

Rhong Khen International Berhad

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

Maintain BUY

Outlook Remains Promising

Unchanged Target Price: RM1.60

KEY INVESTMENT HIGHLIGHTS

- **Below expectation amidst seasonal low demand**
- **Turnaround in US demand outlook**
- **Earnings forecast; Maintained**
- **Maintain BUY with an unchanged TP of RM1.60**

Below expectation. Rhong Khen International reported a FY24 core PATANCI of RM11.7m, after excluding a one-off item of RM4.3m. The core earnings came in below our expectation, accounting for only 91% of our full-year estimate, as 4Q performance experienced higher tax provision. Meanwhile, the earnings fell short of the streets' full-year FY24 estimate at 72%. No dividend was declared during the quarter.

Seasonally low quarter. Sequentially, RKI's revenue improved to RM130.1m in 4QFY24 from RM114.8m in 3QFY24, improved in sales by a furniture plant in Vietnam due to higher shipment and higher sales recorded by sawmill plants due to higher demand. PBT Level jumped by >100%qoq to RM2.6m in line with the increase in gross profit offset with higher foreign exchange losses recorded.

FY24 performance. On a yearly basis, the group's topline fell by -19.7%yoy to RM521.6m mainly due to lower sales recorded by all divisions of the Group as demand from main export market i.e United States remained sluggish offset with strengthening of US Dollar against Ringgit Malaysia by +4.5%. Consequently, PBT was weaker by -28.7%yoy inline with the decrease in gross profit offset by higher other income and lower finance costs.

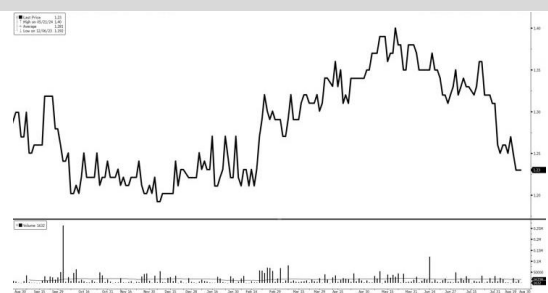
Earnings forecast. Maintained as we anticipate stronger US demand driven by i) the worst of the downturn is over, ii) potential replenishment of furniture stocks as US importers/ wholesalers/ retailers have cleared their warehouse inventories, and iii) a cutting interest rate environment that could boost the furniture demand.

Recommendation. Maintain **BUY** with an unchanged TP of **RM1.60**. Our **TP** 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 better 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, which could provide protection against any potential downside risks.

RETURN STATISTICS

Price @ 27 Aug 2024 (RM)	1.23
Expected share price return (%)	+30.0
Expected dividend yield (%)	+1.9
Expected total return (%)	+31.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-6.8	-9.0
3 months	-6.8	-10.9
12 months	-6.8	-18.6

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 (%)	1.9	2.6	3.4

KEY STATISTICS

FBM KLCI	1,652.29
Issue shares (m)	194.65
Estimated free float (%)	43.54
Market Capitalisation (RM'm)	239.80
52-wk price range	RM1.19-RM1.40
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	7.64

Rhong Khen International: 4QFY24 Results Summary

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	4QFY24	3QFY24	4QFY23	YoY (%)	QoQ (%)	FY24	FY23	YoY (%)
Revenue	130.1	114.8	131.0	(0.7)	13.4	521.6	649.4	(19.7)
Cost of sales	(110.3)	(102.0)	(111.4)	(0.9)	8.1	(459.6)	(571.2)	(19.5)
Gross Profit	19.8	12.7	19.6	0.8	55.3	62.0	78.2	(20.7)
Other income	2.3	2.2	2.4	(4.5)	7.5	9.5	7.0	35.2
Selling and distribution expenses	(6.2)	(3.5)	(4.9)	27.1	76.8	(17.8)	(19.1)	(6.5)
Administrative expenses	(5.8)	(9.2)	(2.8)	107.9	(37.0)	(28.9)	(26.8)	7.7
Other expenses	(7.2)	(0.9)	(5.5)	30.0	709.7	(9.5)	(8.2)	15.4
Operating profit (EBIT)	2.9	1.3	8.8	(67.4)	118.7	15.2	31.1	(50.9)
Net finance income/(cost)	(0.3)	(0.3)	(0.6)	(47.5)	(5.5)	(1.4)	(3.2)	(58.1)
Profit before tax (PBT)	2.6	1.0	8.2	(68.8)	159.4	13.9	27.9	(50.1)
Taxation	(5.1)	(0.8)	0.6	(926.3)	575.3	(8.8)	(6.0)	46.1
Profit After tax (PAT)	(2.5)	0.2	8.8	(128.2)	(1,134.9)	5.1	21.9	(76.5)
PATANCI	(2.4)	0.7	9.2	(126.2)	(465.9)	6.4	22.6	(71.7)
Core PATANCI	3.1	0.8	11.0	(72.1)	261.9	10.7	25.8	(58.7)
Core EPS (sen)	1.6	0.4	5.6	(72.1)	261.7	5.5	13.3	(58.7)
DPS (sen)	0.0	0.0	3.0	(100.0)	n.m.	1.0	4.0	(75.0)
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	15.2	11.1	15.0	0.2	4.1	11.9	12.0	(0.2)
Operating Profit Margin	2.2	1.1	6.7	(4.5)	1.1	2.9	4.8	(1.9)
PBT Margin	2.0	0.9	6.3	(4.3)	1.1	2.7	4.3	(1.6)
Core PATANCI Margin	2.4	0.7	8.4	(6.0)	1.6	2.0	4.0	(1.9)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	81.8	79.0	68.0	13.7	2.8	81.8	68.0	13.7
Net cash per share	0.3	0.2	0.6	(0.3)	0.1	0.3	0.6	(0.3)

Source: Company, MIDFR

Rhong Khen International: Breakdown by operating segment

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	4QFY24	3QFY24	4QFY23	YoY (%)	QoQ (%)	FY24	FY23	YoY (%)
Revenue (External):								
Malaysia	27.5	29.5	18.9	45.6	(6.8)	117.7	125.8	(6.4)
Vietnam	97.3	80.0	107.5	(9.5)	21.5	384.7	504.4	(23.7)
Thailand	4.5	4.4	3.9	15.6	0.2	15.5	16.1	(3.4)
Others	0.9	0.8	0.7	21.6	16.4	3.7	3.1	20.7
Total	130.1	114.8	131.0	(0.7)	13.4	521.6	649.4	(19.7)
PBT:								
Malaysia	(1.8)	0.5	(3.6)	(48.6)	(439.3)	(0.1)	(1.5)	(93.1)
Vietnam	6.8	2.5	11.6	(41.4)	167.4	26.0	32.4	(19.5)
Thailand	(2.2)	(1.5)	(1.4)	59.4	48.6	(4.5)	(1.9)	134.1
Others	(0.2)	(0.6)	1.6	(112.9)	(67.5)	(1.6)	(1.1)	46.6
Total	2.6	1.0	8.2	(68.8)	159.4	19.9	27.9	(28.6)
PBT margin:				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Malaysia	(6.7)	1.8	(19.0)	12.3	(8.6)	(0.1)	(1.2)	1.1
Vietnam	7.0	3.2	10.8	(3.8)	3.8	6.8	6.4	0.4
Thailand	(48.7)	(32.8)	(35.3)	(13.4)	(15.8)	(28.9)	(11.9)	(17.0)
Others	(22.9)	(81.8)	216.1	(238.9)	58.9	(41.6)	(34.2)	(7.4)
Total	2.0	0.9	6.3	(4.3)	1.1	3.8	4.3	(0.5)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	756.3	649.4	516.0	535.3	558.5
Cost of Sales	(650.8)	(569.6)	(456.2)	(468.5)	(483.9)
Gross Profit	105.5	79.8	59.8	66.8	74.6
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)
EBITDA	69.1	47.3	34.6	42.4	50.3
EBIT	49.8	28.1	16.0	22.9	30.3
Profit before tax (PBT)	48.8	27.9	19.5	26.5	34.1
Profit After tax (PAT)	35.5	21.9	15.4	20.9	26.9
Core PATANCI	38.1	22.1	15.4	20.9	26.9
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
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
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
Total Non-current assets	340.6	354.7	348.8	342.7	336.6
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
Total current assets	607.6	458.0	489.8	509.8	531.9
Total Assets	948.2	812.7	838.6	852.5	868.5
Total Equity	655.3	685.7	696.1	706.0	717.3
LT Loans and borrowings	26.0	17.3	7.8	7.9	8.0
Total Non-current liabilities	34.8	26.6	16.4	16.7	17.0
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
Total Current Liabilities	258.2	100.4	126.2	129.8	134.1
Total Liabilities	292.9	127.0	142.6	146.5	151.2
Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
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)
Net cash flow	(21.8)	(26.3)	121.1	13.6	14.2
(+/-) Adjustments	7.3	6.0	0.0	0.0	0.0
Net cash/(debt) b/f	185.0	170.5	150.2	271.3	284.9
Net cash/(debt) c/f	170.5	150.2	271.3	284.9	299.1
Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	27.2	21.5	21.0	21.0	21.0
PER (x)	6.8	10.3	15.5	11.4	8.9
P/BV ratio (x)	0.5	0.4	0.3	0.3	0.3
Net Cash/Market Capitalisation (%)	57.8	94.5	107.4	113.0	118.9
Cash/share (sen)	0.1	0.6	0.8	0.2	0.2
Profitability Margins	2022A	2023A	2024F	2025F	2026F
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

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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