

Koda Ltd

Demand lull in the near term

SINGAPORE | CONSUMER (FURNITURE) | 2H22 RESULTS

- FY22 PATMI was within expectation, excluding the losses from the Vietnam plant fire incident. FY22 revenue and PATMI were 107%/97% of our forecast. Final dividend was cut 25% YoY to 0.75 cents.
- The outlook is cautious. Furniture inventories in the US are piling up from overstocking triggered by supply chain worries and softer consumer demand which is shifting to services.
- Our FY23e earnings is cut by 54% to US\$4.6mn. We downgrade our recommendation from BUY to NEUTRAL. The target price is lowered to S\$0.50 (prev. S\$1.10). Our TP is pegged to 5x ex-cash FY23e PE, in tandem with historical PE (ex-cash).

Results at a glance

USD '000	2H22	2H21	YoY	Comments
Revenue	45,499	43,093	5.6%	
- Manufacturing	39,286	34,914	12.5%	
- Retail and distribution	6,213	8,179	-24.0%	Impacted by lockdowns.
Gross profit	14,073	14,389	-2.2%	
GP margins	30.9%	32.2%	-1.3%	
Segment profit	4,407	4,338	1.6%	
- Manufacturing	5,087	4,121	23.4%	
- Retail and distribution	-680	217	n.m.	
PATMI	2,998	4,776	-37.2%	
PATMI-adj.	4,137	4,776	-13.4%	Exclude net loss from fire.
DPS (Scts) - Final	0.75	1.00	-25.0%	
- Special	0.00	1.25	n.m.	

Source: Company, PSR

The Positive

+ Recovery post-lockdown in Vietnam and Malaysia. Revenue recovered significantly from the 14% YoY decline in 1H22. Operations in Vietnam and Malaysia were temporarily shut for 2 to 3 months due to COVID-19-related restrictions.

The Negatives

- Net loss of S\$1.1mn from fire. 3rd January 2022, a fire incident in the Vietnam factory packaging line resulted in the loss of property, plant and equipment (US\$0.6mn) and inventories (US\$2.2mn) totalling US\$2.86mn. Interim and partial compensation received is US\$1.4mn. We estimate the net loss (after tax) to PATMI was US\$1.1mn. The insurance adjusters are still in the process of determining the final claim amount.

- Retail drag in China. Due to the lockdown in China, retail sales in Commune stores were negatively impacted. Certain shopping malls were closed and consumer sentiment was weak.

Outlook

We expect 1H23 to be challenging. Customer inventories in the US are elevated and at record levels (Figure 1). With consumers shifting spending to services and discretionary spending shrunk by rising inflation, furniture demand is expected to remain weak.

4 September 2022

NEUTRAL (Downgraded)

CLOSING PRICE	SGD 0.50
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 0.50
TOTAL RETURN	2.0%

COMPANY DATA

Bloomberg CODE:	KODASP
O/S SHARES (MN):	83.1
MARKET CAP (USD mn / SGD mn):	30 / 42
52 - WK HI/LO (SGD):	0.86 / 0.5
3M Average Daily T/O (mn):	0.01

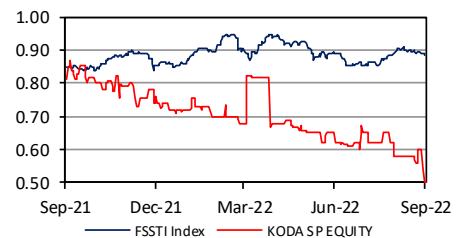
MAJOR SHAREHOLDERS

Koh Jyh Gang	16.3%
Koh Teng Kwee	11.4%
Koh Jyh Eng	10.8%
Koh Shwu Lee	10.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(19.4)	(23.1)	(30.3)
STI RETURN	0.9	0.8	8.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun, USD (mn)	FY21	FY22	FY23e	FY24e
Revenue	82.6	79.3	57.3	60.2
EBITDA	15.0	11.7	10.8	11.5
Net Profit - adj.	9.1	5.7	4.7	5.1
EPS (SGD cents) - adj.	15.0	11.5	7.9	8.7
P/E (X) - adj.	4.7	6.1	8.8	8.0
Dividend Yield	4.3%	1.4%	1.4%	1.4%
ROE	18.5%	10.8%	8.3%	8.4%
ROA	12.2%	6.4%	5.4%	5.7%

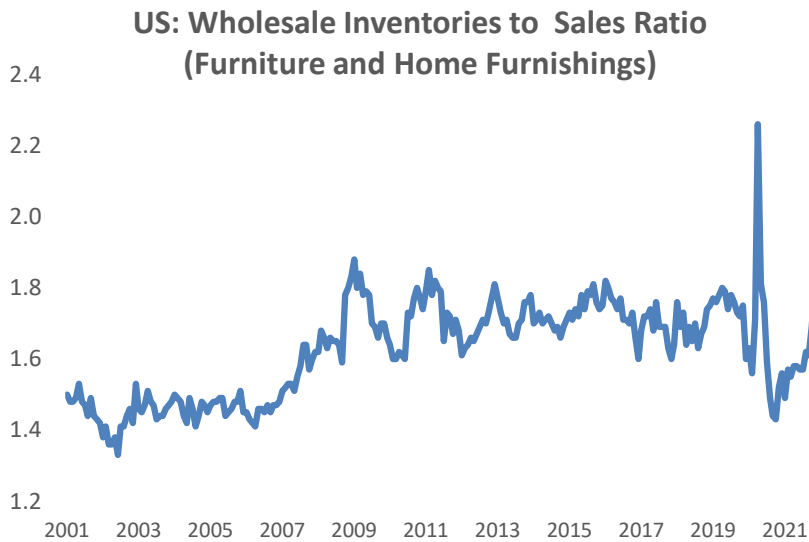
Source: Company, PSR

VALUATION METHOD

5.0x FY23e ex-cash PE

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Figure 1: Inventory to sales currently a record levels, excluding pandemic anomaly



Source: US Census Bureau, CEIC, PSR

With the outlook turning less certain, we expect the company to turn more caution on new projects such as sofa manufacturing. In addition, net cash on the balance sheet has shrunk from US\$11.8mn in FY21 to US\$0.4mn in FY22 following the purchase of a property in Tagore Lane. Of the S\$13.8mn in gross debt, around 80% is long-term in nature.

Downgrade from BUY to NEUTRAL with a lower TP of S\$0.50 (prev. \$1.10)

We lowered our valuation from 7x PE (ex-cash) to 5x PE (ex-cash) due to the slowing earnings momentum as customers deal with the higher-than-expected inventory.

Financials

Income Statement

Y/E Jun, USD '000	FY20	FY21	FY22	FY23e	FY24e
Revenue	60,353	82,643	79,339	57,308	60,173
Cost of sales	(42,282)	(55,502)	(55,106)	(39,542)	(40,918)
Gross profit	18,071	27,141	24,233	17,765	19,255
Selling & distribution expens	(5,276)	(6,765)	(6,846)	(4,871)	(5,115)
Administrative expenses	(9,135)	(10,607)	(10,431)	(7,450)	(7,822)
Other operating expenses	(93)	(299)	(3,101)	(845)	(1,152)
EBITDA	8,250	14,957	11,650	10,756	11,485
EBIT	4,782	11,338	7,163	6,146	6,790
Finance costs	(157)	(240)	(302)	(477)	(571)
Profit before tax	4,625	11,098	6,861	5,669	6,219
Taxation	(500)	(1,991)	(1,393)	(964)	(1,057)
Minority interest	(211)	9	(205)	14	15
PATMI	4,336	9,098	5,673	4,691	5,146
PATMI-adj.	4,336	9,098	6,812	4,691	5,146

Per share data

Y/E Jun	FY20	FY21	FY22	FY23e	FY24e
EPS (USD cents) - adj.	5.25	11.00	8.24	5.67	6.22
EPS (SGD cents) - adj.	7.14	14.96	11.53	7.94	8.71
DPS (SGD cents)	1.25	3.00	1.00	1.00	1.00
BVPS (USD cents)	49.09	59.48	63.55	68.48	73.97
BVPS (SGD cents)	66.76	80.89	88.97	95.87	103.55

Cash Flow

Y/E Jun, USD '000	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	4,625	11,098	6,861	5,669	6,219
Adjustments	3,434	3,802	6,262	4,953	5,104
WC changes	741	(6,178)	(5,990)	2,358	817
Cash generated from ops	8,800	8,722	7,133	12,981	12,139
Income tax paid	(277)	(1,056)	(1,486)	(964)	(1,057)
Others	67	(140)	(192)	(343)	(409)
Cashflow from ops	8,590	7,526	5,455	11,674	10,673
CFI					
CAPEX, net	(1,280)	(3,415)	(13,081)	(3,000)	(3,000)
Others	(3,737)	(3,611)	(42)	-	-
Cashflow from investments	(5,017)	(7,026)	(13,123)	(3,000)	(3,000)
CFE					
Loans, net of repayments	2,311	198	11,016	(2,000)	(500)
Dividends paid	(1,509)	(1,078)	(1,384)	(621)	(621)
Others	(1,280)	(1,554)	(2,186)	-	-
Cashflow from financing	(478)	(2,434)	7,446	(2,621)	(1,121)
Net change in CCE	3,095	(1,934)	(222)	6,053	6,552
CCE, end	16,426	14,673	14,301	20,354	26,906

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jun, USD '000	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Trade and other receivables	6,252	11,538	12,811	11,383	11,340
Cash and bank balances	16,426	14,673	14,301	20,354	26,906
Inventories	11,347	19,575	19,937	15,473	15,043
Total current assets	34,025	45,872	47,049	47,210	53,290
PPE	13,618	15,467	25,416	25,768	26,035
Right-of-use assets	5,898	7,708	14,663	12,701	10,739
Others	4,125	5,433	844	844	844
Total non-current assets	23,641	28,608	40,923	39,313	37,619
Total Assets	57,666	74,480	87,972	86,523	90,909
LIABILITIES					
Trade and other payables	9,295	16,844	13,419	9,886	10,229
Bank borrowings	1,045	1,169	2,612	612	112
Others	1,831	3,078	3,825	3,825	3,825
Total current liabilities	12,171	21,091	19,856	14,323	14,166
Bank borrowings	1,669	1,743	11,313	11,313	11,313
Lease liabilities	3,029	2,101	4,016	4,016	4,016
Others	260	304	176	176	176
Total non-current liabilities	4,958	4,148	15,505	15,505	15,505
Total Liabilities	17,129	25,239	35,361	29,828	29,671
Net assets	40,537	49,241	52,611	56,696	61,237
Represented by:					
Share capital	4,786	4,786	4,894	4,894	4,894
Accumulated profits	35,867	43,887	48,176	52,247	56,772
Others	(116)	568	(459)	(445)	(429)
Total Equity	40,537	49,241	52,611	56,696	61,237

Valuation Ratios

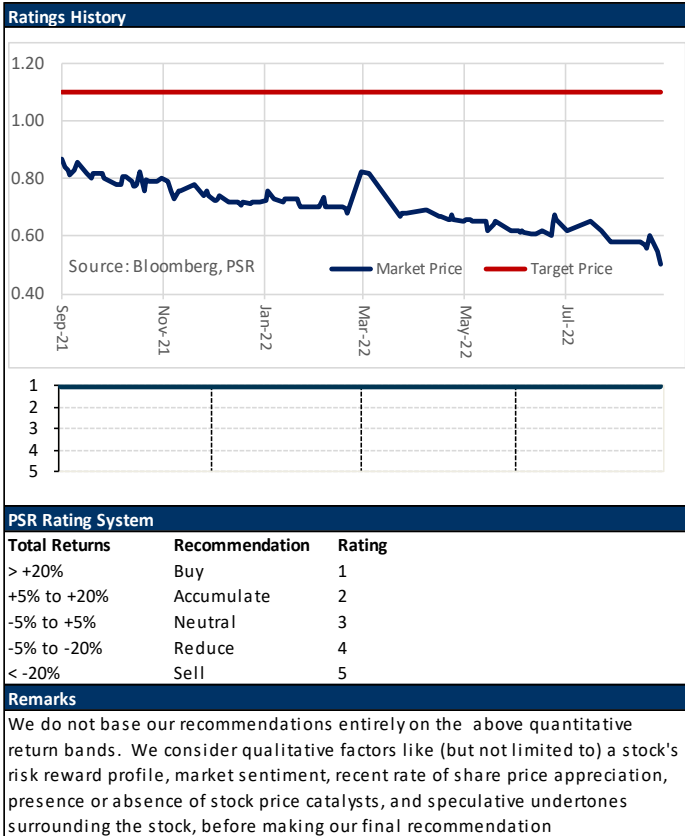
Y/E Jun	FY20	FY21	FY22	FY23e	FY24e
P/E (X) - adj.	9.80	4.68	6.07	8.82	8.04
P/B (X)	1.12	0.87	0.79	0.73	0.68
EV/EBITDA (X)	-1.67	-0.79	-0.05	-0.81	-1.37
Dividend Yield (%)	1.8%	4.3%	1.4%	1.4%	1.4%

Growth & Margins

	FY20	FY21	FY22	FY23e	FY24e
Growth					
Revenue	4.3%	36.9%	-4.0%	-27.8%	5.0%
EBITDA	8.2%	81.3%	-22.1%	-7.7%	6.8%
EBIT	-17.0%	137.1%	-36.8%	-14.2%	10.5%
PATMI	-18.3%	109.8%	-37.6%	-17.3%	9.7%
Margins					
Gross margin	29.9%	32.8%	30.5%	31.0%	32.0%
EBITDA margin	13.7%	18.1%	14.7%	18.8%	19.1%
EBIT margin	7.9%	13.7%	9.0%	10.7%	11.3%
Net profit margin	7.2%	11.0%	7.2%	8.2%	8.6%

Key Ratios

	FY20	FY21	FY22	FY23e	FY24e
ROE (%)	10.7%	18.5%	10.8%	8.3%	8.4%
ROA (%)	7.5%	12.2%	6.4%	5.4%	5.7%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash



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