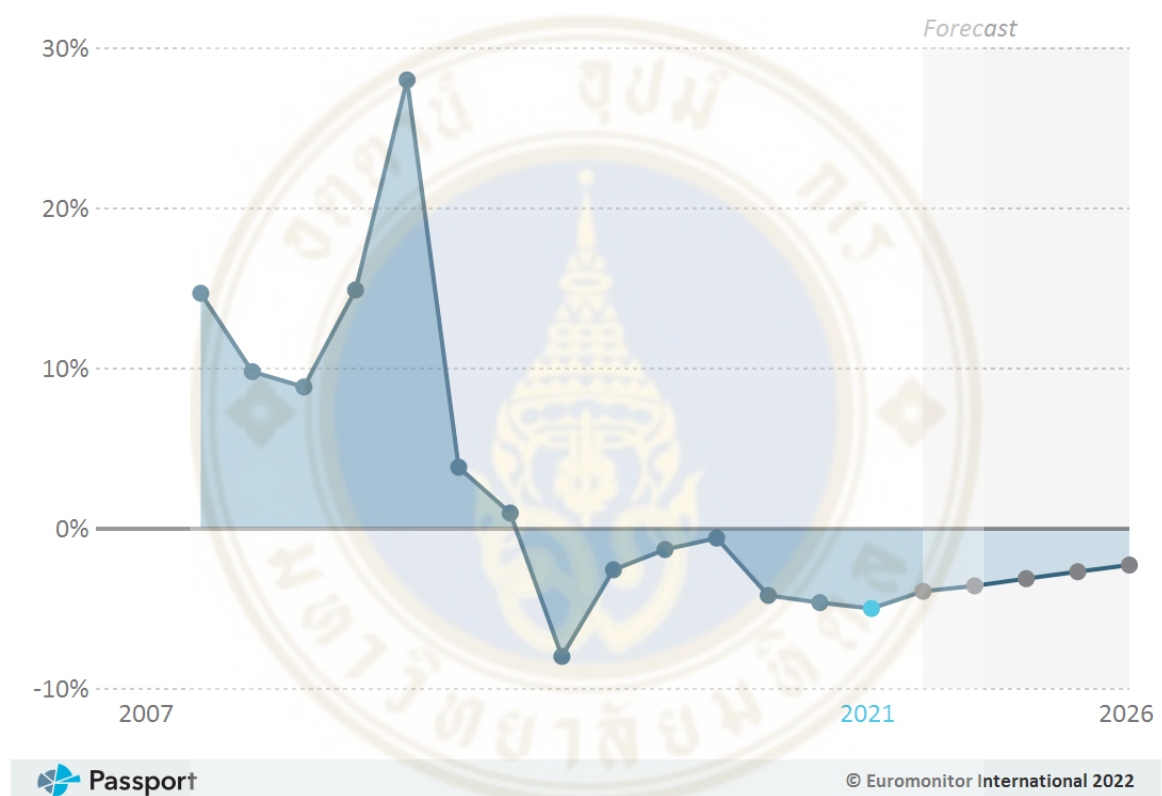


Figure 2.5: Sales Performance of Computers and Peripherals in Thailand

Source: Euromonitor

2.3. Peer selection

According to the Thai IT commerce market share, it is indicated the market share of IT commerce market as IT devices retailers in Thailand in 2020. Therefore, It could be separated the company which provided IT commerce service in the top tier as the list followings,

the first top companies in the market are COM7 and SYNEX which are equally total of 10% of market share value, second company is ADVANC or AIS which is 9% of market share value, third both companies Power Buy and TRUE which is 6% of market share value, fourth companies is both of DTAC and JMART which are equally 2% of market share value, lastly, SPVI, CPW, IT City, and The Power is equally 1% of market share value, and the rest as other small companies is equally 50% of total market share value.

THAI IT COMMERCE MARKET SHARES

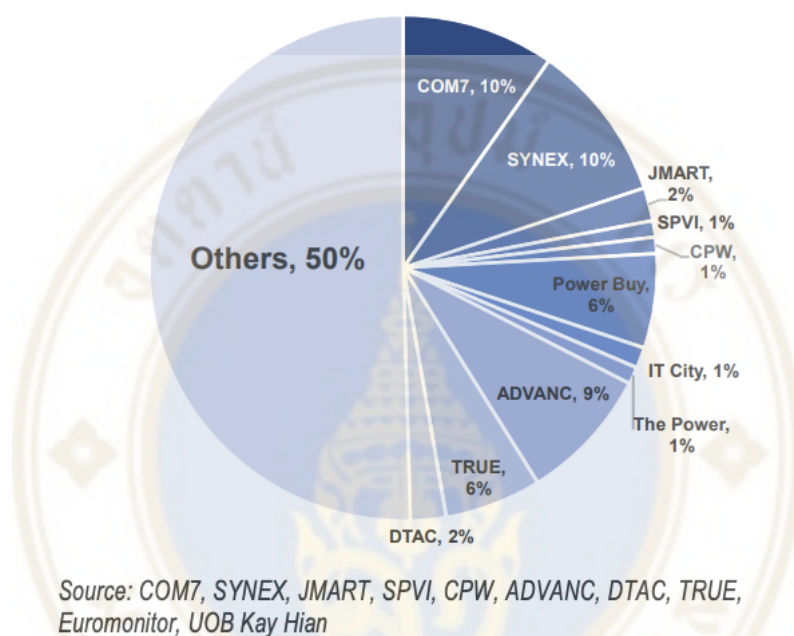


Figure 2.6: Thai IT Commerce Market Shares

Source: COM7, SYNEX, JMART, SPVI, CPW, ADVANC, DTAC, TRUE, Euromonitor, UOB Kay Hian

Moreover, for peer selection analysis, it could be assigned into 2 main groups as direct peers and indirect peers. In terms of indirect peer group, it could be explained that the company list in this group is main competitors of COM7 company, these provide IT commerce service or IT devices retailer as the main business as the followings, SYNEX, Power Buy, JMART, SPVI, CPW, IT City, and The Power.

As the second group is an indirect peer group, it could be explained that the companies following in this group conduct other business as the main business as providing telecommunication service. There are the following companies: TRUE, ADVANC or AIS, and

DTAC. These provide telecommunication service as the main business and also provides IT commerce or IT devices retailers service as well.

However, as the figure of Thai IT commerce market shares, COM7 operates the business very well in the market compared to the others. It can reach the first top in the market by 10% of the market share value. It could be indicated that the company conducts their strategy well. They try to maintain the high-quality standard of service and also keep distributing the branch around the country. Moreover, in 2021, The company sets the objective that it will expand the branch into 1,000 branches both of center and upside country as well.

SYNNEX (SYNEX)

SYNNEX provides IT commerce retailers and services to more than 50 brands. It focuses on the local market as Thailand. It conducts the business by operating their own shop and cooperating with partnership as the shop in supermarkets around the country. In 2020, there are more than 6,000 distribution channels in Thailand and South Asia regions and they also generated revenue and profit by 32,149 million THB and 642 million THB respectively (SYNEX annual report, 2020). Because of this. It would be assigned to the main competitors for COM7. It can reach the first top list in the Thai IT commerce market shares as well as COM& company by 10% of the total of Thai IT commerce market shares.

Jay Mart (JMART)

Jay Mart is an IT commerce retailer similar to COM7 especially focusing on mobile phones and devices which expand more than 200 branches around the country. It also provides Omi-channels as offline and online channels. In 2020, it could generate revenue and profit by 9,609 million THB and 796 million THB respectively (JMART annual report, 2020). It can reach the fourth top of Thai IT commerce market shares. It could be that Jay Mart try to expand the market and has a strong partnership as AIS.

SPVI

SPVI conducts the main business as becoming the representative for Apple products by operating through iStudio, iBeat, U-store, and also conducts iCenter which has the same standard service as Apple service. It focuses on the local market by expanding the market into 57 branches around the country in 2020. It could generate revenue and profit by 745 million

THB and 12 million THB respectively (SPVI annual report, 2020). In terms of Thai IT commerce market share, SPVI can reach by 1% of total market shares.

Copperwired (CPW)

Copperwired conducts the main business as becoming the representative for Apple products by operating through iStudio which is providing Apple products and services. Moreover, it also provides digital lifestyle products which are conducted through Dotlife shop. It focuses on the local market by expanding the market into 47 branches around the country in 2020. It could generate revenue and profit by 3,338 million THB and 54 million THB respectively (CPW annual report, 2020). In terms of Thai IT commerce market share, Copperwired can reach by 1% of total market shares.

IT City (IT)

IT City company is providing IT commerce service or IT devices retailers same as COM7 especially focusing on computers and smartphones which expand more than 127 branches around the country. In 2020, IT City could generate revenue and profit by 2,006 million THB and 11 million THB respectively. In terms of Thai IT commerce market share, IT City can reach by 1% of total market shares.

Advanced Info Service or AIS (ADVANC)

Advanced Info Service or AIS is providing the main business as telecommunication and conducting IT commerce as a sub business. Therefore, it would be assigned to an indirect peer. It operates its own shop as AIS. In 2020, it could generate revenue from IT commerce by 25,851 million THB (ADVANC annual report, 2020). In terms of Thai IT commerce market share, it can reach 9% of total market shares as the second top of the group.

TRUE

TRUE company is providing the main business as telecommunication and conducting IT commerce as a sub business. Therefore, TRUE company would be assigned to an indirect peer. TRUE company provides IT devices by their own shop as TRUE shop which has more than 300 branches around the country. In 2020, TRUE could generate revenue from

IT commerce by 16,886 million THB. In terms of Thai IT commerce market share, TRUE can reach 6% of total market shares as the third top of the group.

2.4. Comparing 4Ps among peers

Table 2.1 illustrates the 4Ps as Products, Price, Place, and Promotion among the peers. It would indicate the difference of business identity and the strength of each company clearly by the following. Firstly, in terms of products, COM7 shows the ability of focusing on reaching all of the target customers by separating to 2 groups by opening iStudio for Apple users and Banana stores for other brands users which would be the strength compared to others. Secondly, in terms of price, most IT products retailers tend to provide the same price except IT City. Thirdly, in terms of place, COM7 could distribute the branches more than 1,000 which is above than the average rate among the peers. Lastly, in terms of promotion, COM7 has the contract with Apple Company to be the representative of the Apple retailers and it also provides the special price with software programs to engage the sales which would be the strength among the peers. Overall, COM7 key success of IT commerce leader would be that it can generate and operate the business well above the average rate among the peers.

Table 2.1: 4Ps Comparison table

	Product	Price	Place	Promotion
COM7	Focused on 2 groups as iStudio and Banana and iCare service for repairing Apple Product	Average on the market	More than 1,000 branches	Sales discounting for software and additional advices
SYNEX	Focused on software and IT advices	Average on the market	More than 6,000 distribution channels	Special price for business customers
JMART	Focused on mobile phones and IT devices commerce	Average on the market	more than 200 branches	Seasonal sales discounting
SPVI	Focused on only Apple products	Average on the market	57 branches	Sales discounting for specific customer targets

IT	Focused on IT devices products	Lower than the market	127 branches	Seasonal sales discounting
ADVANC	The number of IT product is less than others	Average on the market	More than 1,000 branches	Sales discounting with telecommunication contracts
TRUE	The number of IT product is less than others	Average on the market	around 300 branches	Sales discounting with telecommunication contracts

Source: COM7 Annual report, 2020

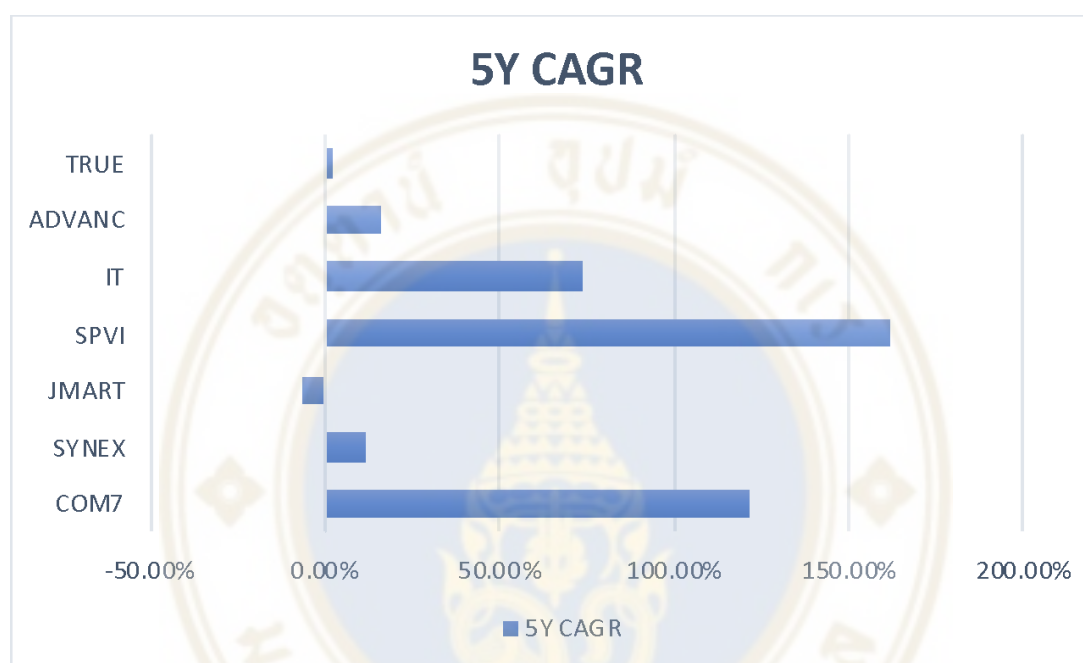


Figure 2.7: 5 Years CARG

Source: SET SMART

According to Figure 2.7, it is indicated the ability to generate the revenue in 5 years among the peers by 5 Years CAGR, SPVI shows the highest 5 Years CAGR by 161.9% which indicates that SPVI is the greatest ability of generating revenue and business growth. However, COM7 also generates very well by getting the 5 Years CAGR above the average rate among the peers which shows that COM7 tends to grow up in the future. It can reach around 121.74% of 5 Years' CAGR. Concluding, COM7 would be attractive for the investors in the near future.

CHAPTER III

DISCOUNTED CASH FLOW VALUATION

In this chapter, we are going to find COM7's appropriate target price by using the Discounted Cash Flow (DCF) model. The company's future revenue forecast would be the first step to the valuation. Pro forma income statement will be followed with forecasted revenue plus cost/expenses estimation. Earning Before Interest and Tax (EBIT) will be found out from the pro forma. Depreciation and Capital expenditures (CAPEX) forecast will be based on its revenue and fixed assets. Forecasting the company's working capital should be in consideration of its proper cash conversion cycle, Return on Equity (ROE), and Debt-to-Equity (D/E) ratio. Discount rate for the projection period will be measured from its cost of equity and cost of debt. Terminal growth rate after the final year will be found out from additional/extended projection for the revenue, plus GDP/market forecast in that period. Finally, the target price and sensitivity analysis will be followed to review key valuation factors for the target price.

3.1 Revenue forecast

The first and most important step for the DCF model is forecasting the company's future revenue in the projection period. (Table 3.1) For the calculation, we gathered related information such as Thailand's yearly GDP growth rate (Bank of Thailand data), mobile phone and computer/peripherals market size in Thailand (Euromonitor data), number of COM7's branches (retail shops, from COM7 annual report), and its market share (Bangkok Post news source). From the historical data, we saw that GDP growth rate and market growth rate were not exactly correlated with each other, however, the size of mobile phone and computer/peripherals are closely related with Thailand's nominal GDP, which was 1.0~1.1% and 0.5~0.6% of the GDP respectively.

The other important information we took for the forecast was, the number of COM7's branches and its market share. Firstly, we saw that the number of branches has increased gradually since 2017, aligned with its revenue growth during the last 5 years. And according to the Bangkok Post interview with COM's CEO in October 2021, the estimated

market share of COM7 was approximately 15% in 2021. If we multiply the market share with Mobile & Computer market size in 2021, the amount was only 24.9 billion THB, which was only 48.6% of COM7's total revenue in 2021 (51.1 billion THB). Thus, we assumed that COM7's revenue from Mobile phone and Computer sales was around 48.6%, and sales revenue from other products was 51.4% in 2021.

Table 3.1: Historical data of COM7 revenue, Thailand GDP, related market size, number of COM7 branches, and COM7's market share

	Historical					CAGR (2017-2021)
	2017	2018	2019	2020	2021	
COM7 Revenue (Million THB)						
Revenue From Operations	22,531	27,913	33,362	37,306	51,126	+22.7%
Other Income	31	50	28	47	28	-2.4%
Total Revenue	22,562	27,963	33,390	37,353	51,155	+22.7%
Growth Rate (%)		23.9%	19.4%	11.9%	36.9%	
Thailand nominal GDP (Million THB)	10,259,900	10,689,800	10,932,100	10,265,300	10,429,545	+0.4%
Growth Rate (%)	4.2%	4.2%	2.3%	-6.1%	1.6%	
Thailand mobile phone market size	104,250	104,813	107,561	104,303	112,888	+2.0%
Growth Rate (%)	6.8%	0.5%	2.6%	-3.0%	8.2%	
Market size per GDP	1.0%	1.0%	1.0%	1.0%	1.1%	
Thailand Computers and Peripherals market size	58,045	57,194	55,707	54,050	52,869	-2.3%
Growth Rate (%)	-0.5%	-1.5%	-2.6%	-3.0%	-2.2%	
Market size per GDP	0.6%	0.5%	0.5%	0.5%	0.5%	
Mobile + Computer market size	162,295	162,006	163,267	158,353	165,757	+0.5%
Growth Rate (%)	4.0%	-0.2%	0.8%	-3.0%	4.7%	
Market size per GDP	1.6%	1.5%	1.5%	1.5%	1.6%	
Number of COM7 Branches	341	378	787	911	1,000	+30.9%
New Branches		37	409	124	89	
Revenue per branch	66	74	42	41	51	-6.2%
Growth Rate (%)		11.8%	-42.6%	-3.4%	24.8%	
COM7 : Mobile & Computer Market share	-	-	-	10.0%	15.0%	
COM7 : Mobile & Computer sales (estimation)	-	-	-	15,835	24,864	
COM7 : Proportion of Mobile & Computer sales (estimation)	-	-	-	42.4%	48.6%	
COM7 : sales revenue increase	-	-	-	-	13,820	
COM7 : Mobile & Computer sales increase	-	-	-	-	9,028	
COM7 : Other products sales increase	-	-	-	-	4,792	
COM7 : Mobile & Computer sales increase per new store	-	-	-	-	101	
COM7 : Other products sales increase per new store	-	-	-	-	54	

Source: Setsmart, Bank of Thailand, Euromonitor, COM7 Annual Report, Bangkok post

To forecast the revenue in the projection period, we set some assumptions based on reachable information. Firstly, we estimated Thailand's nominal GDP and the Mobile + Computer market size in the projection period. For GDP, we followed the latest projection from the Bank of Thailand released in March 2022, which was 3.2% in 2022 and 4.4% in 2023. From 2024 to 2026, we applied projection data from the IMF, which was 3.6, 3.5, 3.6% respectively.

For the market size, we found that the mobile phone market size growth rate in 2021 was estimated as 8.2%, which hugely jumped up from negative 3.0% in 2020. We assumed that notable market growth in 2021 was mainly due to the pent-up demand after negative growth in 2020. And according to the Euromonitor, market size of mobile phone is expected to grow 4.2 – 5.4% in 2022 – 2026. (Figure 3.1) The market growth came from both increase of retail volume, and increase of average sales price per units. (Table 3.2) User migration from 4G to 5G, and new mobile phone technologies will be key factors for the future growth.



Figure 3.1. Thailand mobile phone market growth rate (2022-2026: Projection)

Source: Euromonitor (2022)

Table 3.2. Thailand mobile phone market size forecast (2022-2026: Projection)

Geography	Category	Data Type	Unit	2021	2022	2023	2024	2025	2026
Thailand	Mobile Phones	Retail Volume	000 units	19,870.8	20,280.7	20,692.9	21,107.1	21,513.3	21,908.7
Thailand	Mobile Phones	Retail Value RSP	THB million	112,888.1	117,579.1	123,153.0	129,672.5	136,666.9	144,032.2
Thailand	Mobile Phones	Retail Value RSP	THB per units	5,681.1	5,797.6	5,951.5	6,143.5	6,352.7	6,574.2

Source: Euromonitor (2022)

Meanwhile, the computers and peripherals market in Thailand has kept shrinking since 2016, and the growth rate in 2021 was negative 2.2%. According to the Euromonitor forecast, it is expected to remain negative growth at minus 0.9% in 2022, however, expected to slightly rebound from 2024-2016. (Figure 3.2) The retail sales volume decreases over the period, however, higher sales price per unit would drive the market recovery. (Table 3.3) Increased demand for computers amid new working/studying from home culture will be the key factor for the future growth.

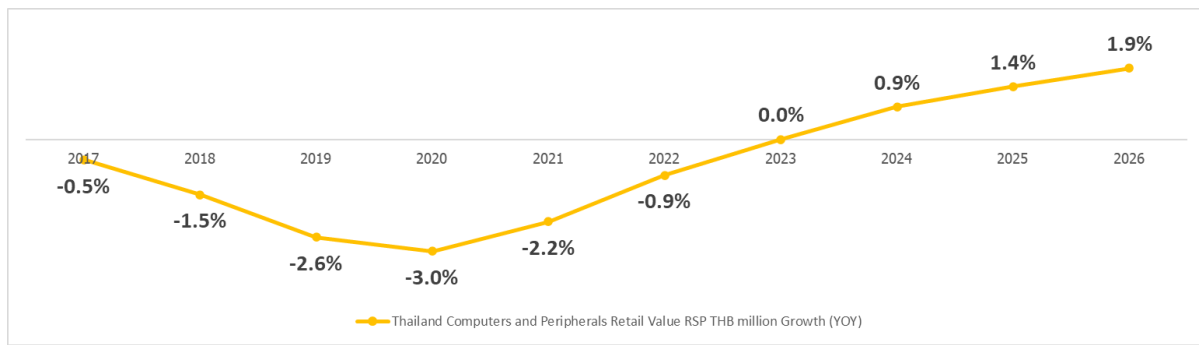


Figure 3.2. Thailand computers and peripherals market growth rate (2022-2026: Projection)

Source: Euromonitor (2022)

Table 3.3. Thailand computers and peripherals market size forecast (2022-2026: Projection)

Geography	Category	Data Type	Unit	2021	2022	2023	2024	2025	2026
Thailand	Computers and Peripherals	Retail Volume	000 units	3,804.1	3,653.1	3,520.3	3,408.3	3,314.6	3,237.3
Thailand	Computers and Peripherals	Retail Value RSP	THB million	52,868.6	52,368.8	52,371.0	52,826.4	53,569.9	54,586.5
Thailand	Computers and Peripherals	Retail Value RSP	THB per units	13,897.8	14,335.4	14,876.9	15,499.3	16,161.8	16,861.7

Source: Euromonitor (2022)

From the above information, Mobile & Computer market size projection in 2022-2026 was forecasted. The combination of the two markets is expected to under-perform the overall GDP growth in 2022-2023, however, will surpass the GDP growth rate from 2023. (Figure 3.3)

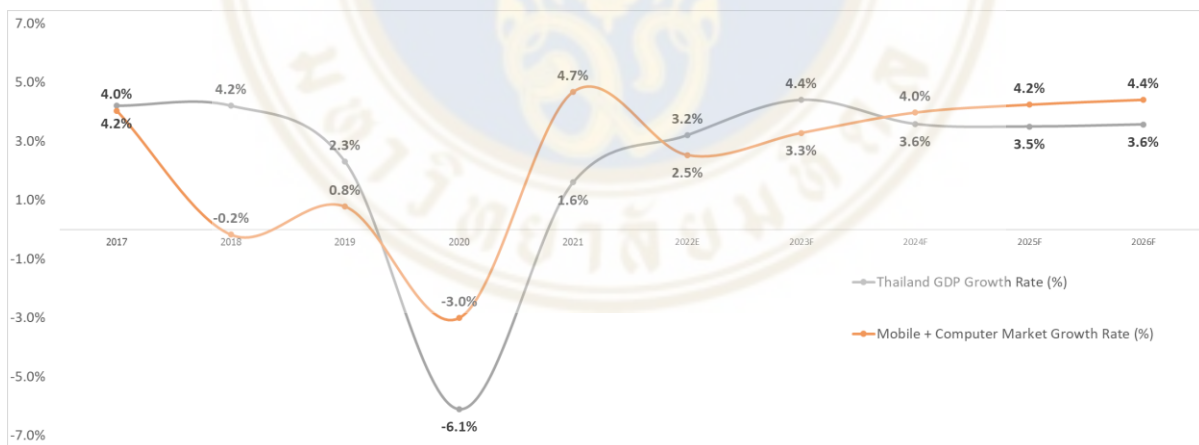


Figure 3.3. Thailand GDP and Mobile/Computers market growth forecast

Source: Bank of Thailand (2022), Euromonitor (2022)

And then we turned to focus on the market share of COM7. In the Bangkok Post interview in October 2021, Mr. Sura Khanittaweekul, chief executive of COM7 informed that the company aims to expand its market share to 30% in the near future, by the addition of new shops and online sales, planning to have 1,500 shops over the longer term.

If we apply the 15% of COM7's market share to the Mobile & Computer market size in 2021 which was 165.7 billion THB, the company's revenue from mobile and computer would be 24.9 billion THB, which increased 9.0 billion THB from 2020. However, COM7's total revenue in 2021 was 51.1 billion THB, which increased 13.8 billion from 2020. So, we assumed that the gap amount, which was 4.8 billion THB, might have come from sales revenue of other products or services. Plus, the number of COM7's branches increased by 89 shops in 2021. So, we take the assumption that COM7's Mobile & Computer sales revenue increase per 1 new shop was 101 million THB, and the other sales increase was 54 million THB in 2021. (Table 3.4)

Table 3.4: Assumption of COM7 sales increase per new store

	Historical					CAGR (2017-2021)
	2017	2018	2019	2020	2021	
Number of COM7 Branches	341	378	787	911	1,000	+30.9%
New Branches		37	409	124	89	
Revenue per branch	66	74	42	41	51	-6.2%
Growth Rate (%)		11.8%	-42.6%	-3.4%	24.8%	
COM7 : Mobile & Computer Market share	-	-	-	10.0%	15.0%	
COM7 : Mobile & Computer sales (estimation)	-	-	-	15,835	24,864	
COM7 : Proportion of Mobile & Computer sales (estimation)	-	-	-	42.4%	48.6%	
COM7 : sales revenue increase	-	-	-	-	13,820	
COM7 : Mobile & Computer sales increase	-	-	-	-	9,028	
COM7 : Other products sales increase	-	-	-	-	4,792	
COM7 : Mobile & Computer sales increase per new store	-	-	-	-	101	
COM7 : Other products sales increase per new store	-	-	-	-	54	

Source: COM7 annual report (2020), Bangkok Post (2021), Euromonitor (2022)

So, we assumed that in the future, every new COM7's shop will bring 101 million THB of sales revenue from Mobile & Computer products, and 54 million THB from other products. And the company aims to expand its total number of shops to be 1,500 in the long term. To be a bit conservative, we assume the case that COM7 will achieve its plan only 90% in 5 years, which means its total number of shops would be around 1,350 shops in 2026. (Increase 70 shops every year from 2022 to 2026) In that case, from the new shops, the company's sales revenue will increase 10.9 billion THB every year till 2026.

From the above information and assumptions, we created COM7's revenue forecast in the projection period. (Table 3.5) Total revenue in 2026 is expected to be 105.5 billion THB,

CAGR (2022-2026) at 14.2%, and its market share will reach 33.7% in that year, which is a bit higher than the company's target (30%).

Table 3.5: COM7 Revenue projection in 2022-2016

	Projection					CAGR (2022-2026)
	2022E	2023F	2024F	2025F	2026F	
COM7 Revenue (Million THB)						
Revenue From Operations	61,996	72,866	83,736	94,606	105,476	+14.2%
Other Income	37	37	37	37	37	+0.0%
Total Revenue	62,033	72,903	83,773	94,643	105,513	+14.2%
Growth Rate (%)	21.3%	17.5%	14.9%	13.0%	11.5%	
Thailand nominal GDP (Million THB)	10,784,149	11,219,402	11,621,226	12,027,675	12,456,864	+2.7%
Growth Rate (%)	3.4%	4.0%	3.6%	3.5%	3.6%	
Thailand mobile phone market size	116,304	119,824	123,450	127,186	131,035	+2.3%
Growth Rate (%)	3.0%	3.0%	3.0%	3.0%	3.0%	
Market size per GDP	1.1%	1.1%	1.1%	1.1%	1.1%	
Thailand Computers and Peripherals market size	51,836	50,824	49,831	48,858	47,903	-1.5%
Growth Rate (%)	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	
Market size per GDP	0.5%	0.5%	0.4%	0.4%	0.4%	
Mobile + Computer market size	168,140	170,648	173,281	176,044	178,939	+1.6%
Growth Rate (%)	1.4%	1.5%	1.5%	1.6%	1.6%	
Market size per GDP	1.6%	1.5%	1.5%	1.5%	1.4%	
Number of COM7 Branches	1,070	1,140	1,210	1,280	1,350	+6.0%
New Branches	70	70	70	70	70	
Revenue per branch	58	64	69	74	78	+7.8%
Growth Rate (%)	13.3%	10.3%	8.3%	6.8%	5.7%	
COM7 : Mobile & Computer Market share	15.0%	22.9%	26.6%	30.3%	33.7%	
COM7 : Mobile & Computer sales (estimation)	31,964	39,065	46,166	53,267	60,368	
COM7 : Proportion of Mobile & Computer sales (estimation)	51.6%	53.6%	55.1%	56.3%	57.2%	
COM7 : sales revenue increase	10,870	10,870	10,870	10,870	10,870	
COM7 : Mobile & Computer sales increase	7,101	7,101	7,101	7,101	7,101	
COM7 : Other products sales increase	3,769	3,769	3,769	3,769	3,769	
COM7 : Mobile & Computer sales increase per new store	101	101	101	101	101	
COM7 : Other products sales increase per new store	54	54	54	54	54	

* Blue(bold) : Using own assumption

Source: SET, Bank of Thailand, IMF, Euromonitor, Bangkok post, and own assumption

3.2 Cost and Expense Forecast

For the pro forma income statement of COM7, we took historical data as a baseline. (Table 3.6) Firstly, we saw that the company's COGS in 2017-2021 averaged at 86.8%, which was quite stable. Even though its GOGS increased to 87.4% in 2020, it came down to 86.6% again in 2021, so we took the 5 years average for the projection period.

Next step for the pro forma was Selling and Administrative Expenses forecast. We saw that COM7 has gradually reduced its Selling expenses proportion compared to its revenue from operation, which was 8.3% in 2017, and 5.7% in 2021, reduced 2.6% points in 5 years. It is quite obvious that the company has been trying to optimize the Selling expenses throughout the years, however there might be a small fluctuation in the future. Thus, we took the last 3 years average which was 6.4% as rate for the projection period to make it more conservative.

For the administrative expenses, we took the number of COM's branches as a key measurement. From 2017 to 2021, the company has expanded its branches from 341 to 1,000 places, and the administrative expenses also increased in line with the number of branches, however, administrative expenses per branch decreased from 1.3 million THB in 2017 to 0.8 million THB in 2021. It might come from expenses of new branches being relatively smaller than the existing branches and other facilities (e.g. headquarter, warehouse, etc.). And the administrative expenses per branch could be reduced more in the coming years, but to be conservative, we took the last 3 years average which was 0.7 million THB as the administrative expenses per branch in the projection period. So, the total administrative amount in 2026 is projected as 1,008 million THB.

Lastly, to complete a pro forma income statement, we used the last 3 years' finance cost amount and income tax rate for the projection period. So, 51 million THB of annual finance cost and 18.2% of income tax rate was plugged into the pro forma. As a result, the company's expected net profit amount and percentage to the revenue in 2026 came out as 5.1 billion THB and 4.8% respectively. (Table 3.7)

Table 3.6: Historical income statement of COM7

	Historical					CAGR (2017-2021)
	2017	2018	2019	2020	2021	
Total Revenue	22,562	27,963	33,390	37,353	51,155	+22.7%
Revenue From Operations	22,531	27,913	33,362	37,306	51,126	+22.7%
Other Income	31	50	28	47	28	-2.4%
Costs of goods sold	19,482	24,287	28,946	32,596	44,281	+22.8%
<i>COGS %</i>	<i>86.5%</i>	<i>87.0%</i>	<i>86.8%</i>	<i>87.4%</i>	<i>86.6%</i>	
Selling And Administrative Expenses	2,300	2,552	2,925	2,986	3,761	+13.1%
Selling Expenses	1,870	2,104	2,381	2,348	2,914	+11.7%
<i>Selling Expenses %</i>	<i>8.3%</i>	<i>7.5%</i>	<i>7.1%</i>	<i>6.3%</i>	<i>5.7%</i>	
Administrative Expenses	431	447	544	638	848	+18.4%
Number of branches	341	378	787	911	1,000	
Administrative Expenses per branch	1.3	1.2	0.7	0.7	0.8	
Total Cost And Expenses	21,782	26,838	31,871	35,582	48,042	+21.9%
Profit (Loss) Before Finance Costs And Income Tax Expense	802	1,144	1,557	1,876	3,231	+41.7%
Finance Costs	44	46	52	53	48	+2.1%
Income Tax Expense	150	205	289	328	555	+38.8%
<i>Income Tax %</i>	<i>19.7%</i>	<i>18.7%</i>	<i>19.2%</i>	<i>18.0%</i>	<i>17.4%</i>	
Net Profit (Loss) For The Period / Profit (Loss) For The Period From Continuing Operations	609	893	1,216	1,495	2,628	+44.2%
<i>Net profit%</i>	<i>2.7%</i>	<i>3.2%</i>	<i>3.6%</i>	<i>4.0%</i>	<i>5.1%</i>	

Source: Setsmart

Table 3.7: Income statement projection of COM7

	Projection					CAGR (2022-2026)
	2022E	2023F	2024F	2025F	2026F	
Total Revenue	62,033	72,903	83,773	94,643	105,513	+14.2%
Revenue From Operations	61,996	72,866	83,736	94,606	105,476	+14.2%
Other Income	37	37	37	37	37	+0.0%
Costs of goods sold	53,840	63,280	72,720	82,160	91,600	+14.2%
<i>COGS %</i>	<i>86.8%</i>	<i>86.8%</i>	<i>86.8%</i>	<i>86.8%</i>	<i>86.8%</i>	
Selling And Administrative Expenses	4,752	5,497	6,243	6,988	7,733	+12.9%
Selling Expenses	3,953	4,646	5,339	6,032	6,725	+14.2%
<i>Selling Expenses %</i>	<i>6.4%</i>	<i>6.4%</i>	<i>6.4%</i>	<i>6.4%</i>	<i>6.4%</i>	
Administrative Expenses	799	851	903	956	1,008	+6.0%
Number of branches	1,070	1,140	1,210	1,280	1,350	
Administrative Expenses per branch	0.7	0.7	0.7	0.7	0.7	
Total Cost And Expenses	58,592	68,777	78,962	89,148	99,333	+14.1%
Profit (Loss) Before Finance Costs And Income Tax Expense	3,560	4,244	4,929	5,614	6,298	+15.3%
Finance Costs	51	51	51	51	51	+0.0%
Income Tax Expense	639	763	888	1,013	1,137	+15.5%
<i>Income Tax %</i>	<i>18.2%</i>	<i>18.2%</i>	<i>18.2%</i>	<i>18.2%</i>	<i>18.2%</i>	
Net Profit (Loss) For The Period / Profit (Loss) For The Period From Continuing Operations	2,870	3,430	3,990	4,550	5,110	+15.5%
<i>Net profit%</i>	<i>4.6%</i>	<i>4.7%</i>	<i>4.8%</i>	<i>4.8%</i>	<i>4.8%</i>	

Source: SET, own assumption

3.3 Forecast of Depreciation & CAPEX

Depreciation/amortization and CAPEX amount forecast are key components for the DCF model, as well as EBIT after tax amount. From the historical data, we saw that the company's fixed assets, depreciation/amortization, and CAPEX amount has increased every year, as it has expanded its branches during the period. And we also found that the depreciation and CAPEX rate per fixed assets significantly increased in 2020, since the company adopted TFRS16 in that year. One other thing was fixed assets turnover ratio, which decreased from 18.4x in 2019 to 14.1x in 2020. (Table 3.8)

For the projection, we took the fixed assets turnover rate in 2021 as a benchmark, assuming that the rate will be the same during the projection period from 2022 to 2026. And we also used the depreciation/amortization rate to the fixed assets in 2021 as the rate in the projection period. From those assumptions, we calculated fixed assets in the projection years by multiplying fixed assets turnover rate with total revenue projection of each year. Depreciation/amortization amount calculated from depreciation rate to fixed assets, and CAPEX amount came out from fixed assets amount change in every year. Finally, we built up depreciation and CAPEX forecasts.

Table 3.8: Forecast of Depreciation & CAPEX

<i>THB millions</i>	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Fixed Assets	1,531	1,682	1,943	3,346	4,080	4,502	5,291	6,080	6,869	7,658
Depreciation/Amortization	168	177	200	630	787	869	1,021	1,174	1,326	1,478
Depreciation/Fixed Assets	11.0%	10.5%	10.3%	18.8%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%
CAPEX	169	150	261	1,403	734	423	789	789	789	789
CAPEX/Fixed Assets	11.0%	8.9%	13.5%	41.9%	18.0%	9.4%	14.9%	13.0%	11.5%	10.3%
Fixed Assets Turnover	15.6x	17.4x	18.4x	14.1x	13.8x	13.8x	13.8x	13.8x	13.8x	13.8x

Source: Setsmart, own assumption

3.4. Forecast of Working Capital

Forecasting working capital started from the calculation of net working capital first. Based on the company's historical cash conversion cycle, its Account Receivable (AR) days showed small fluctuation from 9.0 to 12.9 during the last 5 years. There was no upward only or downward only trend for the AR days, we took the average of the past 5 years for the projection period. (Table 3.9)

In contrast, its inventory days and Account Payable (AP) days have decreased since 2018. In the 2020 annual reports, it is mentioned “In 2020, the average sales period decreased due to the efficient control and product management”, “In 2020, the average repayment period was decreased due to there were payable payments due before the end of the year. However, the Company still received the same credit terms from creditors.” It seems obvious that there was downwards on the two indicators, we took the only 3 years average for the projection to reflect the current trend.

Table 3.9: Forecast of Net Working Capital

<i>THB millions</i>	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Total Revenue	22,562	27,963	33,390	37,353	51,155	62,033	72,903	83,773	94,643	105,513
COGS	19,482	24,287	28,946	32,596	44,281	53,840	63,280	72,720	82,160	91,600
AR	693	929	938	902	2,707	1,777	2,089	2,400	2,712	3,023
Inventory	4,090	3,844	4,819	3,664	6,208	7,022	8,253	9,484	10,715	11,947
AP	3,068	2,906	3,349	2,464	5,106	5,073	5,963	6,852	7,742	8,631
AR Days	9.6	10.6	10.2	9.0	12.9	10.5	10.5	10.5	10.5	10.5
Inventory Days	58.8	59.6	54.6	47.5	40.7	47.6	47.6	47.6	47.6	47.6
AP Days	44.7	44.9	39.4	32.5	31.2	34.4	34.4	34.4	34.4	34.4
Cash Conversion Cycle	23.7	25.3	25.4	23.9	22.4	23.7	23.7	23.7	23.7	23.7
Net Working Capital	1,715	1,867	2,409	2,102	3,809	3,726	4,379	5,033	5,686	6,339

Source: Setsmart, own assumption

After that, we took a look at the ROE and D/E ratio to forecast total current assets and total current liability for the working capital calculation. For ROE projection, Profit margin side was already done from the pro forma income statement. And for the Asset Turnover, when looking at the historical ratio from 2017 to 2021, its asset turnover has slightly improved from 3.8x to 4.1x. We regarded that the change as not that significant, so applied the past 5 years average (4.0x) to the projection. From the turnover rate, total assets in the projection years was calculated.

For the financial leverage side, COM7’s dividends payout ratio from the previous years was used for the estimation of the total equity of each projection year.

$$\text{Equity (T1)} = \text{Equity (T0)} + \text{Net Income (T1)} * (1 - \text{Payout ratio})$$

The company has increased its payout ratio from 49.3% in 2017 to 64.2% in 2020, and then down to 45.6% in 2021. Since the company has changed its dividends payout policy from “Not less than 40% of the net profit” to “Not exceeding 40% of the net profit” (Table 3.10), we took the 40% of payout ratio for the projection. (Table 3.11)

Table 3.10: COM7's Dividends Payout policy change

Dividend Policy	
2020 Annual Report	<u>Not less than 40 percent of the net profit</u> after deducting corporate income tax and allocating legal reserves based on the Company's separate financial statements
Current	<u>Not exceeding 40 percent of the net profits</u> after deduction of the corporate tax and legal reserve by considering from the Company's separate financial statements

Source: Annual report (2020), SET (2022)

Table 3.11: Dividends Payout Ratio & ROE forecast

<i>Dividends Paid</i>										
<i>THB millions</i>	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Dividends Paid	300	420	600	960	1,199	1,148	1,372	1,596	1,820	2,044
Payout Ratio	49.3%	47.0%	49.3%	64.2%	45.6%	40.0%	40.0%	40.0%	40.0%	40.0%
<i>ROE</i>										
<i>THB millions</i>	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Profit Margin	2.7%	3.2%	3.6%	4.0%	5.1%	4.6%	4.7%	4.8%	4.8%	4.8%
Net Income	609	893	1,216	1,495	2,628	2,870	3,430	3,990	4,550	5,110
Revenue	22,562	27,963	33,390	37,353	51,155	62,033	72,903	83,773	94,643	105,513
Asset Turnover	3.8x	3.8x	4.0x	4.1x	4.1x	4.0x	4.0x	4.0x	4.0x	4.0x
Revenue	22,562	27,963	33,390	37,353	51,155	62,033	72,903	83,773	94,643	105,513
Total Asset	7,178	7,589	9,160	9,207	15,966	15,356	18,047	20,737	23,428	26,119
Financial Leverage	3.1x	2.7x	2.7x	2.4x	3.0x	2.4x	2.3x	2.2x	2.1x	2.0x
Total Asset	7,178	7,589	9,160	9,207	15,966	15,356	18,047	20,737	23,428	26,119
Total Equity	2,298	2,777	3,376	3,871	5,301	6,449	7,820	9,416	11,236	13,280
ROE	31.7%	33.1%	39.4%	38.7%	62.9%	44.5%	43.9%	42.4%	40.5%	38.5%

Source: Setsmart, own assumption

From the above ROE analysis, total asset, liability and equity were found. COM7's D/E ratio is expected to be improved to 1.0x in 2026, and it will be only 0.1x when count only interest-bearing debt. (Table 3.12)

Table 3.12: Forecast of Debt-to-Equity Ratio

<i>D/E</i>										
<i>THB millions</i>	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
D/E 1	2.1x	1.7x	1.7x	1.4x	2.0x	1.4x	1.3x	1.2x	1.1x	1.0x
Total Liability	4,880	4,812	5,784	5,336	10,665	8,907	10,226	11,321	12,192	12,839
Total Equity	2,298	2,777	3,376	3,871	5,301	6,449	7,820	9,416	11,236	13,280
D/E 2	0.7x	0.6x	0.6x	0.3x	0.7x	0.3x	0.5x	0.2x	0.3x	0.1x
Total Interest Bearing Debt	1,664	1,675	2,139	1,283	3,801	1,630	3,801	1,630	3,801	1,630
Finance Costs	44	46	52	53	48	51	51	51	51	51
Interest rate	3.3%	2.7%	2.8%	3.1%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Total Equity	2,298	2,777	3,376	3,871	5,301	6,449	7,820	9,416	11,236	13,280

Source: Setsmart, own assumption

The company's working capital amount was less than net working capital amount every year because of a larger short-term borrowing amount than holding cash amount. And in 2021, there was -1,674 million THB of gap between net working capital and total working capital. We took this gap for the total working capital projection. (Table 3.13) So, the expected working capital amount in the final year 2026 turned out to be 5.7 billion THB. (Table 3.14) With a combination of pro forma income statement, depreciation, CAPEX, and working capital projection, free cash flow to the firm table has completed.

Table 3.13: Forecast of Working Capital

<i>THB millions</i>	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
Net Working Capital	1,715	1,867	2,409	2,102	3,809	3,726	4,379	5,033	5,686	6,339
Net Working Capital Change	741	152	541	-307	1,707	-83	653	653	653	653
Working Capital	819	1,198	1,588	1,431	2,135	2,052	2,705	3,358	4,011	4,665
Working Capital Change	775	379	389	-157	704	-83	653	653	653	653
Diff (WC - Net WC)	-896	-669	-821	-671	-1,674	-1,674	-1,674	-1,674	-1,674	-1,674

Source: Setsmart, own assumption

Table 3.14: FCFF projection

<i>THB millions</i>	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
EBIT	802	1,144	1,557	1,876	3,231	3,560	4,244	4,929	5,614	6,298
Tax	150	205	289	328	555	639	763	888	1,013	1,137
EBIT after Tax	653	939	1,268	1,548	2,676	2,921	3,481	4,041	4,601	5,161
Depreciation/Amortization	168	177	200	630	787	869	1,021	1,174	1,326	1,478
Working Capital Change	775	379	389	-157	704	-83	653	653	653	653
CAPEX	169	150	261	1,403	734	423	789	789	789	789
FCFF	1,428	1,345	1,596	618	3,435	3,284	4,366	5,079	5,791	6,503

Source: Setsmart, own assumption

3.5 Cost of Capital (WACC)

Cost of Capital, or Weighted Average Cost of Capital (WACC) would be one of the most critical factors for the DCF model. In this section, we tried to find out COM7's reasonable discount rate by collecting essential data from the market.

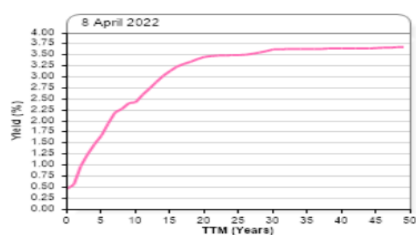
3.5.1 Cost of Equity

Cost of equity consists of risk-free rate in the market, the company's beta, and the market risk premium. Firstly, we took the 10-year Thai Government bond yield as risk-free rate, which was 2.44% on April 8. (Figure 3.4) The market risk premium was 5.82%, based on professor Damodaran's latest data in January 2022. (Table 3.15)

Home > Daily Report > ThaiBMA Government Bond Yield Curve

Historical >>
(dd/mm/yyyy)

ThaiBMA Government Bond Yield Curve

[Click here for enlarge graph](#)

TTM	Yield	Chg.(bp)
1 Mth.	0.48	n.a
3 Mth.	0.50	n.a
6 Mth.	0.52	n.a
1 YR.	0.57	1
2 YR.	0.99	2
3 YR.	1.26	1
5 YR.	1.68	1
7 YR.	2.21	2
10 YR.	2.44	0
12 YR.	2.75	2
15 YR.	3.15	0
18 YR.	3.36	0
19 YR.	3.42	1
20 YR.	3.47	2
21 YR.	3.49	2
25 YR.	3.51	1
27 YR.	3.54	2
28 YR.	3.57	2
29 YR.	3.60	1
30 YR.	3.64	1
35 YR.	3.65	1
40 YR.	3.66	1
45 YR.	3.67	1

Figure 3.4. Thailand Government Bond Yield

Source: ThaiBMA

Table 3.15: Market Risk Premium

Country	GDP (in billions)	Moody's rating	Adj. Default Spread	Equity Risk Premium	Country Risk Premium
Thailand	501.80	Baa1	1.36%	5.82%	1.58%

Source: Damodaran Online (2022 January)

The next thing to find out was COM7's current beta. The simplest way would be just taking the market data from financial service websites, which was 1.15 based on previous 5 years data. (Yahoo Finance) However, from the own calculation from the previous 5 years stock price change, its beta came out as 1.02. To make it more precise, we tried the unlevered beta formula (Hamada equation), since the company's previous D/E ratio was quite lower than comparable peers. For the calculation, we found levered beta of peer companies, and then unlever the beta by below formula. Since some of the peers such as ADVANC/TRUE had much greater market capitalization and lower beta, we excluded the two peers from the unlevered beta calculation.

$$\text{Unlevered beta} = \text{Levered beta} / (1 + \text{Tax rate}) * \text{D/E ratio}$$

$$\text{Levered beta} = \text{Unlevered beta} * (1 + \text{Tax rate}) * \text{D/E ratio}$$

The unlevered beta of market average from the above Hamada equation method was 1.27. When it applied to the COM7's tax rate and D/E ratio, the company's levered beta was calculated as 1.32 which was higher than its market data since its D/E ratio is relatively

lower than peers. So, to reflect the market average beta, we took the average of market data, own calculation and levered beta from Hamada equation. (Table 3.16)

Table 3.16: Calculation of COM7's beta

Company	Levered Beta	Tax rate	Debt	Market Cap.	Debt/Equity	Unlevered Beta
SYNEX	1.78	18.3%	2,891	22,243	13.0%	1.61
JMART	2.05	8.8%	15,915	85,810	18.5%	1.75
CPW	0.83	19.6%	183	3,540	5.2%	0.80
IT CITY	1.10	19.1%	2,005	5,826	34.4%	0.86
SPVI	1.37	19.9%	148	3,000	4.9%	1.32
ADVANC	0.05	18.1%	138,963	672,124	20.7%	0.04
TRUE	0.46	-11.3%	371,718	164,839	225.5%	0.13
AVG						1.27
COM7	1.32	17.4%	5,003.05	102,000	4.9%	

	Market data	Own Calculation	Using Peers	AVG
COM7 Beta	1.15	1.02	1.32	1.16

Source: Yahoo Finance

3.5.2 Cost of Debt

Cost of debt calculation was based on COM7's actual finance cost and interest-bearing debt result in 2021. We saw that the company's finance cost was around 44-53 million THB during the last 5 years, while its interest-bearing debt has increased gradually. (Table 3.15) In that result, the company's cost of debt before tax was 1.9% in 2021, and tax rate was 17.4% in 2021. So, we calculated the cost of debt after tax at 1.6%.

Table 3.17: COM7's Cost of Debt

	2016	2017	2018	2019	2020	2021
Finance Costs		44	46	52	53	48
Sum of Interest bearing debt		1,336	1,669	1,907	1,711	2,542
Bank Overdrafts And Short-Term Borrowings From Financial Institution	953	1,440	1,675	2,139	1,283	3,801
Short-Term Borrowings	2	0	0	0	0	0
Current Portion Of Long-Term Debts	14	223	0	0	0	0
Non-Current Portion Of Long-Term Debts	39	0	0	0	0	0
Cost of debt bf. Tax		3.3%	2.7%	2.8%	3.1%	1.9%
Tax rate		19.7%	18.7%	19.2%	18.0%	17.4%
Cost of debt after Tax		2.6%	2.2%	2.2%	2.5%	1.6%

Source: Setsmart

From the above work, COM7's WACC calculated as 8.83%. (Table 3.17) Its cost of equity could increase further if the inflation became worse in the future which could increase the risk-free rate in the country. Since the debt proportion to the company's total market

capitalization is very small, the increase of cost of debt and tax rate will have less impact on the WACC compared to the cost of equity change.

Table 3.18: COM7's WACC

Risk-free Rate	2.44%
Beta	1.16
Market Risk Premium	5.82%
Cost of Equity (R_e)	9.20%
Cost of Debt	1.88%
Tax Rate	17.4%
After-tax Cost of Debt (R_d)	1.56%
Market Cap. (Million THB)	98,100
Debt	5,003
Weight of equity (W_e)	95.15%
Weight of debt (W_d)	4.85%
WACC	8.83%

Source: Own Calculation

3.6 Terminal Growth Rate

To find out COM7's terminal growth rate, we tried to extend the revenue projection period to 2031 since its growth rate in 2026 seemed still relatively high at 11.5%. (Table 3.5) We used the previous assumption that the company's revenue will grow as per its new branches, and set the target number of branches at 1,500 stores, the same as the CEO revealed his long-term plan at the interview with Bangkok Post. And we set Thailand's nominal GDP growth rate at 3.6% per year, Mobile phone market growth at 3.0% per year, and Computers and Peripherals market size at negative 2.0% throughout the projection period in 2027-2031. (Table 3.18)

Table 3.19: Terminal growth projection of COM7

	Projection					CAGR (2027-2031)
	2027F	2028F	2029F	2030F	2031F	
COM7 Revenue (Million THB)						
Revenue From Operations	110,135	114,793	119,452	124,110	128,769	+4.0%
Other Income	37	37	37	37	37	+0.0%
Total Revenue	110,171	114,830	119,488	124,147	128,806	+4.0%
Growth Rate (%)	4.4%	4.2%	4.1%	3.9%	3.8%	
Thailand nominal GDP (Million THB)	12,901,369	13,361,735	13,838,528	14,332,335	14,843,762	+2.7%
Growth Rate (%)	3.6%	3.6%	3.6%	3.6%	3.6%	
Thailand mobile phone market size	135,001	139,086	143,295	147,632	152,099	+2.3%
Growth Rate (%)	3.0%	3.0%	3.0%	3.0%	3.0%	
Market size per GDP	1.0%	1.0%	1.0%	1.0%	1.0%	
Thailand Computers and Peripherals market size	46,968	46,051	45,151	44,269	43,405	-1.5%
Growth Rate (%)	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	
Market size per GDP	0.4%	0.3%	0.3%	0.3%	0.3%	
Mobile + Computer market size	181,968	185,137	188,446	191,901	195,504	+1.8%
Growth Rate (%)	1.7%	1.7%	1.8%	1.8%	1.9%	
Market size per GDP	1.4%	1.4%	1.4%	1.3%	1.3%	
Number of COM7 Branches	1,380	1,410	1,440	1,470	1,500	+2.1%
New Branches	30	30	30	30	30	
Revenue per branch	80	81	83	84	86	+1.8%
Growth Rate (%)						
COM7 : Mobile & Computer Market share	34.8%	35.9%	36.9%	37.8%	38.7%	
COM7 : Mobile & Computer sales (estimation)	63,411	66,454	69,497	72,541	75,584	
COM7 : Proportion of Mobile & Computer sales (estimation)	57.6%	57.9%	58.2%	58.4%	58.7%	
COM7 : sales revenue increase	4,659	4,659	4,659	4,659	4,659	
COM7 : Mobile & Computer sales increase	3,043	3,043	3,043	3,043	3,043	
COM7 : Other products sales increase	1,615	1,615	1,615	1,615	1,615	
COM7 : Mobile & Computer sales increase per new store	101	101	101	101	101	
COM7 : Other products sales increase per new store	54	54	54	54	54	

* Blue(bold) : Using own assumption

Terminal Growth	+3.8%
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Source: Own assumption

From the assumption, we found out that the company's revenue growth rate will be 3.8% in the final year 2031, and the CAGR during the period would be 4.0%. So, we assume that the growth rate in the final year seems reasonable for the terminal growth rate for the DCF model, since the growth rate in the final year is in the range between the growth rate of Thailand's nominal GDP during the period (3.8%), Mobile/Computer market growth rate (3.9%), and the CAGR from 2027 to 2031 (4.0%).

3.7 Valuation with Discounted Cash Flow Model

From the previous works, all the components for the DCF valuation were found. Firstly, terminal Free Cash Flow to the Firm (FCFF) was calculated following the below formula.

$$\text{Terminal FCFF} = \text{FCFF in 2026} * (1 + \text{Terminal growth}) / (\text{WACC} - \text{Terminal growth})$$

DCF in every year including terminal value was computed by applying WACC as discount rate to the FCFF. Total present value of the firm was 140 billion THB, which is the sum of all the DCF amounts in the projection period. Final step for the estimation of share value followed below formula.

$$\text{Estimated Share Value} = (\text{PV of the firm} - \text{Net Debt}) / \text{No. of Shares}$$

Finally, the DCF model was completed (Table 3.19), which showed the estimated share value at 42.34 THB. It was a bit lower than the current stock price on the 6th of April. Even though the COM7 achieved remarkable growth in 2021, the future profitability improvement is still in question since its retail business nature - high Cost of Goods Sold (COGS), low gross margin - and increasing risk of inflation makes its cost of equity higher than usual.

Table 3.20: COM7's DCF forecast based on 2021 Actual Financial Data

	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	Terminal
<i>THB millions</i>											
EBIT	802	1,144	1,557	1,876	3,231	3,560	4,244	4,929	5,614	6,298	
Tax	150	205	289	328	555	639	763	888	1,013	1,137	
EBIT after Tax	653	939	1,268	1,548	2,676	2,921	3,481	4,041	4,601	5,161	
Depreciation/Amortization	168	177	200	630	787	869	1,021	1,174	1,326	1,478	
Working Capital Change	775	379	389	-157	704	-83	653	653	653	653	
CAPEX	169	150	261	1,403	734	423	789	789	789	789	
FCFF	1,428	1,345	1,596	618	3,435	3,284	4,366	5,079	5,791	6,503	133,709
Discount rate						8.8%	8.8%	8.8%	8.8%	8.8%	8.8%
DCF						3,018	3,687	3,940	4,128	4,260	87,588

Terminal Growth rate	3.8%
WACC	8.8%

Present Value of the Firm	106,622
Net Debt	5,003
Present Value of Equity	101,619
No. of Shares (millions)	2,400
Estimated Share Value (THB)	42.34
Current Stock price (THB)	42.50

* As of Apr 6

Source: Own Calculation

3.8 Sensitivity Analysis

As mentioned in the previous section, there were several conditions and assumptions for the DCF model development and certainly there are possibilities that the target price would be changed when the conditions and assumptions changed. Among the many variables, terminal FCFF was selected as the most critical component for the DCF model, which accounted for 82% of the total present value of the firm. (Table 3.20)

Table 3.21: Yearly DCF contribution to the total PV

<i>THB millions</i>	2022F	2023F	2024F	2025F	2026F	Terminal
DCF	3,018	3,687	3,940	4,128	4,260	87,588
Proportion to the Total PV	3%	3%	4%	4%	4%	82%

Formula for the terminal value of the firm consists of FCFF in the final year 2026, terminal growth rate, and WACC. Thus, the three variables were selected for the sensitivity test for the estimated share price. FCFF in the final year represents the firm's profitability and cash conversion status in the projection period. Terminal growth rate is a sort of multiplier which shows the duration of profitability and cash conversion status in the long-run. And the WACC represents the opportunity cost in the future. So, the FCFF in the final year and Terminal growth rate had strong positive correlation with the estimated stock price, while WACC showed negative correlation with the price. (Table 3.21)

Table 3.22: Target Price Sensitivity on WACC and Terminal growth rate

Deviation	FCFF (2026F)	Stock Price	Deviation	WACC	Stock Price	Deviation	Terminal Growth	Stock Price
-50.0%	3,252	23.21	-2.5%p	6.3%	87.67	-2.5%p	1.3%	29.67
-40.0%	3,902	27.03	-2.0%p	6.8%	72.64	-2.0%p	1.8%	31.48
-30.0%	4,552	30.86	-1.5%p	7.3%	61.86	-1.5%p	2.3%	33.57
-20.0%	5,203	34.69	-1.0%p	7.8%	53.74	-1.0%p	2.8%	36.01
-10.0%	5,853	38.51	-0.5%p	8.3%	47.41	-0.5%p	3.3%	38.89
0.0%	6,503	42.34	0.0%p	8.8%	42.34	0.0%p	3.8%	42.34
10.0%	7,154	46.17	0.5%p	9.3%	38.19	0.5%p	4.3%	46.55
20.0%	7,804	50.00	1.0%p	9.8%	34.72	1.0%p	4.8%	51.80
30.0%	8,454	53.82	1.5%p	10.3%	31.79	1.5%p	5.3%	58.52
40.0%	9,105	57.65	2.0%p	10.8%	29.27	2.0%p	5.8%	67.45

When combined WACC and the terminal growth together, the sensitivity of valuation was shown more clearly. The higher terminal growth rate the company could

guarantee, the higher target price would be followed. On the contrary, the higher WACC will definitely bring the company to the lowered target price, especially in case of higher beta caused by market price fluctuation. (Table 3.22)

Table 3.23: Target Price Sensitivity on WACC and Terminal growth rate

Terminal Growth	WACC									
	6.3%	6.8%	7.3%	7.8%	8.3%	8.8%	9.3%	9.8%	10.3%	10.8%
1.3%	46.46	41.88	38.07	34.83	32.07	29.67	27.57	25.71	24.07	22.60
1.8%	51.08	45.60	41.11	37.37	34.20	31.48	29.13	27.07	25.25	23.64
2.3%	56.83	50.13	44.75	40.35	36.68	33.57	30.91	28.60	26.58	24.80
2.8%	64.22	55.78	49.20	43.93	39.61	36.01	32.96	30.35	28.08	26.10
3.3%	74.02	63.02	54.75	48.30	43.13	38.89	35.36	32.37	29.80	27.58
3.8%	87.67	72.64	61.86	53.74	47.41	42.34	38.19	34.72	31.79	29.27
4.3%	107.99	86.04	71.30	60.72	52.76	46.55	41.57	37.50	34.09	31.22
4.8%	141.43	105.98	84.45	69.99	59.61	51.80	45.70	40.82	36.82	33.48
5.3%	206.80	138.80	104.02	82.90	68.71	58.52	50.86	44.88	40.09	36.16
5.8%	N/A	202.95	136.24	102.11	81.38	67.45	57.46	49.94	44.07	39.37

Source: Own Calculation

CHAPTER IV

INVESTMENT RISKS AND DOWNSIDE POSSIBILITIES

In this chapter, it would be shown and explained the risk of the investment in this company. There are several risks that would impact the company as both external risks and internal risks. Most of the information in this chapter would be retrieved from the annual report of COM7 2020.

4.1 Operational Risk

COM7's potential operational risks might come from its inventory operation, fierce competition in the market, and branch expansion, due to its retail-based business portfolio.

4.1.1. Inventory Risk

As COM7 operates the main business as retailing IT products, it has to maintain an adequate inventory for selling overtime. However, IT products are always developed in technology for consumer behavior. Therefore, there would be a risk of the obsolete product and as a result, there would be higher administrative costs that may impact the company's revenue.

4.1.2. Competition Risk

As the information above indicates the high competition in the IT commerce market. The company has to import and retail IT products such as laptops, desktop computers, mobile phones, related accessories, etc. There is also a highly competitive business in the upstream. Therefore, the company has to develop the product and continually launch new products to meet consumers' needs overtime to compete for market share. The company earns about 80% of the total revenue from the products sales. Suppose there is a situation of intense competition in the market or new entrepreneurs with high potential to compete, it may have a significant impact on all of the company's operations. However, as the information above, the company can operate the business very well compared to the other competitors. If it occurs, the company could handle it well.

4.1.3. Branch Expansion Risk

As the company's main business is IT products retailing, the main channel for distributing products is in the stores and pop-up stores. Therefore, the company has a policy to continuously expand the branches for increasing opportunities and distribution channels to reach the target customers around the country as much as possible. In 2018-2020, the company had 378, 787, and 911 branches, respectively and plan to expand the branches up to 1,000 in the near future both in the central area and upcountry area. The company has to hold the risks if the new stores' operating results are not as expected or deviating from the projections. It would be the loss of a huge fund in the company.

4.2 Sustainability Risk

The company is still focusing on sustainability issues by integrating them with the company's business operations. Therefore, there are several risk factors related to sustainability such as climate change risk factors, Environmental conservation awareness, and Personal Data or Human right risk as the following.

4.2.1. Climate Change Risk

Global climate change as the global warming crisis affects both the natural and human environment around the world. It would impact the economy, society, and environment which are related to sustainable development. Climate change from global warming has a result in various risks and affecting the business operations in many ways as the following. Due to affecting social and health, Climate change issue has an impact on human health and human living. It would provide diseases from minor to death from the heat increased as heat exhaustion and heat stroke, infectious diseases, and various tropical diseases. As a result, there are new diseases such as SARS, bird flu, Ebola, including allergic disease. Moreover, there would also be an impact on the body's immune system, causing disease resistance to decrease and be easily infectious. Moreover, there would be an impact on the economic factors. Climate change would have an impact on the overall economy as the economic growth which might be that it would possibly affect production costs, competitiveness, and sustainability in the company operation in the future.

4.2.2. Environmental conservation awareness Risk

Environmental conservation awareness is on the trend both at the global and national levels. As a result, most consumers become more aware of environmental impacts causing social trends and consumer behavior to change significantly. It might affect the business of the company in the future because consumers are more concerned with environmental products using and reducing the use of plastics. Moreover, entrepreneurs tend to adjust their products to contain more environmental ingredients and it would be the factors that have changed consumer behavior.

4.2.3. Personal Data or Human right risk

The risk of personal data breaches or human rights Personal Data Protection Act B.E 2563 (2020) or PDPA (Personal Data Protection Act), which has been enforced on 27 May 2020, both private and public sectors (individuals or juristic persons). The customer's information is considered personal. The consent of the data subject must be obtained. Without such consent, it may be an offense to infringe the privacy rights of the customer's personal information. If there is a leak of information or the data, there may be a loss of credibility, an opportunity cost, and a disadvantage in competition in the market and trade, including confidence and customer trust.

4.3. Emerging Risk

Because there are always changes in various factors. Therefore, the company must continually look for emerging risk factors to ensure that the company can handle the risk which would occur in the future and immediately before they affect the company's business operations. However, there are 2 main risks which would significantly affect the business now as cyber threats risk and Covid-19 risk as the following.

4.3.1. Cyber Threats Risk

Cyber Threats risk is the risk that the company should prepare to deal with all the time which have various forms such as network attacks, Enterprise Resource Planning (ERP) attacks, data destruction by unauthorized persons, or misuse of information. These can affect the company's business because the main business of the company is IT devices commerce and IT services. If these risks affect the company, it will ruin the company's reputation. Moreover,

the company would carry a large amount of customers' information. Therefore, this risk would be literally significant for the company.

4.3.2. COVID-19 Risk

Due to the coronavirus situation 2019 in early March 2020, the government had implemented a lockdown regulation. Because of this, the company had temporarily closed the stores and service in Bangkok and some provinces. From March 22, 2019 to May 2020, the branches were gradually closed 289- 460 branches from 789 branches, respectively. This crisis has affected the company in terms of income.

4.4 Securities Holders Risk

Because the company does not issue other types of securities, it has to run the policy that paying dividends to shareholders at a rate of not less than 40% of the net profit after deducting income tax and allocating legal reserves based on the company's separate financial statements. However, the company would decide to pay dividends different from the policies, which will depend on the performance and expand the company's business, including economic conditions.

		- Climate Change Risk	- Covid Risk	- Inventory Risk - Cyber Threats Risk
Probability	High			
	Median	- Securities Holders Risk	- Branch Expansion Risk	
	Low	- Environmental conservation awareness Risk - Personal Data or Human right risk	- Competition Risk	
		Low	Median	High
		Impact		

Figure 4.1: Risk Matrix

CHAPTER V

INVESTMENT SUMMARY

COM7's business performance in 2021 was quite impressive. The company's total revenue increased by 36.9% compared to 2020, while COGS and SG&A expenses decreased by 0.8% and 0.6% respectively. In that result, its annual net profit exceeded 5.0% for the first time. The company's management team has strong will to expand its shop coverage in the coming years, and already focuses on its own online sales channel as well.

However, due to the COM7's business nature being retail sales, there is still certain doubt on the profitability improvement of the company in the future. It is hard to reduce COGS from its own effort, and the selling expenses seems like it has already improved to the almost optimal level during the past years. Thus, further net profit margin improvement might not be easy for the company in the future. Furthermore, the current inflation trend could increase the company's cost of equity and WACC in the short-term.

Plus, there are many limitations on this DCF valuation. As mentioned in the sensitivity analysis, the target price of the company has strong correlation with FCFF in the final year 2026, terminal growth rate, and WACC. And our DCF valuation is based on the assumption that the company will strongly drive business expansion in the projection period 2022-2026. Thus, if the company's expansion strategy couldn't be executed in the coming years, the target price could be even lowered from our target price.

In conclusion, the current target price of COM7 is 42.34 THB, downside -0.4% than current price as of April 6, 2022. So, our recommendation on the company's stock is "Hold". Of course, the company showed impressive performance in 2021 and still has a clear plan to expand its business in the future, however, there is not that much potential for the company to grow its value from its current existing business model.

Table 5.1. Recommendation on COM7

Target Price (2022 End)	42.34
Target Price (2023 End)	46.24
Current Price	42.50 <i>* As of Apr 6</i>
Downside	-0.4%
Recommendation	Hold

Last but not least, COM7 recently changed their dividend policy. As mentioned in Chapter 1, the company announced that it will pay stock dividends to the shareholders for the dividends of 2021. And, we found that the company's basic dividends policy also changed as shown in the table 3.8. Previously, it had the policy to pay "not less than 40% of net profit after tax". However, now it changed to "not exceeding 40% of net profit after tax". This policy change could be regarded as the company needing cash for the future investment. Plus, the company's total interest-bearing debt is only 72% of its total equity. Which means, COM7 still has enough room to utilize its leverage when needed. Thus, we assume that the company will keep the expansion strategy for future growth, and that might be not the current existing mobile/computer retail business, but other business portfolios which the company didn't challenge before.

- End of Report -



Appendix: SWOT Analysis

COM7 has shown remarkable growth during past years, and its strength came from nationwide distribution channels with attractive store locations, various IT products of global top brands, close relationships with famous manufacturers, and a strong long-served management team in the company. However, its business nature is low-margin retail service and there are risks from obsolete inventory when the sales forecast was incorrect. Limited business portfolio with focusing only IT products also could be the weakness of COM7. Externally, expected recovery of the domestic economy after Covid-19 pandemic could be an opportunity for the company. New technology such as foldable mobile devices, 5G migration trend and broader usage of IT devices are also external opportunities to COM7. Of course, competition in the Thai IT market is fierce, and the growth of online channels such as Lazada, Shopee could be a threat to the company.

Strength	Weakness
<ul style="list-style-type: none"> ▪ Nationwide distribution channels ▪ Attractive store location with high traffic ▪ Various IT products and brands ▪ Close relationship with Manufacturers ▪ Strong, long-served management team 	<ul style="list-style-type: none"> ▪ Low-margin retail business ▪ Risk from obsolete inventory ▪ Limited business portfolio
Opportunity	Threat
<ul style="list-style-type: none"> ▪ Recovery of domestic Economy ▪ New mobile device technology ▪ 4G to 5G migration ▪ Broader usage of IT devices (e.g. Education, Entertainment, Business) 	<ul style="list-style-type: none"> ▪ Fierce competition in the market ▪ Growth of Online channels ▪ Slowed IT market growth

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