

Karmarts

KAMART TB / KAMART.BK

13 November 2013

Margins much fatter than expected

Beat our estimate by a country mile

KAMART reported a 3Q13 net profit of Bt50m, up by 25% YoY and 39% QoQ. The result beat our estimate by 30%, due to a fatter gross margin than modeled.

Results highlights

Revenue rose 36% YoY and was flat QoQ at Bt226m, in line with our expectation, underpinned by greater sales volume through modern-trade channels. Gross margin expanded to 52.2% in 3Q13 from 48.6% in 3Q12 and 46.7% in 2Q13. The higher-than-expected GM was mainly attributable to the firm employing fewer promotional discounts to attract spending than we assumed. Another driver of the margin expansion was greater sales through modern-trade retailers, which yields a fatter margin than any other channel.

The SG&A/sales ratio declined slightly to 22.7% from 22.8% in 3Q12 and 22.9% in 2Q13, thanks to the building of economies-of-scale. EBIT margin, thus, improved to 30.1% in 3Q13 from 26.8% in 3Q12 and 24.9% in 2Q13.

Outlook

Seasonality should make for an even stronger 4Q13 performance. Problems with franchisees should be resolved soon, so the rollout of new Karmart shops is likely to resume in late 4Q13.

What's changed?

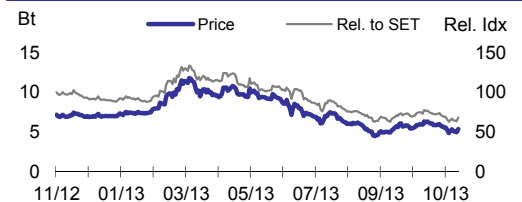
We have revised up our FY13-14 earnings forecasts by 10% and 7%, respectively, to factor in an expanded expectation for the margin trend. As such, our YE14 target price rises to Bt6.20 from Bt5.80.

Recommendation

Given 15% upside to our target price, we have upgraded our KAMART rating to BUY from HOLD. However, in cosmetics retail space, we still prefer BEAUTY due to its more concrete long-term strategy and lower operational risk.

Sector: Consumer/Retail Neutral
Rating: BUY
Target Price: Bt6.20
Price (12 November 2013): Bt5.40

Price chart

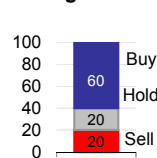


Share price perf. (%)	1M	3M	12M
Relative to SET	(10.4)	(9.8)	(32.5)
Absolute	(13.6)	(12.9)	(22.9)

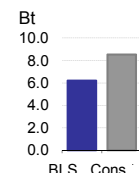
Key statistics

Market cap	Bt3.3bn	USD0.1bn
12-mth price range	Bt4.3/Bt12.3	
12-mth avg daily volume	Bt57m	USD1.8m
# of shares (m)	608	
Est. free float (%)	48.9	
Foreign limit (%)	49.0	

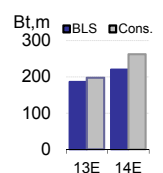
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2012	2013E	2014E	2015E
Revenues (Btm)	680	899	1,094	1,353
Net profit (Btm)	152	186	221	269
EPS (Bt)	0.25	0.30	0.33	0.41
EPS growth (%)	+35.8%	+18.9%	+10.7%	+21.7%
Core profit (Btm)	132	190	221	269
Core EPS (Bt)	0.22	0.31	0.33	0.41
Core EPS growth (%)	+2.6%	+40.4%	+8.5%	+21.7%
PER (x)	22.1	17.9	16.2	13.3
PBV (x)	5.9	5.2	4.5	4.2
Dividend (Bt)	0.2	0.2	0.3	0.3
Dividend yield (%)	3.8	4.4	4.8	5.7
ROE (%)	30.1	30.8	31.0	32.7

CG rating

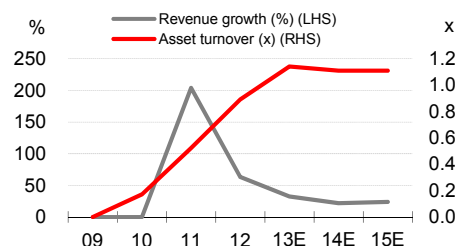
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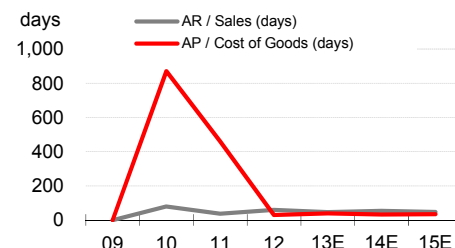
KAMART : Financial Tables – Year

PROFIT & LOSS (Btm)	2011	2012	2013E	2014E	2015E
Revenue	417	680	899	1,094	1,353
Cost of sales and services	(178)	(337)	(446)	(549)	(680)
Gross profit	239	343	453	545	673
SG&A	(108)	(159)	(212)	(259)	(323)
EBIT	131	184	241	286	350
Interest expense	(17)	(14)	(13)	(16)	(21)
Other income/exp.	11	8	9	11	14
EBT	126	178	238	282	343
Corporate tax	0	(46)	(48)	(61)	(75)
After-tax net profit (loss)	126	132	189	221	269
Minority interest	3	(1)	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	(16)	21	(4)	0	0
Net profit (loss)	112	152	186	221	269
Reported EPS	0.19	0.25	0.30	0.33	0.41
Fully diluted EPS	0.19	0.25	0.28	0.33	0.41
Core net profit	128	132	190	221	269
Core EPS	0.21	0.22	0.31	0.33	0.41
EBITDA	159	213	274	325	395
KEY RATIOS					
Revenue growth (%)	203.8	63.3	32.2	21.6	23.6
Gross margin (%)	57.3	50.4	50.4	49.8	49.7
EBITDA margin (%)	38.1	31.3	30.4	29.7	29.2
Operating margin (%)	31.5	27.1	26.8	26.2	25.9
Net margin (%)	26.9	22.4	20.7	20.2	19.9
Core profit margin (%)	30.8	19.4	21.1	20.2	19.9
ROA (%)	14.1	20.0	23.6	22.4	22.0
ROCE (%)	20.3	24.7	25.6	24.2	24.2
Asset turnover (x)	0.5	0.9	1.1	1.1	1.1
Current ratio (x)	1.1	3.5	3.1	4.7	5.2
Gearing ratio (x)	0.3	0.2	0.2	0.3	0.4
Interest coverage (x)	9.5	15.2	21.6	20.5	19.1
BALANCE SHEET (Btm)					
Cash & Equivalent	18	2	134	199	330
Accounts receivable	41	112	113	161	178
Inventory	238	277	281	361	386
PP&E-net	464	278	282	387	383
Other assets	26	68	29	27	25
Total assets	787	738	838	1,135	1,302
Accounts payable	224	28	47	49	64
ST debts & current portion	61	81	123	106	106
Long-term debt	52	29	12	156	210
Other liabilities	8	33	17	39	66
Total liabilities	345	171	198	349	446
Paid-up capital	600	360	370	396	396
Share premium	165	0	22	84	84
Retained earnings	(331)	183	224	281	351
Shareholders equity	444	567	640	785	856
Minority interests	(2)	(1)	(0)	(0)	(0)
Total Liab.&Shareholders' equity	787	738	838	1,135	1,302
CASH FLOW (Btm)					
Net income	112	152	186	221	269
Depreciation and amortization	17	21	23	27	31
Change in working capital	(37)	(114)	14	(126)	(26)
FX, non-cash adjustment & others	8	13	16	16	21
Cash flows from operating activities:	100	72	240	138	294
Capex (Invest)/Divest	48	(23)	(26)	(130)	(26)
Others	(1)	(4)	0	0	0
Cash flows from investing activities	47	(27)	(26)	(130)	(25)
Debt financing (repayment)	(129)	(17)	30	133	60
Equity financing	0	0	32	88	0
Dividend payment	0	(90)	(145)	(164)	(198)
Others	(1)	(4)	0	0	0
Cash flows from financing activities	(129)	(107)	(83)	57	(138)
Net change in cash	17	(62)	132	65	131
Free cash flow (Btm)	148	49	214	7	269
FCF per share (Bt)	0.2	0.1	0.3	0.0	0.4
Key Assumptions					
No. of Kamarts shops	30	80	90	120	170
Tradition-trade sales growth	222%	17%	6%	8%	8%
Modern-trade sales growth	n.a.	n.a.	131%	31%	28%

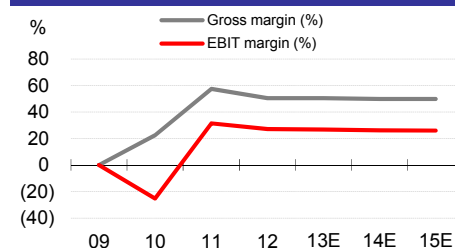
Revenue growth and asset turnover



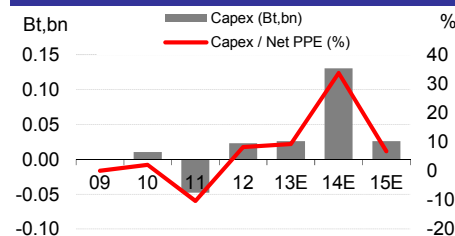
A/C receivable & A/C payable days



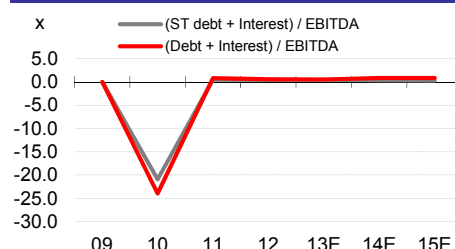
Profit margins



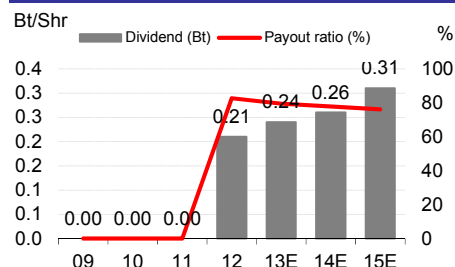
Capital expenditure



Debt serviceability



Dividend payout



KAMART : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q12	4Q12	1Q13	2Q13	3Q13
Revenue	166	191	196	224	226
Cost of sales and services	(85)	(96)	(94)	(120)	(108)
Gross profit	81	96	102	105	118
SG&A	(38)	(55)	(52)	(51)	(51)
EBIT	43	40	50	53	67
Interest expense	(4)	(3)	(3)	(3)	(3)
Other income/exp.	3	(1)	1	2	1
EBT	42	37	48	53	65
Corporate tax	(10)	(12)	(10)	(9)	(15)
After-tax net profit (loss)	32	24	38	43	50
Minority interest	(0)	1	0	0	0
Equity earnings from affiliates	0	0	0	0	0
Extra items	9	13	4	(7)	(0)
Net profit (loss)	40	38	42	36	50
Reported EPS	0.07	0.06	0.07	0.06	0.08
Fully diluted EPS	0.07	0.06	0.07	0.06	0.08
Core net profit	31	25	38	43	51
Core EPS	0.05	0.04	0.06	0.07	0.08
EBITDA	50	47	57	62	74

KEY RATIOS

Gross margin (%)	48.6	50.0	52.1	46.7	52.2
EBITDA margin (%)	30.0	24.4	29.0	27.5	32.7
Operating margin (%)	27.3	20.7	26.2	24.9	30.1
Net margin (%)	24.2	19.9	21.2	16.1	22.2
Core profit margin (%)	18.7	12.9	19.4	19.4	22.3
BV (Bt)	0.9	0.9	1.0	1.0	1.0
ROE (%)	30.5	26.8	27.4	25.1	33.6
ROA (%)	17.9	20.6	20.2	17.9	24.4
Current ratio (x)	1.2	3.5	2.9	2.5	2.7
Gearing ratio (x)	0.3	0.2	0.2	0.3	0.2
Interest coverage (x)	(13.6)	(15.3)	(17.8)	(18.3)	(24.7)

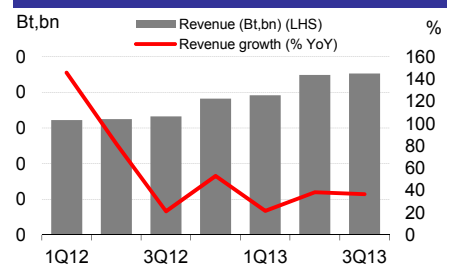
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	3	2	52	36	60
Accounts receivable	85	112	123	141	144
Inventory	311	277	315	305	301
PP&E-net	467	278	276	271	269
Other assets	36	68	57	54	49
Total assets	901	738	823	807	824
Accounts payable	225	28	35	41	42
ST debts & current portion	102	81	140	147	130
Long-term debt	33	29	11	8	7
Other liabilities	14	33	29	38	48
Total liabilities	375	171	215	234	227
Paid-up capital	360	360	360	360	365
Share premium	0	0	0	0	11
Retained earnings	143	183	224	188	200
Shareholders equity	528	567	609	573	598
Minority interests	(1)	(1)	(1)	(1)	(1)
Total Liab.&Shareholders' equity	901	738	823	807	824

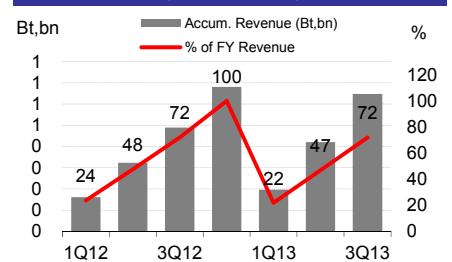
Company profile

Kamart (KAMART) is an importer and distributor of makeup, facial care, body care, hair care, nail care, fragrance, beauty accessories, dietary supplements and consumer household products. Three major distribution channels are Kamarts shops, traditional trade agents and modern-trade retailers.

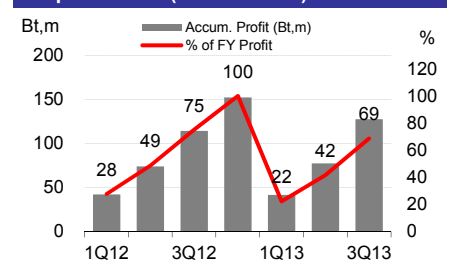
Revenue trend



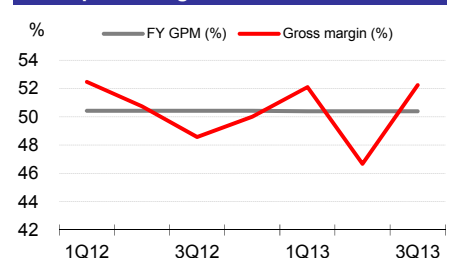
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

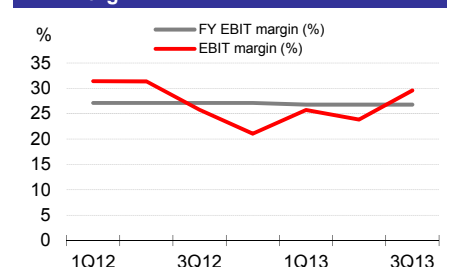


Figure 1 : 3Q13 results

FY Ended 31 Dec (Btm)	3Q13	3Q12	YoY %	2Q13	QoQ %	9M13	9M12	YoY %	9M13 vs. FY13E
Income Statement									
Revenue	226	166	36	224	1	647	489	32	72
Cost of sales and services	(108)	(85)	27	(120)	(10)	(322)	(242)	33	72
EBITDA	74	50	49	62	20	193	166	16	70
EBIT	67	43	57	53	25	171	144	18	71
Interest expense	(3)	(4)	(18)	(3)	(11)	(10)	(11)	(13)	75
Other income/exp.	1	3	(48)	2	(46)	5	9	(47)	52
Equity earnings from affiliates	0	0	nm	0	nm	0	0	nm	nm
Extra items	(0)	9	(104)	(7)	nm	(4)	7	(156)	nm
EBT	65	42	57	53	24	166	142	17	70
Corporate tax	(15)	(10)	46	(9)	62	(34)	(34)	2	
Minority interest	0	(0)	nm	0	4	0	(1)	nm	
Net profit (loss)	50	40	25	36	39	128	115	12	69
Reported EPS	0.08	0.07	25	0.1	39	0.21	0.19	12	71
Core net profit	51	31	63	43	16	132	107	23	70
Key ratios									
Gross margin (%)	52.2	48.6		46.7		50.3	50.6		
EBITDA margin (%)	32.7	30.0		27.5		29.8	33.9		
EBIT margin (%)	29.6	25.8		23.8		26.4	29.5		
Tax rate (%)	22.7	24.3		17.4		20.6	23.7		
Net margin (%)	22.2	24.2		16.1		19.8	23.4		
Current ratio (x)	2.7	1.2		2.5		2.7	1.2		
Gearing ratio (x)	0.2	0.3		0.3		0.2	0.3		
Interest coverage (x)	24.7	13.6		18.3		17.9	13.2		
Balance Sheet									
Cash & Equivalent	60	3	2,240	36	69				
Total assets	824	901	(9)	807	2				
ST debts & current portion	130	102	27	147	(12)				
Long-term debt	7	33	(79)	8	(16)				
Total liabilities	227	375	(39)	234	(3)				
Retained earnings	200	143	40	188	6				
Shareholders equity	598	528	13	573	4				
Minority interests	(1)	(1)	nm	(1)	nm				
BV (Bt)	1.0	0.9	13	1.0	4				

- Revenue grew in line with our estimate

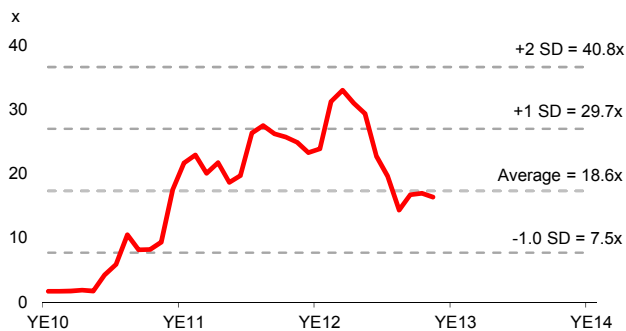
- GM exceeded our assumption, due to smaller-than-expected promotional discounts

Sources: Company data, Bualuang Research

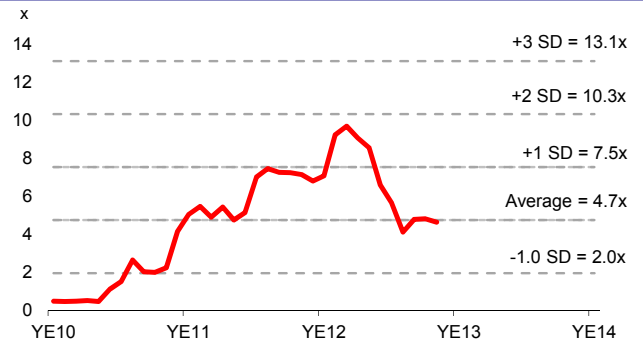
Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
Suning Appliance Co Ltd	002024 CH	CNY10.4	12,546	72.9	39.4	-64.3	97.7	2.6	2.6	2.1	2.2	0.3	0.2
Wumart Stores Inc	1025 HK	HKD12.9	2,125	20.4	18.3	12.8	13.2	3.3	2.8	17.0	16.9	2.2	2.5
Parkson Retail Group	3368 HK	HKD2.7	985	9.2	8.7	-18.8	8.5	10	0.9	112	112	4.8	4.9
Nitori Hldg Co Ltd	9843 JT	JPY9,080.0	5,220	13.3	13.1	4.8	13	2.1	18	16.7	14.8	11	12
Lawson Inc	2651JT	JPY7,640.0	7,699	20.8	19.2	10.7	8.0	3.1	2.9	15.6	15.9	2.9	3.1
Seven & I Holdings Co Ltd	3382 JT	JPY3,585.0	3,1929	18.1	16.7	27.0	7.9	15	15	8.8	8.9	19	2.0
Family Mart	8028 JP	JPY4,365.0	4,284	17.8	16.2	-94.8	9.8	16	16	10.6	9.4	2.4	2.6
President Chain Store Corp	2912 TT	TWD206.0	7,236	26.1	23.8	214	10.0	8.2	7.2	33.2	32.7	2.6	3.0
Capitaland Limited	CAPL SP	SGD3.0	1,280	18.9	15.3	-15.5	17.8	0.8	0.8	5.2	5.7	2.4	2.5
SM Prime Holdings Inc.	SMPH PM	PHP 17.8	11,297	26.1	23.9	12.4	8.1	3.7	3.1	15.8	15.4	15	18
Home Depot	HD US	USD76.2	109,124	20.6	17.4	210	17.7	7.1	7.1	33.7	418	2.1	2.3
Costco whole sale corp	COST US	USD122.5	53,501	24.7	22.3	5.6	12.2	4.5	4.0	18.7	18.8	10	11
Carrefour	CA FP	EUR27.4	26,665	20.1	17.0	-8.3	-2.1	2.3	2.1	119	130	2.3	2.6
Home Product Center	HMPRO TB	THB11.0	3,366	32.7	25.7	216	27.6	9.2	7.6	30.3	32.5	2.4	18
Big C Supercenter	BIGC TB	THB191.00	4,982	24.1	20.5	7.7	17.6	4.3	3.7	19.1	19.5	12	15
Beauty Community	BEAUTY TB	THB22.70	215	30.1	210	30.2	43.4	6.1	5.3	216	27.0	2.0	2.9
Kamarts	KAMART TB	THB5.40	104	19.2	16.2	110	18.6	5.2	4.5	30.8	310	4.4	4.8
Berli Jucker	BJC TB	THB45.50	2,288	29.4	26.8	2.7	9.9	4.1	3.8	17.3	17.4	19	2.1
C.P. All	CPALL TB	THB41.00	11,645	33.6	28.0	-0.5	20.1	12.3	10.5	38.7	411	2.2	2.4
Central Pattana	CPN TB	THB46.00	6,527	33.8	27.4	-4.1	23.1	5.5	4.8	19.6	19.0	12	15
Siam Global House	GLOBAL TB	THB18.40	1,520	49.1	29.7	60.7	65.7	4.4	3.9	9.7	13.8	0.6	10
Robinson Department Store	ROBINS TB	THB56.75	1,993	30.9	23.1	-12	33.9	5.2	4.5	18.7	22.2	16	2.2
Officemate	OFM TB	THB33.00	334	27.0	21.7	36.1	24.3	2.4	2.2	9.0	10.5	18	2.3
Siam Makro	MAKRO TB	THB33.50	5,084	37.6	29.3	20.3	28.1	13.6	12.1	37.7	43.7	46.3	58.2
Simple average				27.4	21.7	4.1	21.8	4.8	4.2	18.9	20.2	3.9	4.6

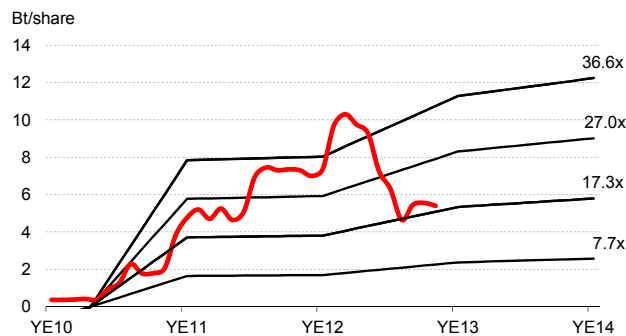
PER band versus SD (next 12 months)



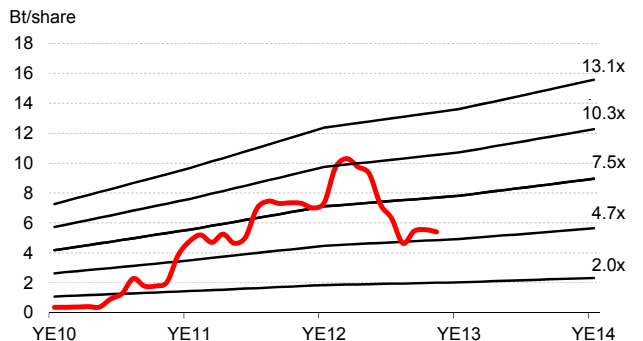
PBV band versus SD (next 12 months)



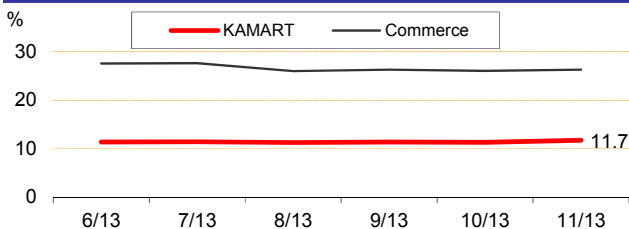
PER band and share price



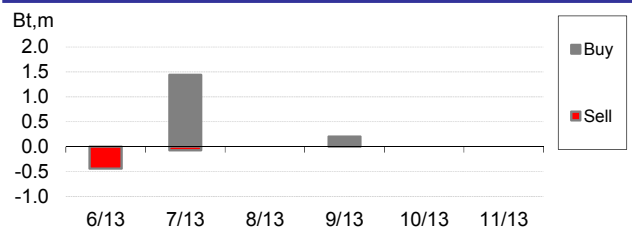
PBV band and share price



Foreign holding



Management trading activities during past six months








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	BJCHI, ICHI, MEGA, NYT, PCSGH

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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- BUY:** Expected positive total returns of 15% or more over the next 12 months.
- HOLD:** Expected total returns of between -15% and +15% over the next 12 months.
- SELL:** Expected negative total returns of 15% or more over the next 12 months.
- TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
- NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
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