



HOMERITZ CORPORATION BERHAD

Outperform

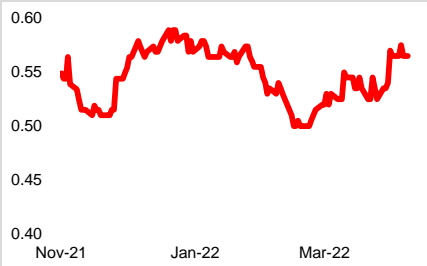
DESCRIPTION

Muar-based integrated solid wood-based home furniture manufacturer. Mainly engaged in the design, manufacture and sale of upholstery furniture

12-Month Target Price RM0.80
Current Price RM0.565
Expected Return +41.8%

Market Sector Main Consumer
Bursa Code 5160
Bloomberg Ticker HMCB MK
Shariah-Compliant YES

SHARE PRICE CHART



52 Week Range (RM) 0.50 – 0.67
 3-Month Average Vol ('000) 425.5

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	7.6	0.2	0.2
Relative Returns	6.7	-5.7	-3.0

KEY STOCK DATA

Market Capitalisation (RMm) 239.2
 No. of Shares (m) 423.3

MAJOR SHAREHOLDERS

	%
Chua Fen Fatt	30.7
Tee Hwee Ing	22.1
Tee Hui Chein	3.0

Wong Ling Ling
 T 603 2268 3020
 F 603 2268 3014
 E wong.lingling@publicinvestbank.com.my

Margins Lifted by Better Economies of Scale

Homeritz's reported a 2QFY22 headline net profit growth of 63.6% YoY to RM10.3m, mainly due to improved margins on the back of better economies of scale. After adjusting for non-core items, Homeritz's core net profit came in at RM9.7m. Cumulative 1HFY22 core net profit of RM17.1m was above our and consensus estimates, accounting for 62% and 58% of our full-year forecasts respectively. The discrepancy in our numbers was mainly due to the stronger-than-expected sales. We are adjusting our FY22-24F earnings forecast upwards by 6-10%, mainly to account for the stronger export sales. While demand growth might slow down in the near-term due to cost-push inflation, we think that the impact could be mitigated by the strengthening of USD. Additionally, we are of the view that Homeritz's strong profit margins will be sustainable going forward, given its positioning as an Original Design Manufacturer (ODM). We reiterate our **Outperform** call on Homeritz, with a lower TP of RM0.80 (previously RM0.82) however, as we lower our PE multiple to 10x (close to its +1 SD of its 5-year historical PE, see figure 1) from 12x. We believe that the premium valuation ascribed is justified given its higher-than-average profit margins. Meanwhile, we also roll forward our valuation base year to CY23F EPS.

§ **Results review.** Homeritz's 2QFY22 revenue grew by 17.5% YoY to RM68.9m, on the back of the favourable foreign exchange rate and increase in sales volume. PBT surged by 79.3% YoY to RM13.8m, lifted by an expansion in profit margins due to better economies of scale. Homeritz's PBT margin improved from 13.2% in 2QFY21 to 20.1%.

§ **Outlook.** Although the global furniture demand growth might taper off in the near-term due to inflation, we think that the negative impact could be mitigated by the favourable foreign exchange rate. Nevertheless, we gather that demand is still robust for Homeritz, with a production lead time of 75-90 days. Meanwhile, we think that Homeritz positioning as an ODM, will enable the group to pass on the soaring raw material prices by adjusting its selling price by introducing new designs. The group is also applying to increase its foreign workers headcount, which should provide an additional boost to its production capacity, thereby leading to an improvement in profit margins given the better economies of scale.

KEY FORECAST TABLE

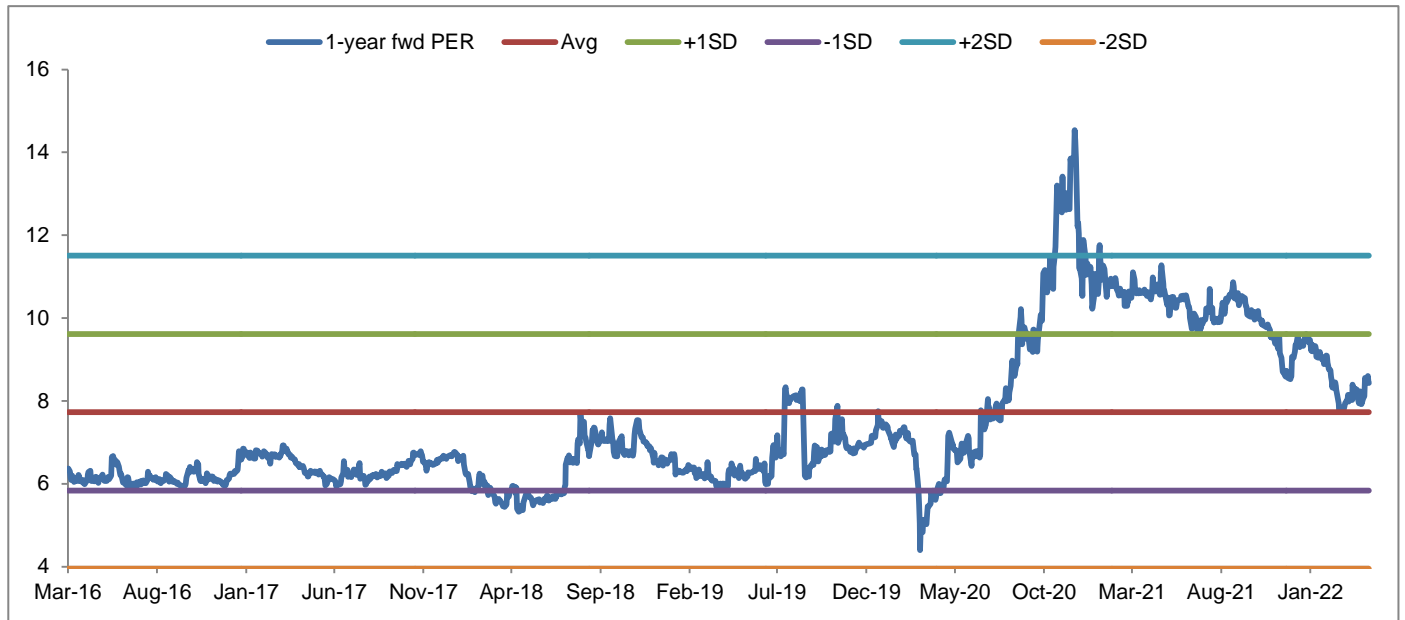
FYE Aug (RM m)	2020A	2021A	2022F	2023F	2024F	CAGR
Revenue	155.4	164.9	217.2	228.1	241.8	13.6%
Operating Profit	28.4	26.3	37.6	40.2	43.0	17.9%
Pre-tax Profit	30.5	27.7	39.8	42.4	45.2	17.7%
Net Profit	23.6	22.3	30.3	32.2	34.4	15.5%
Core Net Profit	22.3	20.1	30.3	32.2	34.4	19.6%
EPS (Sen)	5.7	5.4	7.4	7.8	8.4	15.5%
P/E (x)	9.9	10.4	7.7	7.2	6.8	
DPS (Sen)	1.5	1.6	3.0	3.5	3.5	
Dividend Yield (%)	2.7	2.8	5.3	6.2	6.2	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Aug (RMm)</u>	<u>2Q22</u>	<u>2Q21</u>	<u>1Q22</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD22</u>	<u>YTD21</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	68.9	58.7	58.5	17.5	17.7	127.5	111.2	14.6	YoY growth mainly driven by strengthening of USD and increase in sales volume
Operating expenses	-56.2	-51.9	-49.1	8.3	14.4	-105.3	-96.0	9.7	
Other operating income	1.1	0.9	1.5	19.1	-28.4	2.6	1.7	55.0	
PBT	13.8	7.7	11.0	79.3	26.2	24.8	16.9	46.6	
Taxation	-3.5	-1.4	-2.5	150.0	40.0	-6.0	-3.3	81.8	
Net profit	10.3	6.3	8.5	63.6	22.2	18.8	13.6	38.0	
Core net profit	9.7	5.7	7.4	71.1	30.9	17.1	12.9	33.1	
PBT margin	20.1%	13.2%	18.7%			19.5%	15.2%		Better economies of scale helped to lift profit margins
Net profit margin	15.0%	10.8%	14.5%			14.8%	12.3%		
Core net profit margin	14.1%	9.7%	12.7%			13.4%	11.6%		

Source: Company, PublicInvest Research

Figure 1: Forward PER Band


Source: PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT

FYE Aug (RM m)	2020A	2021A	2022F	2023F	2024F
Revenue	155.4	164.9	217.2	228.1	241.8
Operating Profit	28.4	26.3	37.6	40.2	43.0
Net Finance (Costs) / Income	2.1	1.5	2.2	2.2	2.2
Associates & Affiliates	0.0	0.0	0.0	0.0	1.0
Pre-tax Profit	30.5	27.7	39.8	42.4	45.2
Income Tax	-6.9	-5.4	-9.6	-10.2	-10.9
Effective Tax Rate (%)	23%	19%	24%	24%	24%
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	23.6	22.3	30.3	32.2	34.4
Core Net Profit	22.3	20.1	30.3	32.2	34.4

Growth

Revenue (%)		6.1	31.7	5.0	6.0
Operating Profit (%)		-7.6	43.3	6.9	7.0
Net Profit (%)		-5.3	35.5	6.5	6.6

Source: Company, PublicInvest Research estimates

BALANCE SHEET

FYE Aug (RM m)	2020A	2021A	2022F	2023F	2024F
Property, Plant & Equipment	61.8	69.1	76.0	82.3	88.0
Cash and Cash Equivalents	77.5	84.1	100.4	109.4	120.2
Trade and Other Receivables	14.7	2.8	20.6	21.6	22.9
Other Assets	46.2	77.5	63.3	65.4	68.2
Total Assets	200.3	233.5	260.3	278.7	299.4
Trade and Other Payables	9.8	4.5	13.5	14.1	14.9
Short-term Borrowings	0.0	0.0	0.0	0.0	0.0
Long-term Borrowings	0.0	0.0	0.0	0.0	0.0
Other Liabilities	14.3	24.5	24.5	24.5	24.5
Total Liabilities	24.1	29.0	38.0	38.6	39.4
Shareholders' Equity & Minority	176.1	204.5	222.3	240.1	260.0
Total Equity and Liabilities	200.3	233.5	260.3	278.7	299.4

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Aug	2020A	2021A	2022F	2023F	2024F
Book Value Per Share	0.4	0.5	0.5	0.6	0.6
NTA Per Share	0.4	0.5	0.5	0.6	0.6
EPS (sen)	5.7	5.4	7.4	7.8	8.4
DPS (sen)	1.5	1.6	3.0	3.5	3.5
Payout Ratio (%)	27.9	33.0	41.0	45.0	42.2
ROA (%)	11.1	8.6	11.6	11.6	11.5
ROE (%)	12.6	9.8	13.6	13.4	13.2

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

DISCLAIMER

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. The analyst(s) and associate analyst(s) may also receive compensation or benefit (including gift and company/issuer-sponsored and paid trips in line with the Bank's policies) in executing his/her duties. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

Published and printed by:
PUBLIC INVESTMENT BANK BERHAD (20027-W)
26th Floor, Menara Public Bank 2
78, Jalan Raja Chulan
50200 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014