

# Koda Limited

30 August 2022

## BUY (maintained)

<b>BBG</b>	KODA SP
<b>Market cap</b>	S\$45m
<b>Price (30 August 2022)</b>	S\$0.55
<b>52-week range</b>	S\$0.50 – S\$0.86
<b>Target Price</b>	S\$0.64 (previously S\$1.14)
<b>Shares Outstanding</b>	83.1m
<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 (06/22)</b>	0.6x
<b>Net Debt to EBITDA (06/22)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

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## Macro headwinds ahead

Koda's FY22 results are in line with our estimates. FY22 revenue (US\$79m) and earnings (US\$ 5.7m) have declined 4% and 38% respectively. Sales to its ODM customers fell 4% as production was disrupted by COVID restrictions. Similarly, sales at its Commune outlets (-5%) were also hit by lockdown measures in China. Gross margin fell 2.3pp to 30.5% on lower utilisation and higher material costs. The Group incurred US\$2.9m damages caused by a fire accident at its Vietnam factory which contributed to the sharp drop in net profit. Adjusted for one-off items of US\$0.7m (i.e. provision and compensation relating to the fire incident and govt grant), net profit would be US\$6.4m.

The Group faces weaknesses in its main end customer markets, North America and China. Customers from North America region accounts for 80% of its ODM sales while ~90-95% of its retail footprint (i.e. no of stores) are in China. Furniture demand is expected to soften in both countries.

In US, new home sale units have declined 38% YTD. 30-year fixed mortgage rate has also soared to 5.55% from 2.87% a year ago. Given FED's hawkish stance on interest rates, rising mortgage rate further erodes buyers' affordability. Koda's immediate concern lies with inventory glut issues that US retailers are facing. US June retail inventories for furniture has grown 14% YTD. Inventories to sales ratio also rose to 1.69x compared to 1.53x in Jan 22. As such, we expect to see a decline in orders placed to Koda as their customers focus on clearing their excess inventories first. Separately, furniture sales in China are affected by its property market crisis and lockdowns which have dampened consumer sentiment. According to CRIC, July sales in China's top 100 developers slumped 39.7% yoy. Commune is delaying its expansion plan to open 100 stores in China and pivoting to markets in other countries (e.g. India and South Korea) to reduce concentration risk. We expect sales at its local Commune outlets in 1H23 to do better from year-end festive sales. The start of GST hike on 1 Jan 2023 could also bring forward purchases of higher-value.

We lowered our topline and bottomline estimates for FY23E by 16% and introduced FY24E forecasts. Maintain BUY at lower TP of S\$0.64, pegged to FY23E EV/EBITDA of 2.4x, pre-pandemic level.

Year end 30 Jun (in US\$m)	FY2020	FY2021	FY2022	FY2023E	FY2024E
Revenue	60.4	82.6	79.3	65.8	69.1
EBIT	4.8	11.3	7.2	5.9	5.8
Net profit	4.3	9.1	5.7	4.6	5.3
EPS (US cents)	5.3	11.0	6.8	5.6	6.4
Dividend per share (S cents)	1.3	2.0	1.0	1.3	1.3
Net cash / (debt)	13.7	11.8	0.4	10.6	18.3
<b>Valuation</b>					
EBIT margin (%)	7.9	13.7	9.0	9.0	9.8
ROIC (%)	15.4	24.0	9.3	10.1	12.4
EV/EBITDA (x)	0.8	0.7	0.6	0.6	0.5
P/E (x)	7.7	3.7	5.7	7.0	6.1
Dividend yield (%)	2.3	5.5	1.8	2.3	2.3

## Income Statement

YE 30 Jun					
US\$m	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenue</b>	<b>60.4</b>	<b>82.6</b>	<b>79.3</b>	<b>65.8</b>	<b>69.1</b>
Cost of sales	(42.3)	(55.5)	(55.1)	(46.5)	(47.8)
<b>Gross profit</b>	<b>18.1</b>	<b>27.1</b>	<b>24.2</b>	<b>19.3</b>	<b>21.3</b>
Other income	1.2	1.9	3.3	1.2	0.8
Distribution costs	(5.3)	(6.8)	(6.8)	(5.7)	(6.0)
Admin expenses	(9.1)	(10.6)	(10.4)	(8.7)	(9.1)
Other expenses	(0.1)	(0.3)	(3.1)	(0.2)	(0.3)
<b>Operating profits</b>	<b>4.8</b>	<b>11.3</b>	<b>7.2</b>	<b>5.9</b>	<b>6.8</b>
Share of results of associates	0	0	0	0	0
<b>EBIT</b>	<b>4.8</b>	<b>11.3</b>	<b>7.2</b>	<b>5.9</b>	<b>6.8</b>
Interest expense	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
<b>Profit before tax</b>	<b>4.6</b>	<b>11.1</b>	<b>6.9</b>	<b>5.6</b>	<b>6.5</b>
Tax expense	(0.5)	(2.0)	(1.4)	(1.1)	(1.3)
Minority interests	0.2	0	0.2	0.1	0.1
<b>Net profit</b>	<b>4.3</b>	<b>9.1</b>	<b>5.7</b>	<b>4.6</b>	<b>5.3</b>

## Balance Sheet

YE 30 Jun					
US\$m	FY20A	FY21A	FY22A	FY23E	FY24E
PPE	13.6	15.5	25.4	24.8	24.0
ROU assets	5.9	7.7	14.7	11.7	8.6
Club membership	0.2	0.0	0.0	0.0	0.0
Deferred tax	0.2	0.2	0.3	0.3	0.3
Prepayment, deposits & other receivables	3.7	5.2	-	-	-
<b>Total non-current assets</b>	<b>23.6</b>	<b>28.6</b>	<b>40.9</b>	<b>37.3</b>	<b>33.5</b>
Cash	16.4	14.7	14.3	25.0	32.7
Inventories	11.3	19.6	19.9	16.8	17.3
Trade receivables	3.6	4.5	5.4	4.5	4.7
Prepayment, deposits & other receivables	2.6	7.1	7.4	7.4	7.4
<b>Current assets</b>	<b>34.0</b>	<b>45.9</b>	<b>47.0</b>	<b>53.7</b>	<b>62.1</b>
<b>Total assets</b>	<b>57.7</b>	<b>74.5</b>	<b>88.0</b>	<b>91.0</b>	<b>95.5</b>
Borrowings	1.0	1.2	2.6	2.6	2.6
Accounts payable	2.7	5.0	4.7	4.0	4.1
Accruals & other payables	6.6	11.8	8.7	8.7	8.7
Bill payables	0	0	0.5	0.5	0.5
Finance lease	1.2	1.5	1.6	1.6	1.6
Income tax payable	0.6	1.6	1.7	1.7	1.7
<b>Total current liabilities</b>	<b>12.2</b>	<b>21.1</b>	<b>19.9</b>	<b>19.1</b>	<b>19.2</b>
Borrowings	1.7	1.7	11.3	11.3	11.3
Deferred tax	0.3	0.3	0.2	0.2	0.2
Finance lease	3.0	2.1	4.0	4.0	4.0
<b>Total non-current liabilities</b>	<b>5.0</b>	<b>4.1</b>	<b>15.5</b>	<b>15.5</b>	<b>15.5</b>
<b>Net assets</b>	<b>40.5</b>	<b>49.2</b>	<b>52.6</b>	<b>56.4</b>	<b>60.8</b>
Share capital	4.8	4.8	4.9	4.9	4.9
Treasury shares	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Reserves	0.1	0.7			
Retained earnings	35.9	43.9	48.2	52.1	56.6
Minority interests	(0.1)	(0.1)	(0.3)	(0.4)	(0.5)
<b>Total equity</b>	<b>40.5</b>	<b>49.2</b>	<b>52.6</b>	<b>56.4</b>	<b>60.8</b>

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

## Ratios

YE 30 Jun					
	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Profitability (%)</b>					
Gross margin	29.9	32.8	30.5	29.4	30.8
Pretax margin	7.7	13.4	8.6	8.6	9.4
<b>Liquidity (x)</b>					
Current ratio	2.8	2.2	2.4	2.8	3.2
Quick ratio	1.9	1.2	1.4	1.9	2.3
Interest coverage ratio	30.5	47.2	23.7	19.7	23.2
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>					
P/E	7.7	3.7	5.7	7.0	6.1
P/B	0.8	0.7	0.6	0.6	0.5
EV/EBITDA	2.5	1.5	2.8	1.9	1.1
<b>Cash Conversion Cycle</b>					
Trade receivable days	22	20	25	25	25
Inventory days	98	129	132	132	132
Trade payable days	23	33	31	31	31
CCC days	97	116	126	126	126

## Cash Flow Statement

YE 30 Jun					
US\$m	FY20A	FY21A	FY22A	FY23E	FY24E
PBT	4.6	11.1	6.9	5.6	6.5
Depreciation & amortization	3.1	3.4	4.6	5.7	5.8
Net interest expense	(0.1)	0.1	0.2	0.2	0.2
Non-fund items	0.2	0	1.5	0	0
<b>Working capital</b>					
Receivables	(0.2)	(0.8)	(1.0)	0.9	(0.2)
Other receivables	0	(4.4)	1.3	0	0
Inventories	(1.0)	(8.2)	(2.9)	3.1	(0.5)
Payables	0.4	2.1	(0.1)	(0.7)	0.1
Other payables	1.6	5.3	(3.3)	0	0
<b>Operating cashflow</b>	<b>8.7</b>	<b>8.7</b>	<b>7.1</b>	<b>14.8</b>	<b>11.9</b>
Net interest expense	0.1	(0.1)	(0.2)	(0.2)	(0.2)
Tax paid	(0.3)	(1.1)	(1.5)	(1.1)	(1.3)
<b>Cash flow from operations</b>	<b>8.5</b>	<b>7.5</b>	<b>5.5</b>	<b>13.5</b>	<b>10.4</b>
CAPEX	(5.0)	(7.4)	(13.1)	(2.0)	(2.0)
Net fixed assets disposal	0.0	0.4	(0.0)	0	0
<b>Free cashflow</b>	<b>3.4</b>	<b>0.5</b>	<b>(7.7)</b>	<b>11.5</b>	<b>8.4</b>
Dividends paid	(1.5)	(1.1)	(1.4)	(0.7)	(0.7)
Borrowings	1.1	(1.4)	8.8	0	0
Equity issue	0	0	0	0	0
<b>Net cash flow</b>	<b>3.1</b>	<b>(1.9)</b>	<b>(0.2)</b>	<b>10.7</b>	<b>7.6</b>
Exch diff on consolidation	(0.2)	0.2	(0.2)	-	-
<b>Opening cash balance</b>	<b>13.4</b>	<b>16.4</b>	<b>14.7</b>	<b>14.3</b>	<b>25.0</b>
<b>Ending cash balance</b>	<b>16.4</b>	<b>14.7</b>	<b>14.3</b>	<b>25.0</b>	<b>32.7</b>

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