

# Koda Limited

22 February 2022

**BUY (maintained)**

**Target Price: S\$1.14 (previously S\$1.00)**

<b>BBG</b>	KODA SP
<b>Market cap</b>	S\$60m
<b>Price (22 February 2022)</b>	S\$0.70
<b>52-week range</b>	S\$0.59 – S\$0.93
<b>Target Price</b>	S\$1.14
<b>Shares Outstanding</b>	82.8m
<b>Free Float</b>	37.6%
<b>Major Shareholders</b>	James Koh Jyh Gang 16.3% Koh Teng Kwee 11.3% Koh Jyh Eng 10.8% Koh Shwu Lee 10.3%
<b>P/BV (12/21)</b>	0.8x
<b>Net Debt to EBITDA (06/21)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

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## Production catch up in 2H

Koda's 1H22 results were in line with our forecast. Revenue of US\$33.8m and net profit of US\$3.0m was 47%/58% of our FY22E estimates (Rev: US\$72m, Net profit: US\$5.1m). Revenue (-14.4% yoy) and net profit (-37.2% yoy) were impacted by COVID-related factory closure in both Malaysia and Vietnam and higher raw material costs. While export sales saw a decline (-21% yoy) from lower production, Commune's retail sales continue to grow (14% yoy and 9% hoh) on higher consumer demand.

**US furniture demand is holding out strong.** Factories in both Vietnam and Malaysia have since resumed operations in 1H and are running on full capacity. Catch up in production will lift 2H revenue. Despite the higher utilization rate, gross margin is capped given the uptrend in raw material costs. Lumber price has risen 178% to USD1265 per thousand board feet from the lowest level in Aug 2021. Impending Fed's interest rate hike will hurt demand as it stifles spending and delays home purchases. We expect the impact of rate hike to reflect further in its FY23 results. Its Vietnam factory, slated to open in 3Q and contribute an additional 30% capacity when operation is normalised, is pushed back to 4Q due to construction and machinery delay.

**2H22 could see moderation in furniture purchases under Commune.** Demand coming from wfh arrangement is likely to ease in the coming months as more employees return to office. Sg furniture retail sales and volume were down 7.9%/8.2% m-o-m in Dec 21. Furniture sales growth in China has also slowed down in Dec, registering 5% m-o-m growth as compared to 12% in Nov. China's strict zero COVID policy continues to disrupt retail footfall. Commune is raising its prices to combat rising costs.

**Maintained BUY at new TP of S\$1.14, derived on DCF. (WACC: 10.8%).** We adjusted our FY22E & FY23E topline and bottomline estimates by +5%/-4% and +6%/+1% respectively. This translates into FY22E PE of 13.0x and FY23 PE of 12.8x.

Year end 30 Jun (in US\$m)	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue	57.9	60.4	82.6	75.8	78.1
EBIT	5.8	4.8	11.3	7.0	7.1
Net profit	5.3	4.3	9.1	5.4	5.5
EPS (US cents)	6.4	5.3	11.0	6.5	6.6
Dividend per share (S cents)	2.5	1.3	2.0	1.3	1.3
Net cash / (debt)	13.0	13.7	11.8	13.1	15.3
<b>Valuation</b>					
EBIT margin (%)	9.9	7.9	13.7	9.3	9.1
ROIC (%)	21.1	15.4	24.0	13.8	13.3
EV/EBITDA (x)	4.1	3.7	2.1	2.7	2.2
P/E (x)	8.0	9.9	4.7	8.0	7.9
Dividend yield (%)	3.6	1.8	3.0	1.8	1.8

## Income Statement

YE 30 Jun					
US\$m	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>57.9</b>	<b>60.4</b>	<b>82.6</b>	<b>75.8</b>	<b>78.1</b>
Cost of sales	(39.6)	(42.3)	(55.5)	(51.5)	(53.1)
<b>Gross profit</b>	<b>18.2</b>	<b>18.1</b>	<b>27.1</b>	<b>23.2</b>	<b>24.0</b>
Other income	0.8	1.2	1.9	1.7	0.8
Distribution costs	(5.0)	(5.3)	(6.8)	(7.0)	(7.2)
Admin expenses	(8.1)	(9.1)	(10.6)	(10.6)	(10.3)
Other income/ (expenses)	(0.2)	(0.1)	(0.3)	(0.2)	(0.2)
<b>Operating profits</b>	<b>5.8</b>	<b>4.8</b>	<b>11.3</b>	<b>7.0</b>	<b>7.1</b>
Share of results of associates	0	0	0	0	0
<b>EBIT</b>	<b>5.8</b>	<b>4.8</b>	<b>11.3</b>	<b>7.0</b>	<b>7.1</b>
Interest expense	0	(0.2)	(0.2)	(0.6)	(0.6)
<b>Profit before tax</b>	<b>5.7</b>	<b>4.6</b>	<b>11.1</b>	<b>6.4</b>	<b>6.5</b>
Tax expense	(0.4)	(0.5)	(2.0)	(1.1)	(1.2)
Minority interests	0	0.2	0	0.2	0.2
<b>Net profit</b>	<b>5.3</b>	<b>4.3</b>	<b>9.1</b>	<b>5.4</b>	<b>5.5</b>

## Balance Sheet

YE 30 Jun					
US\$m	FY19A	FY20A	FY21A	FY22E	FY23E
PPE	16.1	13.6	15.5	16.5	19.6
ROU assets	0	5.9	7.7	15.9	14.3
Club membership	0.2	0.2	0	0	0
Deferred tax	0.1	0.2	0.2	0.2	0.2
Prepayment, deposits & other receivables	0	3.7	5.2	0.8	0.8
<b>Total non-current assets</b>	<b>16.4</b>	<b>23.6</b>	<b>28.6</b>	<b>33.5</b>	<b>35.0</b>
Cash	13.4	16.4	14.7	20.8	23.1
Inventories	10.6	11.3	19.6	18.2	18.7
Trade receivables	3.4	3.6	4.5	4.2	4.3
Prepayment, deposits & other receivables	2.7	2.6	7.1	7.0	7.0
<b>Current assets</b>	<b>30.1</b>	<b>34.0</b>	<b>45.9</b>	<b>50.1</b>	<b>53.0</b>
<b>Total assets</b>	<b>46.5</b>	<b>57.7</b>	<b>74.5</b>	<b>83.6</b>	<b>88.0</b>
Bank overdrafts	(0.2)	(1.0)	(1.2)	(2.5)	(2.5)
Accounts payable	(2.3)	(2.7)	(5.0)	(5.2)	(5.3)
Accruals & other payables	(5.0)	(6.6)	(11.8)	(10.0)	(10.0)
Bill payables	0	0	0	0	0
Finance lease	0	(1.2)	(1.5)	(1.9)	(1.9)
Income tax payable	(0.3)	(0.6)	(1.6)	(1.5)	(1.5)
<b>Total current liabilities</b>	<b>(7.8)</b>	<b>(12.2)</b>	<b>(21.1)</b>	<b>(21.1)</b>	<b>(21.3)</b>
Borrowings	(0.2)	(1.7)	(1.7)	(5.2)	(5.2)
Deferred tax	(0.2)	(0.3)	(0.3)	(0.2)	(0.2)
Finance lease	0	(3.0)	(2.1)	(3.9)	(3.9)
<b>Total non-current liabilities</b>	<b>(0.4)</b>	<b>(5.0)</b>	<b>(4.1)</b>	<b>(9.4)</b>	<b>(9.4)</b>
<b>Net assets</b>	<b>38.2</b>	<b>40.5</b>	<b>49.2</b>	<b>53.1</b>	<b>57.4</b>
Share capital	4.7	4.8	4.8	4.9	4.9
Treasury shares	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Reserves	0.6	0.1	0.7	0.6	0.6
Retained earnings	33.0	35.9	43.9	47.9	52.3
Minority interests	0	(0.1)	(0.1)	(0.2)	(0.4)
<b>Total equity</b>	<b>38.2</b>	<b>40.5</b>	<b>49.2</b>	<b>53.1</b>	<b>57.4</b>

Cash and short-term deposits include cash at bank and other short-term deposits.

## Ratios

YE 30 Jun					
	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitability (%)</b>					
Gross margin	31.5	29.9	32.8	30.6	30.8
Pretax margin	9.9	7.7	13.4	8.4	8.3
<b>Liquidity (x)</b>					
Current ratio	3.9	2.8	2.2	2.4	2.5
Quick ratio	2.5	1.9	1.2	1.5	1.6
Interest coverage ratio	192.0	30.5	47.2	8.0	7.9
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>					
P/E	8.0	9.9	4.7	8.0	7.9
P/B	1.1	1.1	0.9	0.8	0.7
EV/EBITDA	4.1	3.7	2.1	2.7	2.2
<b>Cash Conversion Cycle</b>					
Trade receivable days	22	22	20	20	20
Inventory days	97	98	129	129	129
Trade payable days	21	23	33	37	37
CCC days	98	97	116	112	112

## Cash Flow Statement

YE 30 Jun					
US\$m	FY19A	FY20A	FY21A	FY22E	FY23E
PBT	5.7	4.6	11.1	6.4	6.5
Depreciation & amortization	1.6	1.7	1.8	3.8	5.7
Net interest expense	(0.1)	(0.1)	0.1	0.5	0.5
Non-fund items	0.4	1.8	0	(0.1)	0
<b>Working capital</b>					
Receivables	0.5	(0.2)	(0.8)	0.4	(0.1)
Other receivables	(0.2)	0	(4.4)	0.1	0
Inventories	(1.3)	(1.0)	(8.2)	1.4	(0.6)
Payables	(0.5)	0.4	2.1	0.1	0.2
Other payables	(0.3)	1.6	5.3	(1.8)	0
<b>Operating cashflow</b>	<b>5.8</b>	<b>8.9</b>	<b>8.8</b>	<b>10.9</b>	<b>12.2</b>
Net interest expense	0.1	0.1	(0.1)	(0.5)	(0.5)
Tax paid	(0.6)	(0.3)	(1.1)	(1.3)	(1.3)
<b>Cash flow from operations</b>	<b>5.3</b>	<b>8.5</b>	<b>7.5</b>	<b>9.1</b>	<b>10.5</b>
CAPEX	(0.9)	(5.0)	(4.8)	(5.0)	(7.2)
Net fixed assets disposal	0.1	0.0	0.1	0	0
<b>Free cashflow</b>	<b>4.4</b>	<b>3.4</b>	<b>0.5</b>	<b>3.4</b>	<b>3.3</b>
Dividends paid	(1.2)	(1.5)	(1.1)	(1.4)	(1.0)
Borrowings	(0.3)	1.1	(1.4)	4.1	0
Equity issue	0	0	0	0	0
<b>Net cash flow</b>	<b>3.0</b>	<b>3.1</b>	<b>(1.9)</b>	<b>6.1</b>	<b>2.2</b>
Exch diff on consolidation	(0.1)	(0.2)	0.2	0	0
<b>Opening cash balance</b>	<b>10.5</b>	<b>13.4</b>	<b>16.4</b>	<b>14.7</b>	<b>20.8</b>
<b>Ending cash balance</b>	<b>13.4</b>	<b>16.4</b>	<b>14.7</b>	<b>20.8</b>	<b>23.1</b>

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