

Ticker: WLCON

Consumer Sector: Home Improvement and Construction Supplies (HICS)

Current Price: Php 16.00/sh

Valuation Date: 14 Sept 2020

Recommendation: BUY (20.7% Upside)

Price Target: Php 19.32/sh

WLCON: Buy, Buy, Buy on Build, Build, Build

Initiating with BUY on dominant market position

We issue a BUY recommendation for Wilcon Depot Inc. (PSE: WLCON). Our DCF-based valuation arrived at a target price of Php 19.32/sh, presenting a 20.7% upside. We like WLCON due to its resilient domestic position, ability to capture industry demand, and its superior profitability. Historically, WLCON traded at 26.3x P/E (2017A-2020A) while its peers traded at 25.8x. WLCON currently trades at 28.9x 2021F P/E and we believe that this premium is justified due to an expected EPS CAGR of 15.9% 2019A-2024F and its PEG ratio of 0.77x.

Resilient domestic position amidst a global pandemic

The announcement of enhanced community quarantine (ECQ) in Luzon drastically affected WLCON's operations during the 2nd quarter. However, since its operations resumed in June, it has experienced a positive SSSG and was even able to open new stores in accordance with their expansion plan. Additionally, WLCON adapted to the new normal by expanding its online presence with a plan of introducing a virtual shopping service by the end of the year. Furthermore, we are also positive that the "accelerated recovery and investments stimulus" or ARISE bill will benefit WLCON as it stimulates the construction industry and consequently increases the demand on construction supply and home furnishing products. Overall, we see WLCON maintain a resilient position compared to other companies.

Prime position to capture spike in industry demand

WLCON leads the Home Improvement and Construction Supplies (HICS) retailers segment with its market share for home and garden specialists increasing from 7.8% in 2016A to 13.7% in 2019A. We note that the industry is expected to grow faster than its historical rates as the government works on eliminating a house backlog of 6.7 million households by 2030F. WLCON is in prime position to capitalize on this surge of demand with its aggressive expansion plans to expand its physical presence around the country. Together with its consistent same store sales growth, this aggressive expansion plan allows WLCON to continue its double-digit revenue CAGR of 14.72% 2019A-2024F. This strong top-line growth is expected to solidify WLCON's position as the market leader for the HICS retailers sector.

Superior profitability built on key brand portfolios

WLCON's gross profit margin expanded from 29.7% in 2017A to 33.4% in 2019A. This improvement is attributable to the increased contribution of its high margin in-house and exclusive products over the company's revenue. We are positive that WLCON can continue this trend and increase its gross margin as it targets a 55% revenue mix from its in-house and exclusive products which will result in an estimated gross profit margin of 36.1% in 2025F. Having these exclusive product lines serves a dual purpose as it also provides the company a safeguard against increasing market competition. Furthermore, we believe the increasing size of WLCON will provide it more power over its suppliers as it can negotiate better trade discounts with its larger volume of orders.

Supply chain, margin management, tax rate are key risks

We identified supply chain management, gross margin, and tax rate as key risks for WLCON. Our valuation model is highly sensitive to changes in gross margin. However, we are positive that WLCON's loyal customer base and power over supplier provide the company ample mitigating measures versus these risks.

	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Revenue (Php mn)	21,041	24,476	22,017	29,924	36,072	42,462	48,639
EBIT (Php mn)	2,183	2,780	2,131	3,452	4,442	5,530	6,635
Net Income (Php mn)	1,835	2,125	1,413	2,273	2,943	3,686	4,450
Gross Margin (%)	31.0%	33.0%	33.6%	34.1%	34.6%	35.1%	35.6%
EPS (Php/sh)	0.45	0.52	0.34	0.55	0.72	0.9	1.09
EPS Growth (%)	21.6%	15.6%	-33.7%	60.9%	29.5%	25.3%	20.7%
P/E (x)	33.87	29.31	46.44	28.86	22.29	17.8	14.74
ROE (%)	14.6%	15.2%	9.4%	14.0%	16.2%	18.0%	19.0%

COMPANY SNAPSHOT	
Ticker	WLCON
Shares Outstanding (mn)	4,100
Market Cap (Php mn)	63,628bn
Adj. 52-Week High (Php/sh)	19.00
Adj. 52-Week Low (Php/sh)	10.50
Free Float (%)	33.96%

Source: EDGE PSE

Relative Share Price Performance (2017A-2020A)



Source: Bloomberg, EDGE PSE

Business Description

Leading home improvement and construction supplies retailer

Wilcon Depot Inc. (PSE: WLCON), the country's leading home improvement and construction supplies retailer, offers a wide variety of products that includes both local and international brands of tiles and flooring, plumbing and sanitary wares, building materials, electrical and lighting, paints, hardware and tools, furniture, furnishings and houseware, and appliances. The company offers its products in two retail formats, namely the Depot store format and Home Essentials store format, which are known under the trade names "Wilcon Depot" and "Wilcon Home Essentials," respectively. It is currently operating 60 stores — 53 depots and 7 home essentials stores. Of the 60 stores, 16 are in Metro Manila and 44 are spread across major cities and municipalities all over the country — in Luzon, Visayas, and Mindanao.

Table 1: Snapshot of WLCON Products and Brands

Products	Exclusive Brands	Other Brands
Appliances	HEIM, Heritage	G.E., Haier, Akari
Automotive	Home Basix	3M, Lotus, Outlast
Building Materials	Forest, Woodland	Black and Decker, DeWalt
Doors and Molding	HEIM	Timberco
Electrical	KAZE, AlphaLux	Akari, Panasonic
Furniture	HEIM, Heritage	Natuzzi
Hardware	Direct Hardware	Haier, Lotus
Home Interior	HEIM	Asahi, DETEX
Houseware	HEIM, Pozzi	Kohler, Asahi
Outdoor living	HEIM	Lotus
Paint and Sundries		Davies, Rain or Shine
Plumbing	Pozzi, Sefa	American Standard, Europak
Sanitaryware	Pozzi, Sefa	American Standard, Europak
Tiles	Arte, Novabell	
Tools	Direct Hardware	DeWalt, Lotus

Source: Company Information

Ownership structure

WLCON was incorporated on December 17, 2015 as a subsidiary of Wilcon Corporation (WC) to operate its home improvement and construction supplies retail businesses. It officially started its trading operations on April 1, 2016 when the retail operations including all the retail assets and liabilities were transferred from WC. However, WLCON's retailing business, which it acquired and inherited from WC, has been around since 1977A when Mr. William T. Belo, the founder of WC, opened its first branch in 1977A — a 60-square meter shop offering a variety of local brands of building and finishing materials. A few years after the opening of its first shop, more branches were established and continued to emerge nationwide. In over 40 years, it has become the leading player in the field. WC currently holds 65.38% of the shares while the remaining 33.98% of the shares is owned by the public.

Consistent profitability record

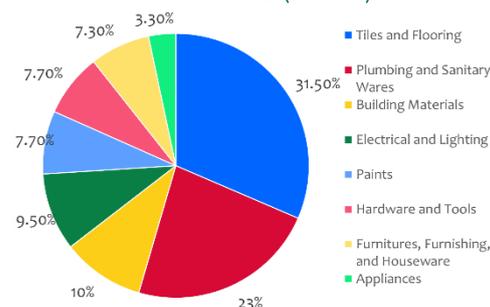
In 2019, WLCON led the home and garden specialist retailers market shares, an aggregation of homewares and home furnishing stores, and home improvement and gardening stores, having a total share of 12% of the market. Since its initial public offering in 2017A, its share price has increased by more than 200%. The company has shown consistent healthy stores sales growth, having a 12.83% CAGR from 2013A to 2019A. WLCON's aggressive store expansion plan of having 100 stores by 2025F is expected to further increase their market share. Moreover, WLCON opened a digital store in 2019A which is a strategic complement to its store-based activity as Filipino consumers are becoming more interested in online retailing. WLCON's depot store format caters to the fast-growing segment of middle to high income homeowners, which are showing increasing demand across new home construction, renovation, repair, and maintenance. By offering a wide-variety of value-priced in-house and international home improvements products and expanding its stores to key cities, WLCON has further boosted its sales and its market presence.

Industry Overview and Competitive Positioning

APAC HICS industry outlook expected to remain positive despite COVID-19 situation

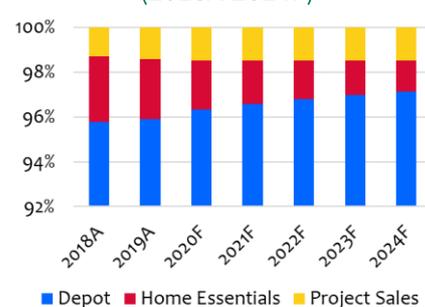
The Home Retail industry in the Asia-Pacific region, especially in developing countries, has experienced positive growth over the past years primarily due to a growing need to modernize living spaces and a rising demand for "Do-it-Yourself" (DIY) projects, expecting to grow by 4.6% CAGR 2019A-2026F. The 'stay-at-home' situation per COVID-19 regulations sparked an increased demand for DIY and interior decor products, in line with the growing need among workers or employees to make home spaces suitable working environments. Additionally, home furnishing e-commerce is an attributing factor, with global online traffic for online home furnishing platforms growing by 8.97% from January to March 2020.

Figure 1: Product Category to Revenue (2019A)



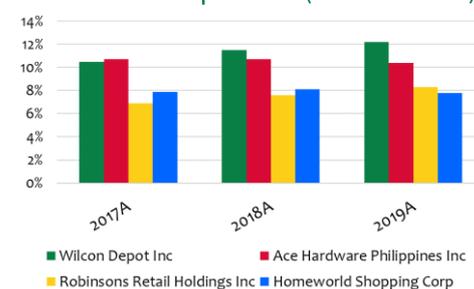
Source: Company Data

Figure 2: Revenue Mix by Segment (2018A-2024F)



Source: Company Data, Team Estimate

Figure 3: WLCON's Historical Market Share vs Competitors (2018A-2024F)



Source: Euromonitor

Quick post-pandemic recovery of the construction sector to be boosted by government stimulus programs

Since 2015A, the construction industry in the country has increasingly contributed to GDP from 7.7% of real GDP by expenditure in 2015A to 9.0% of GDP in 2019A, amounting to an average annual growth of 10.9%. Even with the slowdown brought by the pandemic, the construction sector is expected to experience a quick recovery as private and public projects resume and the government refocuses its efforts in boosting the sector with its different stimulus programs. The HICS sector is a beneficiary of this recovery in construction as they will be the ones providing both project materials, and the furnishings in the case of houses and offices built.

Slowdown in retail sector seen as lockdown ensues

The Home and Garden Market in the Philippines grew at a 4.6% CAGR from 2014A to 2019A. However, with the announcement of the ECQ which started on March 16, 2020, businesses and establishments deemed as non-essential by the government, which includes the home improvement sector, were temporarily closed. Foot traffic and activity dropped by as much as 80% in Metro Manila. With the extended general community quarantine (GCQ) period that would most likely span the rest of the year, the Home and Garden Market is expected to contract by 12% according to Euromonitor forecasts. Recovery, however, is expected to be quick as it is expected to post growth of 9% by 2021F which brings it back above pre-COVID levels. Furthermore, a CAGR of 3.8% between 2019A to 2024F is forecasted despite the market disruption brought about by the pandemic.

Strong demand for HICS foreseen as government tries to eliminate housing backlog

The Home Improvement and Construction Supplies industry grew by 6.6% CAGR from 2017A to 2019A. The strong performance of this industry is brought about by the growth in the residential property market as the housing sector had a CAGR of 8.4% from 2001A-2015A. Moving forward, the demand in this sector is expected to rise as the government aims to eliminate the housing backlog by 2030F. This would mean that an average of at least 1 million homes will be sold annually in the 11 years from 2020F to 2030F, a significant increase from the average of 200,000 homes built and sold annually for the past 5 years. The demand in the HICS industry is expected to benefit from this targeted five-fold increase in homes built annually.

Peaked e-commerce market growth driven by lockdown protocols

With the implementation of quarantine protocols due to the global pandemic, traditional brick and mortar retailers have become less viable options for consumers as compared to online retailers. Although overall household retail expenditures dropped by 5% during the first quarter of 2020F, Philippine e-commerce utilization has spiked in-line with the stay-at-home protocols in the country. Online shopping platforms such as Lazada, Shopee, and Zalora have reported large boosts in their sales during quarantine periods. Specifically, Shopee identifies home accessories among the top contributors to amplified sales, noting that brands have experienced 40 times more orders through the platform compared to the same period in 2019A. This leads to a reported 48% of the Philippine population planning to focus on online shopping shortly after the onset of the pandemic, which is higher than the global average of 46%. This gives WLCON an opportunity to capitalize on this trend with their online store.

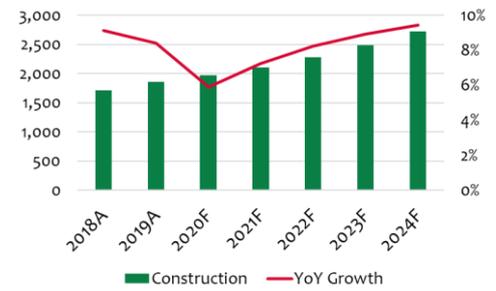
Expansion continues despite global pandemic

Although expanding its stores amidst this pandemic may pose a challenge, WLCON is not holding back its expansion plan as it successfully opened four stores in 2020F and with two more to be opened by the end of the year. WLCON reiterates that while the store expansion for the year was setback by the pandemic which resulted in 1 less store opening compared to their initial target for 2020F, they are still on pace to open their 65th store by the 1st half of 2021F, ahead of the scheduled year-end 2021F plan. Moreover, their plan to open its 100th store by the end of 2025F remains very achievable given their track record of successful expansion.

Online platforms launched, to be improved further by year end

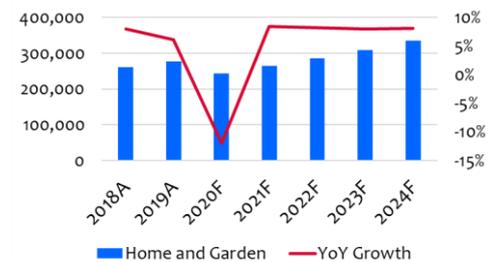
With fewer customers going to WLCON's physical stores as a safety precaution, WLCON is expanding its reach through digital platforms. Although they were able to launch their online store by the end of 2019A, there are still some difficulties that arise from this since many of WLCON's customers prefer having physical inspections of the products prior to purchasing them. By the end of 2020F, WLCON is determined to improve their platform by integrating a virtual shopping experience that would allow the online customers to inspect the actual product before purchase and as such improve customer confidence and satisfaction.

Figure 4: Philippine Construction Industry (2018A-2024F)



Source: Euromonitor

Figure 5: Philippine Home and Garden (2018A-2024F)



Source: Euromonitor

Table 2: New Housing Needed (2012A-2030F)

Market Segment	Price Range	Units Needed	% of Total
Needs Subsidy	< Php 400k	1,449,854	23%
Socialized Housing	< Php 400k	1,582,497	25%
Economic Housing	Php 400k - 1.25M	2,588,897	42%
Low Cost Housing	Php 1.25k - 3M	605,692	10%
Total Housing Needed		6,226,940	100%

Total New Need Average:
345,941 housing units per year

Source: Industry.gov.ph

Figure 6: Philippine E-commerce (2018A-2024F)



Source: Euromonitor

Sales enjoy V-shaped recovery

With the lower levels of foot traffic due to quarantine and lockdown protocols in place, WLCON's sales number for the 2nd quarter took a massive hit. We do note however that after the stores re-opened when quarantine protocols were relaxed, WLCON was able to quickly recover as sales in June were at pre-COVID levels. Moving forward, WLCON's daily sales is expected to grow from the pent-up demand due to closure, resumption of private construction, and increase in demand as a byproduct of the lockdown procedures which has led to increased focus in improving people's own homes. This increase in demand is evidenced by the Philippine Producer Price Index, in which furniture and fixtures continue to be the leading industry category with a 21.4% YoY growth in May and a 19.7% YoY growth in June for 2020F.

Indirect beneficiary of government stimulus programs

With the Build, Build, Build program facing setback, the administration has expressed its plans to stimulate the economy with the "accelerated recovery and investments stimulus" or ARISE bill. WLCON is seen to be an indirect beneficiary of the said bill which intends to revitalize the government's infrastructure efforts by allocating more than 650 billion of its PHP 1.3 trillion budget. The growth of the construction sector will consequently increase the demand for home improvement and construction supplies which will ultimately benefit the market leader, WLCON.

Top player in the industry, outperforming the market

WLCON has developed a strong brand presence over the years as a one-stop-shop for home improvement and construction needs. With its 60-store network, it is able to maintain its dominant position in the industry with its physical presence over the country. Furthermore, WLCON's 40 years of experience in the industry makes it the oldest and most established HICS retailer. Over the years, it was able to establish a large network of suppliers and consumers by expanding their product selections. Currently, WLCON offers over 2,000 local and foreign brands and up to 150,000 SKUs. With its large network and long history, WLCON is able to deliver high quality products in large quantities other emerging competitors cannot. WLCON's ability to aggressively expand its store network allows it to be the top player in the industry while also experiencing faster than market growth.

Large store format provides unique competitive advantage

WLCON has two retail formats, namely "Wilcon Depot" and "Wilcon Home Essentials". Its large-scale home depot format, with an average of 9,260 sqm, contributes to 97% of its revenues. This large-scale format gives WLCON a natural hedge against competitors as the large format is not easily replicable due to its high capital cost, which is currently at 185 million, excluding lot price, per depot for WLCON. The large floor area gives them the ability to offer much bulkier items such as tiles, plumbing, and furniture, which would not be feasible for smaller store formats such as those of hardware retailers inside malls.

Loyal customer base due to exclusive brand portfolio

WLCON's line of in-house and exclusive products serve the dual purpose of expanding gross margins whilst also developing a loyal customer base for the company. It can be noted that WLCON's exclusive products contributed to 51.2% of sales for the first half of 2020F, as compared to 6% for its next closest competitor. This loyalty from customers can be seen in its steady same store sales growth (SSSG) for the past 3 years which was pegged at 6.9% 2017A-2019A as well as its loyalty card program which was launched in 2011A and currently has 730,548 members. As WLCON continues to expand its brand portfolio and shift its sales mix towards these exclusive brands, more customers will stay loyal to WLCON and thus mitigate the threats of substitute and competition.

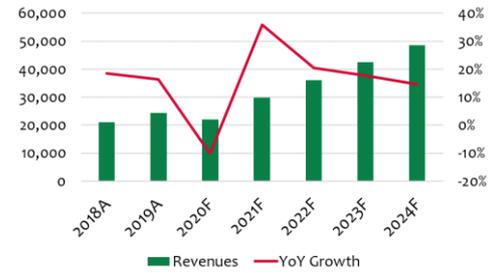
Well-hedged against competitive pressures

Our Porter 5 analysis of WLCON showed that it is well-hedged against competitive pressures. It faces low threats from its suppliers due to the large volume of its purchases as well as its long-standing relationship with its suppliers. WLCON faces moderate threat from new entrants as the HICS industry is capital intensive and requires an established value chain. Additionally, we found WLCON to experience low to moderate threat from its buyers as high cost products will force them to look for substitutes from other retailers. WLCON also faces moderate to high threat from some of its existing competitors as they have similar aggressive expansion plans that allow them to grab WLCON's market shares.

Investment Summary

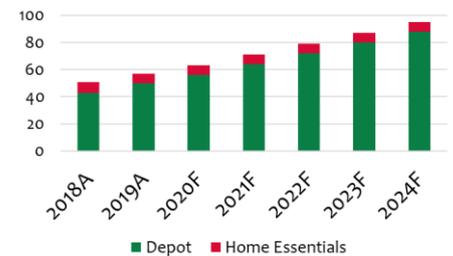
We issue a BUY recommendation on Wilcon Depot Inc. (WLCON) with a DCF-based price target of Php 19.32/sh, presenting 20.7% upside. We are positive on WLCON due to its resilient domestic position, ability to capture industry demand, and superior profitability. We note that WLCON trades at 28.9x 2021F P/E, above its historical valuations of 26.3x P/E (2017A-2020A) and its peers at 25.8x. We believe that this premium is warranted given WLCON's strong ability to post a five-year EPS CAGR of 15.9% 2019A-2024F.

Figure 7: WLCON Revenues (2018A-2024F)



Source: Company Data, Team Estimate

Figure 8: WLCON Store Network (2018A-2024F)



Source: Company Data, Team Estimates

Figure 9: WLCON Porter 5 Analysis



Source: Team Estimates

Resilient domestic position amidst a global pandemic

WLCON is quick to recover amidst the pandemic since it resumed its operations after the announcement of GCQ. The company has already experienced a positive YoY growth since June and was even able to open new stores in accordance with their expansion plan. Moreover, WLCON is quick to adapt to the new normal when it starts to expand and improve its online store with its plan of introducing a virtual shopping service by the end of the year. Furthermore, the “accelerated recovery and investments stimulus” or ARISE bill is seen to benefit WLCON as it will revitalize the government’s infrastructure efforts thereby increasing demand for home furnishing products. Overall, we see WLCON maintain a resilient position compared to other companies.

Prime position to capture spike in industry demand

WLCON owns a dominant position in the Home Improvement and Construction Supplies (HICS) retailers segment with its market share for home and garden specialists increasing from 7.8% in 2016A to 13.7% in 2019A. We note that the industry posted growths of 6.6% CAGR from 2017A to 2019A and is expected to grow at a much faster rate as the government works on eliminating a house backlog of 6.7 million households by 2030F. WLCON is in prime position to capitalize on this spike in demand with its aggressive expansion plans to open its 100th store by the year end of 2025F. Coupled with its steady same store sales growth, this aggressive expansion plan should allow WLCON to continue its double digits top-line CAGR of 14.72% 2019A-2024F. The strong top-line growth of WLCON is expected to solidify its position as the market leader for the HICS retailers sector.

Superior profitability built on key brand portfolios

WLCON continues to improve its gross profit margin from 29.7% in 2017A to 33.4% in 2019A. This performance is largely influenced by its high margin in-house and exclusive products which are increasing their share over the company’s revenue mix. We expect WLCON to continue increasing its gross margin as it targets a 55% revenue mix from in-house and exclusive products thus translating to an overall gross profit margin of 36.1% in 2025F. Having these exclusive product lines serves dual purposes as it also provides the company a safeguard against increasing market competition. Furthermore, we believe that this shift will provide WLCON more power over its suppliers as it can negotiate better trade discounts with its larger volume of orders.

DCF valuation confirms resilient growth

Our DCF valuation arrived at a target price of Php 19.32/sh, presenting 20.7% upside. Our DCF is based on a WACC of 10.4% and a terminal growth rate of 3.0%. We forecast WLCON to deliver a five-year EPS CAGR 2019A-2024F of 15.9%. We also expect WLCON’s margins to expand due to the increasing share of higher-margin products. These will allow WLCON to deliver sustainable earnings growth in the long run given its aggressive expansion plans.

Supply chain, gross margin, tax rate are key risks

We identified supply chain management, gross margin, and tax rate as key risks for WLCON. Our valuation showed the highest sensitivity to gross margin changes. We note, however, that WLCON’s loyal customer base and power over supplier provide the company ample mitigating measures versus these risks.

Valuation

Our computation arrived at a price target of Php 19.32/sh using a DCF-based valuation. We used a DCF model for all WLCON’s segments, depots and home essentials, by applying a WACC of 10.4% and a terminal growth rate of 3.0%. Our forward 2021F P/E for WLCON is 28.9x, above the average P/E of branded regional peers (25.8x).

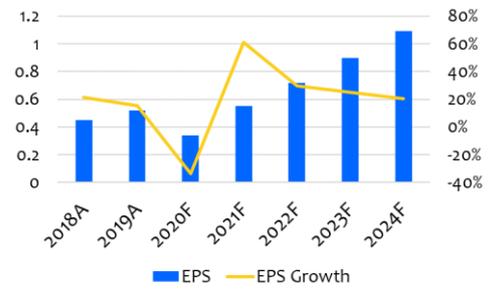
Revenues

We forecasted WLCON’s revenues using net ticket growth, traffic growth, and new-to-maturity stores ratio increases as key drivers as shown in Table 3. We based our estimates for these figures on its historical growth with adjustments for the years 2020F to 2022F to account for the effects of the pandemic and its subsequent recovery. We noted that traffic growth in 2020F suffered a great decline due to the decrease in foot traffic and consumer confidence, but we expect this to recover over the next 2 years. Long-term forecasted growths were based on expected inflation rates.

Margins

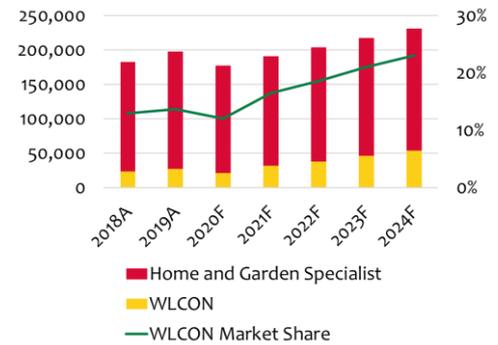
We estimated WLCON’s average gross margin by products using its historical record. For the year 2020F, we assumed a gross margin of 45% for its in-house and exclusive products and a gross margin of 21.5% for its other brands. In the long run, we expect WLCON to improve its margins to 48% and 21.5% for its in-house and exclusive products and other brands, respectively. In computing its average gross margin, we noted that in-house and exclusive products will continue to contribute more to its sales mix. In 2020F, we expect WLCON to achieve 51.5% of its sales from its high margin products and continue to increase until a level of 55% by 2025F.

Figure 10: WLCON EPS (2018A-2024F)



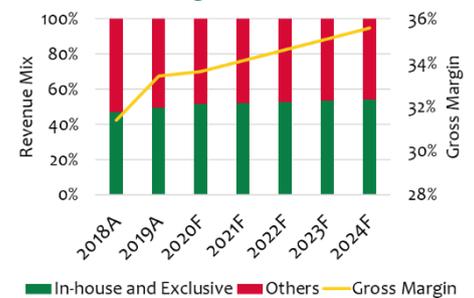
Source: Company Data, Team Estimates

Figure 11: WLCON Market Share (2018A-2024F)



Source: Company Data, Euromonitor, Team Estimates

Figure 12: WLCON Revenue Mix and Gross Margin (2018A-2024F)



Source: Company Data, Team Estimates

Table 3: Same Store Sales Growth Breakdown and New-to-Maturity Ratio (2020F-2023F)

	2020F	2021F	2022F	2023F
SSSG	-23.2%	15.0%	7.6%	4.5%
Traffic Growth	-20.0%	10.0%	4.0%	3.0%
Average Net Ticket Growth	-4.0%	4.5%	3.5%	1.5%
New-to-Maturity	30.0%	40.0%	40.0%	40.0%

Source: Company Information, Team Estimates

Table 4: Revenue Mix and Gross Margin (2018A-2024F)

	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Revenue Mix (In-house and exclusive)	46.9%	49.5%	51.5%	52.2%	52.9%	53.6%	54.3%
Revenue Mix (Other)	53.1%	50.5%	48.5%	47.8%	47.1%	46.4%	45.7%
GPM (In-house and exclusive)	*	*	45.0%	45.6%	46.2%	46.8%	47.4%
GPM (Other)	*	*	21.5%	21.5%	21.5%	21.5%	21.5%
Gross Margin	31.4%	33.4%	33.6%	34.1%	34.6%	35.1%	35.6%

*No data given by the company

Source: Company Data, Team Estimates

Terminal growth rate

Our terminal growth rate of 3.0% is based on long-run inflation in the Philippines and the growth rate of the HICS industry in mature markets with a CAGR of 4% (US).

Weighted average cost of capital (WACC)

We applied a WACC of 10.4% for our DCF valuation for WLCON, using a risk-free rate of 4.5%, adjusted beta of 0.82, and a debt-to-equity level of 30%. We present our comprehensive WACC assumptions below:

Table 5: WACC Assumptions

Assumptions	Rate	Methodology
Risk-Free Rate	4.5%	Forward yield of 10-year Philippine government bond
Market Risk Premium	8.0%	Bloomberg data
Unadjusted Beta	0.73	Bloomberg data
Cost of Equity	12.4%	Calculated via CAPM
Pre-tax Cost of Debt	5.5%	WLCON's interest rate on existing debt
Tax Rate	32.8%	WLCON's effective tax rate
Debt-to-Equity	30.0%	WLCON's historical D/E
WACC	10.4%	

Source: Company Data, Bloomberg, Team Estimates

Relative valuation

Our valuation model expects WLCON to register an EPS of Php 0.55/sh by 2021F. Additionally, we calculated the average P/E of peer companies to be 25.82x implying a fair price of Php 14.30/sh via relative valuation for WLCON. However, we believe that this premium is warranted given WLCON's growth prospects. Factoring in growth relative to the P/E ratio, WLCON is expected to present a PEG ratio of 0.77x which shows that it is trading at a lower multiple and is currently being undervalued by the market.

Financial Analysis

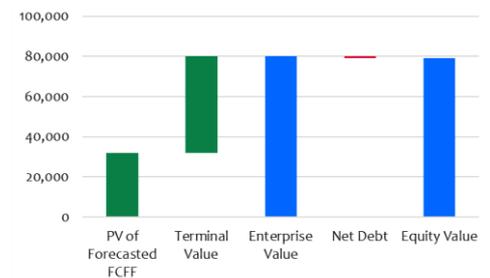
Product mix to sustain gross margin expansion

We expect WLCON to be able to continually expand its gross margins as sales mix shift towards the higher margin in-house and exclusive products. We note that while in 2019A, exclusive products contributed to less than 50% of their sales, we expect these exclusive products to grow to 55% of their revenue mix as the company continuously expands its brand portfolio. This is in-line with the company's 2025F goal of having 55% of their revenue coming from the high margin exclusive products. Moreover, with the increasing size of WLCON, they would be able to increase their bargaining powers and as such, we estimate these effects to translate to a 36.1% gross margin for 2025F from the current level of 33.4%.

Strong expansion plans allowing double-digit top-line growth

As part of their expansion policy, WLCON plans to open 6 new stores by the end of 2020F despite the pandemic. On top of this, expansion plans of 9 stores a year extends until 2025F to reach their targeted 100-store network nationwide. This expansion would allow WLCON to capture the expected increase in demand as the government focuses on increasing the amount of housing projects. Coupled with same store sales growth brought about by its loyal customer base created by the growing exclusive product line, this expansion plan is expected to drive WLCON's double digit growth top line growth. Moreover, we also expect WLCON to increase their online presence, having already launched their online store last 2019A. We expect WLCON to improve on these features with their planned launch of a virtual shopping experience to capitalize on the e-commerce boom brought about by the pandemic. With all these taken into account, we forecast a 14.7% 5-year revenue CAGR 2019A-2024F which would allow WLCON to cement its position as the market leader for the HICS industry.

Figure 13: Valuation Summary



Source: Team Estimates

Table 6: Relative Valuation Peer Table

Ticker	Company	P/E (x)	
		2020F	2021F
HOME PM Equity	ALLHOME CORP	20.78	12.89
RRHI PM Equity	ROBINSONS RETAIL HOLDINGS IN	23.37	19.43
GLOBAL TB Equity	SIAM GLOBAL HOUSE PCL	43.23	35.61
HMPRO TB Equity	HOME PRODUCT CENTER PCL	39.05	32.44
ACES IJ Equity	ACE HARDWARE INDONESIA	33.01	25.82
Median		25.82	

Source: Bloomberg, Team Estimates

Figure 14: Gross, Operating, Net Margin (2018A-2024F)



Source: Company Data, Team Estimates

Table 7: Key Financial Ratios (2018A-2024F)

	Units	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Gross Margin	%	31.40%	33.40%	33.60%	34.10%	34.60%	35.10%	35.60%
Net Margin	%	8.70%	8.70%	6.40%	7.60%	8.20%	8.70%	9.10%
Current Ratio	x	2.70	2.10	2.20	2.20	2.20	2.20	2.30
Debt to Equity	%	0.00%	37.40%	30.60%	27.60%	24.10%	20.40%	16.60%
CFO to Revenue	%	9.90%	10.30%	13.60%	9.50%	10.00%	10.60%	11.40%
P/E	x	35.56	30.77	46.44	28.86	22.29	17.80	14.74
EPS	Php/sh	0.45	0.52	0.34	0.55	0.72	0.90	1.09

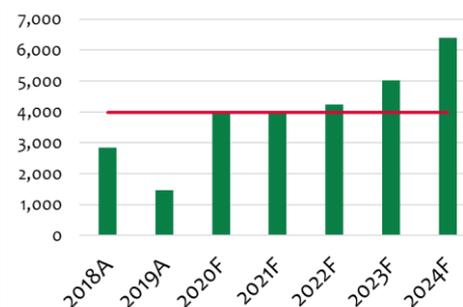
Robust balance sheet supportive of future expansion

We are optimistic that WLCON still has potential for further expansion after reaching their 100th store. WLCON has maintained a robust balance sheet since its IPO in 2017A. The IPO proceeds were used to pay off most of its outstanding debt and fund its initial 29 store expansion plan. As of 2019A, WLCON had a cash position of 1.4bn and 2.254bn worth of retail treasury bonds maturing in 2020F. This helps WLCON stay resilient against economy shocks such as the ongoing pandemic. Moreover, together with its ability to generate strong cash flow which can be seen in its CFO/Revenue ratio of 10.30% in 2019A, we are confident that WLCON would be able to sustainably execute its future expansion plans.

Increasing profitability to ensure quality returns

We expect WLCON to deliver a 5-year EPS CAGR of 15.9% 2019A-2024F due to 1.) product mix strategy that is expected to sustain its gross margin expansion 2.) its ability to deliver on its expansion plans with its robust balance sheet, and 3.) double digit revenue growth driven by said store expansions.

Figure 15: WLCON Cash Balance (2018A-2024F)



Source: Company Data, Team Estimates

Investment Risk

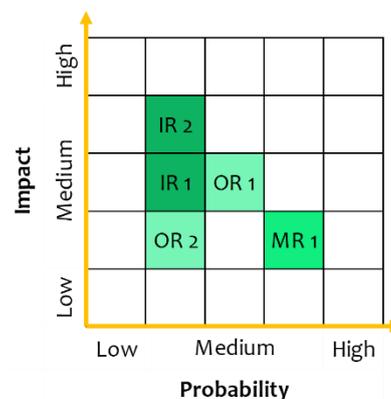
Industry Risk 1 (IR1) | Supply Chain Risk

WLCON sources 70% of its inventory from China. If the situation of the pandemic in the country does not ease soon, it could potentially disrupt the global supply chain including shipments of WLCON’s inventories from China. As a result, WLCON faces the risk of having supply disruptions for its products. However, we believe that the company can mitigate this risk by shifting to its local suppliers in the short run to keep up with the demand.

Industry Risk 2 (IR2) | Competition Risk

Local and international retail chain operators pose a threat of grabbing WLCON’s market share. The various competitors are positioned in different ways — as large and comprehensive stand-alone depots, as mall-based and smaller stores, or as specialized stores inside the depots and stores. Currently, WLCON’s biggest threat is from the entry of IKEA, an international big brand name from Sweden, into the Philippine market in 2021F. This will pose a threat to WLCON since this will be the largest IKEA store in the world — with a size of 65,000 sqm. Moreover, international home improvement brands, such as Ace Hardware, True Value, and Handyman Do it Best, and local brands, such as the SM Retail, Robinsons Retail Holdings, Inc. and All Home, also compete with WLCON. However, we believe WLCON is not heavily affected because the market is fragmented and competitors do not have the presence and scale of WLCON. Moreover, customer loyalty is expected as WLCON’s exclusive products contribute to more than half of its sales

Figure 16: Investment Risk Matrix



Source: Team Estimates

Market Risk 1 (MR1) | Slower Economic Activity Risk

The decrease in consumers’ disposable income and the slowdown of government infrastructure projects is likely to affect WLCON’s recovery as these will decrease the demand for WLCON’s products. However, we are positive that this risk can be mitigated with the government’s implementation of the ARISE bill which can result in an upward pressure on the demand of WLCON’s product.

Operations Risk 1 (OR1) | Slow Growth Risk

Much of WLCON’s growth prospects are dependent on its ability to expand its store network in key locations. With the pandemic, consumers are opting to shop online, thus eliminating the need to go to physical stores to buy WLCON’s products. Moreover, the pandemic also poses a threat to the original plan of opening 100 stores by 2025F. However, we are positive that WLCON’s physical stores can still bring in more revenue post-pandemic due to the nature of WLCON’s product which requires physical inspection, something customers are unable to do in online stores without a virtual shopping service.

Operations Risk 2 (OR2) | Store Network Risk

WLCON runs the risk of not diversifying its store network since most of its stores are located in Luzon. We note that quarantine protocols implemented in Luzon areas highly affected WLCON’s revenues as it makes up 85% of the company’s total revenue. However, we believe that WLCON is already mitigating this risk with their plan to establish more store networks in the Visayas and Mindanao regions.

Sensitivity and Scenario Analysis

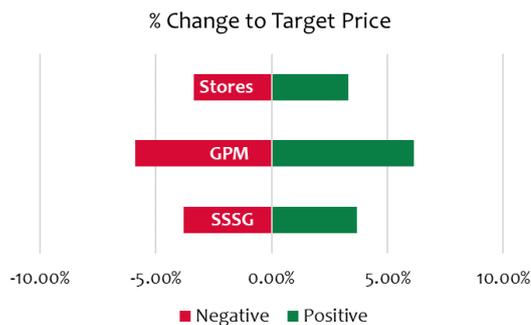
We identify a) gross profit margin, b) same store sales growth, and c) new store rollout as key variables to our forecasts. Our base case scenario shows the highest sensitivity to gross profit margin, but we believe in WLCON's ability to manage the gross margin as it has bargaining power over its suppliers. We summarize the results of our analysis below:

Table 8: Sensitivity Analysis of Key Assumptions

	Base Case	Positive Case	Negative Case
Long-run Same Store Sales Growth	3.00%	4.00%	2.00%
Long-run Gross Margin	36.10%	37.10%	35.10%
Annual New Store Rollout before 2025	8	9	7

Source: Team Estimates

Figure 17: Sensitivity Analysis of Key Assumptions



Source: Team Estimates

We also ran a sensitivity analysis to check a) the impact of changes to the Philippine corporate tax regime and b) the effect of changes to our WACC and terminal growth assumptions.

Tax reform sensitivity

We estimated the effect of the tax provisions on the price target of WLCON. Our sensitivity analysis shows that the price target increased by 8.75% with the new tax rate of 25.0%.

Table 9: Sensitivity Analysis of Changes in Tax Rate

	Tax Rate	Target Price	% Change
Current Regime	32.8%	19.54	-
CREATE	25.0%	21.01	8.75%

Source: Team Estimates

WACC and terminal growth rate scenario analysis

We note that an increase between 75 bps to 171bps to our WACC, presenting a target price with 7% upside to 7% downside, turns our recommendation into a HOLD and an increase of more than 171 bps, presenting 7% downside or more, turns it into a SELL.

Table 10: Target Price of Scenario Analysis

Terminal Growth Rate	Weighted Average Cost of Capital				
	9.40%	9.90%	10.40%	10.90%	11.40%
2.00%	20.92	19.27	17.83	16.56	15.43
2.50%	21.91	20.10	18.53	17.15	15.93
3.00%	23.06	21.05	19.32	17.81	16.50
3.50%	24.40	22.14	20.22	18.57	17.13
4.00%	25.99	23.42	21.27	19.44	17.86

Source: Team Estimates

Table 11: Change in Target Price of Scenario Analysis

Terminal Growth Rate	Weighted Average Cost of Capital				
	9.40%	9.90%	10.40%	10.90%	11.40%
2.00%	8.28%	-0.26%	-7.71%	-14.29%	-20.13%
2.50%	13.41%	4.04%	-4.09%	-11.23%	-17.55%
3.00%	19.36%	8.95%	0.00%	-7.82%	-14.60%
3.50%	26.29%	14.60%	4.66%	-3.88%	-11.34%
4.00%	34.52%	21.22%	10.09%	0.62%	-7.56%

Source: Team Estimates

Corporate Governance

Corporate governance and social responsibility

WLCON ensures compliance with its Revised Manual on Corporate Governance and practices social responsibility. WLCON continues to support its long-time partner, Green Architecture Advocacy Philippines (Green AP) with the idea of "Sustainability for All: A Decade and Beyond".

Board independence and diversity

WLCON has taken steps to move towards board independence. Currently, WLCON's board of directors consists of seven members. Four out of seven members are non-executive, and all four members are also independent directors. We note that WLCON is compliant with the stipulated qualifications in the SEC Corporation Code for corporate succession. This is seen in WLCON's commitment to the principle of, "all board appointments being based on merit, in the context of skills, experience, independence and knowledge, and candidates will be considered against objective criteria"

Related party transactions kept at an arm's length basis

WLCON has a related party transactions (RPT) committee that is primarily tasked with the reviewing of all material related party transactions. We also note that WLCON adopted a Policy on Material Related Party Transactions in compliance with SEC Memorandum Circular No. 10 series of 2019 on the stipulated rules regarding material related party transactions for publicly listed companies.

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Glossary of Terms

Abbreviation	Full Term
WC	Wilcon Corporation
WLCON	Wilcon Depot, Inc.
BSP	Bangko Sentral ng Pilipinas
CAGR	Compounded Annual Growth Rate
Capex	Capital Expenditures
CIT	Corporate Income Tax
CREATE	Corporate Recovery and Tax Incentives for Enterprises
CTRP	Comprehensive Tax Reform Program
D/E	Debt to Equity Ratio
DCF	Discounted Cash Flow
ECQ	Enhanced Community Quarantine
EPS	Earnings per Share
GDP	Gross Domestic Product
GPM	Gross Profit Margin
HICS	Home Improvement and Construction Supplies
NCR	National Capital Region
P/E	Price-to-Earnings Ratio
RPT	Related Party Transactions
SEC	Securities and Exchange Commission
SSSG	Same Stores Sales Growth
TP	Target Price
TRAIN	Tax Reform for Acceleration and Inclusion
WACC	Weighted Average Cost of Capital
YoY	Year-on-Year

Appendix A: Financials

Appendix A-1: Income Statement

	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Net Sales	21,041	24,476	22,017	29,924	36,072	42,462	48,639
Cost of Goods Sold	14,438	16,300	14,619	19,726	23,604	27,574	31,341
Gross Profit	6,603	8,176	7,398	10,198	12,469	14,887	17,298
Operating expenses	4,256	4,262	4,056	5,334	6,413	7,538	8,635
EBITDA	2,347	3,913	3,343	4,864	6,056	7,349	8,662
Depreciation and amortization	165	1,133	1,212	1,412	1,614	1,819	2,027
Operating Profit	2,183	2,780	2,131	3,452	4,442	5,530	6,635
Interest Expense	2	300	188	189	185	178	166
Other income (expense), net	359	463	158	117	120	130	149
Income before Tax	2,540	2,943	2,101	3,380	4,377	5,482	6,619
Provision for income taxes	726	964	689	1,108	1,434	1,796	2,169
Deferred tax benefit (expense)	-22	-146	-	-	-	-	-
Net Income	1,835	2,125	1,413	2,273	2,943	3,686	4,450

Source: Company Data, Team Estimates

Appendix A-2: Common Size Income Statement

	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Net Sales	100%	100%	100%	100%	100%	100%	100%
Cost of Goods Sold	69%	67%	66%	66%	65%	65%	64%
Gross Profit	31%	33%	34%	34%	35%	35%	36%
Operating expenses	20%	17%	18%	18%	18%	18%	18%
EBITDA	11%	16%	15%	16%	17%	17%	18%
Depreciation and amortization	1%	5%	6%	5%	4%	4%	4%
Operating Profit	10%	11%	10%	12%	12%	13%	14%
Interest Expense	0%	1%	1%	1%	1%	0%	0%
Other income (expense), net	2%	2%	1%	0%	0%	0%	0%
Income before Tax	12%	12%	10%	11%	12%	13%	14%
Provision for income taxes	3%	4%	3%	4%	4%	4%	4%
Deferred tax benefit (expense)	0%	-1%	0%	0%	0%	0%	0%
Net Income	9%	9%	6%	8%	8%	9%	9%

Source: Company Data, Team Estimates

Appendix A-3: Balance Sheet

	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Assets							
Cash and cash equivalents	2,842	1,462	4,005	3,978	4,232	5,019	6,407
Short-term investments	-	616	-	-	-	-	-
Investments in retail treasury bonds	-	2,254	-	-	-	-	-
Trade and other receivables	307	440	410	456	550	648	742
Merchandise inventories	7,331	9,518	8,851	10,214	12,222	14,278	16,229
Other current assets	644	733	733	733	733	733	733
Current assets	11,123	15,022	14,000	15,381	17,737	20,677	24,111
Financial assets	2,907	-	-	-	-	-	-
Property, plant and equipment - net	2,767	4,981	5,714	6,771	7,779	8,739	9,648
ROU assets - net	-	5,260	5,073	4,990	4,803	4,510	4,113
Net deferred tax assets	138	334	334	334	334	334	334
Other noncurrent assets	567	639	654	664	671	674	674
Noncurrent assets	6,379	11,215	11,774	12,759	13,587	14,258	14,769
Total Assets	17,502	26,237	25,774	28,140	31,325	34,935	38,879
Liabilities							
Trade and other payables	4,001	5,530	5,207	5,783	6,919	8,083	9,188
Income tax payables	170	283	283	283	283	283	283
Current portion of term debt / lease liabilities	-	1,423	818	923	1,028	1,133	1,238
Current liabilities	4,171	7,236	6,308	6,989	8,230	9,499	10,708
Long-term debt / Non current portion of lease liabilities	0	4,063	3,876	3,793	3,606	3,313	2,916
Net retirement liabilities	118	276	276	276	276	276	276
Noncurrent liabilities	118	4,339	4,152	4,069	3,882	3,589	3,191
Total Liabilities	4,290	11,576	10,459	11,058	12,112	13,088	13,900

	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Equity							
Capital stock	4,100	4,100	4,100	4,100	4,100	4,100	4,100
Additional paid-in capital	5,374	5,374	5,374	5,374	5,374	5,374	5,374
Retained earnings	3,656	5,125	5,778	7,546	9,676	12,310	15,443
Other comprehensive income (loss)	83	63	63	63	63	63	63
Total Equity	13,212	14,662	15,315	17,083	19,213	21,847	24,979

Total Liabilities and Equity	17,502	26,237	25,774	28,140	31,325	34,935	38,879
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Source: Company Data, Team Estimates

Appendix A-4: Common Size Balance Sheet

	2018A	2019A	2020F	2021F	2022F	2023F	2024F
Assets							
Cash and cash equivalents	16.2%	5.6%	15.5%	14.1%	13.5%	14.4%	16.5%
Short-term investments	0.0%	2.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Investments in retail treasury bonds	0.0%	8.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Trade and other receivables	1.8%	1.7%	1.6%	1.6%	1.8%	1.9%	1.9%
Merchandise inventories	41.9%	36.3%	34.3%	36.3%	39.0%	40.9%	41.7%
Other current assets	3.7%	2.8%	2.8%	2.6%	2.3%	2.1%	1.9%
Current assets	63.6%	57.3%	54.3%	54.7%	56.6%	59.2%	62.0%
Financial assets	16.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property, plant and equipment - net	15.8%	19.0%	22.2%	24.1%	24.8%	25.0%	24.8%
ROU assets - net	0.0%	20.0%	19.7%	17.7%	15.3%	12.9%	10.6%
Net deferred tax assets	0.8%	1.3%	1.3%	1.2%	1.1%	1.0%	0.9%
Other noncurrent assets	3.2%	2.4%	2.5%	2.4%	2.1%	1.9%	1.7%
Noncurrent assets	36.4%	42.7%	45.7%	45.3%	43.4%	40.8%	38.0%
Total Assets	100.0%						

Liabilities							
Trade and other payables	22.9%	21.1%	20.2%	20.5%	22.1%	23.1%	23.6%
Income tax payables	1.0%	1.1%	1.1%	1.0%	0.9%	0.8%	0.7%
Current portion of term debt / lease liabilities	0.0%	5.4%	3.2%	3.3%	3.3%	3.2%	3.2%
Current liabilities	23.8%	27.6%	24.5%	24.8%	26.3%	27.2%	27.5%
Long-term debt / Non current portion of lease liabilities	0.0%	15.5%	15.0%	13.5%	11.5%	9.5%	7.5%
Net retirement liabilities	0.7%	1.1%	1.1%	1.0%	0.9%	0.8%	0.7%
Noncurrent liabilities	0.7%	16.5%	16.1%	14.5%	12.4%	10.3%	8.2%
Total Liabilities	24.5%	44.1%	40.6%	39.3%	38.7%	37.5%	35.8%

Equity							
Capital stock	23.4%	15.6%	15.9%	14.6%	13.1%	11.7%	10.5%
Additional paid-in capital	30.7%	20.5%	20.8%	19.1%	17.2%	15.4%	13.8%
Retained earnings	20.9%	19.5%	22.4%	26.8%	30.9%	35.2%	39.7%
Other comprehensive income (loss)	0.5%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Total Equity	75.5%	55.9%	59.4%	60.7%	61.3%	62.5%	64.2%

Total Liabilities and Equity	100.0%						
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Source: Company Data, Team Estimates

Appendix A-5: Cash Flow Statement

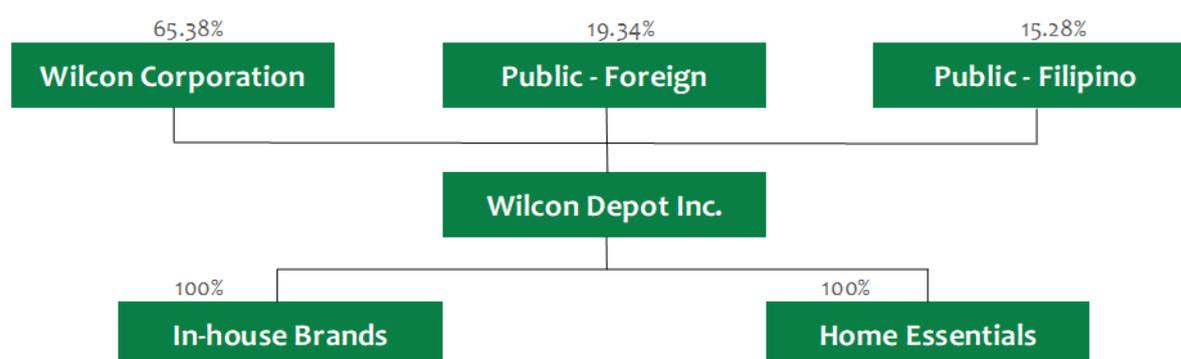
	2018A	2019A	2020F	2021F	2022F	2023F	2024F
CASH GENERATED BY OPERATING ACTIVITIES							
Income before income tax	2,540	2,943	2,101	3,380	4,377	5,482	6,619
Adjustments for:							
Depreciation and amortization	165	1,133	1,212	1,412	1,614	1,819	2,027
Interest expense	2	300	-	-	-	-	-
Interest income	- 195	- 151	-	-	-	-	-
Provision for inventory write-down and losses	-	- 33	-	-	-	-	-
Retirement benefits	24	23	-	-	-	-	-
Provision for expected credit losses on receivables	26	12	-	-	-	-	-
Gain on sale on investment in retail treasury bond	-	- 2	-	-	-	-	-
Direct write-off of receivables	0	-	-	-	-	-	-
Offer expense	-	-	-	-	-	-	-
Operating income before working capital changes	2,562	4,225	3,313	4,792	5,991	7,301	8,645
Changes in operating assets and liabilities:							
Merchandise inventories	- 363	- 2,153	666	- 1,363	- 2,008	- 2,056	- 1,950
Other current assets	- 86	- 202	-	-	-	-	-
Trade and other receivables	- 31	- 151	30	- 46	- 94	- 97	- 94
Other noncurrent assets	106	- 41	-	-	-	-	-
Trade and other payables	510	1,677	- 323	576	1,137	1,164	1,104
Net cash generated from operations	2,698	3,355	3,685	3,959	5,026	6,312	7,705
Income tax paid	- 582	- 803	- 689	- 1,108	- 1,434	- 1,796	- 2,169
Contributions to retirement plan	- 38	- 32	-	-	-	-	-
Retirement benefits paid	- 2	- 2	-	-	-	-	-
Interest received from cash in bank	1	1	-	-	-	-	-
Cash Flow from Operations	2,079	2,520	2,997	2,851	3,592	4,515	5,536
CASH GENERATED BY (USED IN) INVESTING ACTIVITIES							
Additions to:							
Property and equipment	- 2,066	- 2,618	- 1,111	- 1,526	- 1,572	- 1,619	- 1,668
Computer software	- 32	- 30	- 30	- 30	- 30	- 30	- 30
Investment in retail treasury bonds	-	-	-	-	-	-	-
Net proceeds from sale of investment in retail treasury bonds	-	752	2,254	-	-	-	-
Adjustments in:							
Short-term investments	601	- 616	616	-	-	-	-
Advances to contractors	- 100	- 63	-	-	-	-	-
Interest received from investments	200	157	-	-	-	-	-
Cash Flow from Investing	- 1,396	- 2,420	1,728	- 1,556	- 1,602	- 1,649	- 1,698

	2018A	2019A	2020F	2021F	2022F	2023F	2024F
CASH USED IN FINANCING ACTIVITIES							
Net payments of:							
Lease liabilities	-	824	- 1,423	- 818	- 923	- 1,028	- 1,133
Cash dividends	- 451	- 656	- 759	- 505	- 812	- 1,052	- 1,317
Interest on long-term debt	- 3	- 0	-	-	-	-	-
Long-term debt	- 403	-	-	-	-	-	-
Short-term debt	-	-	-	-	-	-	-
Proceeds from:							
Issuance of capital stock	-	-	-	-	-	-	-
Availments of long-term borrowings	-	-	-	-	-	-	-
Cash Flow from Financing	- 857	- 1,480	- 2,182	- 1,322	- 1,735	- 2,079	- 2,450
Cash and cash equivalents, beginning	3,017	2,842	1,462	4,005	3,978	4,232	5,019
Increase (decrease) in cash and cash equivalents	- 175	- 1,380	2,543	- 28	255	787	1,389
Restricted cash	-	-	-	-	-	-	-
Cash and cash equivalents, ending	2,842	1,462	4,005	3,978	4,232	5,019	6,407

Source: Company Data, Team Estimates

Appendix B: Company Description

Appendix B-1: Corporate Structure



Source: Company Information

Appendix B-2: Segment Description

Home Improvement and Construction supplies

As the Philippines' leading HICS retailer, WLCON's products cater to home construction, renovation, repair and maintenance to home improvement, furnishing and design. These products consist of local and international brands of tiles, sanitary wares and plumbing, hardware and tools, and other DIY items such as electrical and lighting, paints and building materials, doors and moldings, and also household items such as furniture and home interiors, appliances and housewares, among others.

Segment	Description	% of Revenues (2019A)
In-house brands	WLCON's in-house segment consists of products that are wholly owned by WLCON.	
Exclusives	WLCON's exclusives segment consists of brands such as: Kohler sanitarywares, Grohe, Pozzi bathroom solutions, and HEIM among others. that WLCON has exclusive distribution rights to.	49.50%
Other Products	This segment refers to local and international brands under the HICS industry that are available to other HICS retailers.	50.50%

Source: Company Information

Appendix B-3: Store Branches



Source: Company Information (as of 2019A)

Appendix B-4: Awards and Accreditation

Awarding Body	Year	Award/Recognition
FAPRA	2019	Excellence in Customer Service
ASEAN-Business Advisory Council	2018	Priority Integration Sector in Retail
Philippine Retailers Association	2017	Patriarch of Home Building Retail Outstanding Specialty Retailer

Source: Company Information

Appendix C: Industry and Competitive Positioning

Appendix C-1: Porter's Five Forces Analysis

Porter's Forces	Threat	Reason
Bargaining power of Buyers	Moderate	The customers have generally no influence over the prices of WLCON's products. As of 2019, WLCON has 730,548 registered members of its loyalty card program launched in 2011. Additionally, no single customer contributes a significant share of WLCON's annual revenues. Therefore, there is no pressure to lower the prices of its products as it has a big and diversified customer base.
Bargaining power of Suppliers	Low	WLCON's 425 local and international suppliers enables it to provide its customers with a wide array of local and international brands. Its major suppliers include Mariwasa Siam Ceramics, Inc., Hocheng Philippines Corp., and Lixil Philippines Ltd. Because of the large number of suppliers, WLCON is not heavily influenced by the price changes of any one supplier. Moreover, suppliers of WLCON's in-house and exclusive products are constrained to supply to WLCON alone; thus it cannot significantly increase prices without dramatically decreasing demand.
Threat of New Entrants	Moderate	Since its inception 43 years ago, WLCON has continued to expand nationwide. Hence, new entrants will have a difficulty competing with WLCON's brand presence. Furthermore, the HICS market is capital intensive and highly risky. While these factors may discourage domestic entrants, well-established foreign companies still pose a threat. Currently, IKEA, a foreign home furnishing retailer, is WLCON's biggest threat. However, we note that WLCON's well-earned reputation would be an edge over IKEA and other foreign entrants. We further note that the products offered by the two companies are generally differentiated thus catering to separate needs.
Threat of Substitute	Low to Moderate	WLCON offers a wide selection of quality, value-priced in-house brands, and renowned international and local brands and is only continuing to expand its brand portfolio, giving it an advantage over its competitors. We also note that in 2019, these products accounted for 49.5% of total net sales. These exclusive and high-quality products make it difficult for customers to find a substitute product. However, WLCON still needs to be wary since customers can opt to switch to other brands from other retailers should prices increase significantly.
Rivalry of Existing Competitors	Moderate to High	Existing competitors, such as All Home, have started to aggressively expand its physical presence with its 20 new store rollouts in 2019A. Moreover, other local and international companies, such as Ace Hardware and SM Retail, have also started to become more aggressive and competitive in this market segment. Furthermore, the company encounters significant competition in key provincial cities outside Metro Manila especially those areas already dominated by independent local operations. However, we note that WLCON's product portfolio and competitive prices gives it an advantage over its competitors.

Source: Team Analysis

Appendix C-2: SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> Market leader in a high-growth industry Profitability built on key brand portfolios Loyal consumer base 	<ul style="list-style-type: none"> High sensitivity to gross profit margin changes
Opportunities	Threats
<ul style="list-style-type: none"> Expansion into E-commerce Room for growth in Vis-Min Government elimination of housing backlog 	<ul style="list-style-type: none"> Local and foreign competition risk Online retail competition risk Slower store rollouts Local and Foreign supply risk

Source: Team Analysis

Appendix C-3: Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The Corporate Recovery and Tax Incentives for Enterprises Act aims to bring the country's corporate income tax rate closer to that of our peers in ASEAN. By doing so, the government estimates 42B pesos of tax savings for 2020 that may be used towards boosting the efforts of enterprises to protect jobs and recover from the global pandemic. We also note that CREATE aims to bring corporate income tax down to 20%, lower than the average ASEAN CIT rate of 23%, by 2027. We expect this act to lead to growth in different industries that would lead to an expansion of the real estate industry and the HICS segment.

Provision	CITIRA	CREATE (Revised CITIRA)
	Tax Benefit for Business Enterprises	
Accelerated CIT rate reduction	1 ppt per year: 29% – 2020; 28% – 2021; 27% – 2022; 26% – 2023; 25% – 2024; 24% – 2025; 23% – 2026; 22% – 2027; 21% – 2028; 20% – 2029 onwards	Outright drop to 25% until 2022; followed by a 1 ppt reduction yearly until 2027: 25% – July 1, 2020 25% – 2021 25% – 2022 24% – 2023 23% – 2024 22% – 2025 21% – 2026 20% – 2027 onwards

Source: Department of Finance

Appendix D: Valuation

Appendix D-1: DCF Valuation

	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Cash Flow from Operations	2,851	3,592	4,515	5,536	6,566	7,427	8,083	9,012	9,776	10,571	11,405
Add: After-tax Interest Expens	127	125	120	112	101	79	150	149	150	149	146
Less: Capital expenditures	(1,556)	(1,602)	(1,649)	(1,698)	(1,748)	(1,136)	(1,169)	(1,203)	(1,239)	(1,275)	(1,312)
Free Cash Flow to Firm	1,422	2,114	2,985	3,950	4,919	6,370	7,063	7,958	8,688	9,445	10,239
Year	1	2	3	4	5	6	7	8	9	10	11
Discount factor	0.91	0.82	0.74	0.67	0.61	0.55	0.50	0.45	0.41	0.37	0.34
Present value of free cash flows	1,288	1,734	2,218	2,658	2,998	3,516	3,531	3,603	3,563	3,508	3,444

Source: Team Estimates

Valuation Breakdown

	Value	Value/Shr	% of Value
PV of FCFE	32,061	7.82	40.5%
Terminal Value	47,869	11.68	60.4%
Enterprise Value	79,930	19.50	100.9%
Less: Net Debt	- 738	- 0.18	-0.9%
Equity Value	79,191	19.32	100.0%

Source: Team Estimates

Appendix D-2: Relative Valuation Peer Table

Ticker	Company	P/E (x)		P/Sales (x)		EPS G (%)		ROE (%)	
		2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
HOME PM Equity	ALLHOME CORP	20.78	12.89	1.77	1.25	-21.28	61.24	6.40	10.40
RRHI PM Equity	ROBINSONS RETAIL HOLDINGS IN	23.37	19.43	0.54	0.50	0.36	20.25	5.19	5.99
GLOBAL TB Equity	SIAM GLOBAL HOUSE PCL	43.23	35.61	3.17	2.77	-3.71	21.40	12.15	13.47
HMPRO TB Equity	HOME PRODUCT CENTER PCL	39.05	32.44	3.42	3.16	-14.47	20.40	24.49	27.86
ACES IJ Equity	ACE HARDWARE INDONESIA	33.01	25.82	3.63	3.14	-16.64	27.85	17.38	19.74
Peer Average		25.24		2.16		30.23		15.49	
Peer Median		25.82		2.77		21.40		15.49	

Source: Bloomberg

Appendix E: Scenario and Sensitivity Analysis

Appendix E-1: Scenario Analysis

Sensitivity Analysis Assumptions

	Base Case	Positive Case	Negative Case
Long-run Same Store Sales Growth	3.00%	4.00%	2.00%
Long-run Gross Margin	36.10%	37.10%	35.10%
Annual New Store Rollout before 2025	8	9	7

Annual EPS of Sensitivity Analysis

	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Positive Case												
SSSG	0.34	0.55	0.72	0.90	1.09	1.31	1.51	1.75	1.91	2.10	2.31	2.53
GPM	0.34	0.55	0.72	0.90	1.09	1.29	1.47	1.68	1.82	1.98	2.15	2.33
Stores	0.34	0.55	0.72	0.91	1.11	1.34	1.53	1.76	1.90	2.06	2.24	2.42
Negative Case												
SSSG	0.34	0.55	0.72	0.90	1.09	1.28	1.43	1.62	1.73	1.85	1.99	2.13
GPM	0.34	0.55	0.72	0.90	1.09	1.29	1.47	1.68	1.82	1.98	2.15	2.33
Stores	0.34	0.55	0.72	0.88	1.06	1.25	1.41	1.61	1.74	1.90	2.06	2.24

Source: Team Estimates

Appendix F: Corporate Governance

Appendix F-1: Board of Directors

Name	Years of Affiliation	Position	Affiliations
Bertram B. Lim	4	Independent Director, Chairman	<ul style="list-style-type: none"> Chairman of United Neon Advertising, Inc. Chairman of the Center for Community Transformation Board Treasurer of the Trinity University/St Luke's Health Sciences Consortium
Lorraine Belo - Cincochan	21	Director, President and CEO	<ul style="list-style-type: none"> President, CEO, Director of Wilcon Corp. Non-Executive Director of Anstay Realty & Development Corp.
Mark Andrew Y. Belo	17	Director, Treasurer	<ul style="list-style-type: none"> CFO, Treasurer of Wilcon Corp. Non-Executive Director of Anstay Realty & Development Corp.
Caren Y. Belo	17	Director, Chief Product Officer	<ul style="list-style-type: none"> Director of Wilcon Corp. Non-Executive Director of Anstay Realty & Development Corp. Executive VP-Sales & Product Development of Coral-Agri Venture Farm, Inc.

Ricardo S. Pascua	5	Independent Director	<ul style="list-style-type: none"> • Independent Director of Boulevard Holdings, Inc. • Chairman of Caelum Developers, Inc. • Chairman of Readyfoods Manufacturing Corp. • Chairman of Biometrix Technology Philippines Corp. • Chairman of Facilities & Property Management Technologies, Inc. • Chairman and President of Happy Communications, Inc. • Chairman of E-Cuisine Restaurant Concepts, Inc. • Chairman of Ascencion Phildevelopers, Inc. • President of Bancom II Consultants, Inc. • Director of Costa de Madera Corp. • Director of JP Latex Technology, Inc. • Director of Friday's Puerto Galera, Inc. • Director of Central Luzon Doctors' Hospital, Inc. • Director of Latex Holdings, Inc. • Director of Quicksilver Satcom Ventures, Inc.
Rolando S. Narciso	5	Independent Director	<ul style="list-style-type: none"> • Member of The Management Association of the Philippines • Member of Financial Executives Institute of the Philippines
Delfin “Jing” L. Warren	4	Independent Director	<ul style="list-style-type: none"> • Director of Bancom II Consultants, Inc. • Chairman of Buggy’s Sports Bar and Bistro • Chairman of One Incentive Systems Advocates, Inc. • Chairman of Warren & Nolasco Realty

Source: Company Information

Appendix F-2: Senior Management

Name	Years of Affiliation	Position	Affiliations
William T. Belo	44	Founder, Chairman Emeritus	<ul style="list-style-type: none"> • President of Coral-Agri Venture Farms, Inc. • President of Waj Realty Development, Inc. • Chairman of Wilcon Builders Foundation, Inc. • Chairman of Wilcon Corp. • Director of Designo Atelier, Inc. • Non-Executive Director of Anstay Realty & Development Corp. • Director of Lomarkeen Realty, Inc. • Treasurer of Crocodylus Porosus Philippines, Inc.

Rosemarie Bosch-Ong	44	Senior Executive Vice President, Chief Operating Officer	<ul style="list-style-type: none"> • President of Wilcon Builders Foundation, Inc. • Director of Philippine Retailers Association • Director of Philippine Constructors Association
Atty. Sheila P. Pasicolan-Camerino	5	Assistant Vice President - Corporate Lawyer, Assistant Corporate Secretary	-
Grace A. Tiong	25	VP for Human Resources, Compliance Officer	-
Eden M. Godino	14	VP for Product Development	-
Michael D. Tiong	10	VP for Global Sourcing	-
Mary Jean G. Alger	2	VP for Investor Relations	<ul style="list-style-type: none"> • Assistant VP for Budget and Cost Control of Benguet Corp. • Assistant VP of Bancpros, Inc.
Atty. Arthur R. Ponsaran	-	Corporate Secretary	<ul style="list-style-type: none"> • Secretary & Chief Information Officer of Waterfront Philippines, Inc. • Director of Philippine Estates Corporation • Director of Acesite Hotel Corporation • Non-Executive Director of Forum Pacific, Inc. • Secretary of Chemrez Technologies, Inc. • Director of Iloilo City Development Bank • Secretary of Producers Rural Banking Corp. • Secretary of Wellex Group, Inc. • Secretary & Director of MRL Nickel Philippines, Inc. • Director of Cebuana Lhuillier Bank • Director of New Kanlaon Construction, Inc. • Director of Philsteel Holdings Corp. • Director of Davao Insular Hotel, Inc.

Source: Company Information

Appendix F-3: Corporate Governance Scoreboard

To evaluate the company's quality of corporate governance, each committee of the board is evaluated on a scale of 1 to 4 based on the roles that they have to fulfill and criteria corresponding to these roles as enumerated in CFA Institute Corporate Governance Manual for Investors. The following table summarizes the analysis:

Legend:

- 1 - The company did not follow the criteria at all,
- 2 - The company did not follow the criteria,
- 3 - The company followed the criteria,
- 4 - The company has excellent policies on this criterion.

Criteria	Description	Rating	Company Policies
Executive Committee			
Independence	Board members must be predominantly independent to lessen the likelihood of biased decision-making by management.	4	Majority of the board are independent and non-executive. (4 out of 7)
Accountability	Governance practices should reflect a board that is answerable to its owners.	4	The board has a charter that clearly defines its accountabilities in carrying out its role.
Responsiveness	Directors must be responsive to the wishes of its shareholders as expressed through elections or votes on shareholder proposals and respond accordingly.	4	It is indicated in the Corporate Governance Manual that shareholders are granted voting rights, pre-emptive rights, rights of inspection, and appraisal rights.
Competence	Directors must be competent and have the necessary qualifications to effectively lead the business through their respective roles.	4	The directors have various experiences in different fields and industries.
Elections	Annually elected directors	4	WLCON's directors are elected annually during the annual stockholders meeting.
Board Attendance	Adequate attendance at board and committee meetings.	3	Only 3 out of 7 directors had perfect attendance in the 23 meetings in 2019. The highest number of absences of a board member is 4.
Directorship	Reasonable number of board directorships.	4	The board is composed of 7 members which meets the Corporation Code.
Directorship	Directors should ideally have served individually on the board for less than 10 years in order to prevent instances in which they fail to act independently.	3	WLCON is a family-owned business and members of the family have retained in positions over 10 years. However, the highest number of years as an independent director as of 2019 is 3 years.

Directorship	Board members must not serve on an excessive number of boards for other companies in order to give adequate focus on each board.	2	Most of the board are affiliated to other companies' boards that ranges from 2 to 4 and one exceeding 10.
Related Party Transactions	Absence of material related party transactions.	3	The board ensures a group-wide policy and system governing related party transactions and other infrequently occurring transactions.
Board Members	Board of at least 5 but no more than 15 members.	4	The board is composed of 7 members.
Independent Members	Board must have greater of: 2 independent directors or 20% independent members of the board.	4	The board has 4 out of 7 independent members, which accounts to 57% of the board.
Independent Members Role Delegation	Role of CEO and chair should be separate	4	The CEO is Lorraine Belo-Cincochan, and the Chair is William Belo.
Committee	Established Executive, Audit, Compensation, Nominating, and Compliance Committee	4	The board has established an executive committee, audit committee, nomination committee, and compliance committee.
Average Score		3.64	

Audit Committee

Independent Audit	Auditor should provide an impartial and professional opinion. Independence is compromised when the auditor receives significant payments for non-audit work.	4	Members of the audit committee must have adequate understanding and competence in the financial management system of the company and in the field of accounting, audit, and finance.
Independent Audit	Board's Audit Committee should be Independent in order not to compromise the credibility of the company's financial statements.	4	The Audit Committee is composed of 3 independent directors. The chairman of the Audit Committee is also independent.
Integrity of Financials	Company's financials should have integrity. (Items that raise concerns include changes in auditors, irregularities over many years, material weaknesses in the company's controls, certain restatements, and excessive fees paid for non-audit work)	4	The external auditor of WLCON is Reyes Tacandong Co., which is known for its due diligence in the field. The auditor committee is then tasked to oversee, review, and monitor the audit.
Selection of Auditor	Company should allow shareholders to ratify the selection of the external auditor	4	Shareholders are given the rights to ratify the appointment of auditor.
Average Score		4	

Renumeration and Compensation Committee			
Performance Metrics	Remuneration policies should encourage executives to make decisions that benefit shareholders.	4	The board aligns the remuneration of the officers and board members to its long-term interests of the company.
Performance Metrics	Performance Metrics should be regularly communicated to shareholders	3	The board, independent members, and committees are subject to annual self-assessment to be disclosed through the annual report or a separate report.
Performance Metrics	Shareholders should have an advisory vote on executive compensation	3	Compensations should be approved by stockholders or provided in the by-laws. The board may also approve from time to time a per diem that a director may receive.
Performance Metrics	Executive remuneration in the form of equity should not be excessive.	4	Compensation Committees are tasked to ensure the compensation policies and practices are consistent.
Average Score		3.5	
Protection of Shareholder Rights			
Election	One share, one vote policy	4	WLCON's shareholders have one vote per share.
Shareholder Rights	Right to dividend	4	WLCON adheres to its Dividend Policy.
Shareholder Rights	Absence of supermajority vote requirements	4	The board ensures to treat all shareholders fairly and equitably. All shareholders are to be recognized, protected, and have the power to exercise their rights.
Shareholder Rights	Right of shareholders to call special meetings	4	Minority shareholders are granted the rights to call for a special meeting and add to the agenda.
Shareholder Rights	Information	4	The company ensures full, fair, accurate, and timely disclosures to the public.
Shareholder Rights	Appraisal rights	4	Shareholders are granted appraisal rights.
Average Score		4	
	Overall Score	3.79	

Source: Team Estimates

Appendix F-4: Corporate Social Responsibility and Sustainability

WLCON's CSR practices aim to promote stronger, safer, more sustainable homes and buildings as everyone improve their lives with WLCON's long-lasting quality products and solutions. As WLCON expands, the company manages their resources responsibly, while creating value for everyone and sharing its growth to its stakeholders. With its growth, WLCON has also cultivated the development and success of its employees. WLCON focuses on 3 major aspects, namely its economic, environmental, and social & governance responsibilities.

Economy

Preferred HICS for its stakeholders

By being attentive and responsive to the customer's evolving needs, WLCON has revolutionized the HICS industry in the Philippines that enhances customer experience. WLCON has been offering innovative solutions, having strong and exclusive line-up of quality, value-priced in-house products and renowned international and local brands as well.

Working with sustainable partners

WLCON is built by its capacity to source products both in-house products and exclusive products and other brands. WLCON has a sustainable procurement program, which is used for materiality assessment. WLCON promotes suppliers that offer more eco-friendly solution products to customer and even train salespeople to deliver HICS solutions that offer more environmental benefits.

Committing to responsible business

WLCON promotes accountability and transparency, protecting the shareholder value with its corporate governance. At the same time, WLCON has a Code of Business Conduct and Ethics that guides its members, which also constitutes the Anti-Bribery and Anti-Corruption Policy to protect its stakeholders. The company also has Related Party Transactions Charter and Committee to protect against conflicts of interest and misappropriation of resources for the long-term interests of the company.

Environment

Shaping the market towards green solutions

WLCON has been expanding its line of green products, which includes low flush dual flush water-saving fixtures, lower consumption more light longer life energy-efficient lighting, clean-air products, circular economy which includes the use of recyclable materials and renewable sources. They have also participated in events that promote sustainable solutions like the Green Architecture Advocacy Philippines' 16th Green Forum, Philippine School for Interior Design's HUGIS ATBP, and Philippine Institute of Interior Designers' Asia Interior Design Institute Association International School Workshop.

Working on waste

WLCON generates minimal waste in their stores. WLCON also partnered with their local government units for the proper sorting of solid waste materials and with facilities for hazardous waste like light bulbs and oils. WLCON also has a take-back program with some suppliers in order to recycle or repurpose inventory that are damaged or do not meet the standards of the company.

Greening our branches

WLCON has started to use solar power solutions in 2016 in order to reduce energy consumption and lessen its carbon footprint. WLCON also uses high-volume low-speed fans in their stores to minimize the use of air-conditioning. WLCON also maximizes the use of natural light in its stores and uses battery powered equipment.

Social Data

Management Approach

WLCON has a compensation and benefit program and Work Life Program, which aims to foster the advancement, productivity, fair treatment, physical and mental health safety, and the well-being of its employees. WLCON also provides allowances, subsidies, insurance, and incentives to ensure its duty of care and dignity of its people. One of WLCON's goals is to empower to its people by providing them a medium for daily communication and even a whistleblower policy and grievance mechanism for labor unions.

Prioritizing health and safety

WLCON has a health and safety governance structure, composed of occupational health and safety officers and pollution officers, which ensures the safety and maintenance of product displays, equipment, and stocks, use of caution ropes and signages for warning zones, procedures for emergencies. the use of protective equipment, and review of safety policies for contractors. WLCON's occupational health and safety manual is based on DOLE's requirement. WLCON also provides compressed workweeks with flexible working hours.

Learning continuous improvement

Structured training programs on different aspects are given to employees to provide them more opportunity to lead and excel. This includes on-the-job learning, formal training sessions, 23 technical training modules that can be accessed anytime by the employees. WLCON does not have contractual labor, but the company has outsourced manpower on a per-need basis and promo-merchandisers from independent contractors. They also have access to training activities, that would enable them to grow and upgrade their skills in Wilcon.

Award-winning Customer Service

WLCON was recognized by Federation of Asia-Pacific Retailers Association with the International Award for Excellence in Customer Service in 2019. WLCON's Customer Relationship Management program aims to bring innovative products to different markets using market strategies developed by in-house marketing team. WLCON focuses on innovation, customer satisfaction, and service excellence to meet the evolving needs of its customers.

WLCON also has an online store and a Wilcon Loyalty Mobile App for the convenience and benefit of its customers. WLCON also offers a Design Hub, which allows customers to create 3D layouts of their desired interiors. WLCON also launched its ABCDE Lounge where Architects, Builders, Contractors, Designers, and Engineers can meet with their clients and other professionals. WLCON has been recognized for its outstanding achievements in retail for "most innovative retail concept, best marketing campaign, green retailer, best effort in retail employee training, and customer service excellence."

Community

Improving local communities

WLCON has been extending financial assistance to Eastern Regional Organization: for Planning and Human Settlement. This is to encourage them for better planning, development, and management in order to further improve quality of life and sustainability of human settlements. WLCON also donated cash, equipment, and products to several institutions like the I-Love Foundation, Wilcon Foundation, local government units, etc.

Through its expansion, WLCON also brings more infrastructures and job opportunities, which can bring growth and development in urban areas. WLCON also offers scholarships to the indigent communities to provide people with opportunities, specifically on masonry, carpentry, and electrical installation through its technical school accredited by TESDA. This addresses the growing need for workers in the construction industry.