

Joyce Corporation Ltd

(JYC \$3.33) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Seth Lizee	25 th February 2022	\$4.25/sh

1H Result: Beat on Forecasts

Event

JYC has released its 1H financial results.

Impact

- Financial highlights:
 - \$61.5m revenue (+16% pcg)
 - \$12.7m EBITDA (+7% pcg, ex. Job keeper)
 - \$3.7m NPAT to equity (-7% pcg, vs \$3.0m EHL estimate)
 - 7.5cps 1H dividend declared (+7% pcg)
- Operating conditions in the 1H were mixed, with outbreaks of COVID in eastern states impacting the business towards the end of the year
- Despite these challenges, the company still delivered top line revenue growth for the H, although margins were affected by COVID disruptions leading to softer earnings pcg
- KWB (51% owned by JYC) delivered outstanding results during the H, despite difficult operating conditions, recording:
 - \$51.1m in revenue (+26% pcg)
 - \$9.1m EBIT (+32% pcg, ex. Job keeper)
- KWB added 2 new locations over the H, finishing with 26 showrooms. Additional locations are planned for Sydney over CY 2022
- Bedshed faced similar difficult operating conditions, recording:
 - \$10.4m in revenue (-14% pcg, flat when normalised)
 - \$2.5 in EBIT (-26% pcg, -13% when normalised)
- Bedshed added 2 locations in the 1H, finishing with 38 locations (inc. 4 company owned stores). A further location is scheduled to open in 4Q FY22
- Following the period end, JYC finalised its sale/leaseback agreement, realising ~\$5.4m in cash
- Company finished the H with \$17.2m in cash (\$22.6m Pro-forma inc. sale/leaseback)

Action

Following these solid 1H results we upgraded our forecasts. We further anticipate a more balanced HoH split for FY22.

Whilst we acknowledge there remains uncertainty around consumer markets and supply chains, we continue to see the long term organic growth potential in JYC.

JYC trades on an undemanding Fwd P/e of 12x with a 5.4% fully franked dividend yield.

Speculative Buy, \$4.25/sh Price Target

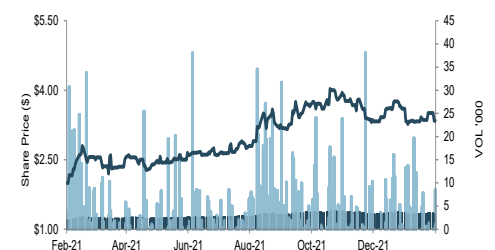
Key Catalyst

- Business Updates
- Full Year Results

Joyce Corporation Ltd	Year End 30 June	
Share Price	3.33	A\$/sh
Price Target	4.25	A\$/sh
Valuation (DCF)	4.39	A\$/sh
WACC	11%	
Terminal Growth	2%	
Shares on issue	28.2 m, diluted	
Market Capitalisation	94.0	A\$m
Enterprise Value	85.1	A\$m
Cash (Pro-forma)	22.6	A\$m
Debt (1H 22)	13.7	A\$m

Key Financials	2022F	2023F	2024F
Revenue (A\$m)	129.8	145.6	159.1
EBITDA (A\$m)	25.8	28.7	31.4
EBIT (A\$m)	21.1	23.9	26.5
Normalised NPAT (A\$m)	7.7	8.6	9.7
Reported NPAT (A\$m)	7.7	8.6	9.7
Gross Cashflow (A\$m)	8.9	10.0	11.1
Capex (A\$m)	-1.5	-1.5	-1.5
Op. Free Cashflow (A\$m)	4.9	8.6	10.6
Revenue Growth (%)	17%	12%	9%
EBITDA Growth (%)	6%	11%	10%
Norm. NPAT Growth (%)	6%	11%	12%
Normalised EPS (Ac)	27.4	30.5	34.3
Norm. EPS growth (%)	5%	11%	12%
PER (x)	12.2	10.9	9.7
DPS (Ac)	18.0	19.0	22.0
Dividend Yield (%)	5.4%	5.7%	6.6%
Net Debt (A\$m)	-12.5	-16.8	-22.2
Net Debt:Equity (%)	-41%	-47%	-55%
Interest Cover (x)	21.5	24.3	26.9

Share Price Chart



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Analysis

We have updated our forecast as follows:

Forecasts	Units	2021A	1H22A	2H22F	2022F	2023F	2024F
Locations							
KWB	x	24	26	26	26	30	33
Bedshed*	x	36	38	39	39	42	45
KWB	A\$m	89.6	51.1	58.9	110.0	126.9	139.6
Bedshed	A\$m	21.5	10.4	9.4	19.8	18.7	19.5
Total Revenue	A\$m	111.2	61.5	68.2	129.8	145.6	159.1
EBITDA	A\$m	24.3	12.7	13.0	25.8	28.7	31.4
KWB	A\$m	16.3	9.1	10.9	20.0	23.1	25.4
Bedshed	A\$m	5.9	2.5	1.5	4.0	3.8	4.2
Corp O/H	A\$m	-2.6	-1.5	-1.5	-2.9	-3.0	-3.1
Total EBIT	A\$m	19.6	10.1	11.0	21.1	23.9	26.5
Reported NPAT	A\$m	7.6	3.7	4.0	7.7	8.6	9.7
Norm. NPAT	A\$m	7.3	3.7	4.0	7.7	8.6	9.7
DPS	Acps	17.0	7.5	10.5	18.0	19.0	22.0

Source: EHL estimate

We provide segment commentary below:

KWB (51% Ownership)

- We forecasts revenues will grow HoH on the basis of:
 - Easing of COVID related disruption on the east coast; and
 - Ramp up to full capacity of new showrooms opened in the 1H
- As a reasonability check, we highlight the 1H order book reaching \$56.4m, \$5.4m in excess of revenues for the H. This being an indication of the underlying demand and revenue potential
- We anticipate broadly steady margins, noting the business held strong margins despite difficult operating conditions in the 1H
- However we note, the impact of COVID on supply chains continues to be an evolving situation. As a result, this will continue to be a risk to our KWB forecasts.
- We don't anticipate any further showrooms in FY22, thereafter we forecast the business will add 3-4 locations per year in 2023 and 2024
- We continue to see huge organic growth potential in the business, with Victoria and WA markets yet to be tapped

Bedshed (100% Ownership)

- We have upgraded our FY22 forecasts for the business, with the 1H exceeding our expectations as business activity remained stronger than anticipated
- However, we continue to believe demand will normalise from the sugar hit of activity seen in 2021, as a result we look towards a lower 2H, with a fully normalised FY of activity now in FY23
- Again, the evolving situation of COVID poses a risk to our Bedshed forecasts, we specifically highlight:

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- Half (2) of company owned stores reside in WA, with the company owned stores driving 75% of Bedshed revenue (the remainder being from franchises); and
- With WA borders opening in March, there remains a lot of unknowns around how this may impact consumer demand. As a result, material impacts in the state could affect our overall Bedshed forecasts.
- Inline with commentary, we forecasts Bedshed will add one additional location in Q4 FY22, thereafter we forecast 3 new locations per year in 2023 and 2024

Corporate / Other

- We forecast JYC will declare a FY dividend of 18cps, within the lower end of the 60-80% payout range

Price Target and Valuation

We maintain our Speculative Buy recommendation and \$4.25/sh. Price Target

JYC trades on an undemanding Fwd P/e of 12x with a 5.4% fully franked dividend yield.

We outline our DCF and P/e Valuation split below:

Blended Valuation	Units	
NPAT (FY'22e)	A\$m	7.7
(x) multiple	x	15.0
Equity Value	A\$m	116.0
(/) SOI	m	28.2
Value per share	A\$/sh	\$4.11
DCF	A\$/sh	\$4.39
Blended Valuation	A\$/sh	\$4.25
Price Target	A\$/sh	\$4.25

Source: EHL forecasts

This Price Target per our analysis requires JYC achieving the level of earnings growth we forecast. The factors and risks surrounding these assumptions further drive our Speculative Buy recommendation.

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Financial Statements	2021a	2022f	2023f	2024f	Performance Ratios	2021a	2022f	2023f	2024f
Income Statement					Growth & Margins				
(+) BedShed	21.5	19.8	18.7	19.5	Revenue Growth	30%	18%	11%	9%
(+) KWB	89.6	110.0	126.9	139.6	EBITDA Growth	46%	6%	11%	10%
(+/-) Other	0.0	0.0	0.0	0.0	EBIT Growth	64%	7%	13%	11%
Total Revenue	111.2	129.8	145.6	159.1	Reported NPAT Growth	-374%	2%	11%	12%
(-) COGS	-60.4	-71.0	-79.7	-87.1	Normalized Net Profit Growth	77%	6%	11%	12%
Gross Profit	50.7	58.7	65.9	72.0	EBITDA margin	22%	20%	20%	20%
(-) Operating Expense	-26.4	-33.0	-37.2	-40.6	EBIT margin	18%	16%	16%	17%
EBITDA	24.3	25.8	28.7	31.4	Normalized net profit margin	7%	6%	6%	6%
(-) D&A	-4.7	-4.7	-4.8	-4.9	Effective tax rate	32%	30%	30%	30%
EBIT	19.6	21.1	23.9	26.5	Liquidity				
(-) Net Finance	-0.5	-0.4	-0.4	-0.4	Capex/depreciation (x)	0.3	0.3	0.3	0.3
EBT	19.1	20.7	23.4	26.1	Current ratio (x)	0.9	1.2	1.3	1.4
(-) Tax Expense	-6.1	-6.2	-7.0	-7.8	Quick ratio (x)	1.0	1.6	1.7	1.8
(-) Non-Controlling interest	-5.4	-6.7	-7.8	-8.6	Receivable days	1.9	1.9	1.9	1.9
(+/-) Abnormals (pre-tax)	0.0	0.0	0.0	0.0	Payable days	119.2	90.0	85.0	85.0
Reported NPAT	7.6	7.7	8.6	9.7	Risk Measures				
Norm NPAT	7.3	7.7	8.6	9.7	Dividend Cover (x)	1.6	1.5	1.6	1.6
Cash flow (A\$m)	2021a	2022f	2023f	2024f	Payout ratio (%)	45%	66%	62%	64%
NPAT	7.6	7.7	8.6	9.7	Net interest cover (x)	20.2	21.5	24.3	26.9
(+) D&A	4.7	4.7	4.8	4.9	Net debt/equity (%)	-23%	-41%	-47%	-54%
(-) Lease Expense	-3.4	-3.5	-3.5	-3.5	Returns				
(+) Impairment	0.0	0.0	0.0	0.0	Return on Invested Capital	30%	26%	26%	27%
(+/-) Disc Operations	0.0	0.0	0.0	0.0	Return on Assets	11%	11%	11%	11%
(+/-) Other	0.8	0.0	0.0	0.0	Return on Equity	33%	30%	30%	30%
Gross Cashflow	9.6	8.9	10.0	11.1	Share Data/Valuation	2021a	2022f	2023f	2024f
(-) Capex	-1.4	-1.5	-1.5	-1.5	Share Data				
(-) Change in NWC	8.7	-2.6	0.2	1.0	Issued shares (m)	28.2	28.2	28.2	28.2
Operating Free Cashflow	16.9	4.9	8.6	10.6	Weighted ave shares (m)	28.1	28.2	28.2	28.2
(+/-) Sale of Other Assets	3.3	0.0	0.0	0.0	Fully diluted shares (m)	28.2	28.2	28.2	28.2
(+/-) Sale of PP&E	0.1	5.4	0.0	0.0	Basic EPS (c)	26.9	27.4	30.5	34.3
(+/-) other A/L changes	0.0	0.0	0.0	0.0	YoY change (%)	-374%	2%	11%	12%
(+/-) Other	0.0	0.0	0.0	0.0	Fully diluted EPS (c)	26.9	27.4	30.5	34.3
(+) NCI	5.4	6.7	7.8	8.6	YoY change (%)	-374%	2%	11%	12%
(-) Purchase of Intangible	0.0	0.0	0.0	0.0	Fully diluted normalised EPS (c)	26.0	27.4	30.5	34.3
(-) Acquisition	0.0	0.0	0.0	0.0	YoY change (%)	77%	5%	11%	12%
(-) Dividend Equity holders	-4.8	-5.1	-5.4	-6.2	Dividend/share (c)	17.0	18.0	19.0	22.0
(-) Dividends NCI	-5.5	-5.4	-6.2	-6.9	Franking (%)	100%	100%	100%	100%
Net Cashflow	15.5	6.5	4.8	6.1	Gross cashflow/share (c)	34.1	31.6	35.3	39.4
BoP Net Cash	-7.1	6.1	12.5	16.8	NBV/share (c)	81.8	91.0	102.5	114.8
(+/-) Net Cashflow	15.5	6.5	4.8	6.1	NTA/Share (c)	68.1	82.0	99.1	117.5
(+/-) AASB16 Adj.	-2.3	-0.1	-0.6	-0.6	Valuation				
EoP Net Cash	6.1	12.5	16.8	22.2	PER (Basic) (x)	12.4	12.2	10.9	9.7
Balance Sheet (\$m)	2021a	2022f	2023f	2024f	PER (Fully diluted) (x)	12.4	12.2	10.9	9.7
Cash	19.9	26.3	30.5	35.9	PER (Fully diluted, normalized) (x)	12.8	12.2	10.9	9.7
Receivables	0.6	0.7	0.8	0.8	P/CFPS (x)	9.8	10.5	9.4	8.5
Inventories	3.2	3.8	4.3	4.6	Price/NBV (x)	4.1	3.7	3.2	2.9
Other Assets	0.5	0.5	0.5	0.5	Price/NTA (x)	4.9	4.1	3.4	2.8
Other Financial Assets	0.6	0.6	0.6	0.6	Dividend Yield (%)	5%	5%	5.7%	7%
Total Current Assets	24.7	31.8	36.5	42.5	EV/EBIT (x, Ex. NCI)	6.0	5.9	5.3	4.8
Receivables	0.1	0.1	0.1	0.2	EV/Revenue (x)	0.8	0.7	0.6	0.5
Deferred Tax Assets	6.0	6.4	7.2	7.8	Other Information				
ROUA	12.5	12.5	12.5	12.5	Estimated free float:				50%
PP&E	8.9	3.9	4.7	5.4	12-mth High/Low (A\$/sh)				4.03/2.00
Inventories	0.0	0.0	0.0	0.0	Average daily volume (A\$)				20.5k
Investment Properties	9.6	9.6	9.6	9.6	ASX Code				JYC
Intangibles	7.5	7.4	7.4	7.4	Next result				Aug 22
Total Non-current Assets	44.5	39.9	41.5	42.8	Company Description				
Total Assets	69.3	71.7	78.0	85.3	Joyce Corporation (JYC) is a Perth based investment company operating 2 brands; including KWB and Bedshed. JYC has a long history originally established in 1886 with a core business built around foam and furniture manufacturing, these operations continued up until 2004 when JYC divested from its foam business. In the following years JYC went on to acquire either full or majority interest in Bedshed, KWB.				
Payables	19.7	17.5	18.6	20.3					
Dividends Payable	0.0	0.0	0.0	0.0					
Provisions	2.4	3.0	3.4	3.7					
Current Lease Liabilities	4.0	4.1	4.1	4.1					
Borrowings	0.0	0.0	0.0	0.0					
Provisions for Income Tax	1.7	1.7	1.7	1.7					
Total Current Liabilities	27.8	26.3	27.8	29.8					
Borrowings	0.0	0.0	0.0	0.0					
Non-Current Lease Liabilities	9.8	9.6	9.6	9.6					
Deferred Tax Liability	4.4	4.4	4.4	4.4					
Provisions	0.6	0.8	0.9	1.0					
Total Non-Current Liabilities	14.8	14.8	14.9	15.0					
Total Liabilities	42.6	41.1	42.7	44.8					
Net Assets	26.6	30.5	35.3	40.5					
Contributed Equity	18.4	18.4	18.4	18.4					
Reserves	0.7	0.7	0.7	0.7					
Non-controlling interests	3.6	5.0	6.5	8.2					
Retained Earnings	3.9	6.6	9.8	13.3					
Total Equity	26.6	30.6	35.4	40.6					

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