

# Koda Ltd

## Furniture boom in the US

### SINGAPORE | CONSUMER | INITIATION

- FY21e PATMI expected to almost double with a boom in furniture demand as more work, study, entertain and spend time at home. Supported by increased exports to US. Year to May 2021, US furniture imports rose 44% YoY to US\$24.9bn.
- Production capacity in Vietnam to expand following acquisition of land and factory building in March 2021. Vietnam is the world's largest furniture exporter, exporting US\$7.3bn of furniture to the US in 2020, up 31% YoY.
- Initiate coverage with BUY and TP of S\$1.32, valued at 7.0x FY21e ex-cash PE. Stripping out net cash of US\$13.7mn, Koda trades at ex-cash PEs of 3.3x/2.2x FY21e/22e PE. Catalysts expected from higher exports to US and increase in production capacity.

### Company Background

Koda is a leading original design manufacturer or ODM of all types of home furniture. Founded in 1972 as a small workshop producing wooden cabinets, it has expanded to produce wood-based home furniture for the living, dining and bedroom. Koda now specialises in an entire range of affordable, ready-to-assemble, wood-based home décor.

Koda was listed on the then Sesdaq board in January 2002 and migrated to the main board in May 2005.

### Investment Merits

- 1HFY21 PATMI exceeded FY20; FY21e PATMI forecast to almost double.** 1HFY21 PATMI increased 15.7% YoY and exceeded FY20 levels. Sales in 2HFY20, which was the January-June 2020 period, were largely hit by restrictions around the world to combat Covid-19. 1HFY21 revenue rose as export sales to North America recovered. We expect FY21e PATMI to almost double, supported by growth in export sales to North America. Year to May 2021, US furniture imports rose 44% YoY to US\$24.9bn. Imports were even higher than pre-Covid levels by 18%. After the US-China trade war, Vietnam has overtaken China as the world's largest furniture exporter. It exported US\$7.4bn worth of furniture, up 31% YoY, to the US in 2020, a tad above China's US\$7.3bn.
- Expansion of production capacity in Vietnam.** In anticipation of a bigger order book, Koda acquired a piece of land and a factory building in Vietnam in March 2021. This was to increase capacity for its mixed-material furniture production, storage and warehousing. Built-in area for the factory is approximately 8,473 sqm, while the land has an area of approximately 13,768 sqm. Koda has also expanded into sofa. Within furniture, sofa manufacturing is the most straightforward. Contributions from manufacturing sofas have not been factored in.
- Additional source of growth: target of 100 retail stores in China by end-2022.** Koda started its Commune brand in 2011. Through aggressive expansion, Commune can now be found in 85 stores in four countries, 75 in China alone. Revenue from its retail and distribution segment grew at a CAGR of 13.2% from FY16 to FY20. Year to June 2021, furniture retail sales in China grew 18.8% to RMB78.1bn, driven by recovery in retail spending as life in China returns to normalcy.

23 July 2021

### BUY (Initiation)

CLOSING PRICE	SGD 0.80
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 1.32
TOTAL RETURN	68.1%

### COMPANY DATA

Bloomberg CODE:	KODA SP
O/S SHARES (MN):	82.8
MARKET CAP (USD mn / SGD mn):	49 / 66
52 - WK HI/LO (SGD):	0.83 / 0.4
3M Average Daily T/O (mn):	0.02

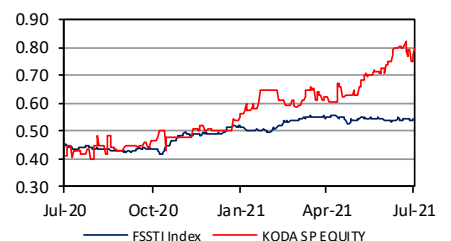
### MAJOR SHAREHOLDERS

James Koh	13.4%
Koh Teng Kwee	11.4%
Koh Jyh Eng	10.8%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	9.2	25.0	55.8
STI RETURN	0.0	(0.1)	22.5

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Jun, USD (mn)	FY19	FY20	FY21e	FY22e
Revenue	57.9	60.4	71.2	74.7
EBITDA	7.6	8.3	13.0	14.1
Net Profit	5.3	4.3	8.5	9.0
EPS (USD cents)	6.4	5.2	10.3	10.9
EPS (SGD cents)	8.7	7.1	14.0	14.7
P/E (X)	9.2	11.3	5.7	5.4
Dividend Yield	3.1%	1.6%	3.1%	3.3%
ROE	13.9%	10.7%	17.5%	16.1%
ROA	11.4%	7.5%	11.9%	11.1%

Source: Company, PSR

### VALUATION METHOD

7.0x FY21e ex-cash PE

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## REVENUE

Koda has two main businesses: manufacturing, at 82% of its revenue, and retail and distribution, at 18%. Customers are located in about 30 countries, comprising wholesalers, distributors and major retailers.

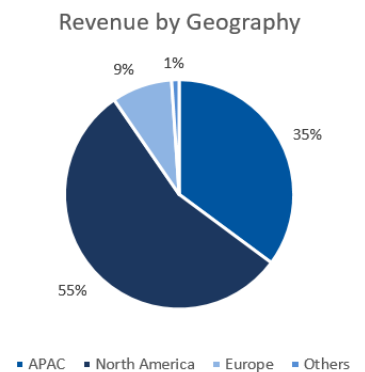
**Manufacturing.** Koda exports furniture to 30 countries in North America, the Asia Pacific and Europe. North America is its biggest market, contributing 55.3% to FY20 revenue (Figure 1). Manufacturing is Koda's bread-and-butter (Figure 2).

**Retail and distribution.** Koda established its Commune retail brand in 2011. Backed by Koda's scalable distributor-retail business in China, Commune has grown at a CAGR of 13.2% since FY16. It is expected to be Koda's near-term revenue driver. Over the past 10 years, Koda has opened 85 retail stores in Asia, 75 in China.

Alto by Commune is a higher-end sister brand launched in 2019. It currently operates more than 10 stores in Singapore and China.

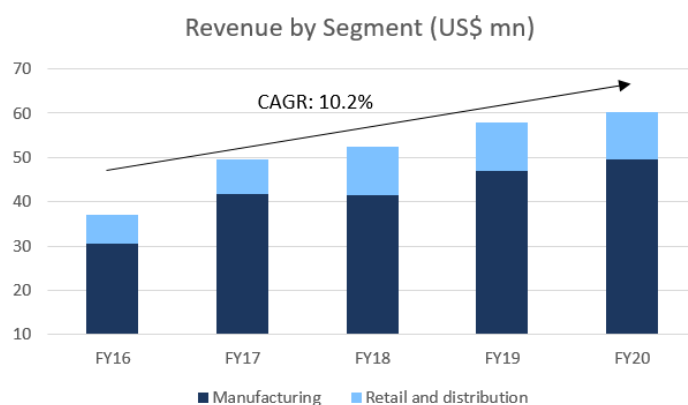
Revenue CAGR was 10.2% from FY16 to FY20 as Koda expanded its customer base, and increased sales from existing customers. FY20 revenue rose 4.3% or US\$2.5mn to US\$60.4mn, led by higher export sales to markets such as North America despite Covid-19 control measures (Figure 3).

**Figure 1: North America contributed 55.3% to FY20 revenue**



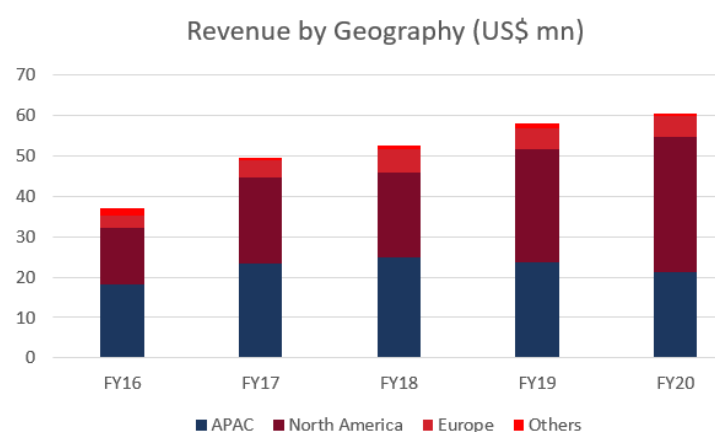
Source: Company, PSR

**Figure 2: Manufacturing contributed 82% to FY20 revenue**



Source: Company, PSR

**Figure 3: Revenue from North America climbing steadily**



Source: Company, PSR

## EXPENSES

Cost of sales include the costs of raw materials, labour, etc.

Operating expenses include selling and distribution expenses, at 8.7% of sales, administrative expenses at 15.1% and other expenses at 0.2%. Selling and distribution expenses rose US\$0.3mn in FY20 due to higher marketing and staff costs for Commune's new subsidiary in Chongqing. This was mitigated by lower trade-fair and travelling expenses due to Covid-19 restrictions.

## MARGINS

Gross margins ranged from 27% to 36% in FY16-20 (Figure 5). Margins were affected in FY20 by higher selling and distribution expenses for Commune's new subsidiary in Chongqing.

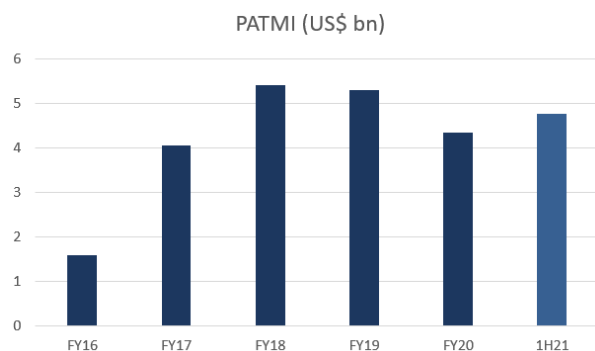
EBITDA margins were 9-15% over the period.

We expect gross margins to be in the same range over the next two years, as Koda expands its Commune presence in China. Higher economies of scale are expected from higher production.

## OTHER INCOME

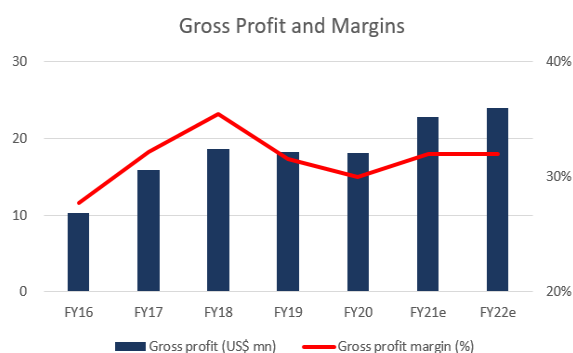
Other income rose by US\$0.4mn to US\$1.2mn, thanks to government grants and property tax and rental rebates of US\$360k and higher interest income.

Figure 4: 1HFY21 PATMI exceeded FY20 levels



Source: Company, PSR

Figure 5: Gross profits and margins hit by Covid-19



Source: Company, PSR

Figure 6: EBITDA margins of Koda vs peers

Company	2020
Man Wah Holdings	17.7%
Jason Furniture	9.4%
Lii Hen Industries	13.1%
Poh Huat Resources Holdings	12.4%
Latitude Tree Holdings Bhd	6.3%
Homeritz Corp Bhd	20.4%
Ulferts International Ltd	32.8%
Koda Ltd	12.1%
<b>Mkt-weighted average</b>	<b>13.9%</b>

Source: Bloomberg, PSR

## BALANCE SHEET

**Assets.** Property, plant and equipment (PPE) fell in FY20 due mainly to a reclassification of leasehold land from PPE to right-of-use assets following Koda's adoption of SFRS (I) 16 Leases. Koda no longer makes a distinction between operating and finance leases. About US\$5.9m of right-of-use assets, representing the right to use the underlying assets, were recognised in FY20.

Koda acquired rights for the use of a plot of land for 2021-2061 and factory building in Vietnam in March 2021 for US\$4.5mn, to increase its production capacity.

It generally operates an asset-light business, owning only factories for manufacturing. Commune stores are operated through distributors, where retailers assume the responsibility of selling its products.

**Liabilities.** Koda had net cash averaging US\$9.6mn over the past five financial years.

With the adoption of IFRS 16, lease liabilities of US\$4.2mn, representing obligations to make lease payments, were recognised.

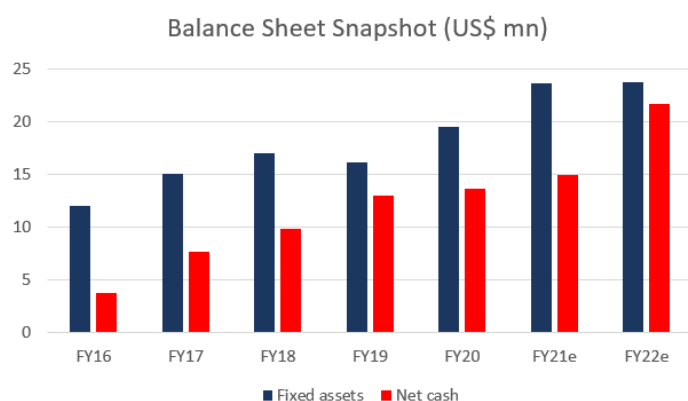
Bank loans rose US\$1.8mn in FY20 for the purchase of land in Vietnam.

## CASH FLOW

Operating and free cash flows were positive from FY16 to FY20. Operating cash flow increased to US\$8.6mn in FY20 on the back of lower working capital investments.

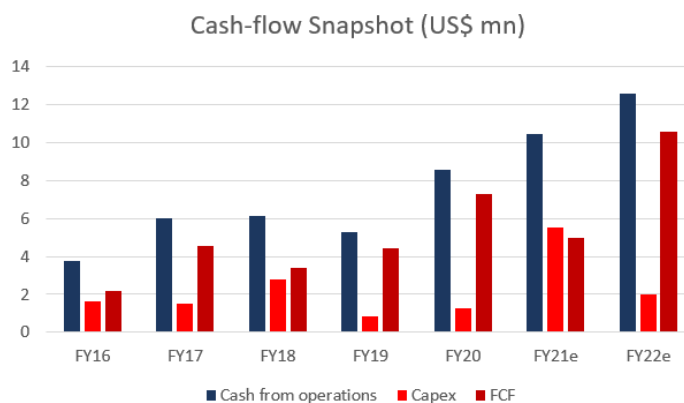
Capex is generally negligible, although we are expecting an increase in FY21e from the purchase of land and factory in Vietnam.

Figure 7: Stable fixed assets and net cash



Source: Company, PSR

Figure 8: Historical record of positive FCF



Source: Company, PSR

### Investment Merits

1. **1HFY21 PATMI exceeded FY20; FY21e PATMI forecast to almost double.** 1HFY21 PATMI increased 15.7% YoY and exceeded FY20 levels. Sales in 2HFY20, which was the January-June 2020 period, were largely hit by restrictions around the world to combat Covid-19. 1HFY21 revenue rose as export sales to North America recovered. We expect FY21e PATMI to almost double, supported by growth in export sales to North America. Year to May 2021, US furniture imports rose 44% YoY to US\$24.9bn. Imports were even higher than pre-Covid levels by 18%. After the US-China trade war, Vietnam has overtaken China as the world's largest furniture exporter. It exported US\$7.4bn worth of furniture, up 31% YoY, to the US in 2020, a tad above China's US\$7.3bn.
2. **Expansion of production capacity in Vietnam.** In anticipation of a bigger order book, Koda acquired a piece of land and a factory building in Vietnam in March 2021. This was to increase capacity for its mixed-material furniture production, storage and warehousing. Built-in area for the factory is approximately 8,473 sqm, while the land has an area of approximately 13,768 sqm. Koda has also expanded into sofa. Within furniture, sofa manufacturing is the most straightforward. Contributions from manufacturing sofas have not been factored in.
3. **Additional source of growth: target of 100 retail stores in China by end-2022.** Koda started its Commune brand in 2011. Through aggressive expansion, Commune can now be found in 85 stores in four countries, 75 in China alone. Revenue from its retail and distribution segment grew at a CAGR of 13.2% from FY16 to FY20. Year to June 2021, furniture retail sales in China grew 18.8% to RMB78.1bn, driven by recovery in retail spending as life in China returns to normalcy.

### Risks

1. **Disruptions from Covid-19 restrictions.** Koda has a manufacturing facility in Malaysia, which was affected by Malaysia's Movement Control Order (MCO) in 2020 and more recently, by MCO 3.0. Koda has another plant in Vietnam, which is bigger. As Covid-19 cases have been surging in Vietnam, with daily new cases rising past 1,000 since June 2021, Koda's factories in Vietnam were temporarily closed on 13 July. They are waiting for approval to resume. Although the temporary closure would delay the fulfilment of certain orders, part of the orders may be met by scheduled shipments of ready inventories.
2. **Exchange-rate risks.** Koda's businesses are transacted in various currencies, including the US\$, RMB, S\$ and Vietnamese dong. Koda has some investments in foreign subsidiaries, whose net assets are exposed to currency-translation risks. The company uses natural hedges from its offsetting assets and liabilities that are denominated in foreign currencies.

## BUSINESS SEGMENTS

**Manufacturing.** Koda exports living, dining and bedroom furniture to about 30 countries across North America, Europe, the Asia Pacific and other countries. Being an ODM, its furniture is designed and made according to customers' specifications and is rebranded by its overseas customers for sale. Raw materials for furniture include walnut, oak, leather, metal frame, etc.

**Retail.** Commune is its proprietary retail brand, which has developed a strong and growing appeal to mid- to high-end customers for its trendy designs and contemporary lifestyle pieces and accessories. The first Commune outlet opened in Singapore in 2011. In 2014, Koda opened its first overseas outlet in China. As at 30 June 2021, it had 85 Commune outlets in China, Singapore, Malaysia, the Philippines and Hong Kong, with 75 alone in China.

Koda operates its Commune outlets through dealers. It provides its dealers with intellectual property, training, technology and products at wholesale prices. Commune's target is the younger generation who prefer modern and trendy designer furniture.

Commune independently sources from third parties, has its own marketing team and is run by a different management team. It also manages its own distribution network in China. In 2019, Koda created Alto to sell higher-end furniture to the more affluent. Alto currently operates 10 retail stores in Singapore and China.

In the near term, Koda will focus on expanding Commune's operations and its traditional ODM business. It will continue to target China as its main market, aiming to open another 25 stores in China by 2022. Factors contributing to Commune's growth potential include the potential growth of the furniture market. The China furniture market size was valued at US\$68.3bn in 2020 and is projected to reach US\$114.4bn by 2028, growing at CAGR of 6.7% from 2021 to 2028.

**Figure 9: Manufacturing facility in Vietnam**



Source: Company

**Figure 10: Commune's flagship store at Millenia Walk, Singapore**



Source: Company

**Figure 11: Interior of its flagship store at Millenia Walk, Singapore**



Source: Company

**Management.** Koda was founded in 1972 by Mr Koh Teng Kwee.

It is currently led by the second generation of the family, with combined more than 100 years of industry experience. The team is headed by Executive Chairman and CEO, Mr James Koh. James spearheads Koda's operations and growth strategies. He also served as the President of the Singapore Furniture Industries Council (SFIC) for two terms and initiated several successful projects including the International Furniture Fair Singapore.

Commune, the retail segment, is led by the third generation. Mr Joshua Koh, CEO, is responsible for overseeing the operations of Commune, its business development and provides overall strategy for the brand.



## INDUSTRY

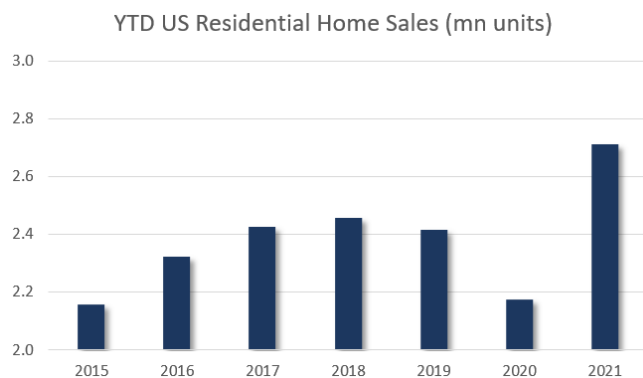
**US housing market.** According to the US Ministry of Industry and Trade, the US housing market will grow strongly in 2021, increasing the demand for home furniture. The US home furniture market is poised to grow by US\$8.1bn from 2020 to 2024, growing at CAGR of 3%. This presents opportunities for the market in wooden furniture, as wood is one of the most popular raw materials used to make any kind of furniture, and both standard and luxury products can be made with wood. Year to May 2021, US residential home sales reached their highest in six years, rising 24.8% YoY to 2.7mn units (Figure 12). In May 2021, total private housing under construction in the US rose 12.4% YoY to 1.33mn units (Figure 13).

Work-from-home and study-from-home needs have raised demand for home furniture. Since 2H20, the value of US furniture imports has rebounded strongly to exceed pre-Covid levels, to US\$5.4bn in May 2021 (Figure 14).

**Vietnam furniture exports.** As a result of the US-Sino trade war, Vietnam has overtaken China as the largest furniture exporter to the US, as tariffs drive manufacturers out of China. When the Covid-19 pandemic first started at the beginning of 2020, several of its factories, however, struggled to survive due to a shortage of orders from the US, China, the EU, etc. But as countries took steps to keep the pandemic under control, wood and furniture factories recovered over 2H20.

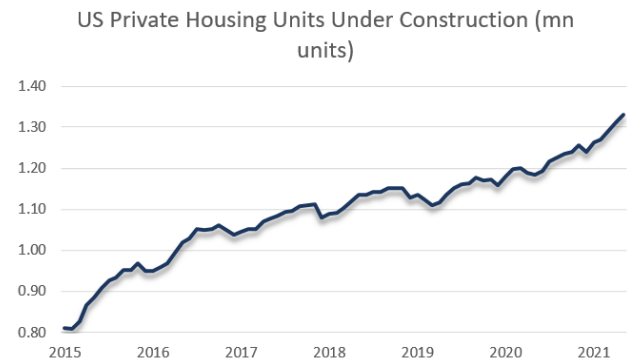
Vietnam exported US\$7.4bn worth of furniture to the US in 2020, compared to China's US\$7.3bn. This represented a 31% increase YoY, while furniture exports from China to the US fell 25%. According to Vietnam's Customs, the country's year to June 2021 furniture exports, excluding wood, rose 56.9% YoY to US\$1.6bn, overtaking pre-Covid levels (Figure 15).

**Figure 12: Average residential home sales in the first five months of 2021 at their highest level in the US in six years**



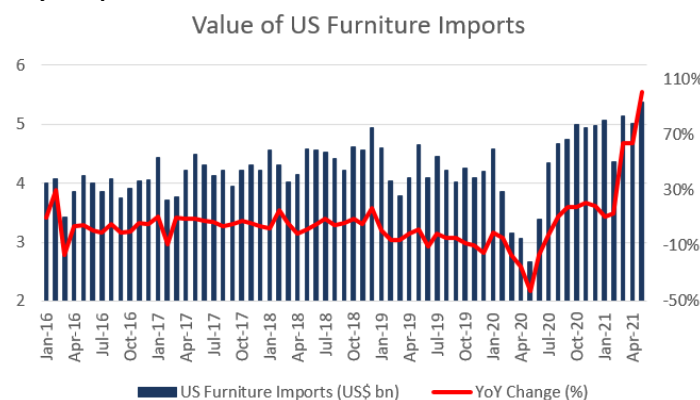
Source: CEIC, PSR

**Figure 13: US private housing under construction has been steadily trending up in the past six years**



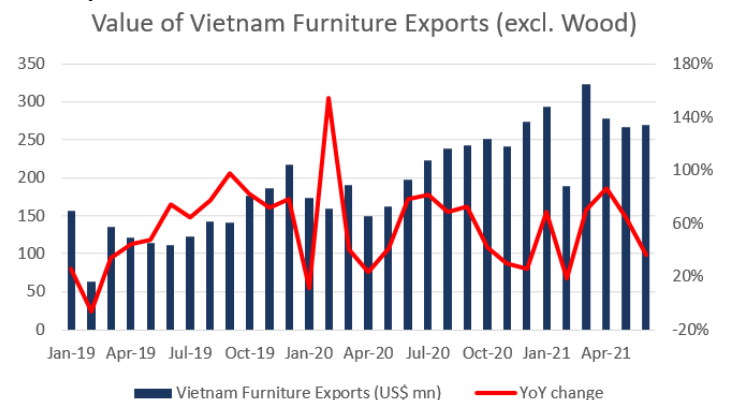
Source: CEIC, PSR

**Figure 14: Value of US furniture imports has rebounded beyond pre-Covid levels**



Source: CEIC, PSR

**Figure 15: Value of furniture exports from Vietnam has risen above pre-Covid levels**



Source: Vietnam Customs, PSR



**Competitors.** The furniture market is highly competitive, with barriers to entry that are lower than many other industries. For Koda's Commune brand, other retailers serving mid- to high-end customers include unlisted US furniture retailers, Crate and Barrel and Pottery Barn. Other competitors include BoConcept, Proof Living, P5, Lifestorey, etc.

Commune focuses on the experiential furniture shopping and makes good use of technology, including virtual reality and augmented reality, to enhance customers' online shopping experience. Customers can visualise how Commune's products would fit into their homes and lifestyle preferences using virtual and augmented reality (Appendix 5, Figures 27-28). These services are available at all Commune stores.

In manufacturing, competitors that derive the bulk of their revenue from North America and the Asia Pacific include Lii Hen Industries (LHI MK, Not Rated) and Man Wah Holdings (1999 HK, Not Rated). Koda specialises in middle to high range while their competitors mostly supply mass products.

Koda continues to invest in upgrading its factories by acquiring state-of-the-art machines and equipment to improve productivity, efficiency and quality. At its manufacturing facility in Vietnam, it uses computer numerical control machines to boost production efficiency, by automating production to increase throughput with consistent quality.

## VALUATION

We initiate coverage of Koda with a BUY recommendation and target price of S\$1.32. Koda currently trades at 5.7x FY21e PE. Peers are trading at 24.7x PE. Stripping out net cash of US\$13.7mn, it trades at ex-cash PEs of 3.3x/2.2x FY21e/22e PE.

Our TP is based on 7.0x FY21e ex-cash PE. In 2020, Koda's share price suffered from the weaker furniture export market due to Covid-19 restrictions. We see room for valuation expansion to narrow its gap with its larger furniture peers if the company is able to sustain earnings growth.

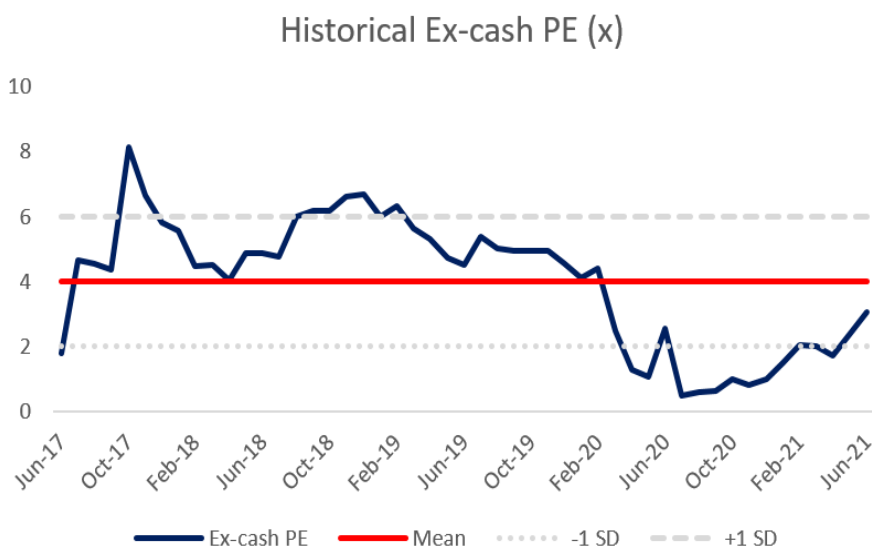
Stock catalysts are expected from higher exports to US and increase in production capacity.

Figure 16: Peer comparisons

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Currency	Share Px Local Crcy	Mkt. Cap. (US\$ m)	Yr 0	P/E Yr 1	P/E Yr 2	P/B (x)	Dividend Yield	ROE	EV/EBITDA (x)	Gearing	EBITDA Margin
Man Wah Holdings	-21.8%	-3.1%	-9.6%	HKD	15.20	7,745	31.3	24.2	19.6	5.60	1.7%	22.1%	22.1	31.9%	17.7%
Jason Furniture	-7.7%	-15.9%	-0.6%	CNY	70.10	6,854	52.4	27.1	22.2	6.30	1.2%	14.1%	41.8	11.1%	9.4%
Lii Hen Industries	-7.8%	-12.7%	-25.6%	MYR	2.96	126	7.0	8.4	6.3	1.26	5.6%	16.8%	4.6	10.0%	13.1%
Poh Huat Resources Holdings	-5.0%	-16.4%	-23.6%	MYR	1.33	83	6.8	6.6	5.8	0.79	5.3%	13.6%	3.7	5.1%	12.4%
Latitude Tree Holdings Bhd	-9.0%	-17.9%	-14.7%	MYR	1.61	74	18.6	n.a.	n.a.	0.26	4.0%	8.6%	2.4	19.3%	6.3%
Homeritz Corp Bhd	-2.6%	-11.2%	-17.2%	MYR	0.56	54	9.7	9.3	8.4	1.15	4.5%	12.7%	4.9	0.1%	20.4%
Ulferts International Ltd	-1.4%	93.4%	94.4%	HKD	0.35	36	16.6	n.a.	n.a.	2.42	n.a.	15.7%	1.2	32.0%	32.8%
Koda Ltd	9.2%	25.0%	55.8%	SGD	0.80	49	11.3	5.7	5.4	1.06	2.2%	10.7%	2.3	17.1%	12.1%
	-14.8%	-8.7%	-5.1%		15,022		35.5	24.7	20.2	5.79		18.2%	30.6	21.8%	13.8%

Source: Bloomberg, PSR, closing prices of 22 July 2021.

Figure 17: Koda is trading slightly below historical average ex-cash PE of 4.0x



Source: Bloomberg, PSR

## Appendix 1: Company structure

Figure 18: As at 30 June 2020



Source: Company

## Appendix 2: Markets

Figure 19: Countries where its customers are located, as at 30 June 2020



Source: Company

### Appendix 3: Products by Commune and Alto

Figure 20: Dining set by Commune



Source: Company (thecommunelife.com)

Figure 21: Sofa set on display at Alto



Source: PSR

Figure 22: A product by Alto, the sister brand of Commune serving higher-end customers



Source: PSR

Figure 23: Coffee table and sofa at Commune



Source: PSR



**Appendix 4: Store set-up at Commune and Alto at Millenia Walk****Figure 24: A typical Commune store**

Source: PSR

**Figure 25: Dining table and other products at Alto**

Source: Company

**Figure 26: Dining table and other products at Commune**

Source: PSR

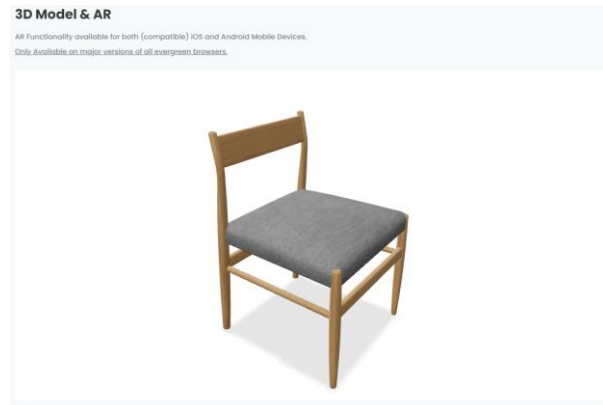
## Appendix 5: Incorporating technology in Commune's sales processes

**Figure 27: Virtual and augmented reality helps customers visualise**



Source: The Peak

**Figure 28: 3D modelling and augmented reality from website, for customers' visualisation**

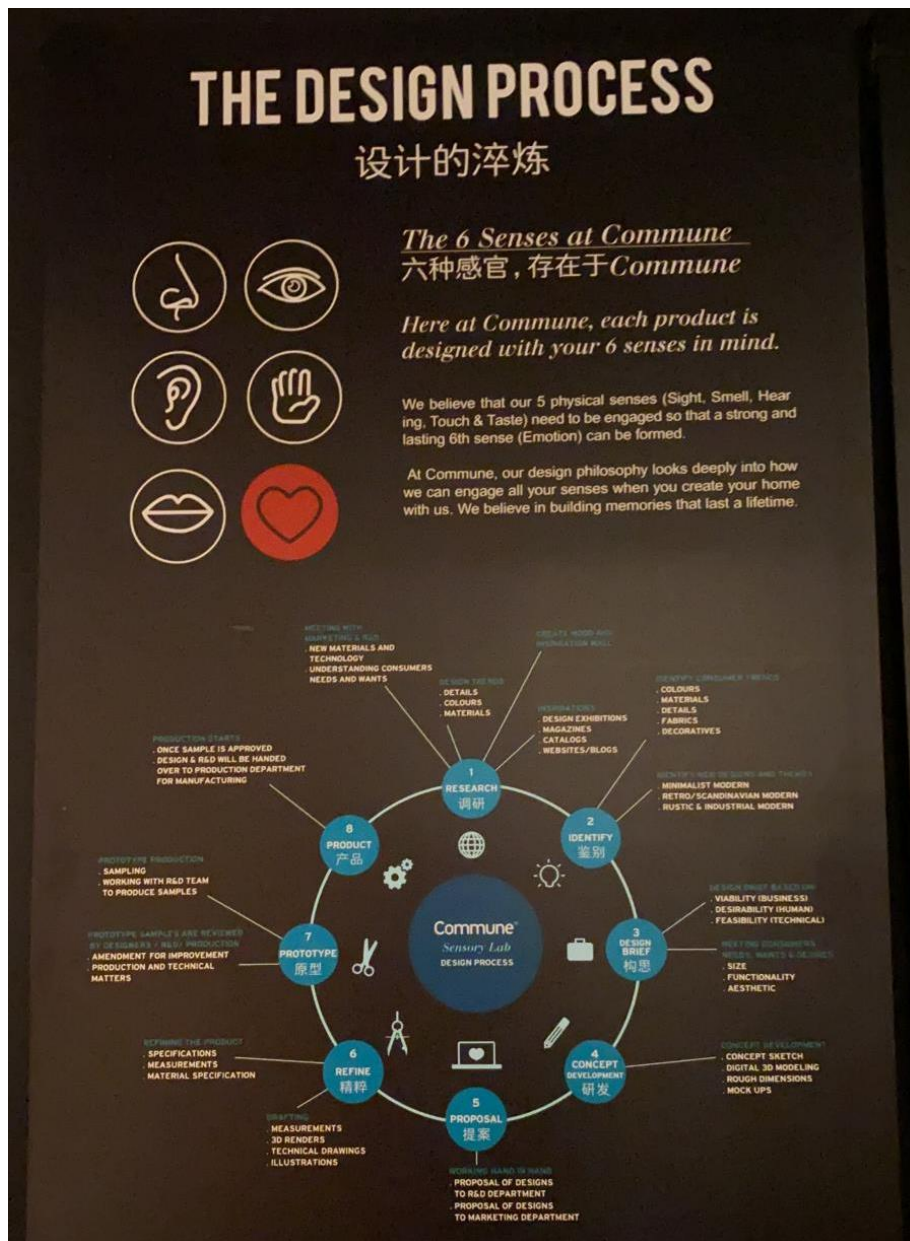


Source: Company (thecommunelife.com)



## Appendix 6: Design process

Figure 29: Commune focuses on customers' shopping experience



Source: Company

## Financials

### Income Statement

Y/E Jun, USD '000	FY18	FY19	FY20	FY21e	FY22e
<b>Revenue</b>	<b>52,400</b>	<b>57,892</b>	<b>60,353</b>	<b>71,190</b>	<b>74,750</b>
Cost of sales	(33,809)	(39,648)	(42,282)	(48,409)	(50,830)
<b>Gross profit</b>	<b>18,591</b>	<b>18,244</b>	<b>18,071</b>	<b>22,781</b>	<b>23,920</b>
Selling & distribution expens	(5,405)	(5,001)	(5,276)	(5,695)	(5,980)
Administrative expenses	(7,309)	(8,108)	(9,135)	(8,899)	(9,344)
Other operating expenses	(533)	(204)	(93)	(362)	(253)
<b>EBITDA</b>	<b>7,702</b>	<b>7,625</b>	<b>8,250</b>	<b>12,985</b>	<b>14,068</b>
<b>EBIT</b>	<b>6,026</b>	<b>5,759</b>	<b>4,782</b>	<b>9,605</b>	<b>10,212</b>
Finance costs	(32)	(30)	(157)	(368)	(478)
<b>Profit before tax</b>	<b>5,994</b>	<b>5,729</b>	<b>4,625</b>	<b>9,237</b>	<b>9,734</b>
Taxation	(581)	(420)	(500)	(857)	(890)
Minority interest	0	0	(211)	(168)	(177)
<b>PATMI</b>	<b>5,413</b>	<b>5,309</b>	<b>4,336</b>	<b>8,547</b>	<b>9,022</b>

### Per share data

Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
EPS (USD cents)	8.01	6.44	5.25	10.35	10.92
EPS (SGD cents)	10.80	8.69	7.08	13.96	14.73
DPS (USD cents)	1.31	1.87	0.92	1.76	1.91
DPS (SGD cents)	1.75	2.50	1.25	2.45	2.66
BVPS (USD cents)	41.69	46.34	49.09	58.98	67.99
BVPS (SGD cents)	56.24	62.51	66.22	79.56	91.72

### Cash Flow

Y/E Jun, USD '000	FY18	FY19	FY20	FY21e	FY22e
<b>CFO</b>					
<b>Profit before tax</b>	<b>5,994</b>	<b>5,729</b>	<b>4,625</b>	<b>9,237</b>	<b>9,734</b>
Adjustments	1,851	1,930	3,434	3,867	4,452
WC changes	(982)	(1,881)	741	(1,503)	(340)
<b>Cash generated from ops</b>	<b>6,863</b>	<b>5,778</b>	<b>8,800</b>	<b>11,601</b>	<b>13,846</b>
Income tax paid	(785)	(615)	(277)	(857)	(890)
Others	44	140	67	(270)	(380)
<b>Cashflow from ops</b>	<b>6,122</b>	<b>5,303</b>	<b>8,590</b>	<b>10,473</b>	<b>12,576</b>
<b>CFI</b>					
CAPEX, net	(2,758)	(857)	(1,280)	(5,500)	(2,000)
Others	-	-	(3,737)	(2,672)	(2,672)
<b>Cashflow from investments</b>	<b>(2,758)</b>	<b>(857)</b>	<b>(5,017)</b>	<b>(8,172)</b>	<b>(4,672)</b>
<b>CFF</b>					
Loans, net of repayments	(31)	(189)	2,311	3,217	1,442
Dividends paid	(1,060)	(1,195)	(1,509)	(1,453)	(1,579)
Others	(182)	(100)	(1,280)	-	-
<b>Cashflow from financing</b>	<b>(1,273)</b>	<b>(1,484)</b>	<b>(478)</b>	<b>1,764</b>	<b>(137)</b>
Net change in CCE	2,091	2,962	3,095	4,065	7,767
<b>CCE, end</b>	<b>10,502</b>	<b>13,394</b>	<b>16,426</b>	<b>20,902</b>	<b>29,081</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

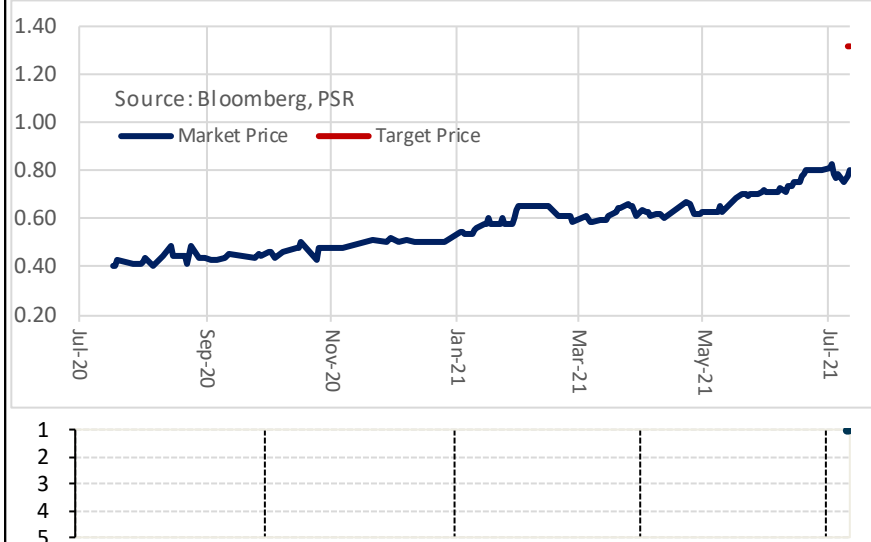
### Balance Sheet

Y/E Jun, USD '000	FY18	FY19	FY20	FY21e	FY22e
<b>ASSETS</b>					
Trade and other receivables	6,370	6,084	6,252	8,300	8,514
Cash and bank balances	10,502	13,394	16,426	20,902	29,081
Inventories	9,552	10,581	11,347	13,124	13,832
<b>Total current assets</b>	<b>26,424</b>	<b>30,059</b>	<b>34,025</b>	<b>42,327</b>	<b>51,427</b>
PPE	17,072	16,116	13,618	17,334	17,374
Right-of-use assets	-	-	5,898	6,302	6,406
Others	262	311	4,125	6,096	6,317
<b>Total non-current assets</b>	<b>17,334</b>	<b>16,427</b>	<b>23,641</b>	<b>29,731</b>	<b>30,097</b>
<b>Total Assets</b>	<b>43,758</b>	<b>46,486</b>	<b>57,666</b>	<b>72,059</b>	<b>81,524</b>
<b>LIABILITIES</b>					
Trade and other payables	8,050	7,259	9,295	11,618	12,199
Bank borrowings	182	182	1,045	3,617	5,059
Others	497	358	1,831	2,603	2,603
<b>Total current liabilities</b>	<b>8,729</b>	<b>7,799</b>	<b>12,171</b>	<b>17,838</b>	<b>19,861</b>
Bank borrowings	410	221	1,669	2,314	2,314
Lease liabilities	-	-	3,029	2,804	2,804
Others	333	228	260	397	397
<b>Total non-current liabilities</b>	<b>743</b>	<b>449</b>	<b>4,958</b>	<b>5,515</b>	<b>5,515</b>
<b>Total Liabilities</b>	<b>9,472</b>	<b>8,248</b>	<b>17,129</b>	<b>23,353</b>	<b>25,376</b>
<b>Net assets</b>	<b>34,286</b>	<b>38,238</b>	<b>40,537</b>	<b>48,705</b>	<b>56,148</b>
<b>Represented by:</b>					
Share capital	4,525	4,688	4,786	4,786	4,786
Accumulated profits	28,926	33,040	35,867	42,961	50,404
Others	835	510	(116)	958	958
<b>Total Equity</b>	<b>34,286</b>	<b>38,238</b>	<b>40,537</b>	<b>48,705</b>	<b>56,148</b>

### Valuation Ratios

Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
P/E (X)	7.40	9.20	11.30	5.73	5.43
P/B (X)	1.24	0.98	1.13	1.01	0.87
EV/EBITDA (X)	7.26	6.95	6.35	3.93	3.15
Dividend Yield (%)	2.2%	3.1%	1.6%	3.1%	3.3%
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
Revenue	5.9%	10.5%	4.3%	18.0%	5.0%
EBITDA	24.2%	-1.0%	8.2%	57.4%	8.3%
EBIT	20.6%	-4.4%	-17.0%	100.9%	6.3%
PATMI	33.7%	-1.9%	-18.3%	97.1%	5.5%
<b>Margins</b>					
Gross margin	35.5%	31.5%	29.9%	32.0%	32.0%
EBITDA margin	14.7%	13.2%	13.7%	18.2%	18.8%
EBIT margin	11.5%	9.9%	7.9%	13.5%	13.7%
Net profit margin	10.3%	9.2%	7.2%	12.0%	12.1%
<b>Key Ratios</b>					
ROE (%)	15.8%	13.9%	10.7%	17.5%	16.1%
ROA (%)	12.4%	11.4%	7.5%	11.9%	11.1%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net Debt/EBITDA (X)	1.8	2.6	2.6	2.6	3.6

## Ratings History



## PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

## Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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