Rhong Khen International Berhad

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

***Maintain* BUY**

A Good Start

***Unchanged* Target Price: RM1.60**

KEY INVESTMENT HIGHLIGHTS

- **1QFY25 result came in within expectation**
- **Revenue improved despite headwinds**
- **Surge in core PATANCI for 1QFY25**
- **Earnings forecast; Maintained**
- **Maintain BUY with an unchanged TP of RM1.60**

Within expectation. Rhong Khen International (RKI) reported 1QFY25 revenue of RM132.1m (+1.6%qoq; +9.5%yoy) and core PATANCI of RM6.6m (+117%qoq, +112.3%yoy). This accounted for 32% of our full-year forecast and 35% of consensus estimates. We consider the results within expectations due to the seasonally stronger earnings in 1Q and we expect earnings to normalize in the coming quarters. The group declared a first interim single-tier dividend of 3.0sen/share.

Revenue improved despite headwinds. 1QFY25 revenue grew +9.5%yoy to RM132.1m, supported by stronger sales at its Vietnam furniture and sawmill plants, which offset weaker export demand from the US and a -3.7%yoy decline in USD against RM. On a sequential basis basis, revenue increased +1.6%qoq due to improved shipments from the Vietnam plant.

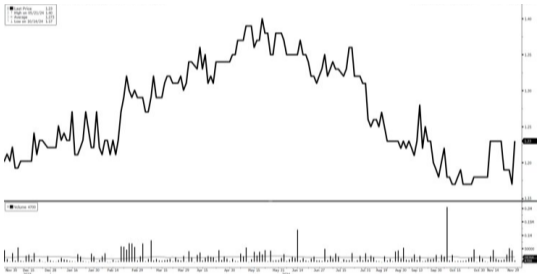
Surge in core PATANCI for 1QFY25. Core PATANCI surged more than 100%yoy to RM6.6m, benefiting from a combination of higher gross profit (+47.7%yoy), improved production efficiency, and stringent cost management. This jump in earnings was also due to a low base effect, as 1QFY24 faced challenges including lower production utilization and higher input costs. On a sequential basis, PAT turned profitable from a RM2.4m loss in 4QFY24, driven by better production utilization, and reduced finance costs.

Earnings forecast. Given the earnings came in within our expectations, we make no change to our forecast. We anticipate stronger US demand driven by i) the worst of the downturn is over, ii) potential replenishment of furniture stocks as US importers/ wholesalers/ retailers have cleared their warehouse inventories, and iii) a cutting interest rate environment that could boost the furniture demand.

Maintain BUY with an unchanged TP of RM1.60. We reiterate our **BUY** recommendation with an **unchanged target price (TP)** of **RM1.60**, based on unchanged FY25F BVPS of RM3.63, pegged to a 5-year historical +0.5 SD P/BV of 0.44x. We remain optimistic about RKI's FY25 outlook, supported by improved consumer sentiment and demand for furniture amid a favorable interest rate environment and the resolution of the over-inventory issue in the US. Additionally, RKI's strong net cash position provides a solid buffer against potential downside risks.

RETURN STATISTICS	
Price @ 28th Nov 2024 (RM)	1.23
Expected share price return (%)	+30.0
Expected dividend yield (%)	+2.6
Expected total return (%)	**+32.6**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.2	5.1
3 months	3.4	4.9
12 months	-0.8	-10.1

INVESTMENT STATISTICS

FYE Jun	2025F	2026F	2027F
Revenue	535.3	558.5	583.5
EBITDA	42.4	50.3	57.7
Profit before tax (PBT)	26.5	34.1	41.2
Core PATANCI	20.9	26.9	32.6
Core EPS (sen)	10.8	13.9	16.8
DPS (sen)	3.2	4.2	5.0
Dividend Yield (%)	2.6	3.4	4.1

KEY STATISTICS	
FBM KLCI	1,597.49
Issue shares (m)	194.65
Estimated free float (%)	42.19
Market Capitalisation (RM'm)	239.80
52-wk price range	RM1.16 - RM1.4
3-mth average daily volume (m)	0.01
3-mth average daily value (RM'm)	0.02
Top Shareholders (%)	
Lin Chen Jui-Fen	25.54
Konsortium Kontrek Sdn Bhd	15.29
Samarang Asset	15.22

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Rhong Khen International: 1QFY25 Results Summary

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	1QFY25	4QFY24	1QFY24	YoY (%)	QoQ (%)	3MFY25	3MFY24	YoY (%)
Revenue	132.1	130.1	120.7	9.5	1.6	132.1	120.7	9.5
Cost of sales	(115.7)	(110.3)	(109.5)	5.6	4.9	(115.7)	(109.5)	5.6
Gross Profit	**16.4**	**19.8**	**11.1**	**47.6**	**(17.0)**	**16.4**	**11.1**	**47.6**
Other income	2.4	2.3	2.5	(3.2)	3.5	2.4	2.5	(3.2)
Selling and distribution expenses	(4.1)	(6.2)	(3.2)	25.5	(35.2)	(4.1)	(3.2)	25.5
Administrative expenses	(6.4)	(5.8)	(6.6)	(3.4)	11.4	(6.4)	(6.6)	(3.4)
Other expenses	(4.0)	(7.2)	(0.7)	513.0	(43.9)	(4.0)	(0.7)	513.0
Operating profit (EBIT)	**4.3**	**2.9**	**3.1**	**40.1**	**49.4**	**4.3**	**3.1**	**40.1**
Net finance income/(cost)	(0.3)	(0.3)	(0.4)	(28.2)	(14.7)	(0.3)	(0.4)	(28.2)
Profit before tax (PBT)	**4.0**	**2.6**	**2.7**	**49.3**	**57.1**	**4.0**	**2.7**	**49.3**
Taxation	(0.1)	(5.1)	0.6	(115.9)	(98.0)	(0.1)	0.6	(115.9)
Profit After tax (PAT)	3.9	(2.5)	3.3	17.9	(257.9)	3.9	3.3	17.9
PATANCI	4.0	(2.4)	3.7	7.7	(265.7)	4.0	3.7	7.7
Core PATANCI	**6.6**	**3.1**	**3.1**	**112.3**	**117.0**	**6.6**	**3.1**	**112.3**
Core EPS (sen)	3.4	1.6	1.6	111.5	116.7	3.4	1.6	111.5
DPS (sen)	3.0	0.0	0.0	n.m.	n.m.	3.0	0.0	n.m.
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Gross Profit Margin	12.4	15.2	9.2	3.2	(2.8)	12.4	9.2	3.2
Operating Profit Margin	3.3	2.2	2.5	0.7	1.0	3.3	2.5	0.7
PBT Margin	3.1	2.0	2.2	0.8	1.1	3.1	2.2	0.8
Core PATANCI Margin	5.0	2.4	2.6	2.4	2.7	5.0	2.6	2.4
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	72.7	81.8	68.2	4.5	(9.1)	72.7	68.2	4.5
Net cash per share	0.0	0.3	0.1	(0.0)	(0.3)	0.0	0.1	(0.0)

Source: Company, MIDFR

Rhong Khen International: Breakdown by operating segment

FYE JUN (RM'm)	Quarterly results					Cumulative results		
	1QFY25	4QFY24	1QFY24	YoY (%)	QoQ (%)	3MFY25	3MFY24	YoY (%)
Revenue (External):								
Malaysia	25.5	27.5	31.2	(18.2)	(7.1)	25.5	31.2	(18.2)
Vietnam	101.5	97.3	85.1	19.2	4.3	101.5	85.1	19.2
Thailand	4.5	4.5	3.1	44.2	1.3	4.5	3.1	44.2
Others	0.6	0.9	1.2	(47.7)	(32.7)	0.6	1.2	(47.7)
Total	**132.1**	**130.1**	**120.7**	**9.5**	**1.6**	**132.1**	**120.7**	**9.5**
PBT:								
Malaysia	(1.6)	(1.8)	0.3	(647.3)	(12.2)	(1.6)	0.3	(647.3)
Vietnam	7.2	6.8	2.9	150.4	5.4	7.2	2.9	150.4
Thailand	(0.1)	(2.2)	(0.8)	(85.3)	(94.9)	(0.1)	(0.8)	(85.3)
Others	(1.4)	(0.2)	0.3	(565.9)	576.2	(1.4)	0.3	(565.9)
Total	**4.0**	**2.6**	**2.7**	**49.3**	**57.1**	**4.0**	**2.7**	**49.3**
PBT margin:				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Malaysia	(6.3)	(6.7)	0.9	(7.3)	0.4	(6.3)	0.9	(7.3)
Vietnam	7.1	7.0	3.4	3.7	0.1	7.1	3.4	3.7
Thailand	(2.4)	(48.7)	(24.0)	21.5	46.2	(2.4)	(24.0)	21.5
Others	(229.9)	(22.9)	25.8	(255.7)	(207.0)	(229.9)	25.8	(255.7)
Total	**3.1**	**2.0**	**2.2**	**0.8**	**1.1**	**3.1**	**2.2**	**0.8**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025F	2026F	2027F
Revenue	**649.4**	**521.6**	**535.3**	**558.5**	**583.5**
Cost of Sales	(569.6)	(454.8)	(468.5)	(483.9)	(500.6)
Gross Profit	**79.8**	**66.8**	**66.8**	**74.6**	**83.0**
Other Income	4.0	4.7	3.4	3.6	3.7
Selling and distribution expenses	(20.7)	(16.5)	(17.0)	(17.8)	(18.4)
Administrative expenses	(26.8)	(24.8)	(24.2)	(24.0)	(24.8)
Other expenses	(8.2)	(14.4)	(6.1)	(6.1)	(6.3)
EBITDA	**47.3**	**35.7**	**42.4**	**50.3**	**57.7**
EBIT	**28.1**	**15.8**	**22.9**	**30.3**	**37.2**
Profit before tax (PBT)	**27.9**	**19.3**	**26.5**	**34.1**	**41.2**
Profit After tax (PAT)	21.9	11.2	20.9	26.9	32.6
Core PATANCI	**22.1**	**10.7**	**20.9**	**26.9**	**32.6**
Core EPS (sen)	11.4	5.5	10.8	13.9	16.8
DPS (sen)	6.0	4.0	3.2	4.2	5.0

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
Property, plant and equipment	267.8	255.2	252.7	245.2	237.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Total Non-current assets	**354.7**	**332.9**	**342.8**	**336.7**	**330.8**
Inventories	151.4	137.6	179.7	185.6	192.0
ST - Trade and other receivables	43.2	48.7	44.0	45.9	48.0
Cash and cash equivalents	258.4	215.2	284.9	299.1	314.1
Total current assets	**458.0**	**480.3**	**509.8**	**531.9**	**555.3**
Total Assets	**812.7**	**813.2**	**852.6**	**868.6**	**886.1**
Total Equity	**685.7**	**694.3**	**706.1**	**717.4**	**729.8**
LT Loans and borrowings	17.3	14.6	7.9	8.0	8.0
Total Non-current liabilities	**26.6**	**23.8**	**16.7**	**17.0**	**17.4**
ST Trade and other payables	53.0	58.9	96.3	99.4	102.9
ST Loans and borrowings	15.1	4.9	6.9	6.9	7.0
Total Current Liabilities	**100.4**	**95.1**	**129.8**	**134.1**	**138.9**
Total Liabilities	**127.0**	**118.9**	**146.5**	**151.2**	**156.3**

Cash Flow (RM'm)	2023A	2024A	2025F	2026F	2027F
Pretax profit	27.9	19.3	26.5	34.1	41.2
Cash flow from operations	112.8	54.7	45.5	32.4	35.2
Cash flow from investing	(24.5)	(26.0)	(18.3)	(8.8)	(9.2)
Cash flow from financing	(114.6)	(21.1)	(13.6)	(9.4)	(11.0)
Net cash flow	**(26.3)**	**121.1**	**13.6**	**14.2**	**15.0**
(+/-) Adjustments	6.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	**170.5**	**150.2**	**271.3**	**284.9**	**299.1**
Net cash/(debt) c/f	**150.2**	**271.3**	**284.9**	**299.1**	**314.1**

Key Metrics	2023A	2024A	2025F	2026F	2027F
Effective tax rate (%)	21.5	41.9	21.0	21.0	21.0
PER (x)	10.3	21.3	11.4	8.9	7.3
P/BV ratio (x)	0.4	0.3	0.3	0.3	0.3
Net Cash/Market Capitalisation (%)	94.5	107.4	113.0	118.9	125.1
Cash/share (sen)	0.6	0.3	0.2	0.2	0.2

Profitability Margins	2023A	2024A	2025F	2026F	2027F
Gross Profit Margin (%)	12.3	12.8	12.5	13.4	14.2
EBIT Margin (%)	4.3	3.0	4.3	5.4	6.4
Core PATANCI Margin (%)	3.4	2.1	3.9	4.8	5.6

Source: Bloomberg, MIDFR

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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