



### HOMERITZ CORPORATION BERHAD

**Outperform**

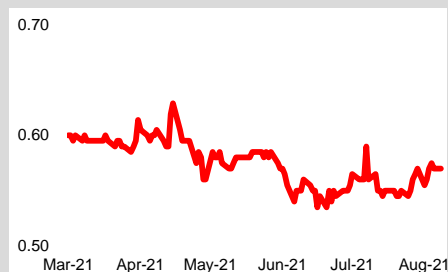
#### DESCRIPTION

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

**12-Month Target Price** RM0.82  
**Current Price** RM0.57  
**Expected Return** +44.2%

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

#### SHARE PRICE CHART



52 Week Range (RM) 0.53 – 0.89  
 3-Month Average Vol ('000) 200.6

#### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	1.8	-2.6	-4.2
Relative Returns	-4.3	-2.3	-6.5

#### KEY STOCK DATA

Market Capitalisation (RMm)	235.4
No. of Shares (m)	412.9

#### MAJOR SHAREHOLDERS

	%
Chua Fen Fatt	31.5
Tee Hwee Ing	22.7
Tee Hui Chin	2.9

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### Furniture Demand Still Robust

Homeritz's 3QFY21 core net profit jumped by 366.4% YoY to RM7.3m, mainly due to the increase in sales volume and higher selling price of certain products. Cumulative 9MFY21 core net profit of RM20.1m were in-line with our but above consensus estimates, making up 76% and 82% of our full-year forecast respectively. In light of the disruption in manufacturing operations since the implementation of Movement Control Order (MCO) 3.0 in June 2021 and a rising raw material cost, we are adjusting our forecast for FY21-23F downwards by 3-12%. Nevertheless, we are still positive on Homeritz's long-term outlook, supported by robust demand for furniture especially from the America region. Our **Outperform** call on Homeritz is maintained with a slight reduction in TP to RM0.82 (from RM0.85) based on a 12x of CY22F EPS.

§ **3QFY21 revenue surged by 94.3% YoY to RM47.4m**, attributable to the increase in volume sold, higher selling prices as well as the low base effect with last year's performance affected by the initial wave of Covid-19 outbreak. We believe that the stronger sales were mainly driven by the growth in exports to all regions especially the America region. On a QoQ basis, revenue fell by 19.3%, owing to the temporary stoppage of the manufacturing facilities as some employees were tested positive for Covid-19.

§ **3QFY21 core net profit jumped by 366.4% YoY to RM7.3m**, on the back of the higher economies of scale from the increase in production output. In addition, the increase in average selling prices has helped to mitigate the impact of the hike in raw materials and the depreciation of USD. As a result, Homeritz's core net profit margin grew by 5.7% to 15.4% (3QFY20: 9.7%).

§ **Outlook.** We are anticipating Homeritz to post weaker earnings in 4QFY21 as the group's manufacturing operations were halted from June following the implementation of the Nationwide FMCO. Nevertheless, we gather that Homeritz is looking to resume its manufacturing operations in the middle of September after all of its workers become fully vaccinated. While Homeritz's near-term outlook remains challenging, we are still confident on its long-term prospects, supported by the strong furniture demand as we gather that its current production lead time is at least 180 days (previously was around 120-150days). Furthermore, Homeritz continues to remain focused on increasing automation to increase productivity and lower labour cost.

#### KEY FORECAST TABLE

FYE Aug (RM m)	2019A	2020A	2021F	2022F	2023F	CAGR
Revenue	147.7	155.4	184.8	195.2	205.0	9.7%
Operating Profit	25.5	28.4	28.2	34.0	36.6	8.8%
Pre-tax Profit	27.7	30.5	30.4	36.2	38.8	8.4%
Net Profit	22.1	23.6	23.1	27.5	29.5	7.8%
Core Net Profit	19.7	22.1	23.1	27.5	29.5	10.1%
EPS (Sen)	7.4	5.7	5.6	6.7	7.2	7.8%
P/E (x)	7.7	9.9	10.2	8.5	7.9	
DPS (Sen)	3.0	1.5	3.0	3.5	4.0	
Dividend Yield (%)	5.3	2.6	5.3	6.1	7.0	

Source: Company, PublicInvest Research estimates

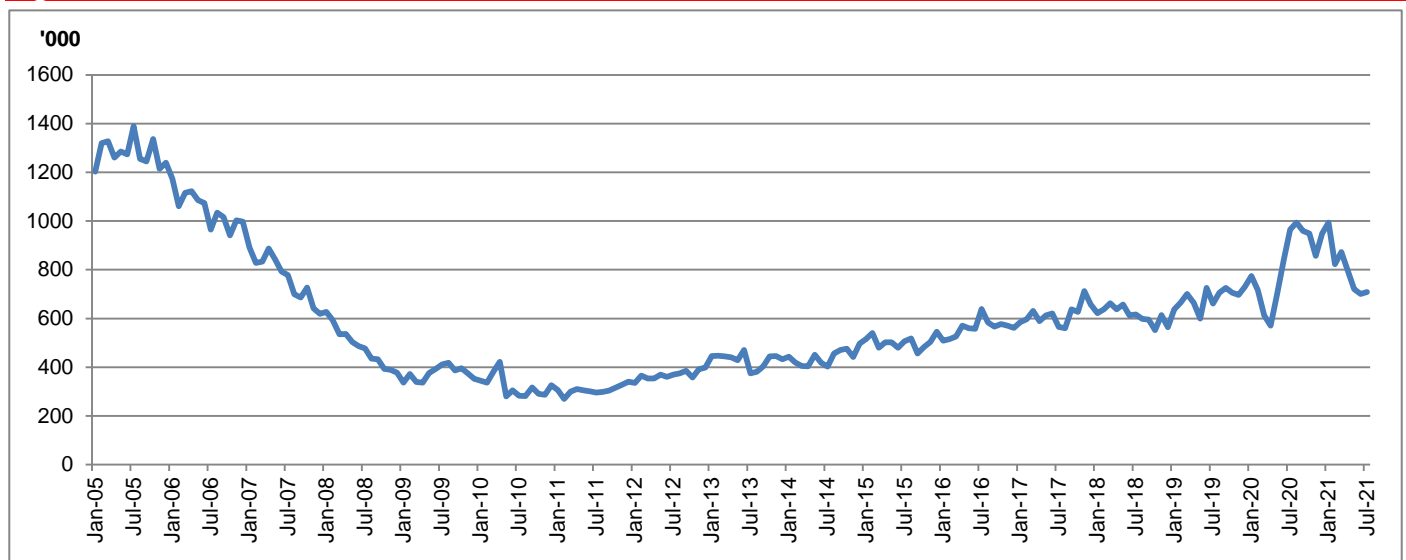


Table 1: Results Summary

<u>FYE Aug (RMm)</u>	<u>3Q21</u>	<u>3Q20</u>	<u>2Q21</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD21</u>	<u>YTD20</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	47.4	24.4	58.7	94.3	-19.3	158.6	109.0	45.5	Mainly due to increase in exports to all regions especially the America region
Operating expenses	-38.4	-22.6	-51.9	70.1	-26.0	-134.4	-91.8	46.4	
Gross Profit	9.0	1.8	6.8	>100	32.3	24.2	17.2	41.0	
Other operating income	1.7	1.4	0.9	28.2	88.6	3.4	3.7	-7.8	
PBT	10.7	3.2	7.7	>100	39.0	27.7	20.9	32.3	
Taxation	-2.3	-0.7	-1.4	>100	62.8	-5.6	-4.5	23.3	
<b>Net profit</b>	<b>8.5</b>	<b>2.5</b>	<b>6.3</b>	<b>&gt;100</b>	<b>33.7</b>	<b>22.1</b>	<b>16.4</b>	<b>&gt;100</b>	
<b>Core net profit</b>	<b>7.3</b>	<b>1.6</b>	<b>5.7</b>	<b>&gt;100</b>	<b>28.3</b>	<b>20.1</b>	<b>14.5</b>	<b>&gt;100</b>	
GP margin	19.0%	7.4%	11.6%			15.3%	15.8%		Margins expansion mainly due to the improvement in production output and higher ASP
PBT margin	22.7%	13.0%	13.2%			17.4%	19.2%		
Net profit margin	17.8%	10.1%	10.8%			13.9%	15.0%		
Core net profit margin	15.4%	6.4%	9.7%			12.7%	13.3%		

Source: Company, PublicInvest Research

Figure 1: US New home sales data



Source: US Census Bureau, PublicInvest Research

## KEY FINANCIAL DATA

### INCOME STATEMENT

FYE Aug (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	147.7	155.4	184.8	195.2	205.0
<b>Operating Profit</b>	<b>25.5</b>	<b>28.4</b>	<b>28.2</b>	<b>34.0</b>	<b>36.6</b>
Net Finance (Costs) / Income	2.2	2.1	2.2	2.2	2.2
Associates & Affiliates	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>27.7</b>	<b>30.5</b>	<b>30.4</b>	<b>36.2</b>	<b>38.8</b>
Income Tax	-5.6	-6.9	-7.3	-8.7	-9.3
Effective Tax Rate (%)	20%	23%	24%	24%	24%
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>22.1</b>	<b>23.6</b>	<b>23.1</b>	<b>27.5</b>	<b>29.5</b>
<b>Core Net Profit</b>	<b>19.7</b>	<b>22.1</b>	<b>23.1</b>	<b>27.5</b>	<b>29.5</b>

#### Growth

Revenue (%)	5.2	19.0	5.6	5.0
Operating Profit (%)	11.6	-0.8	20.7	7.7
Net Profit (%)	6.6	-2.0	19.2	7.2

Source: Company, PublicInvest Research estimates

### BALANCE SHEET

FYE Aug (RM m)	2019A	2020A	2021F	2022F	2023F
Property, Plant & Equipment	56.8	61.8	69.3	76.1	82.4
Cash and Cash Equivalents	81.7	77.5	89.2	84.1	88.4
Trade and Other Receivables	8.3	14.7	17.5	18.5	19.4
Other Assets	29.5	46.2	52.7	54.0	55.9
<b>Total Assets</b>	<b>176.3</b>	<b>200.3</b>	<b>228.7</b>	<b>232.6</b>	<b>246.1</b>
Trade and Other Payables	5.2	9.8	21.2	12.1	12.6
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	15.6	14.3	20.6	20.6	20.6
<b>Total Liabilities</b>	<b>20.8</b>	<b>24.1</b>	<b>41.9</b>	<b>32.7</b>	<b>33.2</b>
Shareholders' Equity & Minority	155.5	176.1	186.8	199.9	212.9
<b>Total Equity and Liabilities</b>	<b>176.3</b>	<b>200.3</b>	<b>228.7</b>	<b>232.6</b>	<b>246.1</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Aug	2019A	2020A	2021F	2022F	2023F
Book Value Per Share	0.4	0.4	0.5	0.5	0.5
NTA Per Share	0.4	0.4	0.5	0.5	0.5
EPS (sen)	7.4	5.7	5.6	6.7	7.2
DPS (sen)	3.0	1.5	3.0	3.5	4.0
Payout Ratio (%)	45.6	28.1	53.6	52.5	56.0
ROA (%)	11.2	11.0	10.1	11.8	12.0
ROE (%)	12.7	12.5	12.4	13.8	13.9

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

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

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