

Joyce Corporation Ltd

(JYC \$3.36) Buy, Upgrade from Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Seth Lizee	5 th September 2022	\$4.33/sh ▲ from \$4.25/sh

Full Year Results

Event

JYC reported its full year results, broadly in line with our expectations

Impact

- Financial highlights:
 - \$129.0m Revenue (+16% yoy, vs EHe \$129.8m)
 - \$25.8m EBITDA (Excl. property reval, +6% yoy, vs EHe \$25.8m)
 - \$7.5m Norm. NPAT to Equity (+3% yoy, vs EHe \$7.7m)
 - \$9.1m Reported NPAT to Equity (+20% yoy)
- KWB (51% ownership) reported a record year, delivering \$108.0m of Revenue (+20%) and \$19.2m of EBIT (+18%). The business is well positioned going into FY23 with a +\$60m order book as of June
- Bedshed (100% ownership) delivered softer results, with revenue broadly flat at \$21.1m and EBIT down modestly to \$4.8m
- The company announced a new home staging business, Crave, which will be launching this month as a pilot in Perth.
- Funded out of proceeds from the FY22 property sale, Crave, opens the company into an emerging and fast growing, yet under serviced market which will complement its existing businesses
- Going into FY23, the company remains confident of its ability to deliver steady growth, however, at the same time it continues to highlight challenging operating conditions, with inflationary pressures and various supply chain constraints at play
- JYC finished the year with \$31.9m in consolidated cash and no debt (ex. Leases). Subsequent to the year end, KWB entered into a sale/lease back agreement which will realise a further ~\$16m cash
- The company declared a 10.5cps final fully franked dividend, bringing the total dividend for FY22 to 18cps (in line with EHe), JYC has also established a dividend reinvestment plan
- We have tweaked our numbers around the edges as a consequence of full year reporting

Action

Buy, \$4.33/sh Price Target

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 11.7x with a 5.7% fully franked dividend yield.

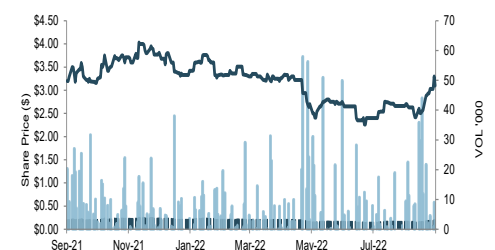
Key Catalysts

- AGM
- Half Year Results

Joyce Corporation Ltd	Year End 30 June	
Share Price	3.36	A\$/sh
Price Target	4.33	A\$/sh
Valuation (DCF)	4.37	A\$/sh
WACC	11.0%	
Terminal Growth	2.5%	
Shares on issue	28.3 m, diluted	
Market Capitalisation	95.0	A\$m
Enterprise Value	62.4	A\$m
Cash (pro-forma)	47.9	A\$m
Debt (inc leases)	15.3	A\$m

Key Financials	2022A	2023F	2024F
Revenue (A\$m)	129.0	141.2	155.6
EBITDA (A\$m)	25.8	27.5	30.3
EBIT (A\$m)	20.3	22.5	25.2
Normalised NPAT (A\$m)	7.5	8.1	9.2
Reported NPAT (A\$m)	9.1	8.1	9.2
Gross Cashflow (A\$m)	5.3	9.4	10.6
Capex (A\$m)	-1.6	-1.5	-1.5
Op. Free Cashflow (A\$m)	8.4	3.6	6.9
Revenue Growth (%)	16%	9%	10%
EBITDA Growth (%)	6%	6%	10%
Norm. NPAT Growth (%)	2%	8%	14%
Normalised EPS (Ac)	26.4	28.6	32.6
Norm. EPS growth (%)	2%	8%	14%
PER (x)	10.5	11.7	10.3
DPS (Ac)	18.0	19.0	20.0
Dividend Yield (%)	5.4%	5.7%	6.0%
Net Debt (A\$m)	-16.6	-31.9	-34.4
Net Debt:Equity (%)	-47%	-80%	-77%
Interest Cover (x)	20.8	23.2	25.9

Share Price Chart



Disclaimer

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Analysis

We have updated our forecasts as follows:

Forecasts	Units	2021A	2022A	2023F	2024F
Locations					
KWB	x	24	25	28	31
Bedshed*	x	36	39	42	45
KWB	A\$m	89.6	108.0	119.7	132.5
Bedshed	A\$m	21.5	21.1	21.5	23.1
Other Income	A\$m				
Total Revenue	A\$m	111.2	129.0	141.2	155.6
EBITDA	A\$m	24.3	25.8	27.5	30.3
KWB	A\$m	16.3	19.2	21.6	23.8
Bedshed	A\$m	5.9	4.8	5.1	5.8
Corp O/H	A\$m	-2.6	-3.7	-4.2	-4.5
Total EBIT	A\$m	19.6	20.3	22.5	25.2
Reported NPAT	A\$m	7.6	9.1	8.1	9.2
Norm. NPAT	A\$m	7.3	7.5	8.1	9.2
DPS	Acps	17.0	18.0	19.0	20.0

*incl. company owned

Source: EH Estimates

We provide segment commentary below:

KWB (51% Ownership)

- We have modestly reduced our forecasted number of new showroom openings to 3 for FY23 (down from 4), noting one has already opened this month in NSW. This follows JYC's commentary that it has diverted some resources set aside for new showroom openings in FY23 into the refurbishment of existing facilities.
- We anticipate ~11% revenue growth in FY23, supported by improved operating conditions and the ramp up to full capacity of recently opened showrooms. Half this forecasted revenue is supported by KWB's \$60m order book
- We have conservatively modelled our margins consistent with FY22, we note there is upside to these forecasts considering this margin level includes impacts from difficult operating conditions which have begun to ease
- Bigger picture, KWB continues to have significant room for growth, with the opportunity to double its current showroom footprint longer term. Near term, the focus continues to be around expanding in Sydney

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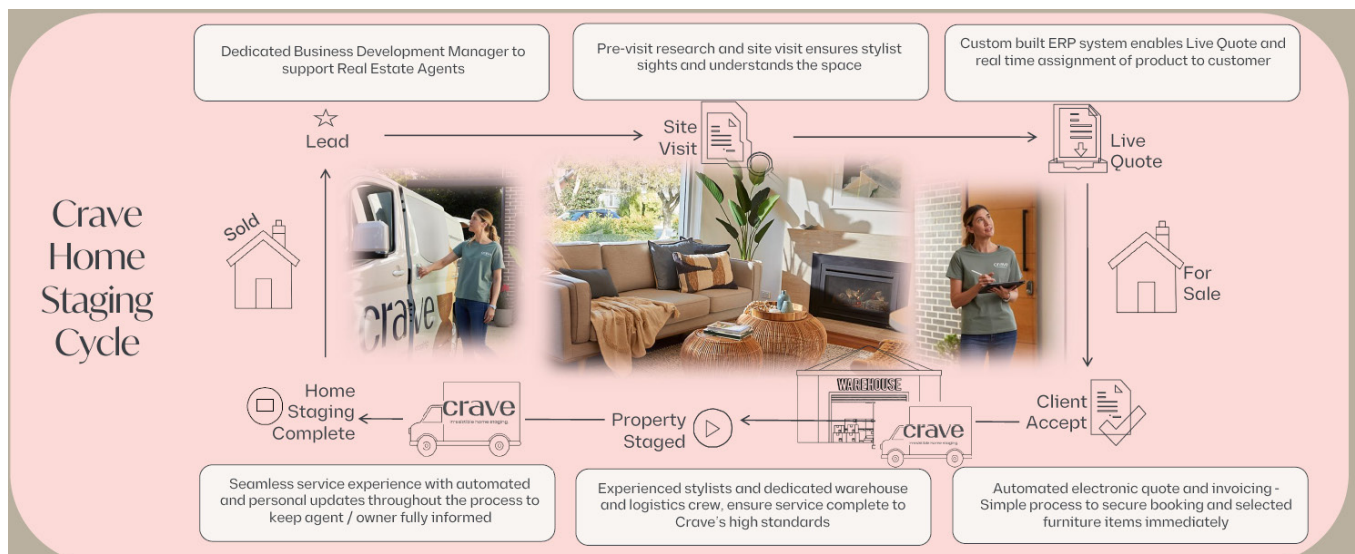
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Bedshed (100% Ownership)

- We continue to forecast 3 new Bedshed franchises for FY23
- We anticipate modest combined revenue growth, broadly supported by the ramp-up of new franchises
- We forecasts an expansion of combined margins over FY23, driven by improved company owned store margins, which were impacted in FY22 by the Sydney e-store (low cost initiative to build brand awareness) which has since closed (following successful introduction).
- The strategic focus for Bedshed remains around expanding its franchise network in NSW, with the company boasting a strong pipeline of potential franchisees in both NSW and nationally
- Similarly, Bedshed continues to have ample room to grow, with the national bedding market worth an estimated \$1.6 billion per annum

Crave (100% Ownership)

- The company announced a new home staging business, Crave, which will be launching next month as a pilot in Perth
- Crave will provide a service where a styling and logistics team prepare a home for sale, by bringing in furniture and accessories to present the home in its most appealing form



- The company sees this as an emerging and fast growing, yet under serviced market opportunity which will complement its existing businesses
- In the last 12 months, there were an estimated 600k residential dwellings sold in Australia, of these, research estimates ~20% of properties for sale use home staging, with 25% of property staging jobs valued above \$5,000
- The new venture will be funded using part of the proceeds from the FY22 property sale – ring fencing any capital investment
- We have not yet included Crave into our forecasts at this early stage, however will look to incorporate it as further details emerge

Corporate OH / Other

- We model an increasing level of corporate overhead, consistent with a growing business, and the introduction of Crave

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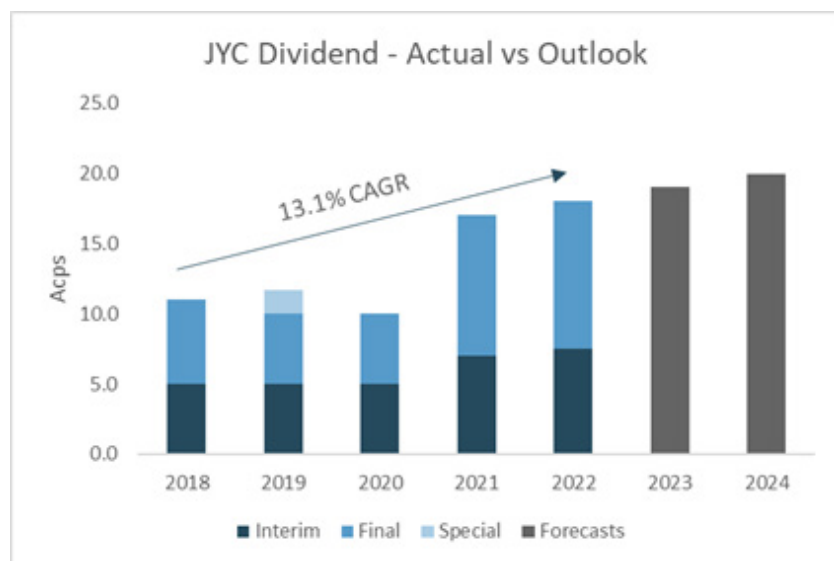
Dividends

JYC have declared a 10.5cps fully franked final dividend (15cps grossed up), which brings the full year dividend to 18cps

Management continue to maintain the 60-80% NPAT payout dividend policy.

The company has \$9.8m in franking credits

We outline the actual and our forecasted dividends below:



Source: EH Estimate

JYC trades on a forward 5.7% dividend yield

Balance Sheet

The company's net cash position increased \$10.5m over FY22, finishing the year with \$16.6m in net cash (including leases). The company had \$31.9m in cash (consolidated entity) at June.

This cash position was further bolstered subsequent to the year-end following a \$16m property sale within KWB. The business agreed to a sale and lease back of its corporate office, warehouse and factory facility in QLD. We estimate \$8.2m of this cash is directly attributable to JYC based on its 51% ownership of KWB.

Following this sale, JYC will have \$47.9m in pro-forma cash (consolidated entity).

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Price Target and Valuation

Buy, \$4.33/sh. Price Target

As JYC has become a more mature and larger business we no longer see a Speculative Buy recommendation as appropriate, as a result we have upgraded our recommendation to Buy

We have further increased our Valuation and Price Target to \$4.33/sh. (up from \$4.25/sh.) following these solid results.

JYC trades on an undemanding 11.7x forward p/e

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

Blended Valuation	Units	
NPAT (FY'23e)	A\$m	8.1
(x) multiple	x	15.0
Equity Value	A\$m	121.4
(/) SOI	m	28.3
Value per share	A\$/sh	\$4.30
DCF	A\$/sh	\$4.37
Blended Valuation	A\$/sh	\$4.33
Price Target	A\$/sh	\$4.33

Source: EH estimate

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Financial Statements	2021A	2022A	2023F	2024F
Income Statement				
(+) BedShed	21.5	21.1	21.5	23.1
(+) KWB	89.6	108.0	119.7	132.5
(+/-) Other	0.0	0.0	0.0	0.0
Total Revenue	111.2	129.0	141.2	155.6
(-) COGS	-60.4	-70.6	-77.3	-85.2
Gross Profit	50.7	58.4	63.9	70.4
(-) Operating Expense	-26.4	-32.6	-36.4	-40.1
EBITDA	24.3	25.8	27.5	30.3
(-) D&A	-4.7	-5.5	-5.0	-5.1
EBIT	19.6	20.3	22.5	25.2
(-) Net Finance	-0.5	-0.5	-0.7	-0.7
EBT	19.1	19.9	21.8	24.5
(-) Tax Expense	-6.1	-8.6	-6.5	-7.4
(-) Non-Controlling interest	-5.4	-8.5	-7.2	-8.0
(+/-) Abnormals (pre-tax)	0.0	6.4	0.0	0.0
Reported NPAT	7.6	9.1	8.1	9.2
Norm NPAT	7.3	7.5	8.1	9.2
Cash flow (A\$m)				
NPAT	7.6	9.1	8.1	9.2
(+) D&A	4.7	5.5	5.0	5.1
(-) Lease Expense	-3.4	-4.0	-3.7	-3.7
(+) Impairment	0.0	0.0	0.0	0.0
(+/-) Disc Operations	0.0	0.0	0.0	0.0
(+/-) Other	0.8	-5.3	0.0	0.0
Gross Cashflow	9.6	5.3	9.4	10.6
(-) Capex	-1.4	-1.6	-1.5	-1.5
(-) Change in NWC	8.7	4.7	-4.2	-2.2
Operating Free Cashflow	16.9	8.4	3.6	6.9
(+/-) Sale of Other Assets	3.3	0.0	0.0	0.0
(+/-) Sale of PP&E	0.1	5.5	16.0	0.0
(+/-) other A/L changes	0.0	0.0	0.0	0.0
(+/-) Other	0.0	-0.5	0.0	0.0
(+) NCI	5.4	8.5	7.2	8.0
(-) Purchase of Intangible	0.0	0.0	0.0	0.0
(-) Acquisition	0.0	0.0	0.0	0.0
(-) Dividend Equity holders	-4.8	-4.6	-5.4	-5.7
(-) Dividends NCI	-5.5	-5.2	-5.7	-6.4
Net Cashflow	15.5	12.0	15.7	2.9
BoP Net Cash	-7.1	6.1	16.6	31.9
(+/-) Net Cashflow	15.5	12.0	15.7	2.9
(+/-) AASB16 Adj.	-2.3	-1.5	-0.4	-0.4
EoP Net Cash	6.1	16.6	31.9	34.4
Balance Sheet (\$m)				
Cash	19.9	31.9	47.5	50.0
Receivables	0.6	1.1	1.2	1.3
Inventories	3.2	3.2	3.5	3.8
Other Assets	0.5	17.1	1.1	1.1
Other Financial Assets	0.6	1.2	1.2	1.2
Total Current Assets	24.7	54.5	54.4	57.4
Receivables	0.1	0.6	0.7	0.8
Deferred Tax Assets	6.0	6.1	6.7	7.4
ROUA	12.5	13.9	13.9	13.9
PP&E	8.9	3.4	4.1	4.7
Inventories	0.0	0.0	0.0	0.0
Investment Properties	9.6	0.0	0.0	0.0
Intangibles	7.5	7.6	7.5	7.5
Total Non-current Assets	44.5	31.7	33.0	34.2
Total Assets	69.3	86.2	87.4	91.6
Payables	19.7	24.8	21.2	19.8
Dividends Payable	0.0	0.0	0.0	0.0
Provisions	2.4	2.9	3.2	3.6
Current Lease Liabilities	4.0	4.9	5.0	5.0
Borrowings	0.0	0.0	0.0	0.0
Provisions for Income Tax	1.7	0.4	0.4	0.4
Total Current Liabilities	27.8	32.9	29.8	28.7
Borrowings	0.0	0.0	0.0	0.0
Non-Current Lease Liabilities	9.8	10.4	10.6	10.6
Deferred Tax Liability	4.4	6.8	6.8	6.8
Provisions	0.6	0.6	0.7	0.7
Total Non-Current Liabilities	14.8	17.8	18.0	18.1
Total Liabilities	42.6	50.7	47.8	46.8
Net Assets	26.6	35.5	39.6	44.8
Contributed Equity	18.4	18.7	18.7	18.7
Reserves	0.7	1.8	1.8	1.8
Non-controlling interests	3.6	7.0	8.4	10.0
Retained Earnings	3.9	8.0	10.8	14.3
Total Equity	26.6	35.5	39.6	44.8
Performance Ratios				
Growth & Margins				
Revenue Growth	30%	16%	9%	10%
EBITDA Growth	46%	6%	6%	10%
EBIT Growth	64%	4%	11%	12%
Reported NPAT Growth	-374%	20%	-11%	14%
Normalized Net Profit Growth	77%	2%	8%	14%
EBITDA margin	22%	20%	19%	19%
EBIT margin	18%	16%	16%	16%
Normalized net profit margin	7%	7%	6%	6%
Effective tax rate	32%	30%	30%	30%
Liquidity				
Capex/depreciation (x)	0.3	0.3	0.3	0.3
Current ratio (x)	0.9	1.7	1.8	2.0
Quick ratio (x)	1.0	1.3	2.3	2.6
Receivable days	1.9	3.1	3.1	3.1
Payable days	119.2	128.1	100.0	85.0
Risk Measures				
Dividend Cover (x)	1.6	1.8	1.5	1.6
Payout ratio (%)	45%	54%	66%	61%
Net interest cover (x)	20.2	20.8	23.2	25.9
Net debt/equity (%)	-23%	-47%	-80%	-77%
Returns				
Return on Invested Capital	30%	22%	22%	23%
Return on Assets	11%	11%	9%	10%
Return on Equity	33%	32%	26%	26%
Share Data/Valuation				
Share Data				
Issued shares (m)	28.2	28.3	28.3	28.3
Weighted ave shares (m)	28.1	28.2	28.3	28.3
Fully diluted shares (m)	28.2	28.3	28.3	28.3
Basic EPS (c)	26.9	32.1	28.6	32.6
YoY change (%)	-374%	20%	-11%	14%
Fully diluted EPS (c)	26.9	32.1	28.6	32.6
YoY change (%)	-374%	20%	-11%	14%
Fully diluted normalised EPS (c)	26.0	26.4	28.6	32.6
YoY change (%)	77%	2%	8%	14%
Dividend/share (c)	17.0	18.0	19.0	20.0
Franking (%)	100%	100%	100%	100%
Gross cashflow/share (c)	34.1	18.7	33.1	37.5
NBV/share (c)	81.8	100.9	110.5	123.2
NTA/Share (c)	68.1	98.7	113.6	132.1
Valuation				
PER (Basic) (x)	12.5	10.5	11.7	10.3
PER (Fully diluted) (x)	12.5	10.5	11.7	10.3
PER (Fully diluted, normalized) (x)	12.9	12.7	11.7	10.3
P/CFPS (x)	9.8	18.0	10.1	9.0
Price/NBV (x)	4.1	3.3	3.0	2.7
Price/NTA (x)	4.9	3.4	3.0	2.5
Dividend Yield (%)	5%	5%	5.7%	6%
EV/EBIT (x, Ex. NCI)	4.4	5.3	4.1	3.6
EV/Revenue (x)	0.6	0.5	0.4	0.4
Other Information				
Estimated free float:				50%
12-mth High/Low (A\$/sh)				4.03/2.26
Average daily volume (A\$)				20.5k
ASX Code				JYC
Next result				Feb-23
Company Description				
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.				

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Contact Details

Euroz Hartleys Limited **+61 8 9488 1400**

Research Analysts

Gavin Allen - Head of Research	+61 8 9488 1413
Mike Millikan - Resources Analyst	+61 8 9268 2805
Declan Bonnick - Resources Analyst	+61 8 9488 1481
Kyle De Souza - Resources Analyst	+61 8 9488 1427
Michael Scantlebury - Resources Analyst	+61 8 9268 2837
Steven Clark - Resources Analyst	+61 8 9488 1430
Trent Barnett - Senior Analyst	+61 8 9268 3052
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
Seth Lizée - Research Analyst	+61 8 9488 1414

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