# Retail - Thailand

# Takeaways from Thailand Consumer Conference

**Industry Overview**

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**Sirichai Chalokepunrat** ^^^
Research Analyst
Kiatnakin Phatra Securities
+66 2 305 9204
sirichai.chal@kkpfg.com

**Thitithep Nophaket** ^^^
Research Analyst
Kiatnakin Phatra Securities
+66 2 305 9198
thitithep.noph@kkpfg.com

**Narumon Ekasamut** ^^^
Research Analyst
Kiatnakin Phatra Securities
+66 2 305 9086
narumon.ekas@kkpfg.com

**Chotipat Leksakul** ^^^
Research Analyst
Kiatnakin Phatra Securities
+66 2 305 9194
chotipat.leks@kkpfg.com

## Near-term cautious, long-term intact

We held a two-day consumer conference (8-9 January) with five retailers (CPALL, CRC, GLOBAL, HMPRO and DOHOME), four consumer companies (CBG, OSP, AU and MOSHI) and non-listed traditional retailers joining the conference. In brief, retailers have a cautious view on the near-term consumption outlook given weak consumption fundamentals (i.e. high household debt, high interest rate), delays in government capex investment and weak overseas consumption, amid the normalizing of Thailand's reopening recovery. On the bright side, headwinds from high commodity prices, utility expenses and transportation cost are likely to ease this year which should contribute to consumption recovery. Despite the near-term slowdown in the consumption outlook, the companies maintain a positive view on the long-term consumption outlook and have expressed their desire to continue to expand stores both domestically and internationally.

## Consumer retailers

Almost every retailer (except for CPALL) anticipates a slowdown in 4Q23 SSS which could be attributed to (1) weak consumption fundamentals, (2) delay in the government's capex investment (GLOBAL and DOHOME), (3) potential delays in spending given the government's upcoming e-tax scheme (HMPRO and CRC fashion) and (4) weak overseas consumption (CRC Vietnam). These factors have impacted both foot traffic (number of transactions) and spending per ticket (i.e. smaller basket size). Going forward, they maintain their positive view on the long-term industry outlook and therefore maintain their store expansion plans. Among retailers, only DOHOME is adopting a wait-and-see strategy as its construction material sales are linked to government spending, according to the company.

## Energy drinks

For 2024, both OSP and CBG expect (1) the energy drink market to expand at least at the same rate as GDP growth with OSP's management being slightly more optimistic on the outlook than CBG and (2) similar or slightly lower overall key raw material costs vs 2023 given that the gas price has dropped but other raw material prices, such as sugar price, have increased substantially. We do not expect much change in the competitive landscape. This is because we expect CBG to mainly focus on supporting its beer business through distribution and packaging sales and maintain the Bt10 price for its energy drink.

CRC – Central Retail Corporation

GLOBAL – Siam Global House

HMPRO – Home Product Center

CBG – Carabao Group

OSP – Osotspa

DOHOME (Not Covered)

AU – After You (Not Covered)

MOSHI – Moshi Retail Corporation (Not Covered)

SSS – Same-store sales


**Refer to important disclosures on page 7 to 9.**
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# Companies' outlook for 2024

## CPALL

- CPALL guided for 4Q23 SSS to be similar to 3Q23 (3.5%) amid the slowdown in the consumption atmosphere while growth should be driven by both above-average ticket size and higher foot traffic. In terms of the number of transactions, growth should be seen from the higher mobility of both routine and leisure activities. Meanwhile, the ticket size should be driven by changes in the product mix, a higher mix of delivery sales (10-11% of retail sales) and customers trading up. These should also lead to a continued margin expansion in 4Q23, in our view. The company also guided that there should be no extraordinary employee expenses as seen in 4Q22 as the expenses have already been accrued in 2023.

- For 2024, the company expects SSS to grow in line with GDP growth. Meanwhile, margin should continue to expand YoY from changes in the product mix (towards food), higher distribution center (DC) efficiency and profit expansion of subsidiaries (i.e. CPRAM) due to the falling meat price. For store expansion, the company plans to continue to expand by at least 700 outlets in Thailand, 30-40 outlets for Cambodia and a few new stores in Laos. In addition to retail sales, the company is more positive about 2024 SG&A given the anticipation of lower utility expenses and diesel price while the recent minimum wage increase is in a manageable range.

## CRC

- The company admits that the 2024 outlook in terms of consumption looks challenging and expects sales growth to slow down this year largely due to (1) weak consumption fundamentals and (2) the normalization of Thailand's sales (70% of revenue). Meanwhile, the company also expects consumption in Vietnam to recover in late 2Q-2H24. The company plans to continue to open new stores for banners that it believes have long-term opportunities such as *TWD* (8-10 stores) and *Go Wholesale* (seven stores). Meanwhile, for Vietnam, the company cautiously sets the target to open three *Go!* (hypermarket + mall) while being slightly more aggressive in opening *Mini Go!* with an expected new 8-10 outlets as this format should gain market share of mid-income customers from traditional trade. Despite the slowdown in retail sales, its NPAT growth should somewhat benefit from an easing cost outlook from items such as utility expenses and interest expenses.

- For *Go Wholesale*, four stores have already been opened and performance so far is in line with expectation. However, customer mix has not been as expected with a relatively low volume of traditional retailers. The company guided that *Go Wholesale* should break even in the third year of operation (i.e. 2026).

## HMPRO

- HMPRO guided for weak 4Q23 SSS in the negative high single-digits for both *Homepro* and *Mega Home* largely due to (1) a weak consumption sentiment, (2) a slowdown in consumption fundamentals (high household debt and interest rate) that limits spending on big-ticket items, (3) delays in spending ahead of the government's shopping tax break program and (4) a high base. However, the company guided that retail margin in this quarter should improve YoY and QoQ largely from strong margin expansion at *Mega Home*.

- Going forward, although the e-tax scheme should be a short-term catalyst for consumption, the company is cautious about the consumption outlook, citing that benefits from the government's stimulus program, especially for upcountry areas, are still lower than expected. Meanwhile, the high base last year (warm temperatures and initiation of trade-in program) should result in a small growth in SSS in 1H24. The company believes 2H24 SSS should be higher HoH given the resumption of the government's capex investment, the easing interest rate outlook and base normalization. Gross margin should increase 20-30bp led by *Mega Home* (expected margin expansion of 40-50bp). The company is also positive about the SG&A outlook on lower utility expenses and the normalization of *Mega Home*'s pre-opening expenses following its aggressive expansion in 2023. In terms of store expansion, the company would continue to expand by 5-7 *Mega Homes* this year as it believes that there is room for modern trade retailers to capture market share from traditional retailers.

## Construction material retailers (GLOBAL and DOHOME)

- Both companies share the same view that end-user consumption in upcountry areas has started to show a sequential improvement with less SSS contraction or growth in 4Q23. However, delays in the government's capex investment have shadowed overall SSS recovery. DOHOME has been hit harder in comparison to GLOBAL given that DOHOME's sales are more concentrated on contractors (construction material sales) at 50%. This is in contrast to GLOBAL's 35%.

- Going forward, both companies believe the Budget Bill should get approval in May which should result in sales recovery from June onwards. DOHOME expects SSS this year to be around the mid to high single-digits. Meanwhile, GLOBAL expects its SSS to be in the low single-digits this year.

- Both companies maintain their positive view on the home improvement industry. Despite recent aggressive store expansions in the past two years, they still believe there is room for new stores and would continue their store expansion going forward. GLOBAL is aiming to open six outlets this year in upcountry areas and is looking into expanding into the sub-district level given light competition from modern trade, implying ample room for market share gain from traditional retailers. However, DOHOME prefers to take a wait-and-see attitude this year and will wait to make a decision about new stores later in the year.

## OSP

- For 4Q23, management expects a continued QoQ improvement in domestic energy drink revenue (although at a lower growth rate compared to +2% QoQ in 3Q23), but its market share in terms of value should be similar in 4Q23 (46.5% in 3Q23). Gas cost in 4Q23 was similar to 3Q23 so we expect limited gross margin expansion.

- The latest market breakdown between Bt12 and Bt10-energy drinks is still about the same as 2Q23 (~50:50) while OSP's market share in each also remains about the same (~70% for Bt12 and ~20% for Bt10).

- In 2024, OSP's management aims to gain more market share in all core businesses after a huge spending on marketing in 2023 to grow the "*Rising Stars*" brands with potentially more development on merger and acquisition (M&A) activities. Management does not expect the selling expense as a percentage of sales to increase beyond the 9M23 level of 18.6% in 2024.

## CBG

- 4Q23 results are expected to be strong given that management disclosed that CBG's volume market share grew to 23.2% in November 2023 from 22.4% in September 2023 (due to the Bt10 pricing strategy and revenue contribution via packaging sales and distribution income) from strong beer sales by Tawandang 1999 (a related company). Management disclosed that "*Carabao*" beer was well-received by the market while production is being ramped up. However, no exact market share has been disclosed. We now assume a strong 4Q23 due primarily to the expected strong beer-related revenue.

- Management has set the ambition for its "*Carabaodang*" brand to overtake "*M-150*" in terms of volume market share this year so we expect CBG to maintain the same strategy and the same price of Bt10 in 2024.

- The factory setup in Myanmar is now delayed to 3Q24 from 2Q23 with management believing that the situation in Myanmar has not changed by much. Sales in Myanmar and Cambodia should improve in 2024.

- Management expects some impact on the distribution revenue of *soju* due to the recently announced excise tax hike on this category.

## AU

- Management aims for 15-20% revenue growth for 2024. SSS is expected to see single-digit growth YoY. Its flagship brand, '*After You Dessert Café*' (about 90% of revenue contribution) is set to see at least 10 new branches in 2024 (61 branches at YE23). Overall, revenue should return to normal (pre-COVID-19 pandemic in 2019). However, it will be challenging for net profit margin to hit 20.0% as it did in 2019 (14.4% for 9M23, 15.9% for 3Q23), due to the higher fixed cost of portfolio expansion (38 branches at YE19).

- Overseas expansion has had a positive development with a 25-30% revenue contribution target over the long term. The second franchise store in Hong Kong was launched in 4Q23 and the company is targeting over five total stores by 2026. A franchise contract in Cambodia was signed in December 2023 with plans to open the first franchise store there in mid-2024. Management aims to finalize partnership in the United Arab Emirates (UAE) in 2024.

- The company has a growth strategy of non-store expansion through new consumer product launch in convenience stores in Thailand. The products will have affordable prices to attract mass clients. Given the past few years of development, consumer products should be launched at the earliest in 3Q24.

## Tang Ngeesoon Superstore Limited (non-listed company)

- Tang Ngeesoon is a retail traditional trade company, owning and operating two branches and one distribution center in Udon Thani province, Thailand. With its 60-year history, the company currently earns around Bt3.5bn on a customer base of business-to-business (B2B) and business-to-customer (B2C).

- The company sees local consumption as remaining weak with intense competition from modern trade. Consumer behavior has seen a smaller ticket size due to lower consumer affordability. The company expects the digital wallet stimulus measure to help consumption recovery in the short term. In 2024E, sales are expected to be flat.

- According to the company, margins could be under pressure given promotional requirements and the risk of a labor cost hike.

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