

Rhong Khen International

(7006 | RKI MK) Main | Consumer Products & Services | Household Goods

Maintain NEUTRAL

Cautious Outlook

Revised Target Price: RM1.35
(from RM1.30)

KEY INVESTMENT HIGHLIGHTS

- **Above expectations**
- **Core earnings turned into black due to better shipment in 4QFY23**
- **Weaker sales in FY23**
- **Uncertain time ahead**
- **Revised earnings projection for FY24F-25F and introduced earnings projection for FY26F**
- **Maintain NEUTRAL with a revised TP of RM1.35 (from RM1.30)**

Above expectations. Rhong Khen International (RKI) reported a core PATANCI of RM25.8m for FY23, excluding one off item of RM3.2m. This core PATANCI exceeded both our and consensus' full-year FY23 estimates of RM3.4m and RM10.4m, respectively. This was primarily attributed to higher-than-expected revenue and lower manufacturing costs due to increased production output. In 4QFY23, the group declared a dividend of 3sen/share, pending shareholder approval at the upcoming AGM, making the total dividend for FY23 at 4.0sen. Dividend payout in FY23 is lower than dividend of 6sen/share in FY22.

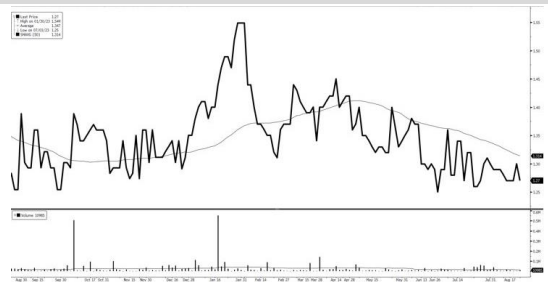
Core earnings returned into black due to better shipment in 4QFY23. On a quarterly basis, the group's revenue surged by 33.8%qoq to RM131m, primarily driven by higher shipments in Vietnam's furniture division. This boost led to increased production and utilization rates, subsequently lowering manufacturing costs. Meanwhile, finance costs decreased by 36.8%qoq to RM0.6m, mainly because of reduced short-term bank borrowings from RM55.7m in 3QFY23 to RM15.1m in 4QFY23. Consequently, core PATANCI swung from a net loss of -RM7.3m to a net profit of RM11m. On yearly basis, the decline in core PATANCI to RM11m (-44.9%yoy) was primarily attributed to lower revenue (-45.5%yoy), coupled with elevated operating, labor, and finance costs, which all exerted downward pressure on margins.

Weaker sales in FY23. The revenue for FY23 dropped by -14.1%yoy to RM649. mainly due to lower sales across all regions (Malaysia, Vietnam, Thailand, and others) caused by reduced shipments and fewer orders. The normalizing demand for wooden furniture post-reopening was due to people now prioritize spending on travel. Hence, the reduced production output raised the production cost per unit, leading to a decline in gross profit margin from 14% in 12MFY22 to 12% in FY23. Additionally, higher interest rates elevated finance costs, resulting in a -34.7%yoy drop in core PATANCI to RM25.8m.

RETURN STATISTICS

Price @ 24 th Aug 2023 (RM)	1.27
Expected share price return (%)	+5.99
Expected dividend yield (%)	+2.75
Expected total return (%)	+8.74

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.8	-1.4
3 months	-1.6	-11.4
12 months	-5.2	-2.7

INVESTMENT STATISTICS

FYE Jun	2023E	2024F	2025F
Revenue	649.4	631.4	672.7
EBITDA	47.4	51.7	58.3
Profit before tax (PBT)	27.9	30.1	35.0
Core PATANCI	25.8	22.6	26.3
Core EPS (sen)	13.3	11.6	13.6
DPS (sen)	4.0	3.5	4.1
Dividend Yield (%)	3.1	2.8	3.2

KEY STATISTICS


FBM KLCI	1,444.67
Issue shares (m)	194.31
Estimated free float (%)	43.47
Market Capitalisation (RM'm)	246.70
52-wk price range	RM1.25-RM1.56
3-mth average daily volume (m)	0.01
3-mth average daily value (RM'm)	0.01
Top Shareholders (%)	
Lin Chen Jui-Fen	25.60
Konsortium Kontrek Sdn Bhd	15.34
Samarang Asset Management	7.66

Analyst

 Genevieve Ng Pei Fen
 genevieve.ng@midf.com.my

Uncertain time ahead. Looking forward, we expect fluctuating demand for wooden furniture, with certain quarters seeing better orders while others remain sluggish. This is because higher interest rates in the US are affecting RKI's finance costs and the US demand for wooden furniture. Given that nearly 99% of the company's products are exported, with the US as the largest importer, global economic uncertainties and geopolitical risks could cause furniture traders and retailers to adopt a cautious approach. Combined with the over-inventoried situation in the US, we reckon that furniture traders could only be confident in placing orders when designs or prices align. Meanwhile, the lower production and increased labor costs in Malaysia and Vietnam are also driving up per-unit production costs, potentially compressing margin pressure.

Revised earnings projection for FY24F-25F and introduced earnings projection for FY26F. Given that the earnings came in above our estimation, we tweak our earnings projections for FY24F/FY25F to RM22.5m/RM26.3m from RM14.1m/RM26.2m. This adjustment accounts for normalized sales, lower finance costs (lower utilization of short-term borrowings during the quarter), and normalized production costs per unit due to improved production output.

Maintain NEUTRAL with a revised TP of RM1.35 (from RM1.30). Our TP of RM1.35 is derived from FY24F's BVPS of RM3.20 (from RM3.00), multiplied by the 2-year historical mean P/BV ratio of 0.4x. Given the ongoing over-inventory situation in the US and other headwinds, such as the risk of a global recession and geopolitical uncertainties, we expect lackluster demand for furniture in the near term, resulting in reduced customer orders and subsequently lower revenue. While the volume might increase in certain quarters, we believe it is not sustainable due to these various headwinds. On a positive note, RKI has a strong net cash position of RM162.5m in 3QFY23, equivalent to 65.9% of its total market capitalization, providing protection against downside risks. RKI is currently trading at a fair FY24F P/BV of 0.46x, slightly above its two-year average of 0.43x. Hence, we maintain **NEUTRAL** on RKI. **Re-rating catalyst** is the strong housing sales in the US that lead to higher-than-expected demand for RKI's wooden furniture. 

Rhong Khen International: 4QFY23 Results Summary

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	131.0	97.9	240.2	(45.5)	33.8	649.4	756.3	(14.1)
Cost of sales	(111.4)	(94.7)	(195.4)	(43.0)	17.6	(571.2)	(650.8)	(12.2)
Gross Profit	19.6	3.2	44.8	(56.2)	>100.0	78.2	105.5	(25.9)
Other income	2.4	1.7	1.3	88.7	47.2	7.0	6.0	17.9
Selling and distribution expenses	(4.9)	(2.5)	(7.6)	(35.6)	98.3	(19.1)	(23.9)	(20.2)
Administrative expenses	(2.8)	(9.2)	(6.6)	(57.8)	(69.9)	(26.8)	(27.1)	(1.0)
Other expenses	(5.5)	(1.0)	(5.9)	(6.1)	>100.0	(8.2)	(9.0)	(8.7)
Operating profit (EBIT)	8.8	(7.9)	26.0	(66.1)	>100.0	31.1	51.4	(39.5)
Net finance income/(cost)	(0.6)	(0.9)	(0.8)	(28.8)	(36.8)	(3.2)	(2.6)	24.1
Profit before tax (PBT)	8.2	(8.8)	25.2	(67.3)	>100.0	27.9	48.8	(42.9)
Taxation	0.6	0.1	(7.7)	(107.9)	>100.0	(6.0)	(13.3)	(54.8)
Profit After tax (PAT)	8.8	(8.7)	17.5	(49.3)	>100.0	21.9	35.5	(38.5)
PATANCI	9.2	(8.3)	17.5	(47.3)	>100.0	22.6	35.5	(36.4)
Core PATANCI	11.0	(7.3)	19.9	(44.9)	>100.0	25.8	39.5	(34.7)
Core EPS (sen)	5.6	(3.8)	10.2	(44.9)	>100.0	13.3	20.3	(34.6)
DPS (sen)	3.0	0.0	0.0	n.m.	n.m.	4.0	0.0	n.m.
Growth & Margin (%)				+(-) ppts	+(-) ppts			+(-) ppts
Gross Profit Margin	15.0	3.3	18.7	(3.7)	11.7	12.0	14.0	(1.9)
Operating Profit Margin	6.7	(8.0)	10.8	(4.1)	14.8	4.8	6.8	(2.0)
PBT Margin	6.3	(9.0)	10.5	(4.2)	15.3	4.3	6.5	(2.2)
Core PATANCI Margin	8.4	(7.5)	8.3	0.1	15.8	4.0	5.2	(1.3)
Ratios & Valuation				+(-) ppts	+(-) ppts			+(-) ppts
Net debt/total equity (%)	0.2	0.2	0.2	(0.0)	0.0	0.2	0.2	(0.0)
Net cash/market cap (%)	65.9	49.2	21.5	44.4	16.7	65.9	21.5	44.4

Source: Company, MIDFR

Rhong Khen International: Breakdown by operating segment

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue (External):								
Malaysia	18.9	24.7	38.4	(50.9)	(23.6)	125.8	151.1	(16.7)
Vietnam	107.5	68.9	196.2	(45.2)	56.0	504.4	584.2	(13.7)
Thailand	3.9	3.8	4.5	(14.8)	1.6	16.1	17.8	(9.7)
Others	0.7	0.5	1.0	(28.7)	53.1	3.1	3.2	(3.7)
Total	131.0	97.9	240.2	(45.5)	33.8	649.4	756.3	(14.1)
Operating Profit:								
Malaysia	(3.6)	(4.2)	2.4	(248.4)	(14.8)	(1.5)	19.7	>(100.0)
Vietnam	11.6	(2.6)	24.7	(53.1)	n.m.	32.4	45.7	(29.1)
Thailand	(1.4)	(0.3)	(0.8)	74.0	> (100.0)	(1.9)	(3.9)	(50.5)
Others	1.6	(1.6)	(1.2)	(237.8)	>100.0	(1.1)	(2.2)	(52.1)
Total	8.2	(8.8)	25.2	(67.3)	>100.0	27.9	59.2	(53.0)
Operating profit margin:				+(-) ppts	+(-) ppts			+(-) ppts
Malaysia	(19.0)	n.m.	6.3	(25.3)	(2.0)	(1.2)	13.0	(14.2)
Vietnam	10.8	(3.8)	12.6	(1.8)	14.6	6.4	7.8	(1.4)
Thailand	(35.3)	(9.1)	(17.3)	(18.0)	(26.2)	(11.9)	(21.7)	9.8
Others	216.1	(328.3)	(111.8)	327.9	>100.0	(34.2)	(68.9)	34.6
Total	6.3	(9.0)	10.5	(4.2)	15.3	4.3	7.8	(3.5)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023E	2024F	2025F	2026F
Revenue	756.3	649.4	631.4	672.7	698.5
Cost of Sales	(650.8)	(571.2)	(553.1)	(586.3)	(606.4)
Gross Profit	105.5	78.2	78.3	86.4	92.1
Other Income	4.3	4.0	4.0	4.4	4.5
Selling and distribution expenses	(21.8)	(19.1)	(18.7)	(20.0)	(20.5)
Administrative expenses	(29.3)	(26.8)	(26.2)	(28.1)	(28.9)
Other expenses	(9.0)	(8.2)	(7.9)	(8.4)	(8.6)
EBITDA	69.1	47.4	51.7	58.3	63.8
EBIT	49.8	28.1	29.5	34.4	38.6
Profit before tax (PBT)	48.8	27.9	30.1	35.0	39.2
Profit After tax (PAT)	35.5	21.9	22.6	26.3	29.5
Core PATANCI	38.1	25.8	22.6	26.3	29.5
Core EPS (sen)	19.6	13.3	11.6	13.6	15.2
DPS (sen)	6.0	4.0	3.5	4.1	4.6

Balance Sheet (RM'm)	2022A	2023E	2024F	2025F	2026F
Property, plant and equipment	255.5	267.8	278.1	288.8	299.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Total Non-current assets	340.6	354.7	366.6	379.2	391.8
Inventories	253.4	151.4	146.6	154.7	160.0
ST - Trade and other receivables	82.5	43.2	51.1	53.3	55.4
Cash and cash equivalents	267.4	194.9	199.0	212.4	221.0
Total current assets	607.6	458.0	398.1	422.0	438.0
Total Assets	948.2	812.7	764.8	801.1	829.7
Total Equity	655.3	685.7	614.9	642.6	665.1
LT Loans and borrowings	26.0	17.3	18.2	19.1	20.1
Total Non-current liabilities	34.8	26.6	27.5	28.8	30.0
ST Trade and other payables	117.1	53.0	75.1	79.6	82.3
ST Loans and borrowings	103.3	15.1	15.9	16.7	17.5
Total Current Liabilities	258.2	100.4	122.3	129.7	134.5
Total Liabilities	292.9	127.0	149.8	158.5	164.6

Cash Flow (RM'm)	2022A	2023E	2024F	2025F	2026F
Pretax profit	48.8	27.9	30.1	35.0	39.2
Cash flow from operations	26.6	115.8	85.7	56.6	54.2
Cash flow from investing	(27.9)	(24.5)	(30.1)	(32.0)	(33.3)
Cash flow from financing	(20.5)	(114.6)	(9.8)	(11.1)	(12.3)
Net cash flow	(21.8)	(23.3)	45.8	13.5	8.6
(+/-) Adjustments	7.3	6.0	0.0	0.0	0.0
Net cash/(debt) b/f	185.0	170.5	153.1	199.0	212.4
Net cash/(debt) c/f	170.5	153.1	199.0	212.4	221.0

Key Metrics	2022A	2023E	2024F	2025F	2026F
Effective tax rate (%)	27.2	21.5	24.9	24.9	24.9
PER (x)	7.1	10.9	10.9	9.4	8.4
P/BV ratio (x)	0.4	0.4	0.4	0.4	0.4
Net Cash/Market Capitalisation (%)	56.0	65.9	66.9	71.7	74.4
Cash/share (sen)	0.1	0.6	0.4	0.3	0.3

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	14.0	12.0	12.4	12.8	13.2
EBIT Margin (%)	6.6	4.3	4.7	5.1	5.5
Core PATANCI Margin (%)	5.0	4.0	3.6	3.9	4.2

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology