

## Rhong Khen International Berhad

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

### Better Demand Outlook Ahead

#### KEY INVESTMENT HIGHLIGHTS

- **Within expectation amidst seasonal low demand**
- **Seasonally low quarter**
- **Over inventoried in 9MFY24**
- **Turnaround in US demand outlook**
- **Raised FY24-26F earnings forecast**
- **Upgrade to BUY (previously NEUTRAL) with a revised TP of RM1.60 (previously RM1.22)**

**Within expectation amidst seasonal low demand.** Rhong Khen International reported a 9MFY24 core PATANCI of RM7.6m, excluding a one-off item of -RM1.2m. Its 9MFY24 earnings were deemed within our expectation, despite accounting for only 64.9% of our full-year FY24 estimate, as 3Q typically experiences lower demand due to long festive holidays and lower demand from US. Meanwhile, the earnings fell short of the streets' full-year FY24 estimate (51.2%). No dividend was declared during the quarter.

**Seasonally low quarter.** Sequentially, RKI's revenue dropped to RM114.8m in 3QFY24 from RM156.1m in 2QFY24, primarily due to reduced furniture sales from its Vietnam plant and weaker demand from both local and export markets for sawmill and panel board products. Core PATANCI fell by -76.7%qoq to RM0.8m mainly owing to decreased revenue, increased administrative expenses, and higher manufacturing costs in Vietnam during the Chinese New Year celebrations.

**Over inventoried in 9MFY24.** On a yearly basis, the group's topline fell by +51%yoy to RM114.8m in 3QFY24, mainly due to persistent weak demand from the United States, which is RKI's primary export market and main revenue contributor. Consequently, cumulative revenue decreased by -24.5%yoy to RM391.5m for 9MFY24. Core PATANCI for 9MFY24 dropped by -48.8%yoy to RM7.6m, mainly due to reduced revenue and higher selling, distribution, and administrative expenses.

**Turnaround in US demand outlook.** Looking ahead, we anticipate stronger US demand driven by (1) the worst of the downturn is over, (2) potential replenishment of furniture stocks as US importers/wholesalers/retailers have cleared their warehouse inventories, and (3) an improving interest rate environment that could boost the furniture demand.

**Raised FY24-26F earnings forecast.** We raised our earnings forecast for FY24-26F higher by +31.3%/+36.6%/+32.8% respectively. This was after factoring (1) anticipated better demand due to a lower base, and (2) lower manufacturing costs per unit with improved production output. We also updated our valuation to FY25F BVPS of RM3.63 from FY24F BVPS of RM3. We changed our valuation to 5Y historical +0.5SD P/BV of 0.44x from 2-year historical P/BV of 0.4x to reflect that the worst is over and a better mid-to-long-term outlook ahead.

**Upgrade to BUY**

(Previously NEUTRAL)

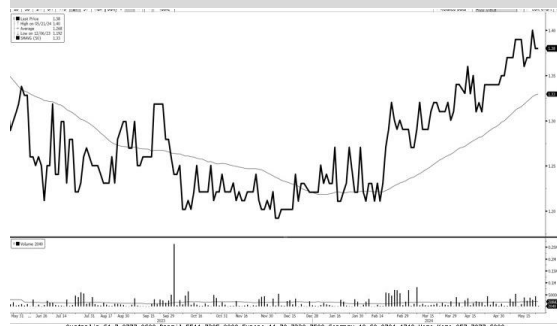
**Revised Target Price: RM1.60**

(Previously RM1.22)

#### RETURN STATISTICS

Price @ 27 May 2024 (RM)	1.38
Expected share price return (%)	+15.9
Expected dividend yield (%)	+1.7
Expected total return (%)	+17.6

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.0	0.2
3 months	5.3	2.2
12 months	-1.4	-14.6

#### INVESTMENT STATISTICS

FYE Jun	2024F	2025F	2026F
Revenue	516.0	535.3	558.5
EBITDA	34.6	42.4	50.3
Profit before tax (PBT)	19.5	26.5	34.1
Core PATANCI	15.4	20.9	26.9
Core EPS (sen)	7.9	10.8	13.9
DPS (sen)	2.4	3.2	4.2
Dividend Yield (%)	1.7	2.3	3.0

#### KEY STATISTICS

FBM KLCI	1,618.27
Issue shares (m)	194.15
Estimated free float (%)	43.54
Market Capitalisation (RM'm)	269.05
52-wk price range	RM1.21-RM1.45
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.02
Top Shareholders (%)	
Lin Chen Jui-Fen	25.54
Konsortium Kontrek Sdn Bhd	15.29
Andbank	7.64

**Analyst**

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

**Upgrade to BUY (previously NEUTRAL) with a revised TP of RM1.60 (previously RM1.22).** Our revised TP of **RM1.60** is derived from FY25F's BVPS of RM3.63, pegged to 5Y historical +0.5SD P/BV of 0.44x. Looking ahead, we are optimistic about RKI's FY25 outlook underpinned by: (1) better consumer sentiment and demand for furniture ahead thanks to a lower base and improving interest rate environment, (2) resolution of the over-inventory issue in the US, and (3) being a beneficiary of the consistently high USD/MYR exchange rate, given that export sales contributed almost 90% of the total revenue. Besides, balance sheet of RKI is healthy with strong net cash position of RM188.9m as of 3QFY24, which could provide protection against any potential downside risks. In a nutshell, we upgraded RKI to **BUY** from NEUTRAL. Downside risks are the (1) weaker-than-expected US consumer demand for customized wooden furniture and (2) greater-than-expected manufacturing and administrative costs. 📈

### Rhong Khen International: 3QFY24 Results Summary

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	1QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	114.8	156.1	234.2	(51.0)	(26.5)	391.5	518.5	(24.5)
Cost of sales	(102.0)	(137.7)	(205.7)	(50.4)	(25.9)	(349.3)	(459.8)	(24.0)
<b>Gross Profit</b>	<b>12.7</b>	<b>18.4</b>	<b>28.5</b>	<b>(55.4)</b>	<b>(30.8)</b>	<b>42.3</b>	<b>58.6</b>	<b>(27.9)</b>
Other income	2.2	2.5	1.4	50.2	(14.8)	7.2	4.6	56.2
Selling and distribution expenses	(3.5)	(4.8)	(6.4)	(45.0)	(27.0)	(11.6)	(14.2)	(18.2)
Administrative expenses	(9.2)	(7.3)	(7.0)	30.8	24.7	(23.1)	(24.1)	(3.9)
Other expenses	(0.9)	(0.8)	(1.3)	(31.3)	16.2	(2.3)	(2.7)	(14.4)
<b>Operating profit (EBIT)</b>	<b>1.3</b>	<b>8.0</b>	<b>15.3</b>	<b>(91.4)</b>	<b>(83.5)</b>	<b>12.4</b>	<b>22.3</b>	<b>(44.4)</b>
Net finance income/(cost)	(0.3)	(0.4)	(0.8)	(61.5)	(9.0)	(1.0)	(2.6)	(60.4)
<b>Profit before tax (PBT)</b>	<b>1.0</b>	<b>7.6</b>	<b>14.4</b>	<b>(93.1)</b>	<b>(87.0)</b>	<b>11.3</b>	<b>19.6</b>	<b>(42.3)</b>
Taxation	(0.8)	(3.6)	(4.0)	(81.4)	(79.1)	(3.7)	(6.6)	(44.0)
Profit After tax (PAT)	0.2	4.0	10.4	(97.7)	(94.0)	7.6	13.0	(41.4)
PATANCI	0.7	4.4	10.4	(93.7)	(85.1)	8.8	13.4	(34.3)
<b>Core PATANCI</b>	<b>0.8</b>	<b>3.6</b>	<b>11.3</b>	<b>(92.5)</b>	<b>(76.7)</b>	<b>7.6</b>	<b>14.9</b>	<b>(48.8)</b>
Core EPS (sen)	0.4	1.9	5.8	(92.5)	(76.7)	3.9	7.7	(48.8)
DPS (sen)	0.0	1.0	0.0	n.m.	(100.0)	1.0	1.0	0.0
<b>Growth &amp; Margin (%)</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Gross Profit Margin	11.1	11.8	12.2	(1.1)	(0.7)	10.8	11.3	(0.5)
Operating Profit Margin	1.1	5.1	6.5	(5.4)	(4.0)	3.2	4.3	(1.1)
PBT Margin	0.9	4.9	6.2	(5.3)	(4.0)	2.9	3.8	(0.9)
Core PATANCI Margin	0.7	2.3	4.8	(4.1)	(1.6)	1.9	2.9	(0.9)
<b>Ratios &amp; Valuation</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Net cash/market cap (%)	70.4	70.7	22.8	47.6	(0.3)	70.4	45.3	25.1
Net cash per share	0.2	0.2	0.1	0.1	(0.0)	0.2	0.4	(0.2)

Source: Company, MIDFR

## Rhong Khen International: Breakdown by operating segment

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	1QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>Revenue (External):</b>								
Malaysia	29.5	29.5	45.3	(34.8)	0.2	90.2	106.9	(15.6)
Vietnam	80.0	122.3	183.4	(56.3)	(34.5)	287.4	397.0	(27.6)
Thailand	4.4	3.5	4.6	(2.3)	27.5	11.1	12.2	(9.4)
Others	0.8	0.9	1.0	(24.6)	(14.4)	2.8	2.4	20.4
<b>Total</b>	<b>114.8</b>	<b>156.1</b>	<b>234.2</b>	<b>(51.0)</b>	<b>(26.5)</b>	<b>391.5</b>	<b>518.5</b>	<b>(24.5)</b>
<b>PBT:</b>								
Malaysia	0.5	0.9	4.2	(87.1)	(39.6)	1.7	2.1	(15.7)
Vietnam	2.5	13.8	10.8	(76.5)	(81.7)	19.2	20.8	(7.3)
Thailand	(1.5)	(0.1)	(0.4)	>100.0	>100.0	(2.3)	(0.6)	>100.0
Others	(0.6)	(1.0)	(0.1)	>100.0	(37.6)	(1.3)	(2.7)	(49.3)
<b>Total</b>	<b>1.0</b>	<b>13.6</b>	<b>14.4</b>	<b>(93.1)</b>	<b>(92.7)</b>	<b>17.3</b>	<b>19.6</b>	<b>(11.7)</b>
<b>PBT margin:</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Malaysia	1.8	3.1	9.3	(7.4)	(1.2)	1.9	1.9	(0.0)
Vietnam	3.2	11.3	5.9	(2.7)	(8.2)	6.7	5.2	1.5
Thailand	(32.8)	(2.9)	(9.8)	(23.0)	(29.9)	(20.9)	(4.5)	(16.4)
Others	(81.8)	(112.3)	(13.3)	(68.4)	30.5	(47.6)	(112.9)	65.4
<b>Total</b>	<b>0.9</b>	<b>8.7</b>	<b>6.2</b>	<b>(5.3)</b>	<b>(7.9)</b>	<b>4.4</b>	<b>3.8</b>	<b>0.6</b>

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>Revenue</b>	<b>756.3</b>	<b>649.4</b>	<b>516.0</b>	<b>535.3</b>	<b>558.5</b>
Cost of Sales	(650.8)	(569.6)	(456.2)	(468.5)	(483.9)
<b>Gross Profit</b>	<b>105.5</b>	<b>79.8</b>	<b>59.8</b>	<b>66.8</b>	<b>74.6</b>
Other Income	4.3	4.0	3.2	3.4	3.6
Selling and distribution expenses	(21.8)	(20.7)	(16.3)	(17.0)	(17.8)
Administrative expenses	(29.3)	(26.8)	(24.5)	(24.2)	(24.0)
Other expenses	(9.0)	(8.2)	(6.2)	(6.1)	(6.1)
<b>EBITDA</b>	<b>69.1</b>	<b>47.3</b>	<b>34.6</b>	<b>42.4</b>	<b>50.3</b>
<b>EBIT</b>	<b>49.8</b>	<b>28.1</b>	<b>16.0</b>	<b>22.9</b>	<b>30.3</b>
<b>Profit before tax (PBT)</b>	<b>48.8</b>	<b>27.9</b>	<b>19.5</b>	<b>26.5</b>	<b>34.1</b>
Profit After tax (PAT)	35.5	21.9	15.4	20.9	26.9
<b>Core PATANCI</b>	<b>38.1</b>	<b>22.1</b>	<b>15.4</b>	<b>20.9</b>	<b>26.9</b>
Core EPS (sen)	19.6	11.4	7.9	10.8	13.9
DPS (sen)	6.0	6.0	2.4	3.2	4.2

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	255.5	267.8	260.2	252.6	245.1
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>348.8</b>	<b>342.7</b>	<b>336.6</b>
Inventories	253.4	151.4	175.0	179.7	185.6
ST - Trade and other receivables	82.5	43.2	42.4	44.0	45.9
Cash and cash equivalents	267.4	258.4	271.3	284.9	299.1
<b>Total current assets</b>	<b>607.6</b>	<b>458.0</b>	<b>489.8</b>	<b>509.8</b>	<b>531.9</b>
<b>Total Assets</b>	<b>948.2</b>	<b>812.7</b>	<b>838.6</b>	<b>852.5</b>	<b>868.5</b>
<b>Total Equity</b>	<b>655.3</b>	<b>685.7</b>	<b>696.1</b>	<b>706.0</b>	<b>717.3</b>
LT Loans and borrowings	26.0	17.3	7.8	7.9	8.0
<b>Total Non-current liabilities</b>	<b>34.8</b>	<b>26.6</b>	<b>16.4</b>	<b>16.7</b>	<b>17.0</b>
ST Trade and other payables	117.1	53.0	93.7	96.3	99.4
ST Loans and borrowings	103.3	15.1	6.8	6.9	6.9
<b>Total Current Liabilities</b>	<b>258.2</b>	<b>100.4</b>	<b>126.2</b>	<b>129.8</b>	<b>134.1</b>
<b>Total Liabilities</b>	<b>292.9</b>	<b>127.0</b>	<b>142.6</b>	<b>146.5</b>	<b>151.2</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	48.8	27.9	19.5	26.5	34.1
Cash flow from operations	26.6	112.8	153.2	29.6	32.4
Cash flow from investing	(27.9)	(24.5)	(8.1)	(8.4)	(8.8)
Cash flow from financing	(20.5)	(114.6)	(23.9)	(7.6)	(9.4)
<b>Net cash flow</b>	<b>(21.8)</b>	<b>(26.3)</b>	<b>121.1</b>	<b>13.6</b>	<b>14.2</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>271.3</b>	<b>284.9</b>
<b>Net cash/(debt) c/f</b>	<b>170.5</b>	<b>150.2</b>	<b>271.3</b>	<b>284.9</b>	<b>299.1</b>

<b>Key Metrics</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Effective tax rate (%)	27.2	21.5	21.0	21.0	21.0
PER (x)	7.7	11.5	17.4	12.8	10.0
P/BV ratio (x)	0.5	0.4	0.4	0.4	0.4
Net Cash/Market Capitalisation (%)	51.5	84.3	95.7	100.7	106.0
Cash/share (sen)	0.1	0.6	0.8	0.2	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	11.6	12.5	13.4
EBIT Margin (%)	6.6	4.3	3.1	4.3	5.4
Core PATANCI Margin (%)	5.0	3.4	3.0	3.9	4.8

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) pursuant to the Research Incentive Program under Bursa Research Incentive Scheme ("Bursa RISE") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report.

This report has been prepared by MIDF Investment for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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