

Rhong Khen International

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

Continuous Gloomy Outlook

KEY INVESTMENT HIGHLIGHTS

- **Missed expectations**
- **Sharp dip in revenue and core PATANCI for 1QFY24**
- **Reduced earnings projections for FY24F-26F**
- **Maintain NEUTRAL with a lower TP of RM1.22 (from RM1.35)**

Missed expectations. Rhong Khen International (“RKIB”) reported a 1QFY24 core PATANCI of RM3.1m, falling short of both our and consensus’ FY24F estimates. It accounted for 13.9% of ours and 15.4% of consensus full year forecast. This was primarily attributed to (1) lower-than-expected revenue due to weakened demand from USA (the major export market), (2) higher-than-expected sales of low-margin products, and (3) elevated manufacturing costs in the Vietnam operation due to a low production utilization rate. No dividend was declared during the quarter due to the weaker-than-anticipated performance.

Sharp dip in revenue and core PATANCI for 1QFY24. Sequentially, the revenue dropped by -7.9%qoq to RM120.7m, primarily due to softer demand for furniture from the US (major export and sales contributor) coupled with decreased local sales in Thailand. The PBT margin contracted by -4.2ppt qoq to 2.5%, mainly attributable to lower revenue, greater sales of low-margin products, and higher manufacturing costs. Consequently, the core PATANCI for 1QFY24 plummeted by -71.4%qoq to RM3.1m. On a yearly basis, the revenue declined by -48.5%yoy to RM120.7m, primarily due to reduced revenue from the Malaysia, Vietnam, and Thailand segments, offsetting slight improvements in other segments. The PBT dropped from RM14.4m in 1QFY23 to RM2.7m to 1QFY24 mainly due to the lower PBT from all 4 operating segments, including Malaysia, Vietnam, Thailand and other divisions. As such, the core PATANCI reduced by -72.3%yoy to RM3.1m.

Reduced earnings projections for FY24F-26F. Given the earnings shortfall, we have revised our projections for FY24-F25F lower by -48.1%/-41.8%/-31.2%, respectively. This adjustment accounts for lower revenue resulting from weakened demand in the USA amid multiple headwinds, as well as higher manufacturing costs due to the low utilization rate.

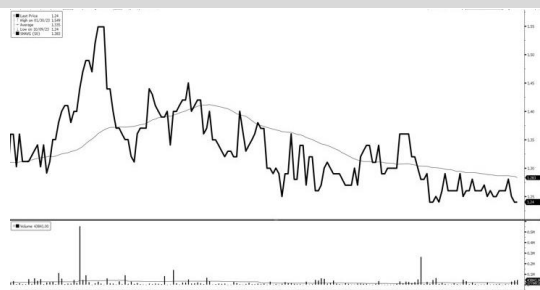
Maintain NEUTRAL

Revised Target Price: RM1.22
(Previously RM1.35)

RETURN STATISTICS

Price @ 29 th Nov 2023 (RM)	1.24
Expected share price return (%)	-1.43
Expected dividend yield (%)	+1.46
Expected total return (%)	+0.03

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.6	-1.9
3 months	-6.1	-6.2
12 months	-12.7	-10.8


INVESTMENT STATISTICS

FYE Jun	2024F	2025F	2026F
Revenue	440.9	460.9	501.6
EBITDA	30.8	37.6	45.3
Profit before tax (PBT)	13.8	19.2	26.7
Core PATANCI	11.7	15.3	20.3
Core EPS (sen)	6.0	7.9	10.4
DPS (sen)	1.8	2.4	3.1
Dividend Yield (%)	1.5	1.9	2.5

KEY STATISTICS

FBM KLCI	1,448.02
Issue shares (m)	194.15
Estimated free float (%)	43.39
Market Capitalisation (RM'm)	240.87
52-wk price range	RM1.22-RM1.56
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.02
Top Shareholders (%)	
Lin Chen Jui-Fen	25.60
Konsortium Kontrek Sdn Bhd	15.34
Samarang Asset Management	7.66

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Maintain NEUTRAL with a lower TP of RM1.22 (from RM1.35). Our revised **TP** is derived from FY24F's BVPS of RM3.00 (from RM3.20), multiplied by the 2-year historical pre-pandemic 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 demand for furniture to remain lacklustre in the near term. This is expected to lead to reduced shipping orders and subsequently lower revenue. Nevertheless, we think volume might increase in certain quarters but we believe it is not sustainable due to these various headwinds. On a positive note, RKI has a strong net cash position of RM163m in 1QFY24, equivalent to 68% of its total market capitalization, providing protection against downside risks. 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: 1QFY24 Results Summary

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	120.7	131.0	234.2	(48.5)	(7.9)	120.7	234.2	(48.5)
Cost of sales	(109.5)	(111.4)	(205.7)	(46.8)	(1.6)	(109.5)	(205.7)	(46.8)
Gross Profit	11.1	19.6	28.5	(61.0)	(43.3)	11.1	28.5	(61.0)
Other income	2.5	2.4	1.4	72.8	2.1	2.5	1.4	72.8
Selling and distribution expenses	(3.2)	(4.9)	(6.4)	(49.7)	(34.3)	(3.2)	(6.4)	(49.7)
Administrative expenses	(6.6)	(2.8)	(7.0)	(4.9)	139.8	(6.6)	(7.0)	(4.9)
Other expenses	(0.7)	(5.5)	(1.3)	(49.1)	(88.1)	(0.7)	(1.3)	(49.1)
Operating profit (EBIT)	3.1	8.8	15.3	(79.9)	(65.2)	3.1	15.3	(79.9)
Net finance income/(cost)	(0.4)	(0.6)	(0.8)	(56.8)	(37.6)	(0.4)	(0.8)	(56.8)
Profit before tax (PBT)	2.7	8.2	14.4	(81.2)	(67.2)	2.7	14.4	(81.2)
Taxation	0.6	0.6	(4.0)	(115.8)	3.4	0.6	(4.0)	(115.8)
Profit After tax (PAT)	3.3	8.8	10.4	(67.9)	(62.3)	3.3	10.4	(67.9)
PATANCI	3.7	9.2	10.4	(64.3)	(59.7)	3.7	10.4	(64.3)
Core PATANCI	3.1	11.0	11.3	(72.3)	(71.4)	3.1	11.3	(72.3)
Core EPS (sen)	1.6	5.6	5.8	(72.3)	(71.5)	1.6	5.8	(72.3)
DPS (sen)	0.0	3.0	0.0	n.m.	(100.0)	0.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	9.2	15.0	12.2	(3.0)	(5.8)	9.2	12.2	(3.0)
Operating Profit Margin	2.5	6.7	6.5	(4.0)	(4.2)	2.5	6.5	(4.0)
PBT Margin	2.2	6.3	6.2	(3.9)	(4.0)	2.2	6.2	(3.9)
Core PATANCI Margin	2.6	8.4	4.8	(2.2)	(5.8)	2.6	4.8	(2.2)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	67.7	67.5	25.4	42.3	0.2	67.7	25.4	42.3
Net cash per share	0.1	0.6	0.1	(0.0)	(0.5)	0.1	0.1	(0.0)

Source: Company, MIDFR

Rhong Khen International: Breakdown by operating segment

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue (External):								
Malaysia	31.2	18.9	45.3	(31.0)	65.4	31.2	45.3	(31.0)
Vietnam	85.1	107.5	183.4	(53.6)	(20.8)	85.1	183.4	(53.6)
Thailand	3.1	3.9	4.6	(31.2)	(18.8)	3.1	4.6	(31.2)
Others	1.2	0.7	1.0	12.9	56.4	1.2	1.0	12.9
Total	120.7	131.0	234.2	(48.5)	(7.9)	120.7	234.2	(48.5)
PBT:								
Malaysia	0.3	(3.6)	4.2	(93.0)	(108.2)	0.3	4.2	(93.0)
Vietnam	2.9	11.6	10.8	(73.5)	(75.3)	2.9	10.8	(73.5)
Thailand	(0.8)	(1.4)	(0.4)	67.4	(44.9)	(0.8)	(0.4)	67.4
Others	0.3	1.6	(0.1)	(318.2)	(81.3)	0.3	(0.1)	(318.2)
Total	2.7	8.2	14.4	(81.2)	(67.2)	2.7	14.4	(81.2)
PBT margin:				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Malaysia	0.9	(19.0)	9.3	(8.3)	19.9	0.9	9.3	(8.3)
Vietnam	3.4	10.8	5.9	(2.5)	(7.4)	3.4	5.9	(2.5)
Thailand	(24.0)	(35.3)	(9.8)	(14.1)	11.3	(24.0)	(9.8)	(14.1)
Others	25.8	216.1	(13.3)	39.1	(190.3)	25.8	(13.3)	39.1
Total	2.2	6.3	6.2	(3.9)	(4.0)	2.2	6.2	(3.9)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023E	2024F	2025F	2026F
Revenue	756.3	649.4	440.9	460.9	501.6
Cost of Sales	(650.8)	(569.6)	(394.4)	(408.2)	(439.8)
Gross Profit	105.5	79.8	46.5	52.7	61.8
Other Income	4.3	4.0	6.7	7.0	7.7
Selling and distribution expenses	(21.8)	(20.7)	(14.0)	(14.8)	(16.2)
Administrative expenses	(29.3)	(26.8)	(24.1)	(23.9)	(24.7)
Other expenses	(9.0)	(8.2)	(2.8)	(3.0)	(3.2)
EBITDA	69.1	47.3	30.8	37.6	45.3
EBIT	49.8	28.1	12.3	18.1	25.4
Profit before tax (PBT)	48.8	27.9	13.8	19.2	26.7
Profit After tax (PAT)	35.5	21.9	11.7	15.3	20.3
Core PATANCI	38.1	22.1	11.7	15.3	20.3
Core EPS (sen)	19.6	11.4	6.0	7.9	10.4
DPS (sen)	6.0	6.0	1.8	2.4	3.1

Balance Sheet (RM'm)	2022A	2023E	2024F	2025F	2026F
Property, plant and equipment	255.5	267.8	258.8	249.8	241.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Total Non-current assets	340.6	354.7	347.1	339.5	332.3
Inventories	253.4	151.4	151.3	156.6	168.7
ST - Trade and other receivables	82.5	43.2	36.2	37.9	41.2
Cash and cash equivalents	267.4	258.4	185.2	194.0	211.5
Total current assets	607.6	458.0	373.7	389.5	422.6
Total Assets	948.2	812.7	720.8	729.0	754.9
Total Equity	655.3	685.7	586.4	590.2	607.0
LT Loans and borrowings	26.0	17.3	12.5	12.6	12.7
Total Non-current liabilities	34.8	26.6	20.5	20.9	21.4
ST Trade and other payables	117.1	53.0	81.0	83.9	90.4
ST Loans and borrowings	103.3	15.1	10.9	11.0	11.1
Total Current Liabilities	258.2	100.4	113.9	117.8	126.4
Total Liabilities	292.9	127.0	134.4	138.7	147.9

Cash Flow (RM'm)	2022A	2023E	2024F	2025F	2026F
Pretax profit	48.8	27.9	13.8	19.2	26.7
Cash flow from operations	26.6	112.8	57.5	24.0	34.9
Cash flow from investing	(27.9)	(24.5)	(7.7)	(8.7)	(9.5)
Cash flow from financing	(20.5)	(114.6)	(14.9)	(6.5)	(7.9)
Net cash flow	(21.8)	(26.3)	35.0	8.8	17.6
(+/-) Adjustments	7.3	6.0	0.0	0.0	0.0
Net cash/(debt) b/f	185.0	170.5	150.2	185.2	194.0
Net cash/(debt) c/f	170.5	150.2	185.2	194.0	211.5

Key Metrics	2022A	2023E	2024F	2025F	2026F
Effective tax rate (%)	27.2	21.5	15.0	20.0	24.0
PER (x)	6.9	10.3	20.5	15.7	11.9
P/BV ratio (x)	0.5	0.4	0.4	0.4	0.4
Net Cash/Market Capitalisation (%)	57.3	93.8	67.2	70.7	77.9
Cash/share (sen)	0.1	0.6	0.3	0.1	0.2

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	14.0	12.3	10.5	11.4	12.3
EBIT Margin (%)	6.6	4.3	2.8	3.9	5.1
Core PATANCI Margin (%)	5.0	3.4	2.7	3.3	4.0

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