Rhong Khen International

(7006 | RKI MK) Consumer Products & Services | Household Goods

***Maintain* NEUTRAL**

Softer Order Ahead

Unchanged Target Price: RM1.23

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 earnings deemed within our expectation**
- **1QFY23's revenue fell -2.5%qoq to RM234.2m**.
- **Higher revenue and core earnings on yearly basis due to low-base effect**.
- **Maintain NEUTRAL with an unchanged target price of RM1.23**

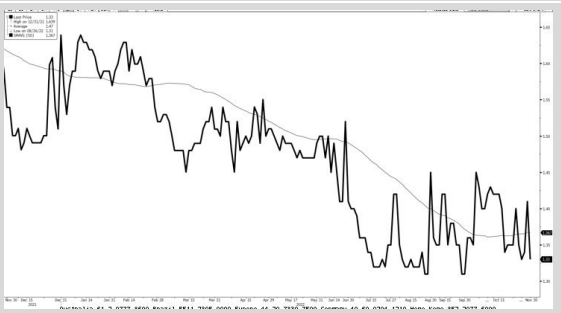
1QFY23 earnings deemed within our expectation. Rhong Khen International Bhd (RKI)'s 1QFY23 core PATANCI of RM11.3m, after subtracting a one-time off the expense of RM0.9m, was deemed within our expectation despite it accounted for 36% of our full-year estimation as we expect softer quarters ahead. This is amid our expectation of reduced orders from furniture wholesales and importers ahead which reflect softer consumer spending on major durables such as furniture in the current rising interest rate environment. No dividend was declared in the current quarter.

1QFY23's revenue fell -2.5%qoq to RM234.2m. This was mainly attributed to lower revenue reported by the Vietnam operation as a result of shipment slowdowns and customer overstocking in the United States. Note that customers from US contributed almost 87% of the total sales in FY22. Besides, negative momentum was attributed to softer demand for panel board lamination in the local market. Meanwhile, operating profit margin fell by -4.3ppt QoQ to 6.5% due to higher operating and administrative costs, as well as discount given to customers as part of its marketing strategy to boost shipment orders. As such, core PATANCI dropped from RM19.9m in 4QFY22 to RM11.3m in 1QFY23.

Higher revenue and core earnings on yearly basis due to low-base effect. RKI's 1QFY23 core earnings increased more than tripled to RM11.3m. This was in tandem with higher revenue of RM234.2m, up from RM168.8m in 1QFY22. The positive momentum was attributed to higher revenue and PBT margins in Malaysia and Vietnam from a lower base in 1QFY22, as the businesses were only allowed to operate at a minimal level during the Covid-19 lockdown. Besides, the group's revenue benefited from the strengthening of the USD against the RM because majority of its product is exported to US market.

RETURN STATISTICS	
Price @29th November 2022 (RM)	1.42
Expected share price return (%)	-13.44
Expected dividend yield (%)	+3.44
Expected total return (%)	**-10.00**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.3	-7.9
3 months	1.5	3.5
12 months	-18.4	-16.1

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
Issue shares (m)	97.16
F4BGM Index	No
ESG Grading Band (Star rating)	N/A
Estimated free float (%)	43.44
Market Capitalisation (RM'm)	257.60
52-wk price range	RM1.3 - RM1.67
Beta vs FBM KLCI (x)	0.98
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.03
Top Shareholders (%)	
Lin Chen Jui-Fen	25.65
Konsortium Kontrek Sdn Bhd	15.39
Samarang Asset Management SA	7.28

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Maintain NEUTRAL with an unchanged target price of RM1.23. Given that the earnings deemed to be within our expectation, we make no changes to our earnings projection for FY23F-25F. Our **TP** is based on the FY23F's EPS of 16.3sen multiplied by PER of 7.5x, slightly below its 2-year historical PE of 7.9x. We are cautious about the group's near-to-medium-term earnings outlook, which will be impacted by the weaker demand from US as a result of heightened risk of an economic slowdown caused by the aggressive rising interest rate. Note that RKI exports majority of its products to US market, which accounted for >87% of total sales in FY22. Nevertheless, we see RKI's consistent dividend payout ratio of above 30% and healthy balance sheet will support downside. Hence, we maintain **NEUTRAL** on RKI. **Re-rating catalyst** is the strong housing demand in the US that leads to higher-than-expected demand for RKI's wooden furniture.

INVESTMENT STATISTICS

FYE JUN (RM'm)	FY2021	FY2022	FY2023F	FY2024F	FY2025F
Revenue	**911.9**	**756.3**	**698.9**	**745.8**	**800.4**
Cost of Sales	(786.1)	(650.8)	(608.6)	(646.2)	(690.0)
Gross Profit	**125.9**	**105.5**	**90.3**	**99.6**	**110.4**
Profit Before Tax (PBT)	71.6	48.8	42.9	48.5	55.1
Income Tax Expenses	(17.8)	(13.3)	(11.3)	(12.8)	(14.5)
PATANCI	**53.8**	**35.5**	**31.6**	**35.7**	**40.6**
Core PATANCI	**59.3**	**38.1**	**31.6**	**35.7**	**40.6**
EPS (sen)	28.0	18.0	16.3	18.4	20.9
Dividend per share (sen)	10.9	1.0	4.9	5.5	6.3
Dividend yield (%)	7.7	0.7	3.4	3.9	4.4
Growth & Valuation (%)					
Revenue Growth	33.2	(17.1)	(7.6)	6.7	7.3
Gross Profit Growth	71.8	(16.2)	(14.4)	10.3	10.8
Core PATANCI Growth	131.3	(35.8)	(16.9)	13.0	13.6
Gross Profit Margin	13.8	14.0	12.9	13.4	13.8
PBT Margin	7.8	6.5	6.1	6.5	6.9
Core PATANCI Margin	6.5	5.0	4.5	4.8	5.1
Effective tax rate	24.9	27.2	26.3	26.3	26.3

Source: Company, MIDF Research

RATIOS & VALUATION

FYE JUN (RM'm)	FY2021	FY2022	FY2023F	FY2024F	FY2025F
PER (x)	6.0	6.0	8.7	7.7	6.8
Current ratio (x)	2.7	2.4	2.4	2.5	2.6
Cash/Mkt Cap (x)	71.3	66.1	79.4	86.9	95.5
P/B (x)	0.5	0.4	0.4	0.4	0.4
ROE (%)	9.7	5.8	4.7	5.1	5.6
ROA (%)	5.8	4.0	3.6	3.9	4.3
EV/EBIT (x)	2.9	4.5	4.3	3.3	2.5
Inventories (Days)	98.4	135.3	100.3	95.1	95.1
Account receivables (Days)	26.6	34.7	35.0	34.5	34.5
Account payable (Days)	44.1	64.1	51.3	51.3	51.3

Source: Company, MIDF Research

RHONG KHEN INTERNATIONAL: 1QFY23 RESULTS SUMMARY

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue	234.2	240.2	168.8	38.8	(2.5)	234.2	168.8	38.8
Cost of sales	(205.7)	(195.4)	(153.8)	33.8	5.3	(205.7)	(153.8)	33.8
Gross Profit	**28.5**	**44.8**	**15.0**	**89.7**	**(36.3)**	**28.5**	**15.0**	**89.7**
Other income	1.4	1.3	1.8	(21.2)	11.6	1.4	1.8	(21.2)
Selling and marketing expenses	(6.4)	(7.6)	(6.9)	(6.8)	(15.9)	(6.4)	(6.9)	(6.8)
Administrative expenses	(7.0)	(6.6)	(4.7)	47.6	6.4	(7.0)	(4.7)	47.6
Other expenses	(1.3)	(5.9)	(1.7)	(22.1)	(78.0)	(1.3)	(1.7)	(22.1)
Operating profit	**15.3**	**26.0**	**3.6**	**326.6**	**(41.3)**	**15.3**	**3.6**	**326.6**
Net Interest:	(0.8)	(0.8)	(0.7)	20.9	2.8	(0.8)	(0.7)	20.9
Profit before tax (PBT)	**14.4**	**25.2**	**2.9**	**400.8**	**(42.7)**	**14.4**	**2.9**	**400.8**
Income tax expense	(4.0)	(7.7)	(1.4)	188.5	(47.9)	(4.0)	(1.4)	188.5
Profit after tax	**10.4**	**17.5**	**1.5**	**600.3**	**(40.5)**	**10.4**	**1.5**	**600.3**
Minority Interest	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
PATANCI	**10.4**	**17.5**	**1.5**	**600.3**	**(40.5)**	**10.4**	**1.5**	**600.3**
Core PATANCI	**11.3**	**19.9**	**2.7**	**319.7**	**(43.3)**	**11.3**	**2.7**	**319.7**
Basic EPS (sen)	5.4	9.0	0.8	603.9	(40.4)	5.4	0.8	600.5
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Revenue Growth	(2.5)	23.3	(21.9)	19.4	(25.8)	(69.0)	(81.5)	12.5
Gross Profit Growth	(36.3)	64.7	(44.9)	8.6	(101.1)	(73.0)	(88.0)	15.1
Operating Profit Growth	(41.3)	89.0	(67.1)	25.8	(130.3)	(70.3)	(95.2)	24.9
Core PATANCI Growth	(43.3)	80.3	(47.3)	4.0	(123.6)	(71.4)	(94.5)	23.1
Gross Profit Margin	12.2	18.7	8.9	3.3	(6.5)	12.2	8.9	3.3
Operating Profit Margin	6.5	10.8	2.1	4.4	(4.3)	6.5	2.1	4.4
PBT Margin	6.2	10.5	1.7	4.4	(4.3)	6.2	1.7	4.4
Core PATANCI Margin	4.8	8.3	1.6	3.2	(3.5)	4.8	1.6	3.2
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	57.0	20.5	24.5	32.5	36.5	57.0	24.5	32.5
Effective tax rate (%)	27.9	30.7	48.5	(20.5)	(2.8)	27.9	48.5	(20.5)

Source: Company data, MIDF Research

RHONG KHEN INTERNATIONAL: BREAKDOWN BY OPERATIONS

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue:								
Malaysia	45.3	38.4	21.1	114.6	17.8	45.3	21.1	114.6
Vietnam	183.4	196.2	143.4	27.8	(6.5)	183.4	143.4	27.8
Thailand	4.6	4.5	3.6	25.7	0.6	4.6	3.6	25.7
Others	1.0	1.0	0.6	62.0	(1.2)	1.0	0.6	62.0
Total	**234.2**	**240.2**	**168.8**	**38.8**	**(2.5)**	**234.2**	**168.8**	**38.8**
PBT:								
Malaysia	45.3	38.4	21.1	114.6	17.8	45.3	21.1	114.6
Vietnam	183.4	196.2	143.4	27.8	(6.5)	183.4	143.4	27.8
Thailand	4.6	4.5	3.6	25.7	0.6	4.6	3.6	25.7
Others	1.0	1.0	0.6	62.0	(1.2)	1.0	0.6	62.0
Total	**234.2**	**240.2**	**168.8**	**38.8**	**(2.5)**	**234.2**	**168.8**	**38.8**
PBT Margin:								
Malaysia	45.3	38.4	21.1	24.2	6.9	45.3	21.1	24.2
Vietnam	183.4	196.2	143.4	39.9	(12.8)	183.4	143.4	39.9
Thailand	4.6	4.5	3.6	0.9	0.0	4.6	3.6	0.9
Others	1.0	1.0	0.6	0.4	(0.0)	1.0	0.6	0.4
Total	**234.2**	**240.2**	**168.8**	**65.4**	**(5.9)**	**234.2**	**168.8**	**65.4**

Source: Company data, MIDF Research

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology