

## Com7 PCL (COM7 TB)

# 3Q23 profit disappointed; eyeing a 4Q rebound

### BUY on 4Q23E recovery and Digital Wallet upside

We reiterate BUY on COM7 due to earnings recovery in 4Q23E, upside risk from Digital Wallet and cheap valuation (FY24E P/E of 17.5x is at 23% discount to its 5-year mean). 3Q23 core profit (-15% YoY, -16% QoQ) missed forecasts due to weak revenue and gross margin. Nevertheless, we expect strong QoQ profit rebound in 4Q23E thanks to record-high iPhone sales and higher number of operational shops. We cut our FY23-25E earnings forecasts by 9-12% to reflect the weak 3Q23, resulting in a lower DCF-based TP of THB32.5 (down from THB37.0).

### 3Q23 core profit dropped 15% YoY and 16% QoQ

3Q23 core profit of THB611m (-15% YoY, -16% QoQ) missed our forecast/consensus by 26%/23% due to weaker-than-expected revenue and gross margin. 3Q23 revenue was THB16.3b (+10% YoY, +2% QoQ), 8% below our forecast due to slow shop reopening (40 shops went under renovation in 2Q23) and discontinuation of wholesale business with Realme (a Chinese smartphone brand). Gross margin dipped to 13.4% in 3Q23 from 14.5% in 2Q23, partly due to lower-than-expected accessory sales.

### Expect strong QoQ profit growth in 4Q23E

We forecast 4Q23E core profit of THB919m (+1% YoY, +50% QoQ) on the back of THB20.8b revenue (+11% YoY, +28% QoQ). The YoY revenue jump should be supported by record-high iPhone sales in 4Q23 and supply chain issues in 4Q22. The QoQ growth will likely stem from i) recognising the iPhone 15 sales for the full quarter (vs only six days in 3Q23) and ii) reopening of all renovated shops since the first week of Sep.

### Cut FY23-25E earnings by 9-12%

We cut FY23-25E earnings by 9-12% after reducing our revenue forecasts by 4-5% and trimming gross margin. We adjust our forecasts to reflect the weak 3Q23 results and the disappearance of wholesale business with Realme. Nevertheless, the government's Digital Wallet (cash handout) implies 6-8% potential upside to our FY24E earnings. Key risks are i) failure to gain market share, ii) weak accessory sales, and iii) UFund mishap.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	51,126	62,733	70,386	81,076	93,031
EBITDA	3,922	4,687	4,738	5,889	6,897
Core net profit	2,630	3,029	3,133	3,569	4,296
Core EPS (THB)	1.10	1.26	1.31	1.49	1.79
Core EPS growth (%)	76.5	15.1	3.5	13.9	20.4
Net DPS (THB)	1.00	0.75	0.77	0.82	0.98
Core P/E (x)	37.3	26.9	19.9	17.5	14.5
P/BV (x)	18.6	11.4	7.3	6.0	4.9
Net dividend yield (%)	2.4	2.2	3.0	3.1	3.8
ROAE (%)	57.6	48.8	39.6	37.8	37.2
ROAA (%)	20.9	17.2	14.6	14.2	15.4
EV/EBITDA (x)	25.8	18.4	14.9	12.1	10.4
Net gearing (%) (incl perps)	36.8	49.7	78.3	72.4	61.6
Consensus net profit	-	-	3,429	3,982	4,505
MIBG vs. Consensus (%)	-	-	(9.3)	(10.4)	(4.6)

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# BUY

Share Price	THB 26.00
12m Price Target	THB 32.50 (+28%)
Previous Price Target	THB 37.00

### Company Description

COM7, Thailand's largest IT chain store in terms of branches, distributes laptops, desktop computers, mobile phones, tablets and accessories.

### Statistics

52w high/low (THB)	35.50/24.30
3m avg turnover (USDm)	11.5
Free float (%)	49.1
Issued shares (m)	2,400
Market capitalisation	THB62.4B USD1.7B

### Major shareholders:

Sura Kanittavikul	25.1%
Pongsak Thamathataree	22.5%
Thai NVDR	5.4%

### Price Performance



— Com7 PCL - (LHS, THB) — Com7 PCL / Stock Exchange of Thai Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(15)	(8)	(13)
Relative to index (%)	(13)	2	2

Source: FactSet

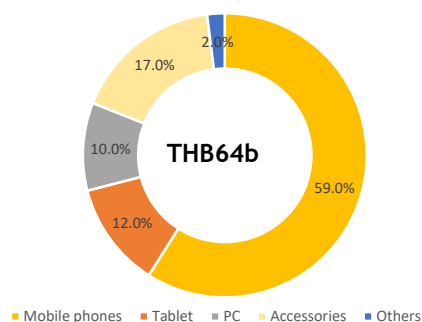
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## Value Proposition

- COM7 is the largest IT retail chain in Thailand in terms of outlets (c.1.2k shops at the end of FY22) and revenue.
- Its shop brands include Banana, Kingkong Phone and Studio 7 (Apple-only products). It also manages shops for Samsung, Oppo, Vivo, Huawei and Xiaomi.
- Low user penetration rates of 5G-compatible smartphones and tablets in Thailand imply room for the industry to grow.
- Growth drivers for COM7 are new products (i.e. electrical appliances and loans for IT products), store expansion (including standalone shops and consignments) and e-commerce sales.

### FY22 revenue breakdown by product type

Revenue breakdown in 2022

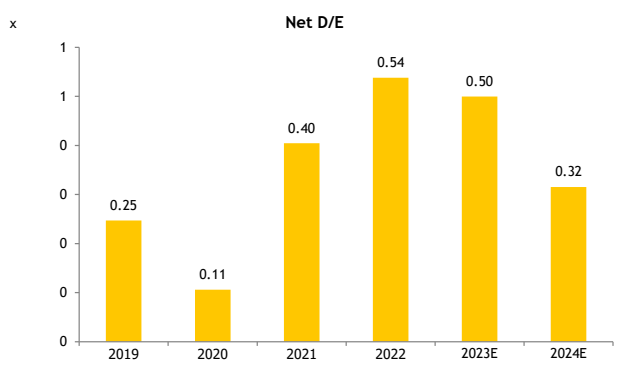


Source: Company

## Financial Metrics

- We forecast FY22-25E net profit CAGR of 18% on revenue CAGR of 17%.
- The 3-year revenue CAGR of 16.5% should be supported by 21.0% CAGR for sales of mobile phones.
- We forecast net-debt-to-equity ratio to fall from 0.54x at end-FY22 to 0.52x at end-FY23E thanks to positive FCF of THB1.1b

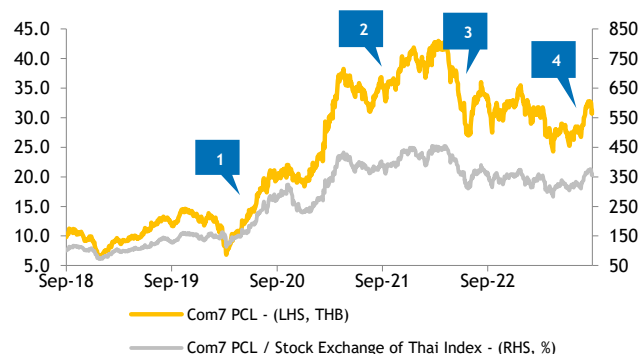
### Net D/E ratio



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, MST

1. COM7's net profit continued growing during the global pandemic thanks to strong inventory management, pop-up stores and e-commerce sales.
2. Strong demand for iPhones, tablets, PCs and accessories continued in FY21.
3. Share price correction came as investors expect demand for consumer electronics products to fade once the pandemic is over.
4. Double-digit revenue growth in 1-2Q23 led to share price recovery.

## Swing Factors

### Upside

- Sales of used smartphones.
- Revenue from drug stores (Dr.Pharma), shops of pet food and accessories (Pet Paw).

### Downside

- Failure of standalone shops.
- Political instability, which could lead to lower consumer spending.

Risk Rating & Score <sup>1</sup>	19.5
Score Momentum <sup>2</sup>	-1.2
Last Updated	31 May 2023
Controversy Score <sup>3</sup> (Updated: 18 Jun 2023)	NA

## Business Model & Industry Issues

- COM7 has stated that it focuses on achieving United Nation's Sustainable Development Goals. Out of the 17 Goals, five were environmental, nine were social and three were related to governance.
- In 2022, the company came up with sustainability strategy for the first time. The strategy comprises i) Bright Economy (quality products and services), ii) Bright Life (responsibility for society and stakeholders) and iii) Bright Earth (environmentally operations).
- COM7 has quantitative ESG goals for solar power production (140,000 kWh/year) and reduction of water usage (10% reduction per year).

### Material E issues

- The goal for 2021-24 is to maintain the amount of electricity generated from solar power at the minimum of 140,000 kWh/year and reduce the energy consumed from the Metropolitan Electricity Authority by 2% each year.
- In 2022, the company produced 137,594 kWh from solar power, slightly below the target of 140,000 kWh and the production level of 145,939 kWh in 2021.
- COM7 used 12,218 cubic metres of water in 2022, up 66% YoY due to the cancellation of Work From Home policy.

### Key G metrics and issues

- There are seven board members, including three independent directors and four executive members. There is one woman on the board.
- The executive committee has eight people, three of which are female.
- In FY21, COM7 paid THB64m compensation to executives (+5.3% YoY). The compensation accounted for 2.1% of FY21 net profit.
- COM7 has stated that it emphasises on treating workers with fairness and equality and promoting good quality of work environment.
- In 2022, the company received a 5-star rating or "Excellent" from the National CG Committee. It received a Corporate Governance (CG) score of 93% in 2022, up from 92% in 2021 and 87% in 2020.

### Material S issues

- COM7 has said it adheres to doing business with fairness. The company respects human rights and customers, business partners, competitors and employees.
- For consumers, COM7 focuses on delivering quality products and services. The company has iCare service centres for Apple products. iCare received a customer satisfaction score of 96% in 2022, up from 94% in 2020 and 2021.
- COM7 hired 38 people with disabilities in 2022, up from 33 in 2021 and 30 in 2020.
- Products are certified by the Industrial Product Standards panel and passed the telecommunication equipment and equipment standards issued by the Office of the National Broadcasting and Telecommunications Commission.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range from 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 35)						
	Particulars	Unit	2020	2021	2022	CPALL TB (2022)
E	Scope 1 GHG emissions	tCO2e	NA	NA	NA	435,377
	Scope 2 GHG emissions	tCO2e	NA	NA	NA	1,501,380
	<b>Total</b>	<b>tCO2e</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1,936,757</b>
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	13,191,695
	<b>Total</b>	<b>tCO2e</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>15,128,452</b>
	Total CO2 emission intensity	tCO2e/rev THB m	NA	NA	NA	2.27
	Electricity Consumption per Area	kWh/sq m	NA	140.81	153.19	NA
	Power generation from renewable sources of % of total electricity usage	%	NA	8.5%	7.3%	3.3%
	Water consumption per employee	cubic metre/person	NA	33.04	56.99	274.52
	Reduction of paper box usage as a result of reusing	boxes	NA	NA	67,600	NA
Total solid waste generated	tons	NA	NA	NA	207,702	
S	% of women in workforce	%	NA	NA	52.0%	64.5%
	% of women in management roles	%	NA	NA	40.0%	36.8%
	Customer Satisfaction score	%	94.0%	94.0%	96.0%	NA
	Employee training hours	hours/person/year	NA	6.0	6.0	30.20
	Employee turnover rate at branch	%	30.0%	19.6%	22.9%	3.94
G	Compensations to directors and executives as % of net profit	%	3.8%	2.3%	2.1%	3.6%
	CG score by the National CG Committee	%	87.0%	92.0%	93.0%	>90%
	Independent directors on board	%	29%	43%	43%	38%
	Women directors on board	%	14.3%	14.3%	14.3%	6%

Qualitative Parameters (Score: 33)	
a) Is there an ESG policy in place? Is there a standalone ESG Committee or is it part of the Risk committee?	<i>There is Sustainable Organization Development Policy, and there is Good Governance Committee.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Criteria for determining the remuneration of Chief Executive Officer include: i) increasing competitiveness; and ii) sustainable business operations in the long run.</i>
c) Does the company have a policy for e-waste? Also is it exploring possibilities for e-waste collection and sustainable disposal considering its business?	<i>COM7 does not have e-waste policy, and it is not exploring opportunities of e-waste collection. The company does clearance sales from time to time to reduce inventory.</i>
d) Does the company have a mechanism to capture Scope 3 emissions? Which parameters are captured?	<i>The mechanism to capture Scope 3 emissions is currently being studied.</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>1) reduce water use by 10% each year (i.e. posters encouraging employees to turn off the taps); 2) waste water treatment in accordance with the law; and 3) renewable energy usage.</i>

Target (Score: 100)			
Particulars	Target	Achieved in 2022	
Employ disabled people	1% of workforce	1.0%	
Employee participation in training programme by 2024	>80%	NA	
Employee turnover at the head office by 2024	<20%	29.2%	
Employee turnover at branches by 2024	<35%	22.9%	
Solar power production	140,000 kWh per year	137,504 kWh	
Reduction of water consumption	10% annual decline	66% YoY increase	
<b>Impact</b>			
NA			
<b>Overall Score: 51</b>			
As per our ESG matrix, COM7 (COM7 TB) has overall score of 51.			

ESG score	Weights	Scores	Final Score
Quantitative	50%	35	18
Qualitative	25%	33	8
Target	25%	100	25
<b>Total</b>			<b>51</b>

As per our ESG assessment, COM7's lack of data collection and long-term goals in the environmental aspects have offset the high scores in its social and governance aspects. COM7's overall ESG score is 51, in-line with Maybank universe's average ESG rating of 50.

# 1. Disappointing 3Q23 core profit

## 1.1 3Q23 core profit dropped 15% YoY and 16% QoQ

3Q23 core profit of THB611m (-15% YoY, -16% QoQ). Despite the 10% YoY revenue growth, core profit dropped by 15% YoY due to i) a decline in gross margin from 13.9% in 3Q22 to 13.4% in 3Q23, and ii) an increase in SG&A-to-revenue ratio from 7.6% in 3Q22 to 8.2% in 3Q23. Forty shops were under renovation in 2-3Q23; those shops could not generate sales, but their rental expenses remained fixed, resulting in higher SG&A-to-revenue ratio.

3Q23 revenue of THB16.3b (+10% YoY, +2% QoQ) was 8% lower than our forecast due to i) slow shop reopening (40 shops went under renovation in 2Q23 and gradually reopened in 2-3Q23) and ii) discontinuation of wholesale business with Realme (a low-end smartphone brand). Nevertheless, same store sales growth (excluding shops under renovation) remained relatively healthy at 9% in 3Q23 (14% in 3Q22 and 12% in 2Q23) amid weak economic growth.

Gross margin dipped to 13.4% in 3Q23 from 14.5% in 2Q23, partly due to lower-than-expected accessory sales.

Fig 1: 3Q23 core profit was THB611m (-15% YoY, -16% QoQ)

Unit: THB m	3Q22	2Q23	3Q23	YoY	QoQ	2023E	YoY	9M23 as % of FY23E
Revenue from sales and services	14,888	15,990	16,321	9.6%	2.1%	70,386	12.2%	70.4%
Cost of sales and services	- 12,813	- 13,665	- 14,141	10.4%	3.5%	- 60,813	12.0%	70.2%
Gross profit	2,075	2,325	2,180	5.0%	-6.3%	9,572	13.5%	71.9%
Other income	163	46	8	-95.1%	-82.6%	74	-70.2%	85.2%
Share of profits of investments in associates and JV	3	7	6	88.5%	-20.6%	77	71.8%	75.7%
SG&A exp	- 1,132	- 1,378	- 1,343	18.6%	-2.6%	- 5,455	17.6%	73.4%
Provision for bad debt at Ufund	-	44	37	-41.2%	-15.1%	141	NA	77.4%
Other gains/(losses)	- 153	75	42	-95.3%	-86.6%	42	-53.5%	-53.5%
EBIT	956	925	809	-15.4%	-12.5%	4,087	3.8%	3.8%
Finance costs	- 25	- 53	- 70	178.2%	30.3%	- 248	140.3%	65.5%
EBT	931	871	740	-20.6%	-15.1%	3,839	0.2%	69.9%
Income tax expense	- 198	- 149	- 109	-45.0%	-26.7%	- 658	-14.4%	67.2%
Net profit	733	722	630	-14.0%	-12.7%	3,181	3.8%	70.5%
Minority interest	8	18	19	NA	3.9%	72	176.8%	N/A
Net profit to owners of the parent company	725	704	611	-15.6%	-13.2%	3,108	2.3%	70.4%
Extra item	9	25	-					
Core net profit	716	729	611	-14.6%	-16.1%	3,133	3.5%	70.7%
Gross margin	13.9%	14.5%	13.4%			13.6%		
SG&A to revenue	-7.6%	-8.6%	-8.2%			-7.8%		
EBIT margin	6.4%	5.8%	5.0%			5.8%		
Effective tax rate	-21.6%	-17.9%	-15.6%			-17.5%		
Core net margin	4.8%	4.6%	3.7%			4.5%		

Source: Company, MST

## 1.2 Shop reopening after renovation

COM7 closed 40 shops (Banana and Studio7) in 2Q23. The new 'Apple Premium Partner' layout for Studio7 shops should help boost store traffic due to minimalist design, an area for training sessions, and repair services.

All of 40 renovated shops had reopened by the first week of Sep. The shop reopening and record-high iPhone sales should boost 4Q23 revenue to THB20.8b revenue (+11% YoY, +28% QoQ).

**Fig 2: Studio7's new design at Central Westgate #1**



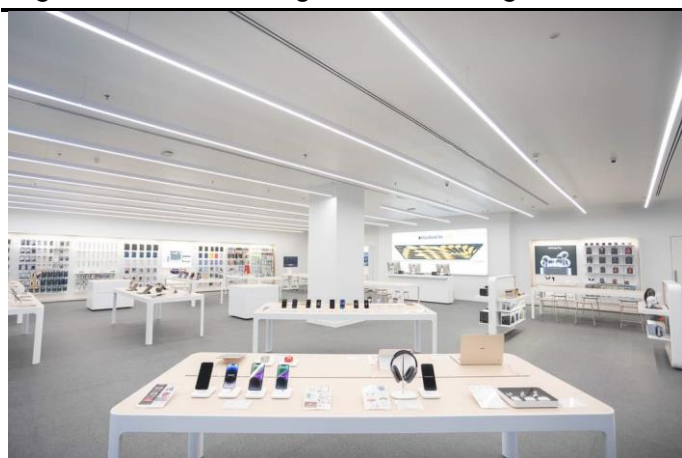
Source: Company, MST

**Fig 3: Studio7's new design at Central Westgate #2**



Source: Company, MST

**Fig 4: Studio7's new design at Central Westgate #3**



Source: Company, MST

**Fig 5: Studio7's new design at Central Westgate #4**



Source: Company, MST

## 1.3 Realme took back the wholesale business

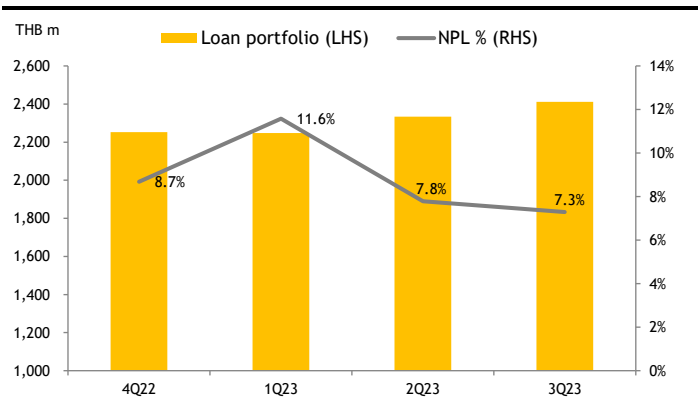
Realme took back the wholesale business from COM7 (negative revenue impact of THB455m in 3Q23) because it wanted to handle the business by itself. COM7 started diversifying its wholesale portfolio to less well-known Android brands such as Techno, Benco and Infinix, but sales of those brands are still below Realme's level. The company plans to add more brands in its wholesale business.

## 2. Declining provisions for bad debt at UFund

COM7 provides loans for buyers of smartphones and tablets via its True Loan and UFund business units. The company ended 3Q23 with loan portfolio of THB2.4b, up 3% QoQ. Its non-performing loan (NPL) ratio peaked in 1Q23 at 12% before dropping to 8% in 2Q23 and 7% in 3Q23. As a result, provisions for bad debt dropped from THB44m in 2Q23 to THB37m in 3Q23.

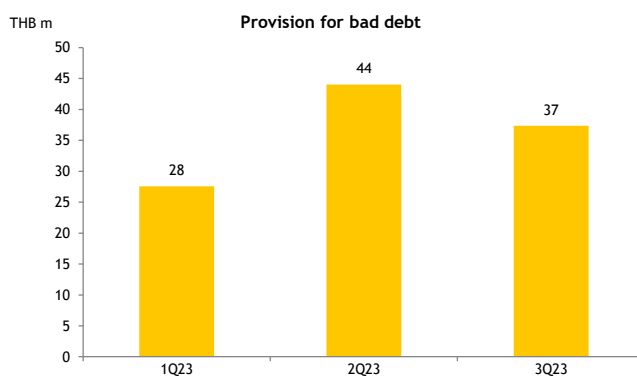
COM7 has guided that NPLs are now under control, and its provisions for bad debt should drop further in coming quarters. We forecast provisions for bad debt to drop from THB37m in 3Q23 to THB32m in 4Q23E.

**Fig 6: Loan book (True Loan and UFund) and NPL**



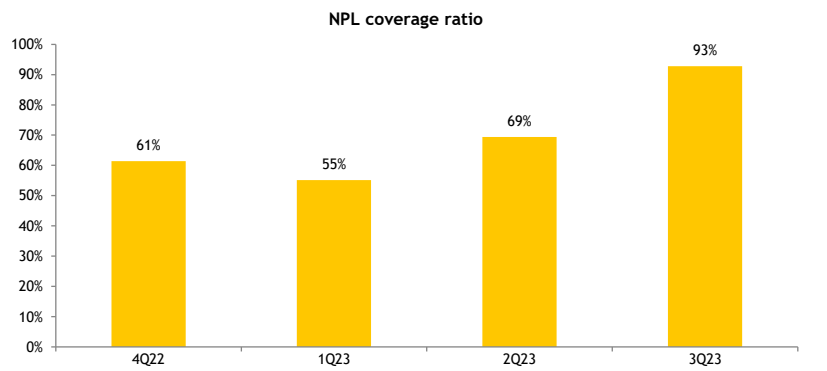
Source: Company, MST

**Fig 7: Declining NPLs in 2-3Q23 has led to a QoQ decrease in 3Q23 provisions for bad debt**



Source: Company, MST

**Fig 8: NPL coverage ratio**



Source: Company, MST

## 3. Expect 11% YoY revenue growth in 4Q23E

We forecast 4Q23E core profit of THB919m (+1% YoY, +50% QoQ) on the back of THB20.8b revenue (+11% YoY, +28% QoQ). The YoY revenue jump should be supported by record-high iPhone sales in 4Q23 and supply chain issues in 4Q22.

The 11% YoY revenue growth in 4Q23E should be achievable if we assume that i) same store sales growth will be in the range of 8-10% (vs 9-12% in 1-3Q23), and; ii) COM7 will end 4Q23E with 1,350 shops (+16% YoY).

## 4. Cut FY23-25E earnings by 9-12%

We cut FY23-25E earnings by 9-12% after reducing revenue forecasts by 4-5% and trimming gross margin by 0.3ppt to 13.6%. We adjust our forecasts to reflect the weak 3Q23 results and the disappearance of wholesale business with Realme (THB455m negative impact on 3Q23 revenue).

Our new forecasts imply FY23E revenue growth of 12% YoY (vs the company's target of 20%).

**Fig 9: We cut FY23-25E core profit by 9-12% after reducing revenue and gross margin**

	Reported	Current			Previous			% Changes in forecasts		
	2022A	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
<b>Revenue</b>	62,733	70,386	81,076	93,031	73,312	85,387	97,753	-4.0%	-5.0%	-4.8%
Cost of sales and services	-54,298	-60,813	-70,050	-80,379	-63,122	-73,518	-84,165	-3.7%	-4.7%	-4.5%
<b>Gross profit</b>	8,435	9,572	11,026	12,652	10,190	11,869	13,588	-6.1%	-7.1%	-6.9%
<i>Gross margin %</i>	13.4%	13.6%	13.6%	13.6%	13.9%	13.9%	13.9%	-0.3%	-0.3%	-0.3%
Other income/(expenses)	95	-108	-49	-42	-118	-55	-48	-7.7%	-11.3%	-13.0%
<b>Profit before operating expenses</b>	8,530	9,464	10,978	12,611	10,073	11,814	13,540	-6.0%	-7.1%	-6.9%
SG&A expenses	-4,639	-5,455	-6,202	-6,931	-5,645	-6,489	-7,283	-3.4%	-4.4%	-4.8%
Share of profit from associates	45	77	72	76	83	78	82	-7.1%	-7.7%	-7.2%
<b>EBIT</b>	3,935	4,087	4,847	5,756	4,511	5,402	6,339	-9.4%	-10.3%	-9.2%
<b>EBITDA</b>	3,139	3,358	3,734	4,539	3,783	4,289	5,122	-11.2%	-12.9%	-11.4%
Finance cost	-103	-248	-309	-305	-192	-264	-261	29.2%	17.0%	17.0%
<b>EBT</b>	3,832	3,839	4,538	5,451	4,320	5,138	6,078	-11.1%	-11.7%	-10.3%
Income tax revenue (expenses)	-769	-658	-893	-1,075	-847	-1,012	-1,199	-22.3%	-11.7%	-10.4%
<b>Profit for the year</b>	3,064	3,181	3,645	4,376	3,472	4,126	4,879	-8.4%	-11.7%	-10.3%
<b>Core net profit for the year</b>	3,029	3,133	3,569	4,296	3,431	4,056	4,806	-8.7%	-12.0%	-10.6%
<b>EPS</b>	1.27	1.30	1.49	1.79	1.42	1.69	2.00	-8.7%	-12.0%	-10.6%
<b>Core EPS</b>	1.26	1.31	1.49	1.79	1.43	1.69	2.00	-8.7%	-12.0%	-10.6%
DPS	0.75	0.77	0.82	0.98	0.64	0.76	0.90	20.2%	7.5%	9.3%

Source: Company, MST



## 5. Potential upside from Digital Wallet

On 10 Nov, Prime Minister Srettha Thavisin announced a government budget of THB500b for the Digital Wallet scheme. The cash handout (now scheduled to start in May 2024) leads us to estimate THB201m - THB294m earnings benefit for COM7, implying 6-8% upside to FY24E earnings.

Key assumptions for the earnings upside are i) 2.5% if the budget goes to spending on IT devices, and ii) COM7 commands 20-29% market share. We use 2.5% as a reference point because 2.5% of Thailand's private consumption expenditure went to smartphones, tablets and PCs in 2022. Please see details of our upside calculation in the table below.

Fig 10: Digital Wallet implies 9-12% potential upside to our FY24E core profit

Upside to FY24E forecasts from Digital Wallet			
Smartphone market (THB b) in 2022, source: IDC	191		
PC-and-tablet market (THB b) in 2022, source: Statista	49		
Spending on smartphones, tablets and PCs in Thailand in 2022 (THB b)	240		
Thailand's private consumption expenditure in 2022 (THB b), source: NESDC	9,472		
Spending on IT devices as % of consumption	2.5%		(1)
Govt budget for Digital Wallet (THB m)	500,000		(2)
Estimated spending on IT devices from digital wallets (THB m)	12,677		(1) x (2)
COM7's market share	20%	29%	
Estimated spending on IT devices at COM7 (THB m)	2,517	3,676	(3)
<b>% upside to FY24E revenue</b>	<b>3.1%</b>	<b>4.5%</b>	
<b>Upside to COM7's FY24E core profit</b>			
Estimated gross profit margin for IT devices	10.0%		(4)
Additional profit from digital-wallet spending (THB m)	252	368	(3) x (4)
<b>After-tax profit from digital-wallet spending (THB m)</b>	<b>201</b>	<b>294</b>	
<b>% upside to FY24E core profit</b>	<b>5.6%</b>	<b>8.2%</b>	

Source: Company, MST

## 6. Cash conversion cycle improved QoQ

Based on our calculation, 3Q23 cash conversion cycle was 105 days (+6% YoY, -4% QoQ). Cash conversion dropped by 4% QoQ on the back of i) days sales outstanding of 22 (-12% QoQ), ii) days inventory outstanding of 55 (-2% QoQ), and iii) days payable outstanding of 28 (+1% QoQ). We expect days inventory outstanding to drop further in 4Q23E thanks to strong sales in the iPhone 15 line-up.

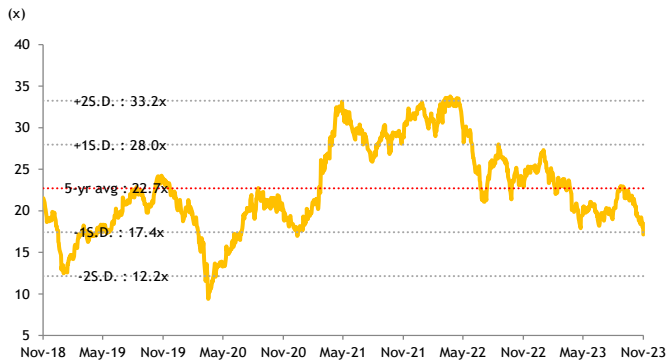
Improving cash conversion cycle helped boost cashflows from operations (after deducting lease payments) from THB433m in 2Q23 to THB1.5b in 3Q23.

## 7. Valuation and recommendation

### Reiterate BUY on 4Q23E earnings recovery and cheap valuation

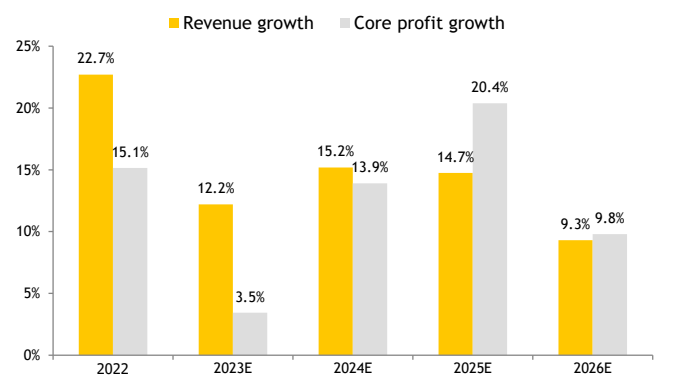
Despite the earnings hiccup in 3Q23, we reiterate BUY on COM7 due to earnings recovery in 4Q23E, strong core profit growth of 14% in FY24E and its cheap valuation. COM7 is trading at FY24E P/E of 17.5x, 1 SD below its 5-year mean of 1-year-forward P/E of 22.7x.

**Fig 11: COM7 is trading at 17.5x FY24E P/E, 1 SD below its 5-year mean of 1-year-forward P/E of 22.7x**



Source: Bloomberg, MST

**Fig 12: Revenue growth and core profit growth**



Source: Company, MST

Our DCF-based target price of THB32.5 (7.4% WACC, 3.0% terminal growth) implies FY24E P/E of 22x.

**Fig 13: We now have DCF-based TP of THB32.5 (7.4% WACC, 3.0% terminal growth)**

Unit: THB m	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Cashflow from operations after lease-related payment	1,826	2,444	3,340	3,912	4,504	4,756	5,187
CAPEX							
Building improvement and equipment	- 819	- 812	- 672	- 551	- 557	- 418	- 421
Intangible assets	- 25.00	- 25.00	- 25.00	- 25.00	- 25.00	- 25.00	- 25.00
<b>Total capex</b>	<b>- 844</b>	<b>- 837</b>	<b>- 697</b>	<b>- 576</b>	<b>- 582</b>	<b>- 443</b>	<b>- 446</b>
Share of profit from associates (proxy for cash flows)	72	76	76	76	76	76	76
Investment in associates							
Investment in subsidiaries							
<b>Free cash flow to firm (FCFF)</b>	<b>1,054</b>	<b>1,683</b>	<b>2,719</b>	<b>3,412</b>	<b>3,998</b>	<b>4,390</b>	<b>4,817</b>
							<b>Terminal value</b>
							<b>113,251</b>
<b>Discount period</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
							<b>7</b>
PV of FCFF		1,567	2,358	2,755	3,007	3,075	3,142
<b>Sum of PV of FCFF</b>							
							<b>84,698</b>
Net debt/(cash) at end-FY24E		7,855.86					
Other current and non-current investment		1,127.0					
<b>Equity value</b>							
							<b>77,969</b>
# of shares		2400.0					
<b>TP (THB/sh)</b>		<b>32.50</b>					
Current price (THB/sh)		26.00					
<b>Upside to target price</b>		<b>25.0%</b>					
<b>Terminal growth</b>		<b>3.0%</b>					
Net debt at end-FY23E		6,996					
Equity at cost		8,535					
<b>Total</b>		<b>15,532</b>					
Cost of debt		3.1%					
After-tax cost of debt		2.5%					
<b>Cost of equity</b>		<b>11.4%</b>					
Risk-free rate		3.0%					
Market return		10.40%					
Beta		1.14					
Debt weight		45%					
Equity weight		55%					
<b>WACC</b>		<b>7.4%</b>					

Source: Company, MST

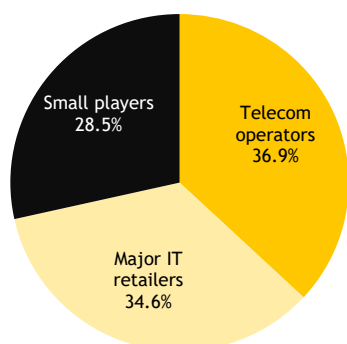
## 8. Three risk factors

### 1) Failure to gain market share

The IT device industry is in a downturn, and our forecast of 14% revenue CAGR in FY22-25E depends on COM7's business strategy, which comprises more product variety, exclusive smartphone models, strong e-commerce platforms and aggressive shop expansion. If the strategy fails to capture more market share, there is downside risk to our revenue forecasts.

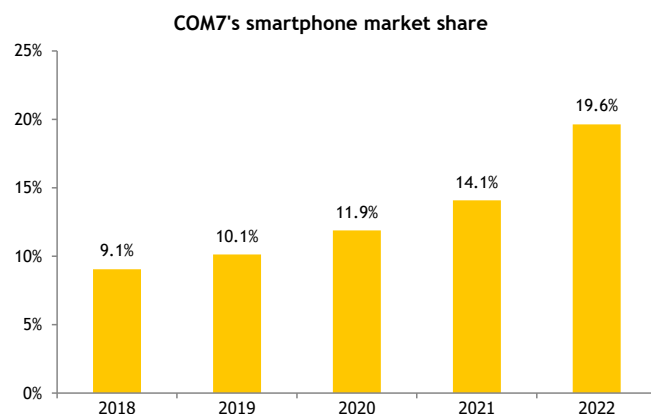
COM7 has a solid track record of gaining market share from small players over the past five years. Also, the company's same store sales growth (excluding shops under renovation) remained healthy at 9% in 3Q23.

Fig 14: Smartphone market share by type of retailer in 2022



Source: IDC, Company, MST

Fig 15: COM7, a major IT retailer, has a solid track record of market share gains



Source: IDC, Company, MST

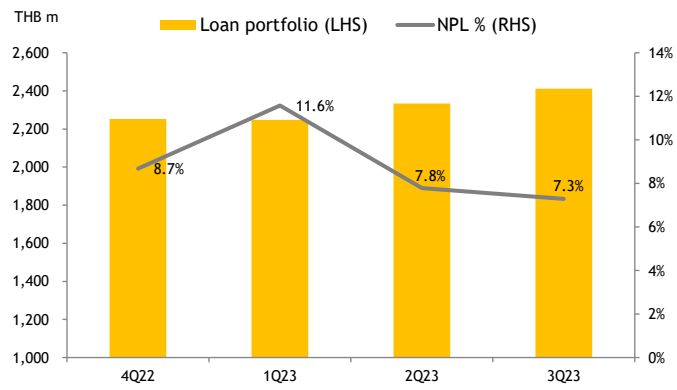
### 2) Weak accessory sales are risk to gross margin

Accessory sales accounted for 17% of FY22 revenue. Accessory gross margins (20-30% for third-party brands and 50% for house brands) are much higher than COM7's overall gross margin of 13-14%. Hence, weak accessory sales could lead to weak gross margin. Because they do not have the technical complexity of smartphones and tablets, accessories (especially smartphone cases and low-end headphones) can be bought from any e-commerce platform worry-free, in our view.

### 3) UFund mishap

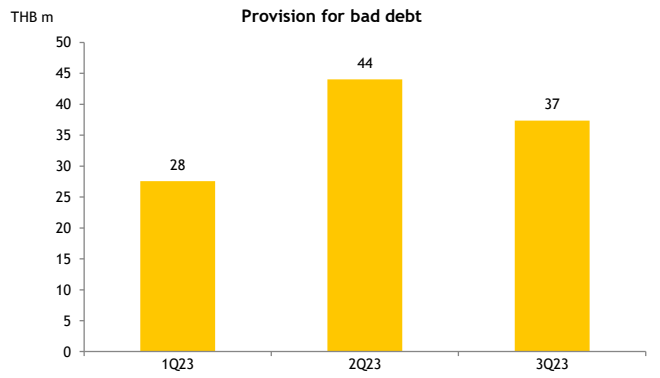
COM7 aims to further reduce its NPL ratio at UFund. Once the NPL is low and stable, the company plans to grow its lending business again, implying higher risk of NPLs and bad debt provisions in the future. However, it is worth noting that COM7 can remotely deactivate smartphones in the case of NPLs.

**Fig 16: Loan book (True Loan and UFund) and NPLs**



Source: Company, MST

**Fig 17: Declining NPLs in 2-3Q23 led to a QoQ drop in 3Q23 provisions for bad debt**



Source: Company, MST

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	30.1	27.8	20.1	17.5	14.5
Core P/E (x)	37.3	26.9	19.9	17.5	14.5
P/BV (x)	18.6	11.4	7.3	6.0	4.9
P/NTA (x)	19.5	11.9	7.6	6.2	5.0
Net dividend yield (%)	2.4	2.2	3.0	3.1	3.8
FCF yield (%)	0.3	1.5	nm	3.3	4.4
EV/EBITDA (x)	25.8	18.4	14.9	12.1	10.4
EV/EBIT (x)	32.3	22.2	17.6	15.0	12.7

**INCOME STATEMENT (THB m)**

Revenue	51,126.4	62,732.6	70,385.8	81,076.2	93,031.2
EBITDA	3,922.1	4,686.7	4,737.8	5,889.1	6,896.8
Depreciation	(775.3)	(780.5)	(712.9)	(1,097.8)	(1,201.3)
Amortisation	(12.2)	(15.8)	(15.8)	(15.8)	(15.8)
EBIT	3,134.6	3,890.4	4,009.1	4,775.5	5,679.7
Net interest income / (exp)	(47.9)	(103.0)	(247.6)	(309.0)	(305.1)
Associates & JV	96.5	45.1	77.4	71.7	76.2
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	3,183.2	3,832.4	3,838.9	4,538.2	5,450.7
Income tax	(554.7)	(768.6)	(658.3)	(893.3)	(1,074.9)
Minorities	1.9	(26.1)	(72.2)	(75.8)	(79.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,630.4	3,037.7	3,108.4	3,569.1	4,296.2
Core net profit	2,630.4	3,028.8	3,133.4	3,569.1	4,296.2

**BALANCE SHEET (THB m)**

Cash & Short Term Investments	1,850.6	1,603.3	1,943.9	1,444.4	688.3
Accounts receivable	3,248.1	4,240.2	5,276.1	6,461.8	7,600.6
Inventory	6,207.9	7,333.1	8,663.8	9,787.8	11,231.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	614.9	873.5	1,577.8	1,946.8	2,229.8
Intangible assets	173.7	147.9	157.1	166.2	175.4
Investment in Associates & JVs	773.7	1,517.1	1,594.5	1,666.2	1,742.4
Other assets	3,096.9	3,447.4	4,520.2	5,023.9	5,496.6
<b>Total assets</b>	<b>15,965.7</b>	<b>19,162.5</b>	<b>23,733.4</b>	<b>26,497.2</b>	<b>29,164.1</b>
ST interest bearing debt	3,801.0	5,203.9	8,700.0	9,000.0	8,600.0
Accounts payable	5,630.5	5,382.2	5,069.9	5,683.3	6,352.3
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	1,234.0	1,324.0	1,331.0	1,378.0	1,363.0
<b>Total Liabilities</b>	<b>10,665.0</b>	<b>11,910.6</b>	<b>15,100.8</b>	<b>16,061.7</b>	<b>16,315.7</b>
Shareholders Equity	5,284.9	7,154.5	8,535.1	10,338.1	12,751.0
Minority Interest	15.9	97.4	97.4	97.4	97.4
<b>Total shareholder equity</b>	<b>5,300.8</b>	<b>7,251.9</b>	<b>8,632.5</b>	<b>10,435.6</b>	<b>12,848.4</b>
<b>Total liabilities and equity</b>	<b>15,965.7</b>	<b>19,162.5</b>	<b>23,733.4</b>	<b>26,497.2</b>	<b>29,164.1</b>

**CASH FLOW (THB m)**

Pretax profit	3,183.2	3,832.4	3,838.9	4,538.2	5,450.7
Depreciation & amortisation	787.5	796.3	728.7	1,113.6	1,217.1
Adj net interest (income)/exp	42.6	91.7	247.6	309.0	305.1
Change in working capital	(2,795.2)	(2,223.7)	(3,522.6)	(2,063.1)	(2,262.1)
Cash taxes paid	(465.2)	(688.9)	(658.3)	(893.3)	(1,074.9)
Other operating cash flow	(147.1)	(72.4)	(77.4)	(71.7)	(76.2)
Cash flow from operations	605.7	1,735.4	556.9	2,932.7	3,559.8
Capex	(325.1)	(521.5)	(994.5)	(843.8)	(836.7)
Free cash flow	280.6	1,213.8	(437.5)	2,088.9	2,723.1
Dividends paid	(1,198.5)	(1,200.0)	(1,800.0)	(1,841.9)	(1,963.0)
Equity raised / (purchased)	0.0	(484.3)	0.0	0.0	0.0
Change in Debt	2,518.5	1,397.1	3,496.1	300.0	(400.0)
Other invest/financing cash flow	(815.8)	(1,254.1)	(918.0)	(1,046.4)	(1,116.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	784.7	(327.5)	340.6	(499.4)	(756.2)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	37.0	22.7	12.2	15.2	14.7
EBITDA growth	63.1	19.5	1.1	24.3	17.1
EBIT growth	76.6	24.1	3.1	19.1	18.9
Pretax growth	74.6	20.4	0.2	18.2	20.1
Reported net profit growth	76.5	15.5	2.3	14.8	20.4
Core net profit growth	76.5	15.1	3.5	13.9	20.4
<b>Profitability ratios (%)</b>					
EBITDA margin	7.7	7.5	6.7	7.3	7.4
EBIT margin	6.1	6.2	5.7	5.9	6.1
Pretax profit margin	6.2	6.1	5.5	5.6	5.9
Payout ratio	91.2	59.3	59.3	55.0	55.0
<b>DuPont analysis</b>					
Net profit margin (%)	5.1	4.8	4.4	4.4	4.6
Revenue/Assets (x)	3.2	3.3	3.0	3.1	3.2
Assets/Equity (x)	3.0	2.7	2.8	2.6	2.3
ROAE (%)	57.6	48.8	39.6	37.8	37.2
ROAA (%)	20.9	17.2	14.6	14.2	15.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	20.2	29.9	40.7	45.8	47.3
Days receivable outstanding	15.0	21.5	24.3	26.1	27.2
Days inventory outstanding	40.1	44.9	47.3	47.4	47.1
Days payables outstanding	34.9	36.5	30.9	27.6	27.0
Dividend cover (x)	1.1	1.7	1.7	1.8	1.8
Current ratio (x)	1.2	1.2	1.1	1.2	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.6	1.6	1.6	1.8
Net gearing (%) (incl perps)	36.8	49.7	78.3	72.4	61.6
Net gearing (%) (excl. perps)	36.8	49.7	78.3	72.4	61.6
Net interest cover (x)	65.4	37.8	16.2	15.5	18.6
Debt/EBITDA (x)	1.0	1.1	1.8	1.5	1.2
Capex/revenue (%)	0.6	0.8	1.4	1.0	0.9
Net debt/ (net cash)	1,950.4	3,600.6	6,756.1	7,555.6	7,911.7

Source: Company; Maybank IBG Research

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