

Koda Ltd

Waiting for resumption

SINGAPORE | CONSUMER (FURNITURE) | FY21 RESULTS

- 2H21 results beat, with FY21 revenue and PATMI at 116%/107% of our forecasts. The outperformance came from higher-than-expected manufacturing sales.
- 2H21 revenue grew 65% YoY while PATMI jumped 20x, from higher export sales, increased contributions from retail and distribution and improved gross margins.
- Maintain BUY with lower TP of S\$1.10, down from S\$1.32 as we roll over our 7x ex-cash P/E to FY22e. This is at the higher end of its historical 5-year ex-cash P/E. We lower FY22e PATMI by 29% to US\$7.0mn. FY22e revenue estimate is largely unchanged but we cut gross margins from 32.0% to 29.5% for Covid-19 production disruptions at Koda's plants in Vietnam and Malaysia. Catalysts still expected from higher exports to US and increase in production capacity.

Results at a glance

USD '000	2H21	2H20	YoY
Revenue	43,093	26,100	65.1%
- Manufacturing	34,914	21,631	61.4%
- Retail and distribution	8,179	4,469	83.0%
Gross profit	14,389	7,116	102.2%
GP margins	33.4%	27.3%	6.1 ppts
PATMI	4,322	208	1977.9%
DPS (Scts)	2.00	0.75	166.7%

Source: Company, PSR

The Positives

+ 2H21 revenue and PATMI increased. Higher revenue was led by higher export sales to all regions, especially North America, where sales surged 81% YoY to US\$26.9mn. Retail and distribution sales also improved. The segment turned around from a net loss of US\$835k in 2H20 to a net profit of US\$217k in 2H21.

+ Improved margins. Gross margins increased 6.1 ppts YoY to 33.4%, following improved factory efficiency with higher production volume, which lowered unit production costs.

The Negative

- FY21 operating cash flow decreased 11.7% YoY to US\$7.6mn. Both operating and free cash flow declined, the former due to higher working capital as inventories increased 72.5% to US\$19.6mn and the latter due to capex which increased more than 2.5x to US\$3.5mn, with the acquisition of a land use right and factory building in Vietnam for US\$4.5mn.

Outlook

US furniture imports. Year to June 2021, US furniture imports increased 46.1% YoY to US\$30.2bn. Even though imports in June 2021 dipped 1.5% MoM, they increased 55.6% YoY to US\$5.3bn and were still above pre-Covid levels. We expect export sales to continue growing on the back of work-from-home with renewed virus-containment efforts.

30 August 2021

BUY (Maintained)

CLOSING PRICE	SGD 0.81
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 1.10
TOTAL RETURN	39.5%

COMPANY DATA

Bloomberg CODE:	KODAS.P
O/S SHARES (MN):	82.8
MARKET CAP (USD mn / SGD mn):	49 / 67
52 - WK HI/LO (SGD):	0.93 / 0.41
3M Average Daily T/O (mn):	0.03

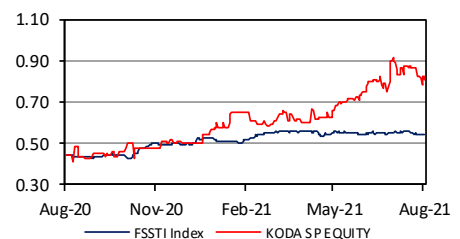
MAJOR SHAREHOLDERS

James Koh	16.3%
Koh Teng Kwee	11.4%
Koh Jyh Eng	10.9%
Koh Shwu Lee	10.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(8.3)	25.0	65.9
STI RETURN	0.2	0.1	26.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun, USD (mn)	FY20	FY21	FY22e	FY23e
Revenue	60.4	82.6	74.1	90.5
EBITDA	8.3	15.0	13.7	19.5
Net Profit	4.3	9.1	7.0	12.3
EPS (USD cents)	5.2	11.0	8.5	14.8
EPS (SGD cents)	7.3	14.8	11.5	20.1
P/E (X)	11.0	5.4	7.0	4.0
Dividend Yield	1.6%	3.7%	2.9%	5.0%
ROE	10.7%	18.5%	12.8%	18.9%
ROA	7.5%	12.2%	8.0%	12.3%

Source: Company, PSR

VALUATION METHOD

7.0x FY22e ex-cash PE

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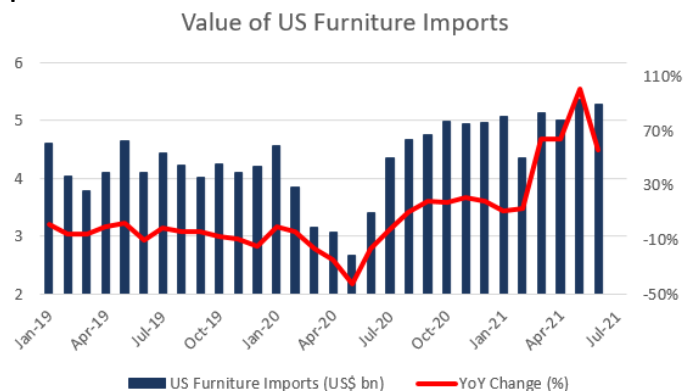
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The report is produced by Phillip Securities Research under the 'Research Talent Development Grant Scheme' (administered by SGX).

Vietnam furniture exports. Year to July 2021, Vietnam's furniture exports, excluding wood, increased 47.4% YoY to US\$1.8bn. Exports in July 2021 were down 16.8% MoM and up 1.1% YoY to US\$224.4mn. Covid-19 restrictions disrupted production across the country.

Figure 1: US furniture imports in June 2021 remained above pre-Covid levels



Source: CEIC, PSR

Figure 2: Vietnam's furniture exports declined MoM in July 2021 and increased 1.1% YoY



Source: CEIC, PSR

Manufacturing. Koda has two plants, one in Malaysia and the other in Vietnam. The Malaysian government has allowed manufacturing firms to operate partially if at least 60% of their employees have been fully vaccinated and fully if 100% of their employees are fully vaccinated. Koda is working towards progressive resumption of its Malaysian operations with higher full vaccination rates.

In Vietnam, factories are allowed to operate at 70% capacity if all workers have received their first dose of vaccination. They can operate at full capacity if all workers are fully vaccinated.

Buffer stocks have minimised the financial impact from the disruptions. However, any longer-than-expected restrictions could affect the supply chain and inventory replenishment.

Retail and distribution. A recent surge in Covid-19 cases in several provinces in China has sparked lockdowns, mass testing and travel restrictions. Chinese officials, however, believe that the situation is generally manageable. We are expecting expansion plans for Commune in China to be partly affected.

Other updates

Koda has entered into an agreement to purchase 18 Tagore Lane in Singapore. This is a freehold industrial building costing S\$11.2mn.

Koda currently leases a building in Defu Industrial Park, where its lease with JTC Corporation will expire on 30 November 2023. It plans to terminate the lease before expiry. The building is used for its corporate office, furniture showroom, product design and development, workshops and warehousing.

Maintain BUY with lower TP of S\$1.10, from S\$1.32

We cut FY22e PATMI by 29% to US\$7.0mn. Our FY22e revenue remains largely unchanged, but gross margins have been lowered, from 32.0% to 29.5%. This reflects production disruptions at Koda's manufacturing facilities in Vietnam and Malaysia.

Financials

Income Statement

Y/E Jun, USD '000	FY19	FY20	FY21	FY22e	FY23e
Revenue	57,892	60,353	82,643	74,120	87,910
Cost of sales	(39,648)	(42,282)	(55,502)	(52,180)	(58,900)
Gross profit	18,244	18,071	27,141	21,940	29,010
Selling & distribution expens	(5,001)	(5,276)	(6,765)	(5,559)	(7,033)
Administrative expenses	(8,108)	(9,135)	(10,607)	(8,894)	(10,989)
Other operating expenses	(204)	(93)	(299)	(148)	(210)
EBITDA	7,625	8,250	15,018	13,737	18,195
EBIT	5,759	4,782	11,338	9,339	13,152
Finance costs	(30)	(157)	(240)	(853)	(814)
Profit before tax	5,729	4,625	11,098	8,486	12,339
Taxation	(420)	(500)	(1,991)	(1,443)	(2,098)
Minority interest	0	(211)	9	7	31
PATMI	5,309	4,336	9,098	7,037	10,210

Per share data

Y/E Jun	FY19	FY20	FY21	FY22e	FY23e
EPS (USD cents)	6.44	5.25	11.00	8.51	12.34
EPS (SGD cents)	8.69	7.30	14.79	11.49	16.67
DPS (USD cents)	1.87	0.92	2.28	1.70	2.47
DPS (SGD cents)	2.50	1.25	3.00	2.30	3.33
BVPS (USD cents)	46.34	49.09	59.48	66.28	76.19
BVPS (SGD cents)	62.51	66.22	80.23	89.53	102.91

Cash Flow

Y/E Jun, USD '000	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	5,729	4,625	11,098	8,486	12,339
Adjustments	1,930	3,434	3,863	5,088	5,667
WC changes	(1,881)	741	(6,178)	(2,133)	(623)
Cash generated from ops	5,778	8,800	8,783	11,441	17,382
Income tax paid	(615)	(277)	(1,056)	(1,443)	(2,098)
Others	140	67	(140)	(691)	(624)
Cashflow from ops	5,303	8,590	7,587	9,308	14,660
CFI					
CAPEX, net	(857)	(1,280)	(3,415)	(11,000)	(3,000)
Others	-	(3,737)	(3,611)	(2,500)	(2,500)
Cashflow from investments	(857)	(5,017)	(7,026)	(13,500)	(5,500)
CFF					
Loans, net of repayments	(189)	2,311	198	9,005	(390)
Dividends paid	(1,195)	(1,509)	(1,078)	(1,407)	(2,042)
Others	(100)	(1,280)	(1,615)	-	-
Cashflow from financing	(1,484)	(478)	(2,495)	7,598	(2,432)
Net change in CCE	2,962	3,095	(1,934)	3,405	6,729
CCE, end	13,394	16,426	14,673	18,078	24,807

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jun, USD '000	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Trade and other receivables	6,084	6,252	11,538	12,044	12,718
Cash and bank balances	13,394	16,426	14,673	18,078	24,807
Inventories	10,581	11,347	19,575	20,012	21,977
Total current assets	30,059	34,025	45,872	50,221	59,588
PPE	16,116	13,618	15,467	24,092	24,481
Right-of-use assets	-	5,898	7,708	8,186	8,254
Others	311	4,125	5,433	5,433	5,433
Total non-current assets	16,427	23,641	28,608	37,711	38,168
Total Assets	46,486	57,666	74,480	87,931	97,756
LIABILITIES					
Trade and other payables	7,259	9,295	16,844	15,654	17,670
Bank borrowings	182	1,045	1,169	10,174	9,784
Others	358	1,831	3,078	3,078	3,078
Total current liabilities	7,799	12,171	21,091	28,906	30,532
Bank borrowings	221	1,669	1,743	1,743	1,743
Lease liabilities	-	3,029	2,101	2,101	2,101
Others	228	260	304	304	304
Total non-current liabilities	449	4,958	4,148	4,148	4,148
Total Liabilities	8,248	17,129	25,239	33,054	34,680
Net assets	38,238	40,537	49,241	54,877	63,076
Represented by:					
Share capital	4,688	4,786	4,786	4,786	4,786
Accumulated profits	33,040	35,867	43,887	49,516	57,684
Others	510	(116)	568	575	606
Total Equity	38,238	40,537	49,241	54,877	63,076

Valuation Ratios

Y/E Jun	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	9.26	11.03	5.44	7.01	4.83
P/B (X)	0.98	1.13	1.00	0.90	0.78
EV/EBITDA (X)	7.01	6.40	3.65	4.40	2.93
Dividend Yield (%)	3.1%	1.6%	3.7%	2.9%	4.1%
Growth & Margins					
Growth					
Revenue	10.5%	4.3%	36.9%	-10.3%	18.6%
EBITDA	-1.0%	8.2%	82.0%	-8.5%	32.5%
EBIT	-4.4%	-17.0%	137.1%	-17.6%	40.8%
PATMI	-1.9%	-18.3%	109.8%	-22.7%	45.1%
Margins					
Gross margin	31.5%	29.9%	32.8%	29.6%	33.0%
EBITDA margin	13.2%	13.7%	18.2%	18.5%	20.7%
EBIT margin	9.9%	7.9%	13.7%	12.6%	15.0%
Net profit margin	9.2%	7.2%	11.0%	9.5%	11.6%
Key Ratios					
ROE (%)	13.9%	10.7%	18.5%	12.8%	16.2%
ROA (%)	11.4%	7.5%	12.2%	8.0%	10.4%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

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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