

## Rhong Khen International Berhad

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

**Maintain NEUTRAL**

### Continuous Weak Outlook for Furniture Sales in the US

**Unchanged Target Price: RM1.22**

#### KEY INVESTMENT HIGHLIGHTS

- **1HFY24 Core PATANCI deemed within expectation amid gloomy industry outlook**
- **Lower revenue and Core PATANCI in 2QFY2 on yearly basis amidst extended weaker demand**
- **Prolonged weak export demand dragged down topline**
- **Maintain NEUTRAL with an unchanged TP of RM1.22**

**1HFY24 Core PATANCI deemed within expectation amid gloomy industry outlook.** Rhong Khen International ("RKI") reported a 1HFY24 core PATANCI of RM6.8m, after excluding one-time off items of -RM1.4m. This is deemed within our full-year FY24F projection despite accounted for 57.7% of our full year forecast considering the persistently sluggish demand for furniture sales in the US market. The group declared a first-interim single-tier dividend of 1.0sen/share (entitlement date of 12 Apr 2024), bringing the total dividend for 1HFY24 to 1.0sen/share. This is similar to the total dividend of 1.0sen/share in 1HFY23.

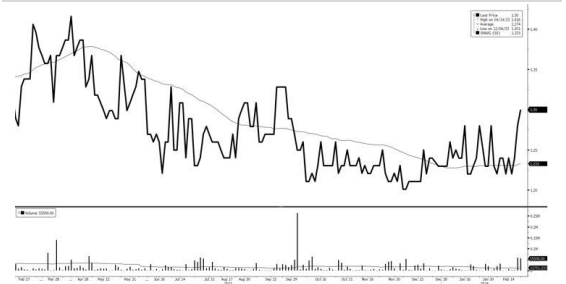
**Lower revenue and Core PATANCI in 2QFY2 on yearly basis amidst extended weaker demand.** On a yearly basis, the revenue plummeted by -16.2%yoy to RM156.1m in 2QFY24. This was mainly attributed to lower revenue from operations in Malaysia, Vietnam, and Thailand. The reduced production output raised production costs, leading to a drop in the gross profit margin by -2.7ppt yoy to 11.8% in 2QFY24. Consequently, core PATANCI plunged from RM10.9m in 2QFY23 to RM3.6m during the quarter. On a quarterly basis, revenue grew by +29.4%qoq to RM156.1m, mainly attributed to greater shipment of furniture in Vietnam operations, as well as increased demand for sawmill and panel board lamination across local and export markets. Core PATANCI rose by 16%qoq to RM3.6m, mainly driven by lower manufacturing costs due to better production output, as well as decreased finance costs that more than offset the higher operating expenses.

**Prolonged weak export demand dragged down topline.** The core PATANCI slumped by -69.5%yoy to RM6.8m in 1HFY24, which, in tandem with the decreased revenue of -34.2%yoy to RM276.8m. This was due to the continuous weaker demand from the main export market – the United States, greater sales of low-margin products, and increased operating costs across all segments.

#### RETURN STATISTICS

Price @ 21 Feb 2024 (RM)	1.30
Expected share price return (%)	(5.98)
Expected dividend yield (%)	+1.39
Expected total return (%)	<b>(4.59)</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.7	1.4
3 months	5.7	-2.6
12 months	-2.3	-7.0


#### 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 (%)	1.4	1.8	2.4

#### KEY STATISTICS

FBM KLCI	1,552.40
Issue shares (m)	194.15
Estimated free float (%)	43.54
Market Capitalisation (RM'm)	253.45
52-wk price range	RM1.21-RM1.45
3-mth average daily volume (m)	0.01
3-mth average daily value (RM'm)	0.01
Top Shareholders (%)	
Lin Chen Jui-Fen	25.54
Konsortium Kontrek Sdn Bhd	15.29
Samarang Asset Management	7.64

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**Maintain NEUTRAL with an unchanged TP of RM1.22.** We make no changes to our forecast given that the earnings are deemed within expectation. Our **TP** is derived from FY24F's BVPS of RM3.00, multiplied by the 2-year historical pre-pandemic mean P/BV ratio of 0.4x. Given the ongoing over-inventory situation in the US, inflation still above target, tightened credit conditions in the US, we expect demand for furniture in US to remain lackluster and unexciting in the near term, resulting in reduced shipping orders and subsequently lower revenue. The result of lower production output will lead to higher manufacturing costs per unit, which then dampen the earnings. On a positive note, RKI has a strong net cash position of RM189.6m as of 2QFY24, 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: 2QFY24 Results Summary

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	156.1	120.7	186.3	(16.2)	29.4	276.8	420.5	(34.2)
Cost of sales	(137.7)	(109.5)	(159.4)	(13.6)	25.7	(247.2)	(365.1)	(32.3)
<b>Gross Profit</b>	<b>18.4</b>	<b>11.1</b>	<b>26.9</b>	<b>(31.6)</b>	<b>65.4</b>	<b>29.5</b>	<b>55.4</b>	<b>(46.8)</b>
Other income	2.5	2.5	1.5	68.3	2.1	5.0	2.9	70.5
Selling and distribution expenses	(4.8)	(3.2)	(5.3)	(8.4)	50.0	(8.1)	(11.7)	(31.1)
Administrative expenses	(7.3)	(6.6)	(7.9)	(6.6)	10.4	(14.0)	(14.9)	(5.8)
Other expenses	(0.8)	(0.7)	(0.4)	88.2	16.1	(1.4)	(1.7)	(16.3)
<b>Operating profit (EBIT)</b>	<b>8.0</b>	<b>3.1</b>	<b>14.9</b>	<b>(46.3)</b>	<b>160.1</b>	<b>11.1</b>	<b>30.1</b>	<b>(63.3)</b>
Net finance income/(cost)	(0.4)	(0.4)	(0.9)	(59.2)	(2.2)	(0.7)	(1.7)	(58.0)
<b>Profit before tax (PBT)</b>	<b>7.6</b>	<b>2.7</b>	<b>14.0</b>	<b>(45.4)</b>	<b>182.0</b>	<b>10.3</b>	<b>28.4</b>	<b>(63.6)</b>
Taxation	(3.6)	0.6	(2.7)	32.0	(665.8)	(3.0)	(6.7)	(56.2)
Profit After tax (PAT)	4.0	3.3	11.3	(64.1)	21.1	7.4	21.7	(65.9)
PATANCI	4.4	3.7	11.3	(60.7)	19.3	8.1	21.7	(62.4)
<b>Core PATANCI</b>	<b>3.6</b>	<b>3.1</b>	<b>10.9</b>	<b>(66.6)</b>	<b>16.0</b>	<b>6.8</b>	<b>22.2</b>	<b>(69.5)</b>
Core EPS (sen)	1.9	1.6	5.6	(66.7)	15.9	3.5	11.4	(69.5)
DPS (sen)	1.0	0.0	1.0	0.0	n.m.	1.0	1.0	0.0
<b>Growth &amp; Margin (%)</b>				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	11.8	9.2	14.4	(2.7)	2.6	10.7	13.2	(2.5)
Operating Profit Margin	5.1	2.5	8.0	(2.9)	2.6	4.0	7.2	(3.2)
PBT Margin	4.9	2.2	7.5	(2.6)	2.6	3.7	6.8	(3.0)
Core PATANCI Margin	2.3	2.6	5.8	(3.5)	(0.3)	2.4	5.3	(2.8)
<b>Ratios &amp; Valuation</b>				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	75.0	64.5	40.4	34.6	10.5	75.0	40.4	34.6
Net cash per share	0.2	0.1	0.3	(0.1)	0.2	0.2	0.3	(0.1)

Source: Company, MIDFR

**Rhong Khen International: Breakdown by operating segment**

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
<b>Revenue (External):</b>								
Malaysia	29.5	31.2	36.9	(20.2)	(5.7)	60.7	82.2	(26.2)
Vietnam	122.3	85.1	144.7	(15.5)	43.6	207.4	328.0	(36.8)
Thailand	3.5	3.1	3.9	(9.6)	11.4	6.6	8.4	(21.3)
Others	0.9	1.2	0.8	6.9	(22.0)	2.1	1.9	10.1
<b>Total</b>	<b>156.1</b>	<b>120.7</b>	<b>186.3</b>	<b>(16.2)</b>	<b>29.4</b>	<b>276.8</b>	<b>420.5</b>	<b>(34.2)</b>
<b>PBT:</b>								
Malaysia	0.9	0.3	2.1	(56.4)	204.4	1.2	6.3	(80.9)
Vietnam	13.8	2.9	12.6	9.7	384.1	16.7	23.4	(28.6)
Thailand	(0.1)	(0.8)	0.2	(142.7)	(86.4)	(0.9)	(0.2)	307.7
Others	(1.0)	0.3	(0.9)	8.4	(439.5)	(0.7)	(1.1)	(33.3)
<b>Total</b>	<b>13.6</b>	<b>2.7</b>	<b>14.0</b>	<b>(2.5)</b>	<b>403.8</b>	<b>16.3</b>	<b>28.4</b>	<b>(42.5)</b>
<b>PBT margin:</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Malaysia	3.1	0.9	5.6	(2.5)	2.1	2.0	7.6	(5.7)
Vietnam	11.3	3.4	8.7	2.6	8.0	8.1	7.1	0.9
Thailand	(2.9)	(24.0)	6.2	(9.1)	21.0	(12.9)	(2.5)	(10.4)
Others	(112.3)	25.8	(110.6)	(1.6)	(138.1)	(34.7)	(57.3)	22.6
<b>Total</b>	<b>8.7</b>	<b>2.2</b>	<b>7.5</b>	<b>1.2</b>	<b>6.5</b>	<b>5.9</b>	<b>6.8</b>	<b>(0.9)</b>

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>Revenue</b>	<b>756.3</b>	<b>649.4</b>	<b>440.9</b>	<b>460.9</b>	<b>501.6</b>
Cost of Sales	(650.8)	(569.6)	(394.4)	(408.2)	(439.8)
<b>Gross Profit</b>	<b>105.5</b>	<b>79.8</b>	<b>46.5</b>	<b>52.7</b>	<b>61.8</b>
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)
<b>EBITDA</b>	<b>69.1</b>	<b>47.3</b>	<b>30.8</b>	<b>37.6</b>	<b>45.3</b>
<b>EBIT</b>	<b>49.8</b>	<b>28.1</b>	<b>12.3</b>	<b>18.1</b>	<b>25.4</b>
<b>Profit before tax (PBT)</b>	<b>48.8</b>	<b>27.9</b>	<b>13.8</b>	<b>19.2</b>	<b>26.7</b>
Profit After tax (PAT)	35.5	21.9	11.7	15.3	20.3
<b>Core PATANCI</b>	<b>38.1</b>	<b>22.1</b>	<b>11.7</b>	<b>15.3</b>	<b>20.3</b>
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

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
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
<b>Total Non-current assets</b>	<b>340.6</b>	<b>354.7</b>	<b>347.1</b>	<b>339.5</b>	<b>332.3</b>
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
<b>Total current assets</b>	<b>607.6</b>	<b>458.0</b>	<b>373.7</b>	<b>389.5</b>	<b>422.6</b>
<b>Total Assets</b>	<b>948.2</b>	<b>812.7</b>	<b>720.8</b>	<b>729.0</b>	<b>754.9</b>
<b>Total Equity</b>	<b>655.3</b>	<b>685.7</b>	<b>586.4</b>	<b>590.2</b>	<b>607.0</b>
LT Loans and borrowings	26.0	17.3	12.5	12.6	12.7
<b>Total Non-current liabilities</b>	<b>34.8</b>	<b>26.6</b>	<b>20.5</b>	<b>20.9</b>	<b>21.4</b>
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
<b>Total Current Liabilities</b>	<b>258.2</b>	<b>100.4</b>	<b>113.9</b>	<b>117.8</b>	<b>126.4</b>
<b>Total Liabilities</b>	<b>292.9</b>	<b>127.0</b>	<b>134.4</b>	<b>138.7</b>	<b>147.9</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
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)
<b>Net cash flow</b>	<b>(21.8)</b>	<b>(26.3)</b>	<b>35.0</b>	<b>8.8</b>	<b>17.6</b>
(+/-) Adjustments	7.3	6.0	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>185.0</b>	<b>170.5</b>	<b>150.2</b>	<b>185.2</b>	<b>194.0</b>
<b>Net cash/(debt) c/f</b>	<b>170.5</b>	<b>150.2</b>	<b>185.2</b>	<b>194.0</b>	<b>211.5</b>

<b>Key Metrics</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Effective tax rate (%)	27.2	21.5	15.0	20.0	24.0
PER (x)	7.2	10.8	21.5	16.5	12.5
P/BV ratio (x)	0.5	0.4	0.4	0.4	0.4
Net Cash/Market Capitalisation (%)	54.7	89.4	64.1	67.5	74.3
Cash/share (sen)	0.1	0.6	0.3	0.1	0.2

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
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