

HLIB Research

PP 9484/12/2012 (031413)

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BUY (from HOLD)

Target Price: **RM0.76**
Previously: **RM0.74**
Current Price: **RM0.665**

Capital upside	14.3%
Dividend yield	4.5%
Expected total return	18.8%

Sector coverage: Manufacturing

Company description: Homeritz is an integrated designer, manufacturer, and exporter of a complete range of upholstered home furniture.

Share price


Historical return (%)	1M	3M	12M
Absolute	3.1	1.5	0.8
Relative	0.4	-1.9	4.4

Stock information

Bloomberg ticker	HMCB MK
Bursa code	5160
Issued shares (m)	300
Market capitalisation (RM m)	200
3-mth average volume ('000)	1,198
SC Shariah compliant	Yes

Major shareholders

Chua Fen Fatt	34.6%
Tee Hwee Ing	21.9%
Tee Hwee Chain	3.2%

Earnings summary

FYE (Aug)	FY19	FY20f	FY21f
PATMI - core (RM m)	20.8	22.9	24.0
EPS - core (sen)	6.9	7.6	8.0
P/E (x)	9.5	8.6	8.3

Homeritz Corporation

Better volumes boosts earnings

1QFY20 core PATAMI of RM7.8m (QoQ: +54.2%, YoY: +82.3%) was above our expectations, accounting for 35.9% of our full year earnings. The better than expected earnings was due to higher than expected sales volumes. We raise our FY20/21 forecasts by 5.5%/2.5% to account for better sales volumes. After our earnings adjustment, we upgrade our rating to BUY (from Hold), with higher TP of RM0.76 (from RM0.74 previously), based on 10x revised CY20 EPS of 7.6 sen. We continue to like Homeritz due to healthy net cash per share per share of 28.9 sen and increased automation efforts.

Above expectations. 1QFY20 core PATAMI of RM7.8m (QoQ: +54.2%, YoY: +82.3%) was above our expectations, accounting for 35.9% of our full year earnings. The better than expected earnings was due to higher than expected sales volumes. One-off adjustments include foreign exchange gains of RM0.3m.

Dividend. 1QFY20: None declared (1QFY19: None)

QoQ. Core PATAMI grew 54.2% in tandem with revenue growth of 23.2%. Better profitability was driven by better sales volumes, lower production cost and weaker ringgit.

YoY. Core PATAMI rose sharply by 82.3% to RM7.8m from RM4.3m in 1QFY19. This was attributed to better sales volumes, weaker ringgit, and cheaper raw material cost during the period.

Outlook. Positive volume growth in 1QFY20 is encouraging for the group. While we note their revenue streams remain geographically diversified as Homeritz supplies to close to 40 different countries, Homeritz shared that they are benefitting from increased sales to the US, which they will continue to try to grow via trade fares. Homeritz has room for increased order volumes, as they are operating at just 70% capacity currently. Despite this, we expect the coming quarters to be slightly weaker due to higher minimum wage in major cities (which includes Muar, where Homeritz's manufacturing facility is located).

Large cash pile. As of end-Nov, Homeritz had net cash and net cash per share of RM86.7m (or 28.9 sen). We believe the group will continue to utilise the cash pile for future vertical expansion (both up or down the production chain). Over the years the group has gone up the production chain, to produce smaller parts for its goods (i.e. steel and wooden legs for chairs and tables).

Forecast. We raise our FY20/21 forecasts by 5.5%/2.5% to account for better sales volumes.

Upgrade to BUY, TP: RM0.76. After our earnings adjustment, our TP rises to RM0.76 from RM0.74 previously, based on 10x revised CY20 EPS of 7.6 sen. We continue to like Homeritz due to healthy net cash per share per share of 28.9 sen and increased automation efforts. We upgrade our call to **BUY** (from Hold previously) following recent share price retracement and our earnings upgrade.

Financial Forecast (Homeritz)

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Aug	FY18	FY19	FY20f	FY21f	FY22f
Cash	64.9	81.7	78.5	92.2	106.5
Receivables	11.3	8.3	13.5	13.7	14.1
Inventories	30.1	23.5	31.1	31.5	32.4
PPE	50.5	56.8	59.0	58.9	59.4
Others	5.5	6.0	6.1	7.1	7.1
Assets	162.3	176.3	188.2	203.3	219.5
Payables	13.0	10.9	9.7	9.9	10.2
Debt	-	-	-	-	-
Others	5.4	9.9	6.1	6.1	6.1
Liabilities	18.4	20.8	15.8	16.0	16.3
Shareholder's equity	143.9	155.5	169.4	184.4	200.3
Minority interest	-	-	-	-	-
Equity	143.9	155.5	169.4	184.4	200.3

Cash Flow Statement

FYE Aug	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	27.2	27.6	29.9	31.3	32.4
D&A	(3.2)	(3.8)	(4.8)	(5.1)	(5.4)
Working capital	(0.3)	7.5	(13.9)	(0.5)	(1.0)
Taxation	(6.7)	(4.2)	(7.0)	(7.3)	(7.6)
Others	7.0	7.7	9.7	10.3	10.9
CFO	24.0	34.7	13.9	28.6	29.3
Capex	(10.3)	(10.3)	(8.0)	(6.0)	(6.0)
Others	(13.6)	(7.0)	-	-	-
CFI	(23.9)	(17.3)	(8.0)	(6.0)	(6.0)
Dividends	(9.0)	(9.0)	(9.0)	(9.0)	(9.0)
Others	-	-	-	-	-
CFF	(9.0)	(9.0)	(9.0)	(9.0)	(9.0)
Net cash flow	(8.9)	8.4	(3.2)	13.6	14.3
Forex	0.1	0.2	-	-	-
ed deposits					
Beginning cash	60.8	64.9	81.7	78.5	92.2
Ending cash	64.9	81.7	78.5	92.2	106.5

Income Statement

FYE Aug	FY18	FY19	FY20f	FY21f	FY22f
Revenue	166.4	147.7	166.0	168.3	173.0
EBITDA	28.6	29.3	32.6	34.3	35.8
EBIT	25.4	25.5	27.8	29.2	30.3
Finance cost	-	-	-	-	-
Profit before tax	27.2	27.6	29.9	31.3	32.4
Tax	(6.1)	(5.6)	(7.0)	(7.3)	(7.6)
Net profit	21.1	22.0	22.9	24.0	24.9
Minority interest	-	-	-	-	-
Reported PATAMI	21.1	22.0	22.9	24.0	24.9
Exceptionals	0.3	(1.2)	-	-	-
Core PATAMI	21.4	20.8	22.9	24.0	24.9

Valuation & Ratios

FYE Aug	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	7.1	6.9	7.6	8.0	8.3
P/E (x)	9.3	9.5	8.6	8.3	8.0
EV/EBITDA (x)	4.6	4.0	3.7	3.1	2.6
DPS (sen)	3.0	3.0	3.0	3.0	3.0
Dividend yield	4.5	4.5	4.5	4.5	4.5
BVPS (RM)	0.5	0.5	0.6	0.6	0.7
P/B (x)	0.5	0.4	0.4	0.4	0.3
EBITDA margin	17.2	19.9	19.6	20.4	20.7
EBIT margin	15.3	17.3	16.7	17.3	17.5
PBT margin	16.3	18.7	18.0	18.6	18.7
Net margin	12.9	14.1	13.8	14.2	14.4
ROE (%)	14.9	13.4	13.5	13.0	12.4
ROA (%)	13.2	11.8	12.2	11.8	11.3
Net gearing	45.1	52.6	46.4	50.0	53.2

Assumptions

FYE Aug	FY18	FY19	FY20f	FY21f	FY22f
RM:US\$	4.0	4.1	4.1	4.1	4.1
Annual production output (containers)	2,488.3	2,350.1	2,453.8	2,488.3	2,557.4
Utilisation rate	72.0	68.0	71.0	72.0	72.0

Figure #1 Quarterly results comparison

FYE Aug (RM m)	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	36.1	33.7	41.5	23.2%	14.9%
Operating Expenses	-31.2	-29.4	-31.9	8.4%	2.2%
Gross profit	4.9	4.3	9.6	125.2%	96.1%
Other operating income	1.6	1.3	1.0	-21.6%	-37.3%
PBT	6.5	5.5	10.6	91.2%	63.2%
PAT	5.1	4.5	8.1	81.0%	57.4%
Reported PATAMI	5.1	4.5	8.1	81.0%	57.4%
Core PATAMI	4.3	5.0	7.8	54.2%	82.3%
Core EPS (sen)	1.4	1.7	2.6	54.2%	82.3%
GP margin (%)	13.5%	12.6%	23.1%	10.5%	9.6%
PBT margin (%)	18.0%	16.4%	25.5%	9.1%	7.6%
PATAMI margin (%)	11.8%	14.9%	18.7%	3.8%	6.9%

HLIB, Bursa

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Published & printed by:

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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