INITIATED REPORT

CP AXTRA (CPAXT TB)

THAILAND / SET / COMMERCE

9 December 2024

Globlex
Securities Co., Ltd.

Priced for progress, Waiting for potential

- A cornerstone of stability, but growth remains constrained
- Current valuation reflects optimism on GPM improvements
- Initiated with a BUY and TP of THB39.5

CP group's Power Trio: A 360-degree retail ecosystem

The CP Group continues to dominate the essential goods sector, with CPALL's 7-11 catering to the convenience retail segment, CPAXT's Makro serving the wholesale market, and its recent acquisition of Lotus's capturing the mid-tier retail segment. These businesses create a comprehensive ecosystem that fulfills the everyday needs of consumers across all demographics. Among these, CPAXT stands out as a cornerstone of the CP Group's strategy, addressing both B2B and B2C markets through its dual-format operation.

Infusing fresh expertise into retail growth

In 9M24, CPAXT's revenue grew 5% y-y to THB361b, while net profit surged 23% to THB6.6b. This profit growth reflects the company's operational efficiency and cost control, as well as the benefits of financial restructuring. CPAXT has begun to leverage Makro's expertise in fresh food to enhance Lotus's retail operation, leading to an improvement in the GPM (Exhibit 4).

Omni-channel momentum: CPAXT's path to THB100B sales

In addition to GPM improvements from the synergy between Makro and Lotus's, CPAXT's growth is driven by its robust omni-channel strategy. Leveraging the Lotus's and Makro apps alongside a dedicated salesforce of over 1,300 personnel, the company focuses on building strong customer relationships, managing orders, and providing seamless delivery without requiring in-store visits. This omni-channel segment achieved impressive growth of 44% y-y in 3Q24, contributing over THB63b in sales (17.4% of total sales), with a strong trajectory to potentially reach over THB100b per year by 2026E (Exhibit 5).

Will synergies justify CPAXT's premium?

CPAXT's share price has risen 26% YTD, reflecting market optimism around GPM improvements. However, we believe the acquisition of Lotus's was executed at an expensive valuation of over THB330b, with Lotus's net profit at the time around THB10b, P/E of over 30x or a return of 3% p.a., compared to the group's cost of funds of 4%. To justify this premium, synergies that reduce costs or enhance returns by at least 1% to bridge the gap. While improvements in GPM have been realized, the expected synergies in warehouse and distribution operations have yet to materialize, leaving room for further optimization.

Initiated with a BUY and TP of THB39.5

We initiated coverage on CPAXT with a BUY and a TP of THB39.5 implying a 25E P/E of 35x. We believe that enhanced synergies between Makro and Lotus's, in cost reduction, could drive significant value. A 0.5% reduction in costs to revenue would add around THB2.5b to net profit, which we expect CPAXT can achieve within 3 years.

Analyst

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ESG Rating : AAA

CG Rating : △△△△△

BUY

Target Price 12M (THB)	39.50
VS. BB Consensus TP (%)	+4.8%
Share Price (THB)	35.25
Upside/Downside	+12.1%

Share Data

Market Cap (THB m)	367,575.08
Par (THB)	1.00
Free Float (%)	15.26
Issued shares (m shares)	10,428

Financial forecast

YE Dec (THB m)	2023	2024E	2025E	2026E
Revenue	489,949	513,201	533,204	551,910
Net profit	8,640	10,087	11,514	12,264
Core net profit	8,640	10,087	11,514	12,264
vs Consensus (%)	-	(2.8)	(5.4)	(12.0)
Net profit growth (%)	12.3	16.8	14.1	6.5
Core net profit growth (%)	12.3	16.8	14.1	6.5
EPS (THB)	0.82	0.97	1.10	1.18
Core EPS (THB)	0.82	0.97	1.10	1.18
Chg in core EPS (%)	-	0.00	0.00	0.00
DPS (THB)	0.57	0.38	0.44	0.46
P/E (x)	33.06	36.44	31.92	29.97
P/BV (x)	0.98	1.25	1.22	1.19
ROE (%)	2.96	3.41	3.80	3.95
Dividend yield (%)	2.11	1.08	1.23	1.32

Source: Financial Statement and Globlex securities

Share Price Performance (%)

	1M	3M	6M	YTD
Stock	3.68	n/a	n/a	n/a
Market	4.78	n/a	n/a	n/a
12M High/Low (THB)			35.50 / 31.25	

Major Shareholders (%) as of

CP ALL PUBLIC COMPANY LIMITED	34.91
SIAM MAKRO HOLDING	25.01
CHAROEN POKPHAND HOLDING	15.96

Company Profile

Retail under the brand name "Makro" and wholesale business under the brand name "Lotus's" and mall management
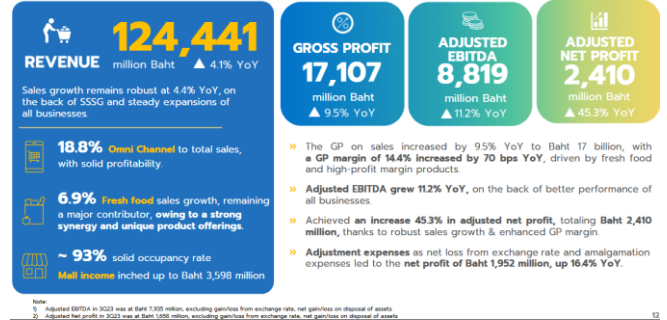
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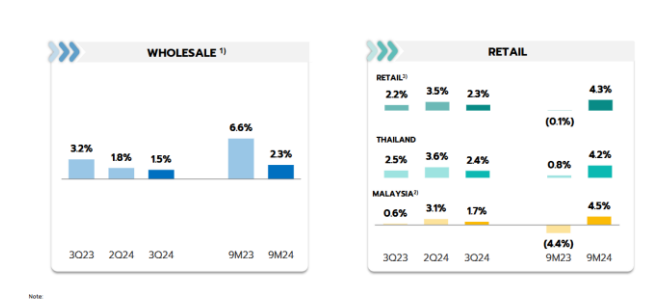
Exhibit 1: CPAXT's presence

Sources: CPAXT

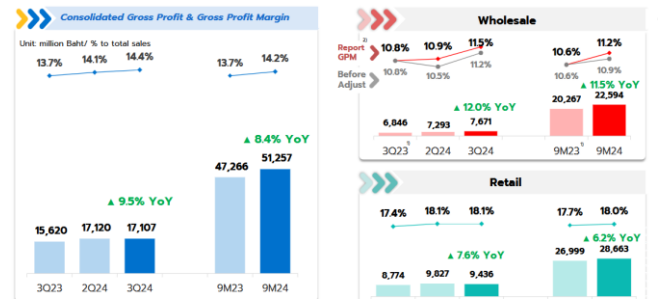## Exhibit 2: 3Q24 financial highlights
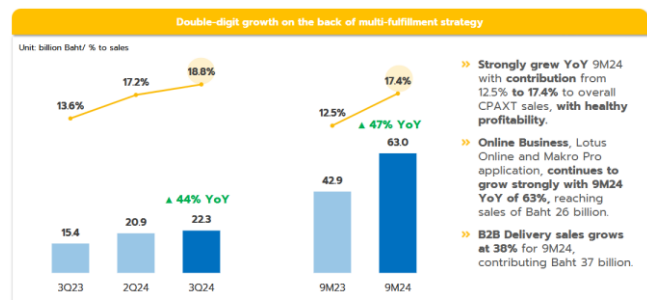

Sources: CPAXT

Exhibit 3: CPAXT's SSSG

Sources: CPAXT
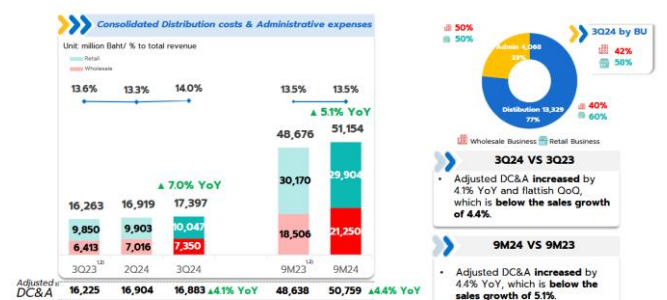
Exhibit 4: Gross profit margin

Sources: CPAXT

Exhibit 5: Omni-channel

Sources: CPAXT

Exhibit 6: Distribution & administrative costs

Sources: CPAXT

Exhibit 7: Financial position

Sources: CPAXT

Exhibit 8: CPAXT's 2028E target

Sources: CPAXT

Balance sheet (THB m)

Year ending Dec	2022	2023	2024E	2025E	2026E
Current assets					
Cash & ST investment	40,103	31,707	40,488	51,154	62,612
Account receivable	4,249	4,045	3,832	3,611	3,382
Inventories	37,820	35,884	37,576	39,033	40,445
Others	5,183	5,102	5,345	5,553	5,748
Non-current assets					
Net fixed assets	118,115	115,574	115,181	114,120	112,391
Others	343,173	348,059	348,059	348,059	348,059
Total Assets	**548,643**	**540,371**	**550,480**	**561,529**	**572,635**
Current liabilities					
Account payable	74,642	79,009	82,735	85,942	89,051
ST borrowing	4,796	30,253	30,253	30,253	30,253
Others	11,325	8,887	9,309	9,672	10,011
Long-term liabilities					
Long-term debts	155,745	117,672	117,672	117,672	117,672
Others	11,205	11,077	11,077	11,077	11,077
Total liabilities	**257,713**	**246,899**	**251,046**	**254,616**	**258,065**
Paid-up capital	5,290	5,290	5,290	5,290	5,290
Retained earnings	28,186	31,410	37,372	44,851	52,509
Others	256,872	256,217	256,217	256,217	256,217
Minority interest	583	555	555	555	555
Shareholders' equity	**290,931**	**293,473**	**299,434**	**306,913**	**314,571**

Profit & loss (THB m)

Year ending Dec	2022	2023	2024E	2025E	2026E
Revenue	**469,131**	**489,949**	**513,201**	**533,204**	**551,910**
Cost of goods sold	-420,401	-441,024	-461,820	-479,724	-497,079
Gross profit	**48,731**	**48,925**	**51,381**	**53,480**	**54,830**
Operating expenses	-14,478	-14,606	-15,807	-15,996	-16,557
Operating profit	**34,252**	**34,319**	**35,575**	**37,484**	**38,273**
EBIT	**16,701**	**16,707**	**17,900**	**19,748**	**20,475**
Depreciation	-17,551	-17,612	-17,674	-17,736	-17,798
EBITDA	**34,252**	**34,319**	**35,575**	**37,484**	**38,273**
Non-operating income	**0**	**0**	**0**	**0**	**0**
Other incomes	0	0	0	0	0
Other non-op income	0	0	0	0	0
Non-operating expense	**-7,122**	**-6,319**	**-5,769**	**-5,843**	**-5,621**
Interest expense	-7,122	-6,319	-5,769	-5,843	-5,621
Other non-op expense	0	0	0	0	0
Equity income/(loss)	831	746	670	670	670
Pre-tax Profit	**10,411**	**11,134**	**12,801**	**14,575**	**15,524**
Extraordinary items					
Current taxation	-2,729	-2,535	-2,714	-3,061	-3,260
Minorities	15	41	0	0	0
Net Profit	**7,697**	**8,640**	**10,087**	**11,514**	**12,264**
Core net profit	**7,697**	**8,640**	**10,087**	**11,514**	**12,264**
EPS (THB)	**0.73**	**0.82**	**0.97**	**1.10**	**1.18**
Core EPS (THB)	**0.73**	**0.82**	**0.97**	**1.10**	**1.18**

Key ratios

Year ending Dec	2022	2023	2024E	2025E	2026E
Growth (%YoY)					
Sales	76.1	4.4	4.7	3.9	3.5
Operating profit	106.1	0.2	3.7	5.4	2.1
EBITDA	106.1	0.2	3.7	5.4	2.1
Net profit	(43.8)	12.3	16.8	14.1	6.5
Core net profit	10.4	12.3	16.8	14.1	6.5
EPS	(69.4)	12.3	18.5	14.1	6.5
Core EPS	(40.0)	12.3	18.5	14.1	6.5
Profitability (%)					
Gross margin	10.4	10.0	10.0	10.0	9.9
Operation margin	7.3	7.0	6.9	7.0	6.9
EBITDA margin	7.3	7.0	6.9	7.0	6.9
Net margin	1.6	1.8	2.0	2.2	2.2
ROE	2.7	3.0	3.4	3.8	4.0
ROA	1.4	1.6	1.8	2.1	2.2
Stability					
Interest bearing debt/equity (x)	0.6	0.5	0.5	0.5	0.5
Net debt/equity (x)	0.4	0.4	0.4	0.3	0.3
Interest coverage (x)	2.3	2.6	3.1	3.4	3.6
Interest & ST debt coverage (x)	1.4	0.5	0.5	0.5	0.6
Cash flow interest coverage (x)	0.1	0.1	0.1	0.1	0.1
Current ratio (x)	1.0	0.6	0.7	0.8	0.9
Quick ratio (x)	0.5	0.3	0.4	0.4	0.5
Net debt (THB m)	120,438	116,218	107,438	96,771	85,313
Activity					
Asset turnover (X)	0.9	0.9	0.9	0.9	1.0
Days receivables	3.3	3.0	2.7	2.5	2.2
Days inventory	32.8	29.7	29.7	29.7	29.7
Days payable	64.8	65.4	65.4	65.4	65.4
Cash cycle days	(28.7)	(32.7)	(33.0)	(33.2)	(33.5)

Cash flow (THB m)

Year ending Dec	2022	2023	2024E	2025E	2026E
Operating cash flow	**13,184**	**22,679**	**22,337**	**22,801**	**23,252**
Net profit	7,697	8,640	10,087	11,514	12,264
Depre.& amortization	17,551	17,612	17,674	17,736	17,798
Change in working capital	-3,757	4,150	2,426	2,127	2,071
Others	-8,306	-7,724	-7,851	-8,575	-8,881
Investment cash flow	**-59,056**	**-6,083**	**-283**	**3,159**	**5,962**
Net CAPEX	-17,222	-15,071	-13,189	-11,542	-10,101
Change in LT investment	-41,834	8,988	12,907	14,702	16,063
Change in other assets					
Free cash flow	**-45,871**	**16,596**	**22,054**	**25,960**	**29,214**
Financing cash flow	**21,420**	**-24,992**	**-13,274**	**-15,294**	**-17,756**
Change in share capital	0	0	0	0	0
Net change in debt	81	-28	0	0	0
Dividend paid	-3,492	-4,126	-4,126	-4,035	-4,606
Others	24,830	-20,837	-9,148	-11,259	-13,151
Net cash flow	**-24,452**	**-8,396**	**8,780**	**10,667**	**11,458**

Per share (THB)

	2022	2023	2024E	2025E	2026E
EPS	0.73	0.82	0.97	1.10	1.18
Core EPS	0.73	0.82	0.97	1.10	1.18
CFPS	4.38	2.48	2.62	2.81	2.88
BVPS	50.45	27.69	28.25	29.38	30.11
Sales/share	81.52	46.31	48.51	51.13	52.93
EBITDA/share	5.95	3.24	3.36	3.59	3.67
DPS	0.51	0.57	0.38	0.44	0.46
Valuation					
P/E (x)	55.0	33.1	36.7	32.2	30.2
P/BV (x)	1.46	0.98	1.26	1.23	1.20
Dividend yield (%)	1.28	2.11	1.07	1.23	1.31
Divdend payout ratio (%)	70.11	69.80	39.42	39.42	39.42

GENERAL DISCLAIMER
Analyst Certification

Siriluck Pinthusoonthorn, Register No. 119539, Globlex Securities Public Company Limited

RECOMMENDATION STRUCTURE
Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.

HOLD: Expected return between -10% and 10% over the next 12 months.

REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.

Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.

Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.