2QFY23 Results Review (Above)| Friday, 24 February 2023

Rhong Khen International

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

Maintain NEUTRAL

Over-inventory in the US

Revised **Target Price: RM1.35**
(Previously RM1.23)

KEY INVESTMENT HIGHLIGHTS

- **1HFY23 earnings exceeded our expectations**
- **Higher sales in 2QFY23**
- **Core PATANCI for 1HFY23 increased by +157.9yoy to RM22.2m**
- **Revised earnings projections for FY23-25F**
- **Maintain NEUTRAL with a higher TP of RM1.35 (from RM1.23)**

1HFY23 earnings exceeded our expectations. Rhong Khen International Bhd ("RKI") reported a core PATANCI of RM22.6m in 1HFY23, after subtracting a one-time off charge of RM0.5m. The earnings came in above our estimation as it accounted for 70% of our full-year projections for FY23F. This was mainly due to better-than-expected revenue. The group declared a first interim single-tier dividend of 1.0sen/share during the quarter (ex. date: 14 Apr 2023).

Higher sales in 2QFY23. On yearly basis, the group's revenue rose +22.1%yoy to RM186.3m due to the low base effect from the Vietnam operation (+36.9%yoy) and stronger USD/RM (+8%). Note that Vietnam's operation was operated at minimum capacity in 2QFY22 due to the lockdown in Vietnam. Core PANTANCI increased by +84.2%yoy to RM10.9m during the quarter largely due to higher revenue and lower production costs.

Lower sales and core PATANCI on sequential basis. On a quarterly basis, RKI recorded lower revenue of RM186.3m in 2QFY23 as compared to RM234.2m in the previous quarter. The negative performance was due to reduced sales from furniture plants caused by ongoing shipment delays and the over-inventory situation in the US. Besides, the prolonged softer demand for sawmill plants and panel board lamination from local and export markets also resulted in lower revenue. Meanwhile, core PATANCI decreased by -3.7%qoq to RM10.9m in 2QFY23 due to lower revenue and customer discounts given to boost shipments.

Core PATANCI for 1HFY23 increased by +157.9yoy to RM22.2m, which is in tandem with revenue growth of +30.9%yoy to RM420.5m. The better 1HFY23 performance was largely due to low-base effects, lower manufacturing cost as well as stronger USD. Given that nearly 99% of its product was exported to international markets, with the USA being the main destination.

Revised earnings projections for FY23-25F. Given that earnings above our estimation, we tweak our earnings forecast for FY23F by +6.1%, FY24F by +5.2% and FY25F by +3.9% after accounting for higher revenue.

RETURN STATISTICS	
Price @23rd February 2022 (RM)	1.32
Expected share price return (%)	2.61
Expected dividend yield (%)	+3.93
Expected total return (%)	**6.54**

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	1,457.65
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

Analyst(s)
Genevieve Ng Pei Fen
genevieve.ng@midf.com.my
03-2173 1678

Maintain NEUTRAL with a higher TP of RM1.35 (from RM1.23). Our **TP** of RM1.35 is based on the FY24F's EPS of 19.3sen multiplied by a revised PER of 7.0x (from 7.3x) — its 2-year historical PE. Given the over-inventory situation in the US, we anticipate that the demand for furniture will remain sluggish going forward. Note that, the US is the biggest importer of wooden furniture from Rhong Khen. We are aware that due to its labour-intensive operations, Malaysia and Vietnam's operations will continue to have higher input costs and smaller margins. On a positive note, RKI will be protected from downside risk by its net cash of RM102m in 2QFY23 (equal to 40% of its total market cap). RKI is currently trading at an FY24F PE of 6.8x, slightly below its 2-year average of 7x. Hence, we maintain **NEUTRAL** on RKI. **Re-rating catalyst** is the strong housing sales in the US that lead to higher-than-expected demand for RKI's wooden furniture.

INVESTMENT STATISTICS

FYE JUN (RM'm)	2021A	2022A	2023E	2024E	2025E
Revenue	**911.9**	**756.3**	**710.7**	**728.2**	**775.2**
Cost of Sales	(786.1)	(650.8)	(617.0)	(627.2)	(664.3)
Gross Profit	**125.9**	**105.5**	**93.7**	**101.0**	**110.9**
Profit Before Tax (PBT)	71.6	48.8	45.6	51.0	57.2
Income Tax Expenses	(17.8)	(13.3)	(12.0)	(13.4)	(15.1)
PATANCI	**53.8**	**35.5**	**33.6**	**37.6**	**42.1**
Core PATANCI	**59.3**	**38.1**	**33.6**	**37.6**	**42.1**
EPS (sen)	28.0	18.0	17.3	19.3	21.7
Dividend per share (sen)	10.9	6.0	5.2	5.8	6.5
Dividend yield (%)	8.3	4.5	3.9	4.4	4.9
Growth & Valuation (%)					
Revenue Growth	33.2	(17.1)	(6.0)	2.5	6.4
Gross Profit Growth	71.8	(16.2)	(11.2)	7.9	9.8
Core PATANCI Growth	131.3	(35.8)	(11.8)	12.0	12.1
Gross Profit Margin	13.8	14.0	13.2	13.9	14.3
PBT Margin	7.8	6.5	6.4	7.0	7.4
Core PATANCI Margin	6.5	5.0	4.7	5.2	5.4
Effective tax rate	24.9	27.2	26.3	26.3	26.3

Source: Company, MIDF RESEARCH

RATIOS & VALUATION

FYE JUN (RM'm)	2021A	2022A	2023E	2024E	2025E
PER (x)	6.0	6.0	7.6	6.8	6.1
Current ratio (x)	2.7	2.4	2.4	2.4	2.5
Cash/Mkt Cap (x)	76.7	71.1	86.9	91.2	99.5
P/B (x)	0.4	0.4	0.4	0.4	0.3
ROE (%)	9.7	5.8	4.9	5.3	5.7
ROA (%)	5.8	4.0	3.8	4.2	4.5
EV/EBIT (x)	2.6	4.1	3.5	2.9	2.2
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: 2QFY23 RESULTS SUMMARY

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	186.3	234.2	152.5	22.1	(20.5)	420.5	321.4	30.9
Cost of sales	(159.4)	(205.7)	(134.1)	18.9	(22.5)	(365.1)	(287.8)	26.8
Gross Profit	**26.9**	**28.5**	**18.5**	**45.7**	**(5.7)**	**55.4**	**33.5**	**65.4**
Other income	1.5	1.4	1.8	(16.5)	4.8	2.9	3.6	(18.9)
Selling and marketing expenses	(5.3)	(6.4)	(4.2)	24.8	(17.7)	(11.7)	(11.1)	5.2
Administrative expenses	(7.9)	(7.0)	(7.0)	11.9	12.4	(14.9)	(11.8)	26.3
Other expenses	(0.4)	(1.3)	(0.9)	(56.3)	(68.6)	(1.7)	(2.6)	(34.4)
Operating profit	**14.9**	**15.3**	**8.1**	**83.8**	**(2.6)**	**30.1**	**11.7**	**158.3**
Net Interest:	(0.9)	(0.8)	(0.5)	63.4	3.7	(1.7)	(1.2)	39.4
Profit before tax (PBT)	**14.0**	**14.4**	**7.5**	**85.3**	**(3.0)**	**28.4**	**10.4**	**172.4**
Income tax expense	(2.7)	(4.0)	(1.8)	50.8	(32.5)	(6.7)	(3.2)	110.9
PATANCI	**11.3**	**10.4**	**5.7**	**96.1**	**8.4**	**21.7**	**7.2**	**199.6**
Core PATANCI	**10.9**	**11.3**	**5.9**	**84.2**	**(3.7)**	**22.2**	**8.6**	**157.9**
Basic EPS (sen)	5.8	5.4	3.0	96.3	8.6	11.2	3.7	200.0
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Revenue Growth	(20.5)	(2.5)	(9.6)	(10.8)	(18.0)	79.5	90.4	(10.8)
Gross Profit Growth	(5.7)	(36.3)	22.7	(28.4)	30.6	94.3	122.7	(28.4)
Operating Profit Growth	(2.6)	(41.3)	125.9	(128.6)	38.7	97.4	225.9	(128.6)
Core PATANCI Growth	(3.7)	(43.3)	119.5	(123.2)	39.6	96.3	219.5	(123.2)
Gross Profit Margin	14.4	12.2	12.1	2.3	2.3	13.2	10.4	2.8
Operating Profit Margin	8.0	6.5	5.3	2.7	1.5	7.2	3.6	3.5
PBT Margin	7.5	6.2	4.9	2.6	1.4	6.8	3.2	3.5
Core PATANCI Margin	5.8	4.8	3.9	2.0	1.0	5.3	2.7	2.6
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	39.8	57.5	12.3	27.5	(17.6)	39.8	12.3	27.5
Effective tax rate (%)	19.4	27.9	23.9	(4.4)	(8.5)	23.7	30.7	(6.9)

Source: Company data, MIDF RESEARCH

RHONG KHEN INTERNATIONAL: BREAKDOWN BY OPERATIONS

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue:								
Malaysia	36.9	45.3	41.7	(11.4)	(18.5)	82.2	62.8	31.0
Vietnam	144.7	183.4	105.7	36.9	(21.1)	328.0	249.1	31.7
Thailand	3.9	4.6	4.6	(15.5)	(15.2)	8.4	8.2	2.7
Others	0.8	1.0	0.7	27.0	(17.6)	1.9	1.3	44.1
Total	**186.3**	**234.2**	**152.5**	**22.1**	**(20.5)**	**420.5**	**321.4**	**30.9**
PBT:								
Malaysia	2.1	4.2	4.5	(54.1)	(50.9)	6.3	6.5	(3.4)
Vietnam	12.6	10.8	4.3	194.4	16.9	23.4	5.1	358.3
Thailand	0.2	(0.4)	(0.6)	(138.1)	(153.3)	(0.2)	(1.5)	(85.9)
Others	(0.9)	(0.1)	(0.6)	52.2	583.2	(1.1)	0.3	(456.5)
Total	**14.0**	**14.4**	**7.5**	**85.3**	**(3.0)**	**28.4**	**10.4**	**172.4**
PBT Margin:								
Malaysia	5.6	9.3	10.8	(5.2)	(3.7)	7.6	10.4	(2.7)
Vietnam	8.7	5.9	4.1	4.7	2.8	7.1	2.1	5.1
Thailand	6.2	(9.8)	(13.7)	19.9	16.0	(2.5)	(18.1)	15.6
Others	(110.6)	(13.3)	(92.3)	(18.3)	(97.3)	(57.3)	23.2	(80.4)
Total	**7.5**	**6.2**	**4.9**	**2.6**	**1.4**	**6.8**	**3.2**	**3.5**

Source: Company data, MIDF RESEARCH

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) pursuant to the Research Incentive Program under Bursa Research Incentive Scheme ("Bursa RISE") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report.

This report has been prepared by MIDF Investment for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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