

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

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DISCOUNTED CASH FLOW VALUATION OF COM7 PUBLIC COMPANY LIMITED

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ABSTRACT

This thematic paper looks into the assessment of the target price of COM7 Public Company Limited's stock (COM7). The approach applied in this paper is based on the discounted cash flow (DCF) valuation method to determine our estimated target price. The company's revenue experienced a Compound Annual Growth Rate (CAGR) of 22.44% from 2018 to 2022 due to branch expansion and the growth of the IT market in Thailand. The forecasted revenue CAGR from 2023 to 2027 is 9.76%, driven by the expected GDP growth in Thailand, with a terminal growth rate of 3.00% per year after 2027.

Following the DCF analysis, the target price for COM7 is projected to be 23.36 Baht per share as of December 31, 2023. This estimated price reflects a 4.29% increase compared to the current price, which stood at 22.4 Baht as of December 4, 2023. Despite the undervalued current stock price according to our DCF valuation, economic fluctuations and challenges in improving profit in this retail business play a significant role in our assumptions, and COM7 is now facing the situation to improve their business under this circumstance. Therefore, our recommendation for COM7 stock is to "Hold".

KEY WORDS: COM7/ IT PRODUCT/ Valuation/ Discounted Cash Flow/ DCF

35 PAGES

CONTENTS

	Page
ACKNOWLEDGEMENTS	iii
ABSTRACT	iv
LIST OF FIGURES	vi
LIST OF TABLES	vii
CHAPTER I : INTRODUCTION TO COM7	1
1.1 Overview	1
1.1.1 Vision Statement	3
1.1.2 Mission Statement	3
1.1.3 Future five-year plan	3
1.2 COM7 Business Models	4
1.3 COM7 Performance	6
CHAPTER II : COMPETITION AND ECONOMIC IMPACT	9
2.1 Competitors	9
2.1.1 Jaymart Group Holdings (JMART)	9
2.1.2 Synex (Thailand) Public Company Limited (SYNEX)	10
2.1.3 S P V I Public Company Limited (SPVI)	10
2.1.4 Copperwired Public Company Limited (CPW)	11
2.1.5 IT City Public Company Limited (IT)	12
2.2 Competitors' Business Comparison	12
2.3 Gross Domestic Product: GDP	15
2.4 Inflation	17
2.5 Number of Mobile Users	19
CHAPTER III : DISCOUNTED CASHFLOW VALUATION	21
3.1 Pro forma statement	21
3.2 Weighted Average Cost of Capital (WACC)	25
3.3 Valuation with Discounted Cash Flow Model	29
3.4 Sensitivity Analysis	30
CHAPTER IV: RECOMMENDATIONS	31
REFERENCES	33

LIST OF FIGURES

Figure	Page
Figure 1: Comparison of Revenue and Net Profit Percentage	6
Figure 2: Comparison between Revenue Growth and Net Profit Percentage	7
Figure 3: Total Cost and Expense Structure	8
Figure 4: Revenue and Profit Comparison among benchmark companies	15
Figure 5: Thailand's GDP per Capita in USD	15
Figure 6: Thailand: Share of economic sectors in the gross domestic product (GDP) from 2011 to 2021	16
Figure 7: Tourist Arrivals in Thailand	17
Figure 8: Thailand inflation vs interest rates	18
Figure 9: Number of mobile subscribers in Thailand in 2022, by provider	19
Figure 10: AIS, TrueMove, DTAC and NT • Mobile Mobile Subscribers/Connections • Q4 2020 – Q4 2021	20
Figure 11: Historical yield range of Thailand 10 years government bond	27
Figure 12: COM7 company's beta from SETSMART	28

LIST OF TABLES

Table	Page
Table 1: Board of Directors	2
Table 2: Top10 Shareholders	2
Table 3: Business model comparison	13
Table 4: Product line comparison	14
Table 3: Historical data of revenue, Thailand's IT spending and number of branches	19
Table 4: The projection of Thailand's IT spending and number of branches in 2023-2027	20
Table 5: Revenue 5-years projection	21
Table 6: Percentage of Expenses to Sales projection	22
Table 7: Historical income statement	22
Table 8: Pro forma income statements	23
Table 9: Weight of Debt and Equity	24
Table 10: Thailand Market risk premium	25
Table 11: COM7 Cost of equity using CAPM	26
Table 12: COM7 WACC calculation	27
Table 13: COM7 DCF and estimated share value	28
Table 14: Target price from sensitivity analysis	28

CHAPTER I

INTRODUCTION TO COM7

First, we will provide an overview recap of COM7 in general (1.1), from its beginning to the current board of directors and the top 10 shareholders, its Vision Statement and the company's Mission Statement, and its five-year plan. Then we will introduce its business models (1.2) and how they segment their business. Then we will highlight some of the performances (1.3) worth mentioning.

1.1 Overview

COM7 Public Company Limited (COM7) primarily engages in the retail trade of IT (Information Technology) products, such as desktop computers, laptops, mobile phones, tablets, and various modern lifestyle gadgets (Com7 Public Company Limited. (2022). *56-1 One Report*). In 1996, the company began its business as an IT retail store within the Pantip Plaza shopping complex. The founders of the company recognized the growth potential in the IT product business, especially as Thailand, at that time, had less than 10% of its population using computer equipment (Com7 Public Company Limited. (2023). *Investor Relations*). Consequently, the founders joined forces and established the company on February 27, 2004, with the goal of distributing IT products to retailers nationwide. This became the company's main business at that time, along with selling retail products through its own stores within the Pantip Plaza complex.

Later, the company's management saw the potential for growth and greater advantages in the retail business compared to wholesale. Therefore, the company adjusted its business strategy to focus more on retail sales. This involved expanding the number of retail stores by opening branches in shopping centers and various department stores (Com7 Public Company Limited. (2023). *56-1 One Report*).

Board of Directors

Name	Position
Mr. SIRIPONG SOMBUTSIRI	CHAIRMAN, INDEPENDENT DIRECTOR, CHAIRMAN OF THE AUDIT COMMITTEE
Mr. SURA KHANITTAWEEKUL	CHIEF EXECUTIVE OFFICER, DIRECTOR
Miss AREE PREECHANUKUL	DIRECTOR
Mr. KRITCHAWAT VORAVANICH	DIRECTOR
Mr. KONGSAK BANNASATHITGUL	DIRECTOR
Mr. KASHPOL CHULAJATA	INDEPENDENT DIRECTOR, AUDIT COMMITTEE
Mr. SOMBOON AUEATCHASAI	INDEPENDENT DIRECTOR, AUDIT COMMITTEE

*Table 1: Board of Directors***Top 10 Shareholders**

Rank	Shareholders	# Shares (Shares)	% Shares
1	MR. SURA KHANITTAWEEKUL	601,310,400	25.05
2	MR. PONGSAK THAMMATHATAREE	539,516,200	22.48
3	Thai NVDR Company Limited	129,137,065	5.38
4	MR. BUNCHA PHANTUMKOMOL	86,600,000	3.61
5	MISS AREE PREECHANUKUL	71,200,000	2.97
6	THE BANK OF NEW YORK MELLON	62,028,802	2.58
7	MR. AMNUEY PICHITPONGCHAI	37,952,700	1.58
8	MISS ORAWAN VICHANGAVEE	31,115,800	1.30
9	SOUTH EAST ASIA UK (TYPE C) NOMINEES LIMITED	27,479,560	1.14
10	MR. KRITCHAWAT WORRAWANICH	25,680,000	1.07

Table 2: Top10 Shareholders

1.1.1 Vision Statement

“The Company is committed to being a leader in the retail business by creating an ECOSYSTEM system to support our customers’ needs to be much more complete with excellent service by management from an efficient team.”

(Com7 Public Company Limited. (2022). *56-1 One Report*)

1.1.2 Mission Statement

1. “Improve the quality, efficiency, and service strategies of each business to be able to compete effectively. Develop the management and service system by modern technology to meet the customers’ needs and make the customers the most satisfied.”

2. “Give importance to the development of employees and personnel’s quality and efficiency to have potential and responsibility for work and customers.”

3. “Focus on expanding service channels that reach customers in all areas of the country by collaborating with business partners in enhancing all-around performance and create success together.”

4. “Seek new business opportunities for the future and create appropriate added value.”

(Com7 Public Company Limited. (2022). *56-1 One Report*)

1.1.3 Future five-year plan

Over the next five years, COM7 aims to uphold its position as a leader in the retail sector for IT products, smartphones, and digital devices. Furthermore, there is a strategy in place to broaden the store's offerings to encompass new product categories (Com7 Public Company Limited. (2022). *56-1 One Report*).

The company intends to expand its storefront by incorporating emerging megatrends like the health and wellness sector, pet food business, and more. This expansion will diversify the business channels, including enhancing online distribution channels, thereby establishing an omni-channel approach. This strategy aims to provide customers from all regions with a variety of purchasing options in a swift and convenient manner.

Furthermore, the company places a significant emphasis on the development of its in-house brand products, beginning with the accessories category. This strategic move is geared towards consistently generating substantial profits and establishing a distinct presence in the market. Additionally, in response to evolving customer preferences, the company has introduced standalone branches to cater to individuals who prefer not to visit shopping malls. Notably, these standalone branches boast spacious layouts that accommodate a wide range of products and offer convenient parking facilities. As of the end of 2022, the company successfully expanded its network to include a total of 47 standalone branches, contributing to its sustained and robust growth.

Regarding franchising, the plan is to keep expanding, particularly in areas beyond the reach of shopping malls, while also boosting online market presence. The Omni Channel approach ensures customers can access products and services from multiple channels. In-store employees facilitate sales of products not physically stocked by leveraging online websites. These websites are designed to enhance customer experiences and cater to their specific needs.

1.2 COM7 Business Models

There are six main business models within COM7. The company has retail business branches covering 75 out of the 77 provinces under various store names, including BaNANA, Studio7, BaNANA Mobile, BaNANA Equip, BaNANA Outlet, Banana Stand Alone, BKK, KingKong Phone, Bb, B-Play, Bb-Move, and Brand Shop. In addition, the company has entered into agreements to sell IT products in more than 45 branches of the Big C chain and has leased space to sell electrical appliances in over 30 branches of Index livingmall under the name BaNANA. This expansion aims to diversify the customer base, types of products sold, and increase sales floor space (Com7 Public Company Limited. (2022). *56-1 One Report*).

The company engages in sales to corporate customers, Commercial and B2B (Business to Business) businesses, including educational institutions, universities, and various schools. This involves direct sales to general corporate entities across various industries, including universities and schools. This is driven by the rapid

growth of efficient and complex IT products. Both the business and education sectors require the procurement and upgrade of equipment, particularly in terms of digital technology, to meet the demands of digital technology growth.

The company also engages in service business as an after-sales service, which includes Apple product repair and services in Thailand under the name "iCare" and service stores for TRUE Shop under the name "TRUE by COM7."

Online shopping has become a significant part of consumer purchasing behavior, and the company recognized the importance of online product distribution to complement its core retail business. To meet the increasing consumer demand, the company established an online sales channel under the name www.bnn.in.th or Banana Online to distribute more than 7,000 items from over 100 world-renowned brands, including IT equipment, smartphones, tablets, laptops, gadgets, computer components, smartwatches, and various modern lifestyle accessories. Additionally, the company offers online sales channels for Apple products through the website, <https://www.studio7thailand.com/th>, and an online channel for Apple products at student prices via <https://education.studio7thailand.com/>. Currently, the company operates over 1,000 general branches nationwide.

COM7 also engages in the Insurance business. The company sees potential in the insurance business due to its extensive network and niche market access, which can positively impact it. There are opportunities to design insurance products tailored to specific customer needs. The company's modern technology systems and representation of leading brand repair centers contribute to cost-effective service delivery, expanding opportunities within the business sector of the group of companies.

The company is a distributor, wholesale business, for mobile phones and gadgets. The company operates a full-service IT and smartphone retail business, including online and B2B sales channels, and is exploring opportunities in wholesale smartphone channels. In 2021, it partnered with new smartphone brands like Realme, becoming the official distributor in Thailand for both smartphones and IoT products. The company's wholesale business has seen quarterly growth, with over 2,000 dealer partners in each area and expanding Realme's coverage to 5,000 locations in Thailand by 2022.

In 2023, the company plans to expand further by adding new smartphone brands like Infinix and Tecno, along with accessory products. The company's vision is to lead the retail business by creating an ecosystem that provides complete customer support and efficient management. Their mission includes enhancing business quality, efficiency, and service strategies, developing a modern technology-based service system, nurturing employee growth, expanding service channels nationwide, and seeking new business opportunities to add value.

1.3 COM7 Performance

COM7's Revenue performance has been growing steadily for the past five years (SetSmart.com (2023). COM7). Despite the Covid-19 pandemic that has affected the global economy, COM7 has been able to grow its revenue year-on-year for the past five years. During the pandemic, in 2020 and 2021, a new working trend benefited COM7 in terms of sales and revenue. It was the beginning of the work-from-home trend. People needed computers, laptops, and other accessories to do online meetings and link to the company's mainframe to do work from home. As we can see from Figure 1, revenue grew steadily year-on-year. Net Profit Percentage was also positive with constant growth, dropping only last year from 5.1% to 4.9%.

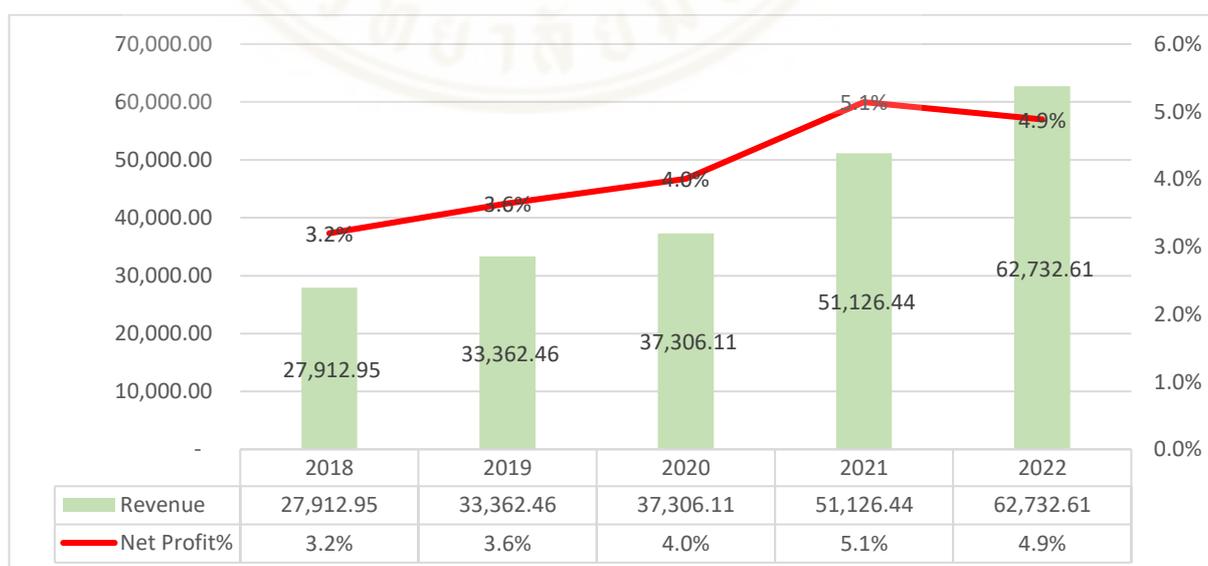


Figure 1: Comparison of Revenue and Net Profit Percentage

The revenue growth from the year 2018 to 2019 was 16%, as shown in Figure 2. The Covid-19 pandemic began late in 2019 but has had a full impact in 2020. During the pandemic, some industries faced negative growth or even negative revenue. COM7 came out of the first wave of the pandemic year with positive revenue and a growth of 11% from 2019 to the year 2020. The year 2020 was the full impact of the pandemic with government lockdown and businesses were forced to limit the number of employees per square meter of workspace, forcing some companies to introduce a work-from-home policy. This has benefited COM7 as the main player in the IT market. We can see a substantial spurt in revenue growth from 2020 to 2021, experiencing a 27% increase, along with a rise in net profit from 4.0% in 2020 to 5.1% in 2021

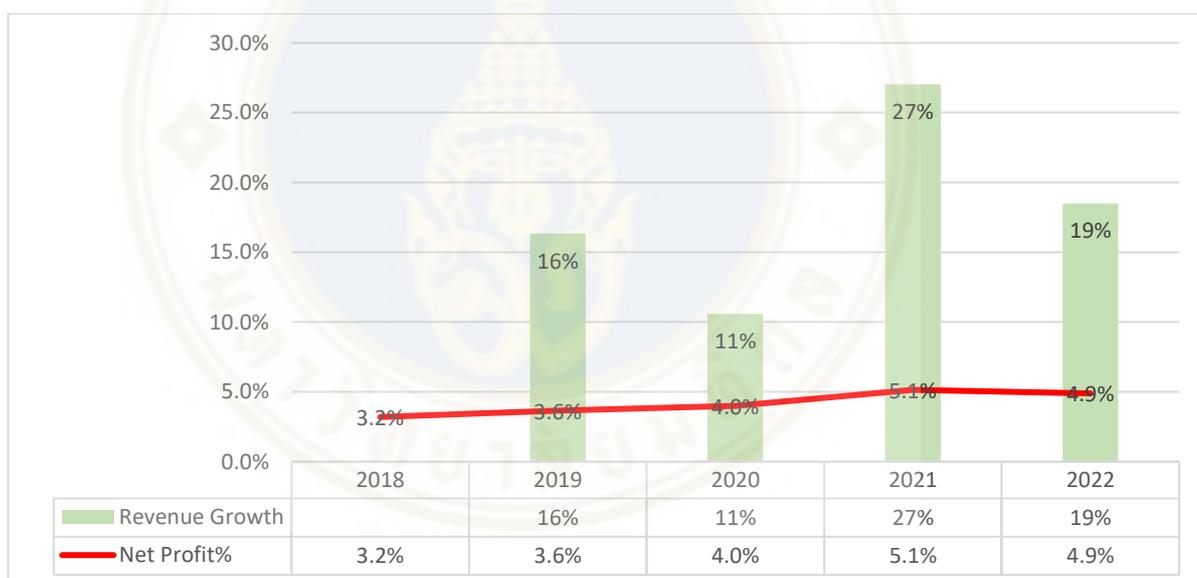


Figure 2: Comparison between Revenue Growth and Net Profit Percentage

COM7 has a stable cost structure as shown in Figure 3; the Costs and the Selling and Administrative Expenses are in similar proportion year-on-year. As the figure shows, Total Expenses continue to decrease from 96% in 2018 down to 94% in 2022, while the Revenue continued to increase, causing the Net Profit Percentage to increase every year. This is a good sign that the company is managing their expenses

very well while gaining a bigger market share. COM7 current market cap is 54,719.96 million Baht. (SetSmart.com. (2023). COM7)

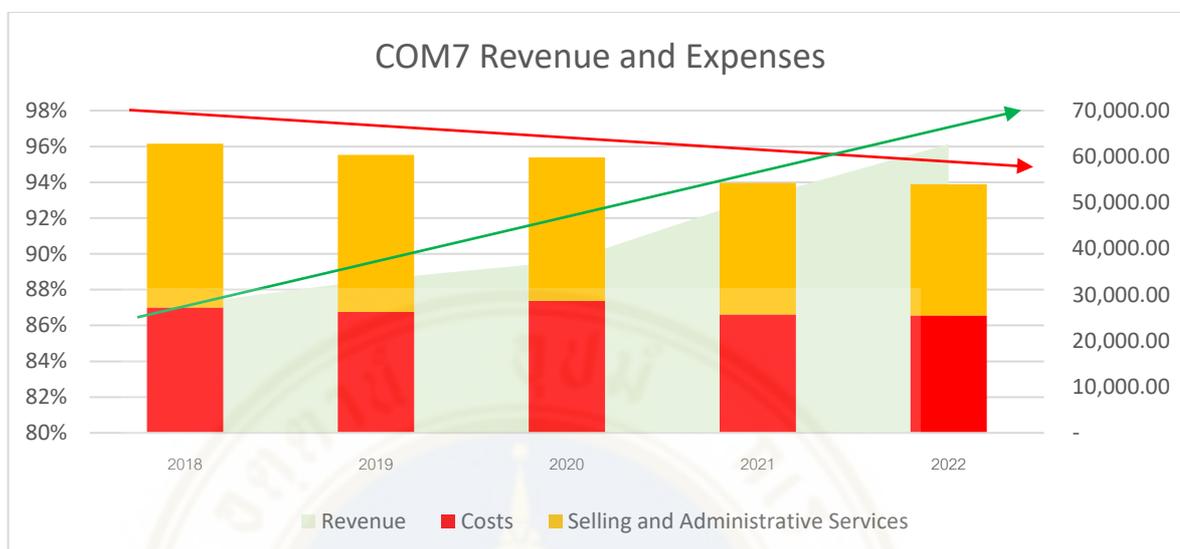


Figure 3: Total Cost and Expense Structure

CHAPTER II

COMPETITION AND ECONOMIC IMPACT

In this chapter, we will introduce direct competitors (2.1) to COM7 within Thailand. We will compare side by side the business models and the products and services (2.2) of COM7 and its competitors. Then we will explore the economic impact that affects COM7 directly, Gross Domestic Product (2.3), Inflation (2.4), and Number of Mobile Users (2.5).

2.1 Competitors

2.1.1 Jaymart Group Holdings (JMART)

J Mart Co., Ltd. was established in 1988 as a distributor of electrical appliances with an initial capital of THB 2,000,000 (Jay Mart Public Company Limited. (2023). *Investor Relations*. Jaymart). Over the years, it expanded its business, venturing into mobile phone sales in 1992. The company went public on the Stock Exchange of Thailand in 2009, raising significant capital. Today, J Mart operates as a holding company with investments in various businesses, notably in mobile phone sales, subsidiaries, and financial ventures.

J Mart's focus extends to integrating technology into its operations and preparing for future technological changes in the financial and retail industries. The company's "The Power of Synergy" strategy emphasizes collaboration within the business group to maximize shareholder value. J Mart's expansion has also involved private placements and investments in various businesses related to retail, financial services, and technology. The company's ongoing commitment is to create ecosystems and foster future growth, ensuring the sustainable development of the business group by pursuing both organic and inorganic growth strategies (Jay Mart Public Company

Limited. (2022). *56-1 One Report*. Jaymart). JAMART's current market cap is 26,091.49 million Baht. (SetSmart.com. (2023). JMART)

2.1.2 Synnex (Thailand) Public Company Limited (SYNEX)

SYNEX is primarily engaged in the distribution of computer hardware, peripherals, software, information technology systems, and communication devices (Synnex (Thailand) Public Company Limited. (2023). *Investor Relations Main*. Synnex). The company serves a diverse customer base of over 6,000 clients, including retail, wholesale, modern trade, hypermarkets, and stationary stores, within Thailand and the Indochina region. As a member of the Synnex Group, recognized as one of the largest distributors of computer and communication devices globally, Synnex (Thailand) benefits from its extensive network that spans the USA, Australia, China, Hong Kong, New Zealand, and India.

Despite being a subsidiary of King's Eye Investment Ltd, which belongs to the Synnex Group, Synnex (Thailand) operates with an independent Thai management team. This autonomy enables the company to swiftly adapt to the competitive Thai market. The Thai management team brings a wealth of experience in the computer and peripheral distribution industry. As part of the Synnex Group, Synnex (Thailand) enjoys the privilege of being an official distributor for renowned global brands. This allows the company to offer a wide range of products that cater to the demands of Thai customers, all while conducting contracts independently from the Synnex Group. Additionally, the sharing of knowledge, such as efficient inventory management and technological advancements, further contributes to the company's success (Synnex (Thailand) Public Company Limited. (2022). *Annual Report*. Synnex). SYNEX's current market cap is 8,643.08 million Baht. (SetSmart.com. (2023). SYNEX)

2.1.3 SPVI Public Company Limited (SPVI)

SPVI specializes in the reselling of Apple products, covering a wide range of items such as Apple computers (iMac, Macbook Pro, Macbook Air), iOS devices (iPod, iPad, iPhone), and a variety of accessories (SPVI Public Company Limited. (2023). *About SPVi*. Spvi). Additionally, the company offers products from other

brands compatible with Apple devices, including software, network equipment, printers, and graphic products. SPVI also distributes various accessories related to iOS devices, like speakers, headphones, protective cases, and screen protectors. The company caters to both individual consumers through diverse retail channels like iStudio by SPVi, iBeat by SPVi, U•Store by SPVi, and Mobi, as well as organizations, educational institutions, and state enterprises, providing comprehensive solutions for their needs.

In addition to product distribution, SPVI operates an Apple-certified service center known as "iCenter." At these iCenter branches, customers can access after-sales services and consulting, all performed by Apple Authorized Technicians, ensuring high-quality support for Apple products (SPVI Public Company Limited. (2022). *56-1 One Report*. Spvi). SPVI's current market cap is 1,480 million Baht. (SetSmart.com. (2023). SPVI)

2.1.4 Copperwired Public Company Limited (CPW)

CPW and its subsidiary company, Koan Company Limited (KOAN), together operate as a retailer and distributor of exclusive and innovative digital lifestyle products (Copperwired Public Company Limited. (2023). *Annual Report*. Copperwired). These products include audio equipment, health and fitness devices, smart electrical appliances for both homes and offices, smartphones and tablets, smartwatches, and various related accessories. The group's primary business model revolves around retail outlets, aiming to provide their customers with exceptional experiences, focusing on offering high-quality products and excellent service to enhance their everyday lifestyles.

The company's missions include selecting products based on the concept of "Design Lifestyle Technology" to set CPW apart, improving staff quality to boost capacity and efficiency for increased profitability, managing costs to maximize benefits for stakeholders, and maintaining a strong customer-centric approach to ensure customer satisfaction in terms of product quality, retail services, and social responsibility. Additionally, they actively seek new business opportunities to strengthen their organization and achieve sustainable growth (Copperwired Public

Company Limited. (2022). *56-1 One Report year 2022*. Copperwired). CPW's current market cap is 1,404 million Baht. (SetSmart.com. (2023). CPW)

2.1.5 IT City Public Company Limited (IT)

The company's mission is to establish itself as a major player in the large-scale retail superstore sector, offering a wide range of products, from computers, tablets, smartphones, and IT accessories, to home appliances and gaming equipment (IT City Public Company Limited. (2023). *Investor Relations*. Itcity). This initiative, known as "The IT Superstore," aims to position the company as a leader in the field. The IT Superstore stands as one of the key players in the retail market, specifically in the large-scale IT category. As of December 31, 2022, the company has a total of 371 branches, allowing it to achieve economies of scale and benefit from the economic advantages of size. The company's extensive reach in the market allows it to secure better pricing and discounts from both suppliers and direct manufacturers. This positions the company as a powerful contender in the IT retail sector.

Furthermore, the company's capacity to increase sales outside its core products and services by offering diverse options under the concept of "One-Stop Shopping," also contributes to its competitiveness. This approach involves not only offering a wide range of products and services but also includes marketing activities that further enhance the customer experience. The company has been actively exploring expansion opportunities, investments, and various projects to ensure continued growth and a strong market presence, considering the ever-evolving market dynamics and consumer preferences (IT City Public Company Limited. (2022). *Financial Statement Yearly 2022*. Itcity). IT's current market cap is 1,209.12 million Baht. (SetSmart.com. (2023). IT)

2.2 Competitors' Business Comparison

Companies with similar business models are used as a benchmark. Selected companies are those with a similar business model as COM7 (Com7 Public Company Limited. (2022). *56-1 One Report*) As mentioned above, COM7 has six business models, but since Apple Reseller is one of their core revenues, it is better to

treat it as a separate benchmark. Apple products are the leaders in this industry. All the competitors are Apple Resellers with their own retail spaces and outlets. Apple products can generate very high revenue for the stores. Most of the Apple stores will also sell other related accessories and high-end gadgets, these accessories can create a high margin for the stores. What comes with the Apple stores are usually the service and repair services. These services build a connection with customers and can give the stores better credits to the customers. Synex (Thailand) Public Company Limited is the only company that doesn't have a retail business model (Synnex (Thailand) Public Company Limited. (2022). *Annual Report*. Synnex). They are focused more on B2B and Distributor business. Only COM7 and Synex are engaging in the B2B business with similar clientele. COM7 does B2B transactions with educational institutions and corporations, while Synex focuses on corporate accounts. Synex and SPVI are not in the E-commerce business, while others are already selling their products online. Out of these six companies, only COM7 is in the Insurance business. With their defined customer base, they are able to tailor insurance to serve their customer's needs. These are the business models that all of the six companies have in common and should fit as benchmark companies for the analysis.

Brand	Retail Business	B2B	Service Business	E-Commerce	Insurance	Distributor	Apple Reseller
COM7	/	/	/	/	/	/	/
JMART	/			/		/	/
SYNEX		/	/			/	/
SPVI	/		/				/
CPW	/		/	/			/
IT	/		/	/			/

Table 3: Business model comparison

In terms of product offerings, the benchmark companies have very similar product lines. Table 2 shows the most common products are Apple products, followed by IT Gadgets, and Mobile Phones. These products currently dominate the IT market

due to their rapid evolution and continuous innovation in usage. Some of these companies offer computerized workstations and gaming systems, including desktop computers, laptops, and computer tablets. Gaming has evolved into the latest e-sport phenomenon, representing serious competitions that offer substantial financial rewards and fame. Gaming computers have emerged as the cornerstone of both Desktop Computers, and Laptop categories, boasting high-performance specifications that come with increased price and profit margins.

Brand	Desktop Computers	Laptops	Mobile Phones	Tablets	Gadgets	Accessories	Apple products
COM7	/	/	/	/	/	/	/
JMART			/		/	/	/
SYNEX	/	/	/	/	/		/
SPVI					/		/
CPW			/	/	/	/	/
IT	/	/	/	/	/	/	/

Table 4: Product line comparison

Figure 4 below shows revenue and profit for the year 2022 of COM7 and the benchmark companies. We can see that COM7 has the highest revenue of 63 billion Baht and a profit margin of 4.86%. Followed by SYNEX with revenue of 39.1 billion Baht and a margin of 2.06%. JMART stood out with a revenue of 14.7 billion Baht and the highest margin among the group at 17.74%. IT generated 8.7 billion Baht in revenue with a marginal profit margin of 0.22%, while CPW recorded 7.3 billion Baht in revenue with a margin of 1.23%. SPVI reported 5.6 billion Baht in revenue and a 2.25% profit margin. Regarding Revenue, COM7 comes first, followed by SYNEX, JMART, IT, CPW, and SPVI.

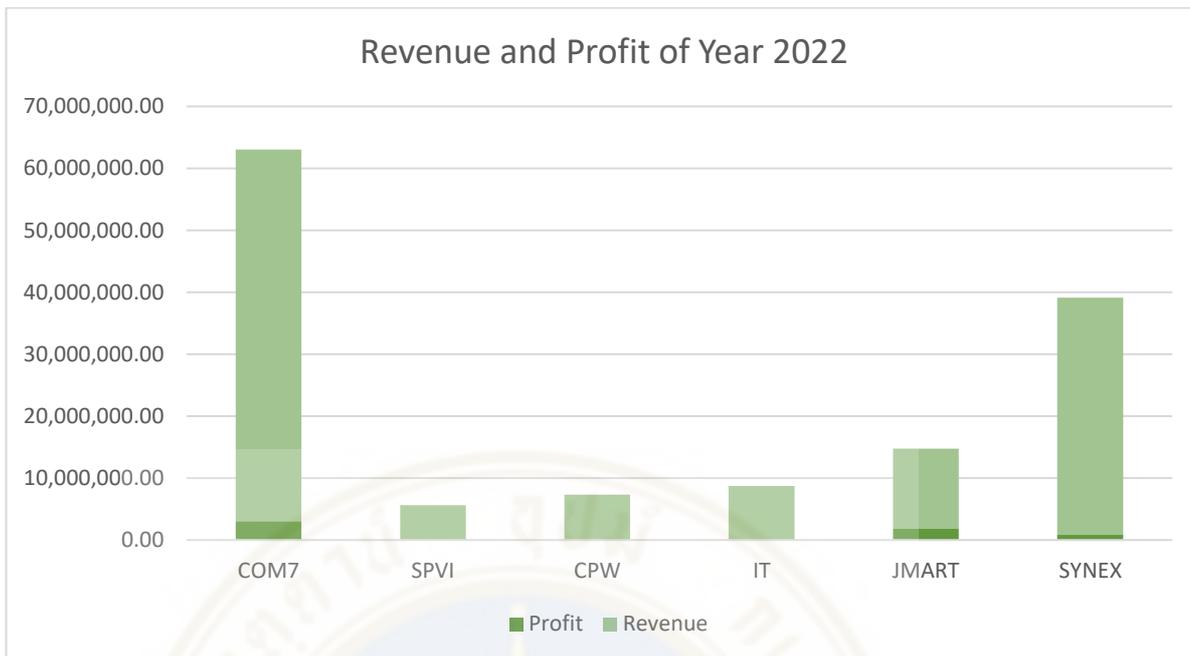


Figure 4: Revenue and Profit Comparison among benchmark companies

2.3 Gross Domestic Product: GDP

Thailand is a developing country with a GDP per capita of 248,635.3 Baht per person per annum (National Economic and Social Development Council [NESDC], 2023). This number increased from 231,986.1 Baht per person per annum in 2021 (NESDC, 2023). The trend of Thailand's GDP is shown in Figure 5.

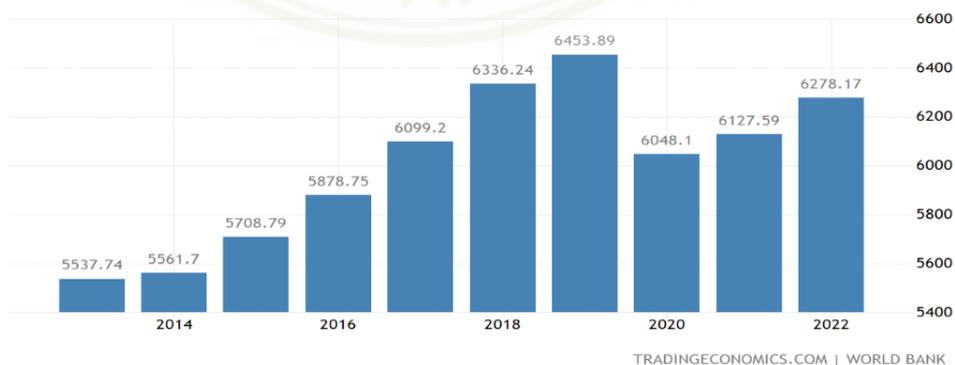


Figure 5: Thailand's GDP per Capita in USD

There are three main industries that contribute to Thailand's GDP: agriculture, manufacturing, and services (Bajpai, 2022). The proportion of each main industry is shown in Figure 6. The tourism industry is one of Thailand's leading economic sectors and before Covid hit in 2019, international tourism accounted for 11.5% of the GDP (Biswas, 2023). The trend of tourism arrivals in Thailand (as shown in Figure 7) indicates an upward trend in 2022 after Thailand closed the country during the pandemic period. It is noticeable that the tourism numbers in Figure 7 follow a similar pattern to Thailand's GDP in Figure 5, emphasizing the significant role of tourism in Thailand's GDP.

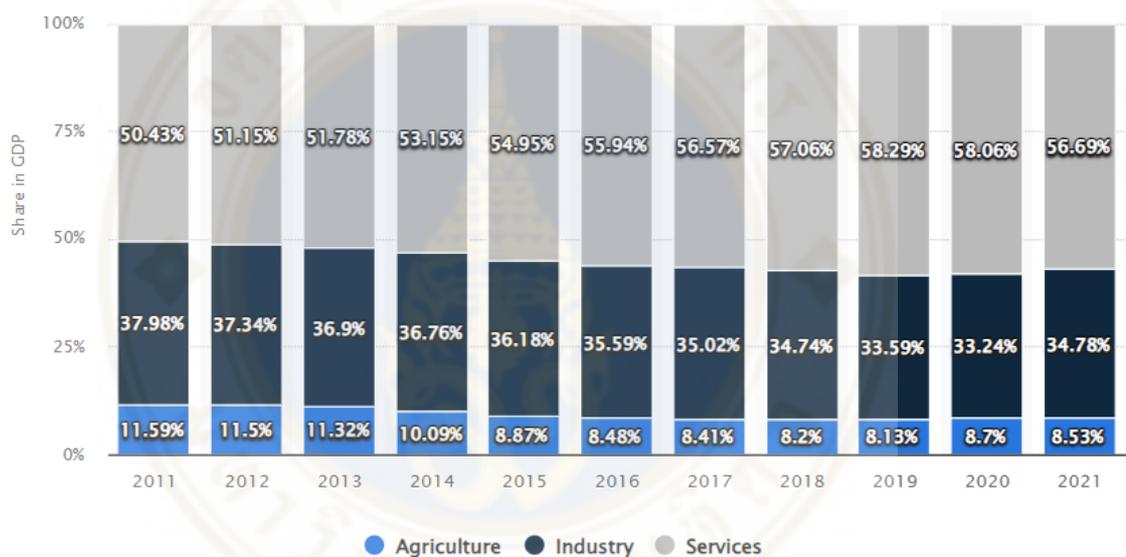


Figure 6: Thailand: Share of economic sectors in the gross domestic product (GDP) from 2011 to 2021

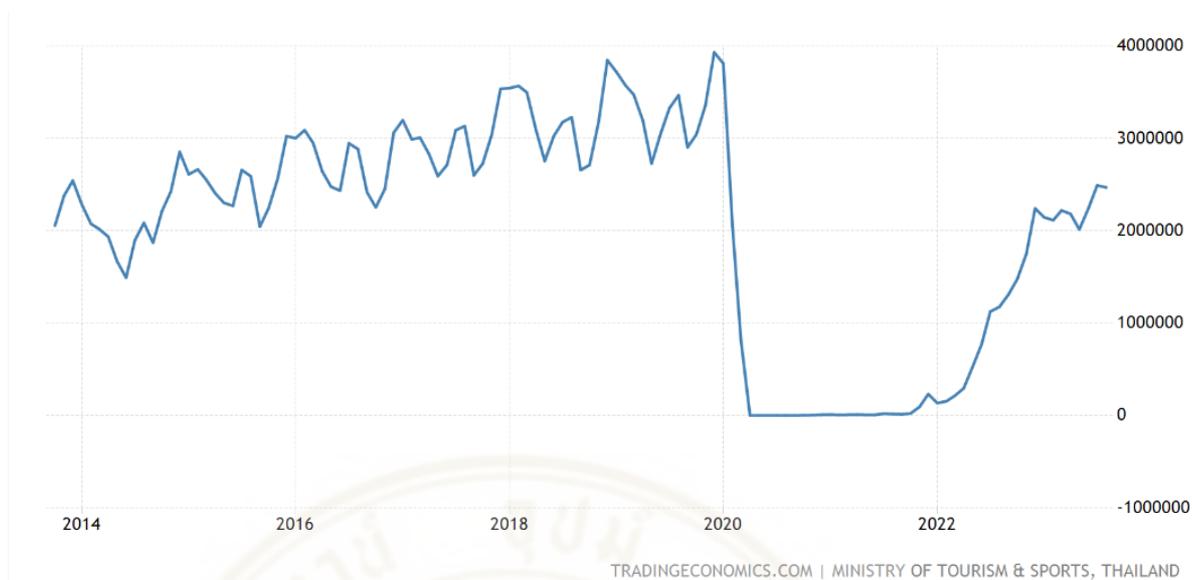


Figure 7: Tourist Arrivals in Thailand

In 2022, Thailand's digital economy GDP grew by 1.90% compared to 2021, contributing to 12.19% of the GDP (Nationthailand, 2023). This increase in Thailand's GDP reflects the country's recovery from the Covid-19 pandemic.

The pandemic changed the way Thai people work, shifting from offline to online. Alongside this transition, a new business model of digitalization is emerging in many industries worldwide, driving growth in the digital market and leading to more online activities using mobile phones and computer notebooks. The government also has set goals for the digital economy to contribute to 30% of the GDP by 2027 (Nationthailand, 2023). Therefore, for many reasons, companies in this field will benefit from increased sales. Additionally, these companies will not only benefit from government digital economy policies but also from other policies, such as an increase in salary, which creates more purchasing power in the market.

2.4 Inflation

Take a look at the 10 years of historical data for Thailand's inflation rate in Figure 8. From 2013, we observe fluctuations, especially after the Covid pandemic. It

rose from 1.23% in 2021 to 6.08% in 2022, and the predictions indicate it will decrease again to around 1.5% in the current year (2023).

Inflation can have a significant impact on economic growth. A high inflation rate tends to slow down many industries due to the rising costs of production, driven by increases in interest expenses, material prices and wages. Moreover, high inflation rates will decrease consumer purchasing power because consumer product prices also rise. This reduction in real income may make consumers more cautious about their spending, especially when faced with uncertainty about the future.

Mobile phones, notebooks, and gadgets are particularly sensitive to price fluctuations. While these items have become integral parts of everyone's life, consumers may delay or avoid replacing their current devices when dealing with high inflation and an uncertain future.

Thailand: Inflation rate from 2008 to 2028

(compared to the previous year)

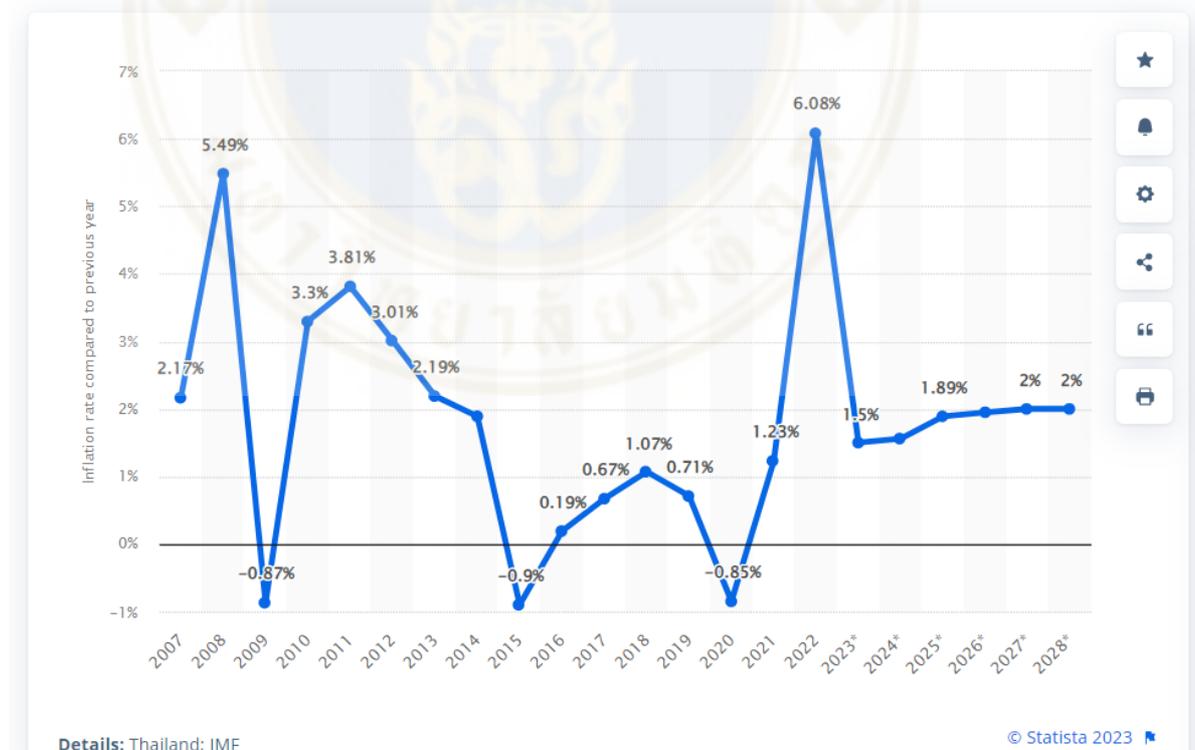


Figure 8: Thailand inflation vs interest rates

2.5 Number of Mobile Users

The population of Thailand is approximately 70 million people (Wikipedia contributors, 2023). When we compare this total population with the number of mobile subscribers shown in Figure 9, we see that mobile subscribers total around 101 million people, which is more than Thailand's population of approximately 70 million. This suggests that some people may use more than one phone number and, in turn, implies that some of them may have more than one mobile phone.

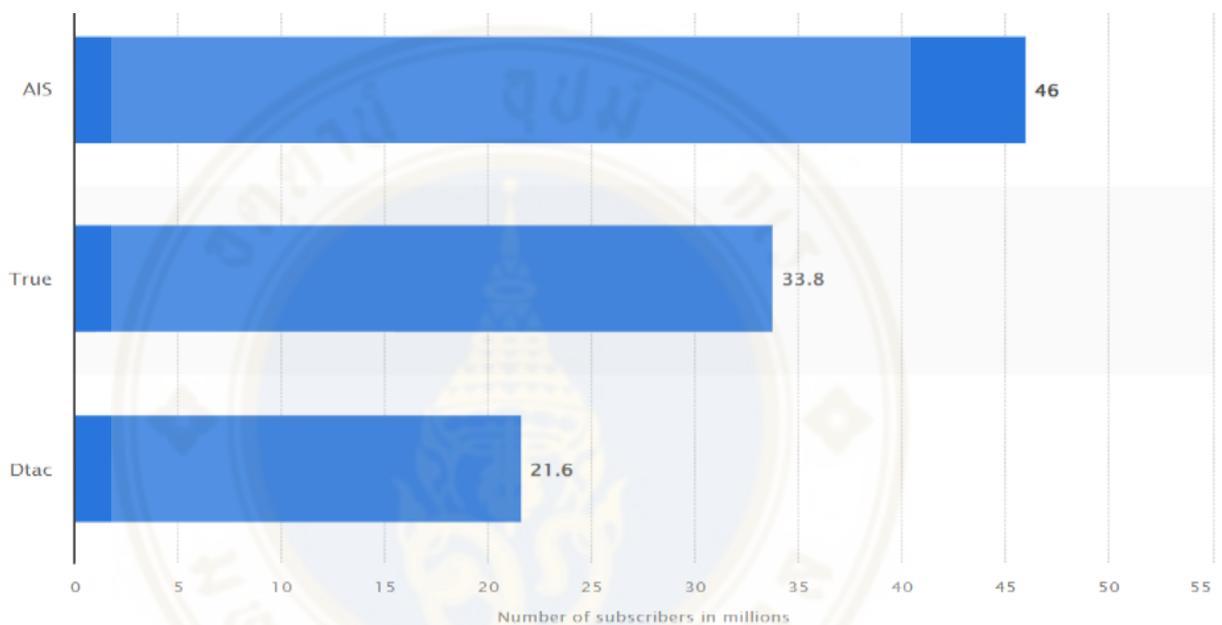


Figure 9: Number of mobile subscribers in Thailand in 2022, by provider

The mobile subscriber numbers in Figure 10 show a consistent growth trend each year. This is supported by the rise of the Internet of Things in Thailand, where everything is connected to the Internet, making life more convenient. The market for mobile devices and gadgets still has significant potential for future growth.

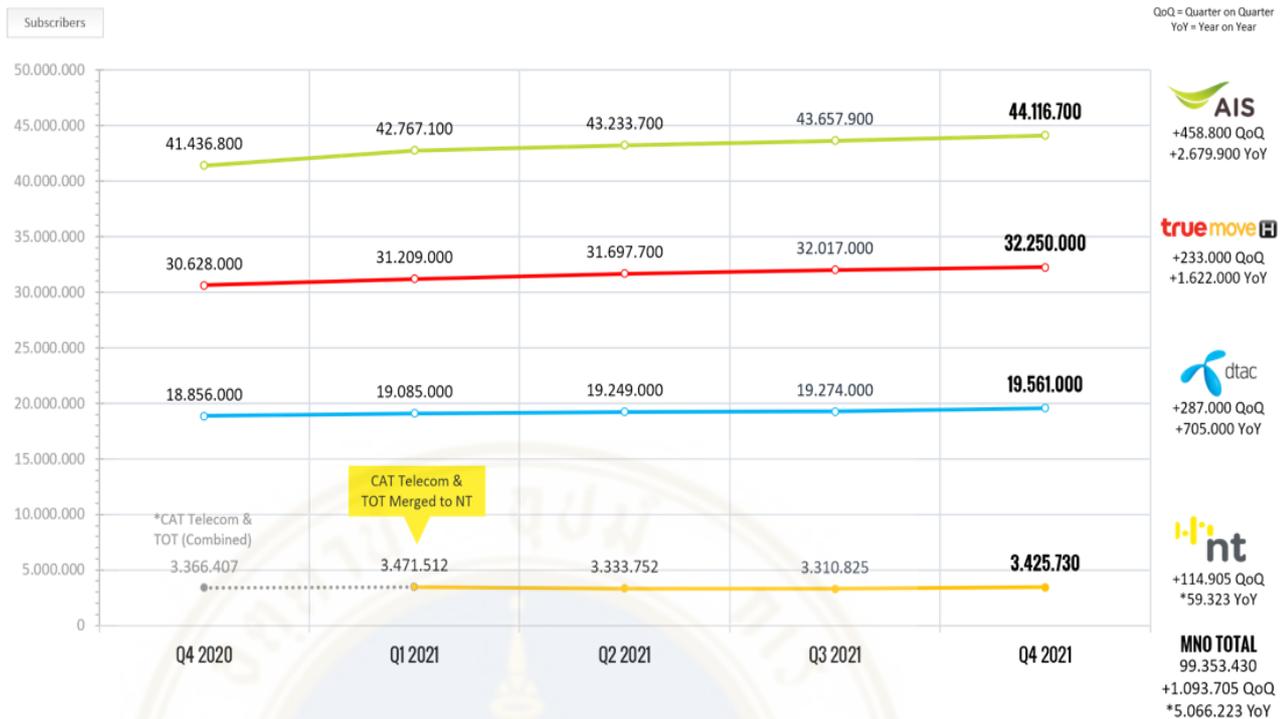


Figure 10: AIS, TrueMove, DTAC and NT • Mobile Mobile Subscribers/Connections • Q4 2020 – Q4 2021

CHAPTER III

DISCOUNTED CASHFLOW VALUATION

This chapter focuses on estimating the target price of COM7 using the Discounted Cash Flow (DCF) model, which is based on the expected future cash flow. In this method, we will use the company's expected free cash flow and discount it by using the discount rate calculated from the Weighted Average Cost of Capital (WACC) to determine its present value.

3.1 Pro forma statement

3.1.1 Revenue forecast

We believe that COM7's revenue increased along with the growth of its branches and Thailand's IT spending data. We see a connection between these numbers and the rise in COM7's earnings (Table 3). When there are more branches, there is likely more income because COM7 is located at many department stores, making it easy for customers to find them everywhere. This increased visibility can also help COM7 gain more customers, and higher income can also mean a larger share of the market. By looking at past data, we used the growth of branches and the percentage of COM7's sales compared to Thailand's IT spending to estimate COM7's future revenue.

	2018	2019	2020	2021	2022	CAGR 2018-2022
Revenue From Operations Growth rate (Million Baht)	27,912.95	33,362.46 19.52%	37,306.11 11.82%	51,126.44 37.05%	62,732.61 22.70%	22.44%
Thailand's IT spending (Million Baht)	424,000.00	659,153.00 55.46%	636,200.00 -3.48%	818,600.00 28.67%	897,000.00 9.58%	20.60%
No. of branches	553.00	787.00 42.31%	911.00 15.76%	1,000.00 9.77%	1,160.00 16.00%	20.35%

Table 5: Historical data of revenue, Thailand's IT spending and number of branches

To forecast Thailand's IT spending from 2024 to 2027, we predicted the growth of the spending using the International Monetary Fund's (IMF) forecasts for Thailand's nominal GDP. The estimates are 3.20%, 3.10%, 3.00%, and 3.00% for the respective years. We believe that when the country's GDP goes up, people generally have more money to spend, including on IT products, which is why we used these GDP growth rates in our projection. For the forecast of 2023, we followed the projection that was mentioned in COM7's 2022 annual report.

For the number of COM7 branches in 2023, we relied on 1400 target branches mentioned by the Head of Business Expansion at COM7 (Kaphoon, 2023). Looking at historical data from 2018 to 2022, COM7's branches grew by an average of 150 branches per year. However, considering the impact of many factors during the Covid-19 pandemic, such as the work-from-home policy, we want to be cautious. So, for our projection, we assumed a more conservative constant growth of 100 branches each year for 2024 – 2027. Thailand's IT spending and number of COM7 branches projection are shown in Table 4 below:

	2023F	2024F	2025F	2026F	2027F
Thailand's IT spending (Million Baht)	935,000.00 4.24%	964,920.00 3.20%	994,784.27 3.10%	1,024,597.96 3.00%	1,055,335.90 3.00%
No. of branches	1,400.00 20.69%	1,500.00 7.14%	1,600.00 6.67%	1,700.00 6.25%	1,800.00 5.88%
Thailand's GDP growth	2.70%	3.20%	3.10%	3.00%	3.00%

Table 6: The projection of Thailand's IT spending and number of branches in 2023-2027

Based on the information and assumptions above, we project COM7's revenue as follows:

	2023F	2024F	2025F	2026F	2027F
Revenue From Operations (Million Baht)	78,919.19	87,262.07	95,960.36	105,013.55	114,526.55
Growth rate	25.80%	10.57%	9.97%	9.43%	9.06%
Implied % com7 sale from Thailand's IT spending	8.44%	9.04%	9.65%	10.25%	10.85%

Table 7: Revenue 5-years projection

3.1.2 Cost and Expense Forecast

To estimate the future costs and expenses for COM7, we looked at historical data as a starting point. The average cost of sales from 2018 to 2022 was averaged at around 86.86%. We decided to use this number without adjusting for other factors. Since COM7 is a retailer, the product prices and margins are typically set initially with the supplier and don't change easily. That's why we've chosen to stick with the average percentage for the cost of sales compared to total sales.

To forecast Selling and Administration Expenses, we started with historical data of the percentage of these expenses compared to sales. We made a small adjustment based on the expected inflation rate forecasted by the International Monetary Fund's (IMF) for 2023 to 2027 (1.50%, 1.56%, 1.89%, 1.95%, and 2.00%, respectively). We believe inflation could impact these expenses, including rent, labor, and other costs, causing them to increase.

The percentage of expense to sales forecast are shown as follows:

	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F
Inflation rate growth	1.07%	0.71%	-0.85%	1.23%	6.08%	1.50%	1.56%	1.89%	1.95%	2.00%
% Costs to sales	87.01%	86.76%	87.37%	86.61%	86.55%	86.86%	86.86%	86.86%	86.86%	86.86%
% Selling Expenses to sales	7.54%	7.14%	6.29%	5.70%	5.95%	5.97%	5.98%	5.99%	6.01%	6.02%
% Administrative Expenses to sales	1.60%	1.63%	1.71%	1.66%	1.37%	1.37%	1.38%	1.38%	1.38%	1.38%

Table 8: Percentage of Expenses to Sales projection

We follow a straightforward method to estimate other items such as other income, gain/loss on foreign currency exchange, and income from debt and equity instruments from 2023 to 2027. We calculate the expected values using the 5-year average historical data for expenses. These items typically account for less than 1% of our sales and have minimal impact on the overall financial picture.

When it comes to finance costs, we determine them by taking the 5-year average historical percentage of finance costs to the company's total interest-bearing debt, which stands at 2.01%.

As for income tax expense, our approach involves using the maximum corporate income tax rate provided by the revenue department, which is currently 20%. This rate is applied in projecting our financials for the years 2023 to 2027.

Based on historical data and the assumptions we made for our projection, the pro forma income statement shows as follows:

	2018	2019	2020	2021	2022
Revenue From Operations	27,912.95	33,362.46	37,306.11	51,126.44	62,732.61
Other Income	50.17	27.73	46.79	28.22	293.01
Total Revenue	27,963.12	33,390.19	37,352.90	51,154.66	63,025.62
	-	-	-	-	-
Costs	24,286.65	28,946.22	32,595.90	44,280.50	54,297.81
Selling Expenses	2,104.03	2,381.08	2,347.58	2,913.53	3,735.71
Administrative Expenses	447.49	543.77	638.48	847.94	859.30
Impairment	-	-	-	-	107.62
Other Expenses	-	-	-	-	89.72
Total Cost And Expenses	26,838.18	31,871.08	35,581.96	48,041.98	59,090.15
Share Of Profit (Loss) From Investments Accounted For Using The Equity Method	11.45	38.58	101.01	96.48	-
Gains (Losses) On Foreign Currency Exchange	7.67	(0.70)	4.30	21.93	-
Profit (Loss) Before Finance Costs And Income Tax Expense	1,144.06	1,556.98	1,876.24	3,231.08	3,935.47
Finance Costs	45.85	52.45	53.15	47.89	103.02
Income Tax Expense	205.16	288.73	328.24	554.71	768.65
Profit (Loss) For The Period From Continuing Operations	893.06	1,215.80	1,494.86	2,628.48	3,063.80
Gross margin	13.15%	13.31%	12.74%	13.44%	13.85%
EBIT margin	4.09%	4.66%	5.02%	6.32%	6.24%
Net profit margin	3.19%	3.64%	4.00%	5.14%	4.86%

Table 9: Historical income statement

	2023F	2024F	2025F	2026F	2027F	2018-2022	CAGR 2023F-2027F
Revenue From Operations	78,919.19	87,262.07	95,960.36	105,013.55	114,526.55	22.44%	9.76%
Other Income	89.18	89.18	89.18	89.18	89.18	55.46%	0.00%
Total Revenue	79,008.37	87,351.26	96,049.54	105,102.74	114,615.73	22.53%	9.75%
Costs	68,550.73	75,797.53	83,353.02	91,216.81	99,479.98	22.28%	9.76%
Selling Expenses	4,713.71	5,220.16	5,751.33	6,306.20	6,891.23	15.43%	9.96%
Administrative Expenses	1,084.26	1,200.76	1,322.94	1,450.57	1,585.14	17.72%	9.96%
Impairment	71.03	71.03	71.03	71.03	71.03		
Other Expenses	24.58	24.58	24.58	24.58	24.58		
Total Cost And Expenses	74,444.32	82,314.05	90,522.90	99,069.19	108,051.95	21.81%	9.76%
Share Of Profit (Loss) From Investments Accounted For Using The Equity Method	-	-	-	-	-	-100.00%	0.00%
Gains (Losses) On Foreign Currency Exchange	-	-	-	-	-	-100.00%	0.00%
Profit (Loss) Before Finance Costs And Income Tax Expense	4,564.05	5,037.20	5,526.64	6,033.55	6,563.78	36.19%	9.51%
Finance Costs	77.33	77.33	77.33	77.33	77.33	22.44%	0.00%
Income Tax Expense	897.34	991.97	1,089.86	1,191.24	1,297.29	39.13%	9.65%
Profit (Loss) For The Period From Continuing Operations	3,589.38	3,967.90	4,359.44	4,764.97	5,189.15	36.10%	9.65%
Gross margin	13.24%	13.23%	13.22%	13.21%	13.21%		
EBIT margin	5.78%	5.77%	5.75%	5.74%	5.73%		
Net profit margin	4.54%	4.54%	4.54%	4.53%	4.53%		

Table 10: Pro forma income statements

According to Table 8, the company's revenue is projected to increase to 114,526 million Baht by the end of 2027, resulting in a net profit of 5,189.15 million Baht and a net profit margin of 4.53%.

3.2 Weighted Average Cost of Capital (WACC)

WACC represents the average cost of financing a company's operations, considering the proportion of debt and equity in the capital structure. We will use WACC as the discount rate and apply it to future cash flows to calculate the present value of projected cash flows in Discounted Cash Flow valuation.

First, we gathered the book value of interest-bearing debt, which consists of both short-term and long-term and the market value of equity, calculated by multiplying the number of outstanding shares with the stock price (in this case, we use the price as of December 4, 2023).

After the calculation, we obtained the book value of interest-bearing debt at 5,676.64 million Baht and the market value of equity at 53,760 million Baht (with

2,400 million shares outstanding and a stock price of 22.4 Baht). Then, we can calculate the weight of debt and equity as follows:

Share price (4 Dec 23)	22.4
# shares (million)	2,400
Debt Value (million Baht)	5,677
Equity Value (million Baht)	53,760
Total Debt and Equity value	<u>59,437</u>
Weight of Debt	9.55%
Weight of Equity	90.45%

Table 11: Weight of Debt and Equity

After determining the weights of debt and equity, the next step involves calculating the cost of debt and equity to find the number of WACC.

The cost of debt is computed using the 5-year average historical effective rate of 2.01%. We apply a maximum corporate income tax rate of 20%, resulting in a post-tax cost of debt of 1.61%.

For the Cost of Equity, we use the Capital Asset Pricing Model (CAPM), which considers the risk-free rate, market risk premium, and the company's beta.

To establish the risk-free rate, considering the fluctuation in Thailand's interest rate (as shown in Figure 11), we think the current 10-year government bond rate at only one point in time may not be good enough. Instead, we average the historical data of 10-year government bonds from December 31, 2016 to December 8, 2023, resulting in a risk-free rate of 2.17% for use in the CAPM.

Thailand 10 Years Government Bond: historic yield range for every year.

A green candlestick means a negative yield variation in the year.
A red candlestick means a positive yield variation in the year.

Year	Yield	Change	Min	Range	Max
2023 Dec 8	2.865 %	+37.5 bp	2.202 % Mar 27, 2023		3.382 % Oct 23, 2023
2022 Dec 31	2.490 %	+57.2 bp	1.918 % Jan 1, 2022		3.390 % May 19, 2022
2021 Dec 31	1.918 %	+79.0 bp	1.103 % Jan 4, 2021		2.060 % Oct 20, 2021
2020 Dec 31	1.128 %	-33.7 bp	0.827 % Mar 9, 2020		1.732 % Mar 19, 2020
2019 Dec 31	1.465 %	-98.5 bp	1.435 % Aug 15, 2019		2.580 % Jan 9, 2019
2018 Dec 31	2.450 %	+9.5 bp	2.305 % Jan 16, 2018		2.820 % Oct 23, 2018
2017 Dec 31	2.355 %	-34.5 bp	2.240 % Sep 8, 2017		2.840 % Mar 9, 2017
2016 Dec 31	2.700 %	+51.0 bp	2.120 % Oct 19, 2016		2.930 % Dec 25, 2016

Current Yield: 2.865%
Last update: 8 Dec 2023 3:15 GMT+0

Figure 11: Historical yield range of Thailand 10 years government bond

The market risk premium is 7.43%, and we obtained this data from NYU professor Aswath Damodaran as of July 2023, as shown in Table 10

Country	Moody's Credit Rating	Default Spread	Country Risk Premium (CRP)	Equity Risk Premium (ERP)	Corporate Tax Rate (%)
Thailand	Baa1	1.71%	2.43%	7.43%	20.00%

Table 12: Thailand Market risk premium

The final element is the company's beta; we utilize the beta of COM7 as provided by SETSMART as of December 7, 2023, which is 1.27.

Statistics		07/12/23	
P/E	17.24	PEG	8.21
P/BV	7.14	BVPS (Baht)	3.14
Par (Baht)	0.25	%Volume Turnover (YTD)	137.48
%Dividend Yield	3.37	%12M Dividend Yield	3.37
Market Cap. (M.Baht)	53,759.96	Dividend Payout Ratio	0.58
EV (M.Baht)	66,141.11	EV / EBITDA	13.40
Beta	1.27		

Figure 12: COM7 company's beta from SETSMART

Then, we can calculate the cost of equity using CAPM as follows:

$$\text{Cost of equity} = \text{Risk free rate} + (\text{Beta} * \text{Market Risk Premium})$$

RISK FREE	2.17%
MARKET RISK PREMIUM	7.43%
BETA	1.27
RQD. RETURN ON EQUITY	11.61%

Table 13: COM7 Cost of equity using CAPM

After performing all the calculations mentioned above, we obtained a WACC result of 10.65%, as shown below:

$$\text{WACC} = (\text{cost of debt after tax} * \text{weight of debt}) + (\text{cost of equity} * \text{weight of equity})$$

RISK FREE	2.17%
MARKET RISK PREMIUM	7.43%
BETA	1.27
RQD. RETURN ON EQUITY	11.61%
COST OF DEBT	2.01%
Tax	20.00%
AFTER TAX COST OF DEBT	1.61%
WACC	10.65%

Table 14: COM7 WACC calculation

3.3 Valuation with Discounted Cash Flow Model

Before discounting the cash flows, we need to calculate the Free Cash Flow to Firm (FCFF) for each year. For the terminal Free Cash Flow to the Firm (FCFF), we apply the terminal growth rate at the end of the last forecast period, as shown in the formula below:

$$\text{Free Cash Flow} = \text{NOPAT} + \text{Depreciation} + / - \text{change in working capital} - \text{CAPEX}$$

$$\text{Terminal FCFF} = \text{FCFF in 2027} * (1 + \text{Terminal growth}) / (\text{WACC} - \text{Terminal growth})$$

In this case, we use a terminal growth rate of 3.00%, calculated by averaging the 5-year forecast of Thailand's nominal GDP from the IMF. We believe that the company's growth aligns with the overall GDP.

After discounting the Free Cash Flow to the Firm (FCFF), we arrive at an Enterprise Value (EV) of 56,068.52 million Baht. Subsequently, we can estimate the share value of COM7 using the Discounted Cash Flow (DCF) model. We divide EV by the number of outstanding shares, which is 2400 million, and then we obtain our estimated share value at 23.36 Baht per share. This value exceeds the current price of 22.4 Baht as of December 4, 2023. The calculation results presented as follows:

Unit : Million THB						0	1	2	3	4	Terminal Value
	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	
EBIT	1,144.06	1,556.98	1,876.24	3,231.08	3,935.47	4,564.05	5,037.20	5,526.64	6,033.55	6,563.78	
TAX	205.16	288.73	328.24	554.71	768.65	897.34	991.97	1,089.86	1,191.24	1,297.29	
EBIT AFTER TAX	938.91	1,268.25	1,548.00	2,676.37	3,166.82	3,666.71	4,045.23	4,436.78	4,842.30	5,266.49	
DEPRECIATION	177.06	199.91	630.03	787.48	796.30	972.51	951.04	931.02	946.71	643.31	
WORKING CAPITAL CHANGE		556.61	(295.73)	1,896.46	2,124.29	(299.96)	(2.85)	584.93	608.80	639.72	
CAPEX	148.13	174.46	238.11	329.00	493.30	872.78	689.96	536.38	584.92	543.32	
CASHFLOW TO THE FIRM		737.09	2,235.65	1,238.39	1,345.54	4,066.40	4,309.16	4,246.49	4,595.29	4,726.77	63,615.23
DISCOUNTED CASHFLOW						4,066.40	3,894.36	3,468.29	3,391.89	3,153.09	42,435.85
WACC	10.65%										
TERMINAL GROWTH	3.00%										
PV OF FIRM VALUE	60,409.88										
Net debt	4,341.37										
PV OF EQUITY VALUE	56,068.52										
# OF SHARES (MN)	2,400										
EST. SHARE VALUE	23.36										(current stock price = 22.4 as of 4 Dec 23)

Table 15: COM7 DCF and estimated share value

3.4 Sensitivity Analysis

When using DCF method, two significant factors influencing the outcome are WACC and terminal growth. In our sensitivity analysis, we examine how changes in these two factors impact the share price. A higher growth rate tends to elevate the share price, while a higher WACC lowers it.

With a deviation boundary of $\pm 10\%$ for both WACC and the growth rate, the minimum price is projected to be 18.52 Baht, while the maximum price is estimated to be 31.36 Baht. The outcomes of this sensitivity analysis are detailed below:

		WACC											
		Deviation	40%	30%	20%	10%	5%	0%	-5%	-10%	-20%	-30%	-40%
growth rate	Deviation	23.36	3.06%	5.10%	7.29%	9.11%	10.12%	10.65%	11.18%	12.30%	14.76%	19.19%	26.87%
	40%	7.56%	- 34.91	- 64.02	- 569.17	102.73	62.13	51.44	43.90	33.58	22.16	13.77	8.33
	30%	5.40%	- 71.76	- 555.77	89.34	45.42	35.68	32.06	29.11	24.39	17.98	12.20	7.83
	20%	4.16%	- 159.14	184.53	55.60	35.12	29.14	26.75	24.71	21.31	16.34	11.50	7.58
	10%	3.46%	- 441.18	108.49	46.37	31.36	26.57	24.59	22.88	19.97	15.59	11.16	7.46
	5%	3.15%	-2,030.83	91.77	43.20	29.94	25.57	23.74	22.16	19.43	15.28	11.02	7.40
	0%	3.00%	2,928.49	85.57	41.85	29.31	25.12	23.36	21.83	19.18	15.14	10.95	7.38
	-5%	2.85%	855.88	80.20	40.59	28.72	24.70	23.00	21.52	18.95	15.00	10.88	7.35
	-10%	2.56%	367.56	71.73	38.42	27.67	23.93	22.34	20.95	18.52	14.74	10.76	7.31
	-20%	2.05%	183.35	60.49	35.11	25.98	22.69	21.27	20.01	17.80	14.31	10.55	7.22
	-30%	1.44%	115.81	51.14	31.91	24.26	21.39	20.14	19.02	17.04	13.84	10.32	7.13
	-40%	0.86%	86.88	44.87	29.47	22.88	20.34	19.22	18.21	16.39	13.43	10.11	7.05

Table 16: Target price from sensitivity analysis

CHAPTER IV

RECOMMENDATIONS

Target price (2023 End)	23.36
Target price (2024 End)	26.07
Current price	22.40 (as of 4 Dec 23)
Recommendation	Hold

Based on our forecast data and discounted cash flow model, we estimate that the share price of COM7 at the end of 2023 should be 23.36 Baht. Compared to the current price of 22.4 Baht as of December 4, 2023, the estimated price is 4.29% higher than the current price. Despite the higher estimated target price at the end of 2023 and 2024, we recommend investors to “Hold” COM7 stock.

COM7 has demonstrated strong performance over the past five years and benefited from the work-from-home policy during the Covid-19 pandemic and the government policies, leading to significant revenue growth in 2020 and 2021. The company aims to expand its branches and gain more market share (mitihoon, 2023). However, we believe that Com7 is quite sensitive to market conditions. People tend to fear an uncertain future during economic fluctuations period, affecting Com7's ability to drive sales.

We also find it challenging for COM7 to improve its gross margin since the products are subject to market prices which are typically set by suppliers. For example, the selling price of Apple products is predetermined by Apple Inc., and COM7 does not independently set prices except during discount promotions. Additionally, Selling and Administration expenses, such as rental and labor costs, are influenced by economic conditions and may be difficult to manage, impacting the efficiency and profitability of COM7.

The economic fluctuations not only impact the company's performance but also influence the assumed values of terminal growth and WACC used in our DCF. Even slight changes in these two factors can potentially result in a target price lower than the current stock price.

Considering the reasons mentioned earlier, such as economic fluctuations and the challenges associated with improving margins in their retail business model, we believe that the current stock price already reflects the company's future performance, with our target price being only 4.29% higher than the current price. Additionally, there are no foreseeable special events or plans that would contribute to boosting sales in this IT market. Therefore, our recommendation for COM7 stock is to "Hold".



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