

JYC: Full Year Results

JYC.ASX | JOYCE CORPORATION LIMITED | CONSUMER DISCRETIONARY | SPECIALTY RETAIL

PRICE
A\$3.05/sh

TARGET PRICE
A\$4.30/sh
(UNCHANGED)

RECOMMENDATION
BUY
(UNCHANGED)

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Event

JYC has released its FY23 results.

Impact

Results exceeded our expectations with key financial highlights:

- Revenue +12% to \$144.7m (vs \$141.5m EH est)
- Normalised EBIT +25% to \$25.9m (vs \$21.2m EH est)
- Normalised NPAT +22% to 9.1m (vs \$7.5m EH est)
- Reported NPAT down 13% to \$7.9m (vs \$7.1m EH estimate)

Despite a softening consumer spending backdrop, the business performed exceptionally well, with both KWB and Bedshed delivering solid YoY revenue and earnings growth.

KWB finished the year with 26 showrooms, a net add of 1 location. The business grew EBIT 32% to \$25.3m, with margins increasing to 20.5% as operations were at or near capacity. The order book stood at \$45m as of June.

Bedshed added 2 new stores, finishing the year with 37 franchises, with 2 new franchise locations due to open over FY24. Moreover, combined EBIT increased 5% YoY to \$5m.

Crave, JYC's new home staging business, continued to grow volumes following a soft launch last September.

JYC declared a final 17.5cps fully franked dividend, bringing the full year dividend to 25.5cps, well ahead of our 18cps estimate.

The company finished the year with \$46.1m of cash at bank, ~\$31.2m attributable to JYC.

Looking forward, we anticipate earnings modestly reducing in FY24, based on:

- Weakening consumer spending backdrop, which we believe is yet to be reflected in the business. JYC have stated July KWB orders were down pcp, with Bedshed network sales decreasing 11% pcp over the same period.
- Gross margins expected to normalise as lead times decrease. Further, KWB plans to increase marketing initiatives to counteract anticipated trading conditions.

We have updated our forecasts.

Action

JYC trades on an undemanding fwd 12x P/E and 6.6% fully franked dividend yield.

While we acknowledge the negative earnings momentum in the short term, we maintain our Buy recommendation and \$4.30/sh Price Target on valuation grounds and the view growth resumes in 2025.

Catalysts

- AGM Update - November 2023
- 1H Results - February 2024

Share Price	3.05	A\$/sh
Price Target	4.30	A\$/sh
Valuation (DCF)	4.30	A\$/sh
WACC	11.0%	
Terminal Growth	2.5%	
Shares on issue	28.4	m, dil
Market Capitalisation	86.6	A\$m
Enterprise Value	59.6	A\$m
Cash	46.1	A\$m
Debt (inc leases)	19.1	A\$m
Key Financial Metrics	23A	24F
Revenue (A\$m)	144.7	132.0
EBITDA (A\$m)	32.9	27.0
EBIT (A\$m)	25.9	20.0
Normalised NPAT (A\$m)	9.1	7.1
Reported NPAT (A\$m)	7.9	7.1
Gross Cashflow (A\$m)	11.2	8.8
Capex (A\$m)	-3.5	-1.8
Op. Free Cashflow (A\$m)	7.0	6.0
Revenue Growth (%)	12%	-9%
EBITDA Growth (%)	27%	-18%
Norm. NPAT Growth (%)	22%	-22%
Normalised EPS (Ac)	32.1	25.0
Norm. EPS growth (%)	22%	-22%
PER (x)	10.9	12.2
DPS (Ac)	25.5	20.0
Dividend Yield (%)	8.4%	6.6%
Net Debt (A\$m)	-27.0	-27.3
Net Debt:Equity (%)	-72%	-70%
Interest Cover (x)	26.1	20.2
*Inc leases		

Performance



Source: IRESS

Income Statement	23A	24F	25F
(+) BedShed	21.3	19.5	19.9
(+) KWB	123.4	112.5	125.5
(+/-) Other	0.0	0.0	0.0
Total Revenue	144.7	132.0	145.4
(-) COGS	-78.5	-71.6	-78.9
Gross Profit	66.2	60.4	66.5
(-) Operating Expense	-33.3	-33.4	-37.0
EBITDA	32.9	27.0	29.5
(-) D&A	-7.0	-7.0	-7.0
EBIT	25.9	20.0	22.5
(-) Net Finance	-0.2	-0.2	-0.1
EBT	25.8	19.9	22.4
(-) Tax Expense	-7.6	-6.0	-6.7
(-) Non-Controlling interest	-8.4	-6.8	-7.7
(+/-) Abnormals (pre-tax)	-1.8	0.0	0.0
Reported NPAT	7.9	7.1	8.0
Norm NPAT	9.1	7.1	8.0
Cashflow Statement	23A	24F	25F
NPAT	7.9	7.1	8.0
(+) D&A	7.0	7.0	7.0
(-) Lease Expense	-5.3	-5.3	-5.3
(+/-) Other	1.6	0.0	0.0
Gross Cashflow	11.2	8.8	9.7
(-) Capex	-3.5	-1.8	-1.8
(-) Change in NWC	-0.7	-1.0	2.3
Operating Free Cashflow	7.0	6.0	10.2
(+/-) Sale of Other Assets	0.0	0.0	0.0
(+/-) Sale of PP&E	15.8	0.0	0.0
(+/-) Other	-1.7	0.0	0.0
(+) NCI	8.4	6.8	7.7
(-) Dividend Equity holders	-4.8	-7.2	-5.7
(-) Dividends NCI	-10.6	-5.5	-6.1
Net Cashflow	14.1	0.2	6.0
BoP Net Cash	16.6	27.0	27.3
(+/-) Net Cashflow	14.1	0.2	6.0
(+/-) AASB16 Adj.	-3.7	0.1	0.1
EO P Net Cash	27.0	27.3	33.5
Balance Sheet	23A	24F	25F
Cash	46.1	46.4	52.5
Receivables	0.7	0.6	0.5
Inventories	2.6	2.4	2.6
Other Assets	1.0	1.0	1.0
Other Financial Assets	1.7	1.7	1.7
Total Current Assets	52.0	51.9	58.3
Receivables	2.0	1.6	1.4
Deferred Tax Assets	2.0	1.8	2.0
ROUA	17.8	17.8	17.8
PP&E	4.9	4.9	5.0
Intangibles	7.7	7.6	7.5
Total Non-current Assets	34.4	33.7	33.7
Total Assets	86.4	85.6	92.0
Payables	22.7	20.7	22.8
Provisions	3.0	3.0	3.3
Current Lease Liabilities	5.4	5.4	5.4
Borrowings	0.0	0.0	0.0
Provisions for Income Tax	3.3	3.3	3.3
Total Current Liabilities	34.5	32.5	34.9
Borrowings	0.0	0.0	0.0
Non-Current Lease Liabilities	13.6	13.6	13.6
Deferred Tax Liability	0.0	0.0	0.0
Provisions	0.6	0.6	0.6
Total Non-Current Liabilities	14.2	14.2	14.2
Total Liabilities	48.6	46.6	49.1
Net Assets	37.8	39.0	42.8
Contributed Equity	19.2	19.2	19.2
Reserves	3.1	3.1	3.1
Non-controlling interests	4.8	6.2	7.7
Retained Earnings	10.7	10.6	12.9
Total Equity	37.8	39.0	42.8

PERFORMANCE RATIOS	23A	24F	25F
Growth & Margins			
Revenue Growth	12%	-9%	10%
EBITDA Growth	27%	-18%	9%
EBIT Growth	28%	-23%	12%
Reported NPAT Growth	-13%	-11%	13%
Normalized Net Profit Growth	22%	-22%	13%
EBITDA margin	23%	20%	20%
EBIT margin	18%	15%	15%
Normalized net profit margin	5%	5%	6%
Effective tax rate	30%	30%	30%
Liquidity			
Capex/depreciation (x)	0.5	0.3	0.3
Current ratio (x)	1.5	1.6	1.7
Quick ratio (x)	2.1	2.3	2.3
Receivable days	1.8	1.6	1.3
Payable days	105.6	105.6	105.6
Risk Measures			
Dividend Cover (x)	1.1	1.2	1.3
Payout ratio (%)	66%	102%	71%
Net interest cover (x)	26.1	20.2	22.6
Net debt/equity (%)	-72%	-70%	-78%
Returns			
Return on Invested Capital	29%	22%	23%
Return on Assets	9%	8%	9%
Return on Equity	24%	22%	23%
SHARE DATA/VALUATION	23A	24F	25F
Share Data			
Issued shares (m)	28.4	28.4	28.4
Weighted ave shares (m)	28.3	28.4	28.4
Fully diluted shares (m)	28.4	28.4	28.4
Basic EPS (c)	27.9	25.0	28.2
YoY change (%)	-13%	-11%	13%
Fully diluted EPS (c)	27.9	25.0	28.2
YoY change (%)	-13%	-11%	13%
Fully diluted normalised EPS (c)	32.1	25.0	28.2
YoY change (%)	22%	-22%	13%
Dividend/share (c)	25.5	20.0	21.0
Franking (%)	100%	100%	100%
Gross cashflow/share (c)	39.4	30.9	34.0
NBV/share (c)	116.1	115.6	123.7
NTA/Share (c)	105.7	110.4	124.3
Valuation			
PER (Basic) (x)	10.9	12.2	10.8
PER (Fully diluted) (x)	10.9	12.2	10.8
PER (Fully diluted, normalized) (x)	9.5	12.2	10.8
P/CFPS (x)	7.7	9.9	9.0
Price/NBV (x)	2.6	2.6	2.5
Price/NTA (x)	2.9	2.8	2.5
Dividend Yield (%)	8%	6.6%	7%
EV/EBIT (x, Ex. NCI)	3.4	4.5	4.0
EV/Revenue (x)	0.4	0.5	0.4

Analysis

We build out our forecasts as follows:

Figure 1: Earnings Estimates

Forecasts	Units	2022A	2023A	2024F	2025F	2026F
Locations						
KWB	x	25	26	26	29	32
Bedshed*	x	39	41	43	46	49
Revenue						
KWB	A\$m	108.0	123.4	112.5	125.5	138.5
Bedshed	A\$m	21.1	21.3	19.5	19.9	20.3
Total Revenue	A\$m	129.0	144.7	132.0	145.4	158.8
EBIT						
KWB	A\$m	19.2	25.0	19.9	22.2	24.5
Bedshed	A\$m	4.8	5.0	4.2	4.4	4.5
Corp OH/ Other	A\$m	-3.7	-4.1	-4.1	-4.1	-4.1
Reported EBIT	A\$m	20.3	25.9	20.0	22.5	25.0
NPAT						
Reported NPAT	A\$m	9.1	7.9	7.1	8.0	8.9
Norm. NPAT**	A\$m	7.5	9.1	7.1	8.0	8.9
DPS	Acps	18.0	25.5	20.0	21.0	22.0

Source: EH Estimates

*Includes company owned stores

**Normalised for Crave Startup Costs, property sale

KWB (51% Ownership)

- KWB had 26 showrooms at the end of FY23. The company has stated they will continue to pursue new locations in South Australia and Queensland to replace the Keswick showroom which will cease trading at the end of its lease in September.
- We anticipate KWB will add one new showroom in FY24, implying a flat year on year change. Thereafter we have modelled 3 new showrooms per annum.
- Longer term growth is supported by the company's plans to double its current showroom footprint (to 50+ showrooms), KWB currently only has a presence across QLD, NSW, and SA.
- As a result of the showroom movements, combined with softer anticipated trading activity, we have forecasted modestly lower revenues in FY24. Further, we model lower margins, the result of lower gross margins (as lead times ease) and increased marketing costs.

Bedshed (100% Ownership)

- Bedshed had 41 locations at year end (37 being franchise locations), we model 2 new franchise locations in FY24, inline with the new locations they are due to open. Thereafter we model 3 new locations per year.
- Longer term, JYC has targeted a network of 65 stores.
- Similar to KWB, we anticipate a softer FY24, the net of tougher trading conditions, and new locations.

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The companies and securities mentioned in this report, include:

Joyce Corporation Limited (JYC.ASX) | Price A\$3.05 | Target price A\$4.30 | Recommendation Buy;

Price, target price and rating as at 01 September 2023 (not covered)*

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