

HALF-YEAR RESULTS | PUBLISHED ON 01 MARCH 2023

JYC 1H: Good Results in a Tougher Market

JYC.ASX | JOYCE CORPORATION LIMITED | CONSUMER DISCRETIONARY | SPECIALTY RETAIL
PRICE
A\$ 3.45 /sh
TARGET PRICE
A\$ 4.30 /sh
 (FROM A\$4.33 /sh)

RECOMMENDATION
BUY
 (UNCHANGED)

ANALYST
SETH LIZEE
 SLIZEE@EUROZHARTLEYS.COM

Event

JYC has released its 1H results

Impact

- Key financial highlights:
 - \$68.8m revenue, +12% pcp
 - \$10.8m norm EBIT, +7% pcp
 - \$3.5m norm NPAT to JYC, -6% pcp
- Despite a softening consumer spending backdrop, JYC was still able to deliver revenue and EBIT growth out of its KWB (51% ownership) and Bedshed businesses.
- NPAT was slightly lower pcp, the result of a modest increase in operating costs (incl. crave launch, sale/lease back arrangement, and other non-cash expenses).
- KWB increased its showroom presence HoH to 26 locations. The business increased EBIT 12% to \$10.2m, whilst maintaining operating margins against a continued backdrop of supply and labour constraints and cost pressures. As of January, the company had a robust \$50m orderbook.
- Bedshed finished the H with 41 stores, with two new franchisees added over the period. Combined (franchise and company owned) EBIT increased 15% pcp to \$2.8m. Franchise operation EBIT margins remain well above pre-COVID levels.
- JYC continues to note both businesses have ample room for geographic expansion, supporting growth in what might be a tighter consumer market.
- Crave, JYC's new home staging business, had its soft-launch in September, with an encouraging market response since. The company has invested \$2.2m to date. JYC plans to provide a further operating update at the full year results.
- The company declared an 8.0cps fully franked dividend for the 1H, up 7% pcp (vs 7.5cps in 1H22).
- Group cash stood at \$36.1m at the H, with JYC noting \$21.6m in held within KWB (51% ownership), implying circa \$23.2m held by JYC (post 1H dividend payment). JYC has no debt.
- We have made slight changes to our forecasts post these results.

Action

We maintain our Buy recommendation, with an updated \$4.30/sh. Price Target.

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

JYC trades on a forward 9.5x P/e (excl. cash), and a 5.5% fully franked dividend yield.

Catalyst

- Full Year Results

Share Price	3.45	A\$/sh	
Price Target	4.30	A\$/sh	
Valuation (DCF)	4.30	A\$/sh	
WACC	11.0%		
Terminal Growth	2.5%		
Shares on issue	28.3	m, dil	
Market Capitalisation	97.5	A\$m	
Enterprise Value	81.7	A\$m	
Cash (1H)	36.1	A\$m	
Debt (1H, inc leases)	20.3	A\$m	
Key Financial Metrics	22A	23F	24F
Revenue (A\$m)	129.0	141.5	153.8
EBITDA (A\$m)	25.8	28.2	31.7
EBIT (A\$m)	20.3	21.2	24.6
Normalised NPAT (A\$m)	7.5	7.5	8.6
Reported NPAT (A\$m)	9.1	7.1	8.6
Gross Cashflow (A\$m)	5.3	8.5	10.2
Capex (A\$m)	-1.6	-3.4	-1.8
Op. Free Cashflow (A\$m)	8.4	1.5	10.0
Revenue Growth (%)	16%	10%	9%
EBITDA Growth (%)	6%	9%	12%
Norm. NPAT Growth (%)	2%	1%	15%
Normalised EPS (Ac)	26.4	26.6	30.6
Norm. EPS growth (%)	2%	1%	15%
PER (x)	10.7	13.8	11.3
DPS (Ac)	18.0	19.0	20.0
Dividend Yield (%)	5.2%	5.5%	5.8%
Net Debt (A\$m)	-16.6	-20.8	-26.9
Net Debt:Equity (%)	-47%	-58%	-67%
Interest Cover (x)	20.8	21.6	24.9

Performance



Source: Euroz Hartleys

Income Statement	22A	23F	24F	PERFORMANCE RATIOS	22A	23F	24F
(+) BedShed	21.1	21.6	22.1	Growth & Margins			
(+) KWB	108.0	119.9	131.7	Revenue Growth	16%	10%	9%
(+/-) Other	0.0	0.0	0.0	EBITDA Growth	6%	9%	12%
Total Revenue	129.0	141.5	153.8	EBIT Growth	4%	4%	16%
(-) COGS	-71.3	-77.2	-83.9	Reported NPAT Growth	20%	-22%	22%
Gross Profit	57.8	64.4	70.0	Normalized Net Profit Growth	2%	1%	15%
(-) Operating Expense	-31.9	-36.2	-38.3	EBITDA margin	20%	20%	21%
EBITDA	25.8	28.2	31.7	EBIT margin	16%	15%	16%
(-) D&A	-5.5	-7.0	-7.1	Normalized net profit margin	7%	5%	6%
EBIT	20.3	21.2	24.6	Effective tax rate	30%	30%	30%
(-) Net Finance	-0.5	-0.4	-0.4	Liquidity			
EBT	19.9	20.8	24.2	Capex/depreciation (x)	0.3	0.5	0.2
(-) Tax Expense	-8.6	-6.2	-7.3	Current ratio (x)	1.7	1.5	1.6
(-) Non-Controlling interest	-8.5	-7.5	-8.3	Quick ratio (x)	1.3	1.9	2.0
(+/-) Abnormals (pre-tax)	6.4	0.0	0.0	Receivable days	3.1	5.0	4.4
Reported NPAT	9.1	7.1	8.6	Payable days	127.0	110.0	110.0
Norm NPAT	7.5	7.5	8.6	Risk Measures			
Cashflow Statement	22A	23F	24F	Dividend Cover (x)	1.8	1.3	1.5
NPAT	9.1	7.1	8.6	Payout ratio (%)	54%	76%	65%
(+) D&A	5.5	7.0	7.1	Net interest cover (x)	20.8	21.6	24.9
(-) Lease Expense	-4.0	-5.6	-5.6	Net debt/equity (%)	-47%	-58%	-67%
(+/-) Other	-5.3	0.0	0.0	Returns			
Gross Cashflow	5.3	8.5	10.2	Return on Invested Capital	22%	21%	23%
(-) Capex	-1.6	-3.4	-1.8	Return on Assets	11%	8%	9%
(-) Change in NWC	4.7	-3.6	1.5	Return on Equity	32%	23%	26%
Operating Free Cashflow	8.4	1.5	10.0	SHARE DATA/VALUATION	22A	23F	24F
(+/-) Sale of Other Assets	0.0	0.0	0.0	Share Data			
(+/-) Sale of PP&E	5.5	15.8	0.0	Issued shares (m)	28.3	28.3	28.3
(+/-) Other	-0.5	-1.8	0.0	Weighted ave shares (m)	28.2	28.3	28.3
(+) NCI	8.5	7.5	8.3	Fully diluted shares (m)	28.3	28.3	28.3
(-) Dividend Equity holders	-4.6	-5.4	-5.7	Basic EPS (c)	32.1	25.0	30.6
(-) Dividends NCI	-5.2	-9.0	-6.6	YoY change (%)	20%	-22%	22%
Net Cashflow	12.0	8.6	6.0	Fully diluted EPS (c)	32.1	25.0	30.6
BoP Net Cash	6.1	16.6	20.8	YoY change (%)	20%	-22%	22%
(+/-) Net Cashflow	12.0	8.6	6.0	Fully diluted normalised EPS (c)	26.4	26.6	30.6
(+/-) AASB16 Adj.	-1.5	-4.4	0.1	YoY change (%)	2%	1%	15%
EoP Net Cash	16.6	20.8	26.9	Dividend/share (c)	18.0	19.0	20.0
Balance Sheet	22A	23F	24F	Franking (%)	100%	100%	100%
Cash	31.9	41.6	47.6	Gross cashflow/share (c)	18.7	30.0	36.1
Receivables	1.1	2.0	1.9	NBV/share (c)	100.9	106.9	117.5
Inventories	3.2	3.4	3.7	NTA/Share (c)	98.7	99.0	115.8
Other Assets	17.1	3.1	3.1	Valuation			
Other Financial Assets	1.2	1.2	1.2	PER (Basic) (x)	10.7	13.8	11.3
Total Current Assets	54.5	51.2	57.5	PER (Fully diluted) (x)	10.7	13.8	11.3
Receivables	0.6	1.1	1.1	PER (Fully diluted, normalized) (x)	13.1	13.0	11.3
Deferred Tax Assets	6.1	6.7	7.3	P/CFPS (x)	18.5	11.5	9.6
ROUA	13.9	18.4	18.4	Price/NBV (x)	3.4	3.2	2.9
PP&E	3.4	5.2	5.4	Price/NTA (x)	3.5	3.5	3.0
Intangibles	7.6	7.7	7.6	Dividend Yield (%)	5%	5.5%	6%
Total Non-current Assets	31.7	39.3	39.9	EV/EBIT (x, Ex. NCI)	6.9	6.0	5.0
Total Assets	86.2	90.5	97.4	EV/Revenue (x)	0.6	0.6	0.5
Payables	24.8	23.3	25.3				
Provisions	2.9	3.3	3.5				
Current Lease Liabilities	4.9	6.2	6.2				
Borrowings	0.0	0.0	0.0				
Provisions for Income Tax	0.4	0.4	0.4				
Total Current Liabilities	32.9	33.1	35.3				
Borrowings	0.0	0.0	0.0				
Non-Current Lease Liabilities	10.4	14.5	14.5				
Deferred Tax Liability	6.8	6.5	6.5				
Provisions	0.6	0.7	0.7				
Total Non-Current Liabilities	17.8	21.7	21.7				
Total Liabilities	50.7	54.8	57.1				
Net Assets	35.5	35.7	40.3				
Contributed Equity	18.7	18.7	18.7				
Reserves	1.8	1.8	1.8				
Non-controlling interests	7.0	5.5	7.1				
Retained Earnings	8.0	9.7	12.7				
Total Equity	35.5	35.7	40.3				

Analysis

We have updated our forecasts as follows:

Figure 1: EH Earnings Forecasts

Forecasts	Units	2022A	1H23A	2H23F	2023F	2024F	2025F
Locations							
KWB	x	25	26	26	26	29	32
Bedshed*	x	39	41	42	42	45	48
Revenue							
KWB	A\$m	108.0	57.5	62.5	119.9	131.7	143.9
Bedshed	A\$m	21.1	11.3	10.3	21.6	22.1	22.6
Total Revenue	A\$m	129.0	68.8	72.7	141.5	153.8	166.5
EBITDA							
Reported EBITDA	A\$m	25.8	13.0	15.1	28.2	31.7	34.1
EBIT							
KWB	A\$m	19.2	9.9	11.1	21.0	23.3	25.4
Bedshed	A\$m	4.8	2.8	2.7	5.5	5.8	6.0
Corp OH/ Other	A\$m	-3.7	-3.1	-2.2	-5.3	-4.5	-4.5
Reported EBIT	A\$m	20.3	9.6	11.6	21.2	24.6	26.9
NPAT							
Reported NPAT	A\$m	9.1	3.5	3.5	7.1	8.6	9.5
Norm. NPAT**	A\$m	7.5	3.5	4.0	7.5	8.6	9.5
DPS							
DPS	Acps	18.0	8.0	11.0	19.0	20.0	21.0

Source: EH Estimates, Company announcements

*incl. company owned stores

**Norm for Crave startup costs, property sale adj

We provide key segment commentary below:

KWB (51% Ownership)

- KWB had 26 showrooms at the half, following the opening of the Casula NSW location in August last year. As previously announced, other new store openings have been put on hold for FY23.
- We anticipate the business will resume its geographic expansion in FY24 and beyond, we have modelled 3 new showrooms per annum, but note there is scope for this to be higher.
- We anticipate a stronger 2H, the result of the standard 2H skew. Supporting this is a robust ~\$50m order book. The company has also said orders generated in January were strong with revenues up on the prior year. We have modelled consistent margins.
- 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.

Bedshed (100% Ownership)

- Bedshed had 41 locations at the half (37 being franchise locations), we forecast an additional franchise location over the balance of FY23. Thereafter we model 3 new franchise locations per year, noting there is also scope for this to be higher.
- We anticipate a softer 2H 23, the net of tougher trading conditions, new/rolling out locations, and normalised expenditures relating to the franchise component.
- Similar to KWB, we see substantial potential for geographic expansion of the business

Other

- We have not yet included Crave into our forecasts at this early stage, however will look to incorporate it as further details emerge.

Personal disclosures

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities, and we are not in possession of, nor does this Research contain any inside information.

No part of our compensation was, is or will be directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in this research, nor has any attempt been made to influence this Research.

Company disclosures

The companies and securities mentioned in this report, include:

Joyce Corporation Limited (JYC.ASX) | Price A\$3.45 | Target price A\$4.30 | Recommendation Buy;

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

Additional disclosures

Euroz Hartleys declares that it has been engaged in a buy back during the last year. Euroz Hartleys has received a fee for these services from: Joyce Corporation Limited (JYC.ASX)

Other disclosures, disclaimers and certificates

Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Hartleys Limited (ACN 104 195 057) only.

Euroz Hartleys Limited is the holder of an Australian Financial Services Licence (AFSL 230052) and is a participant of the Australian Securities Exchange Group.

The information contained herein is confidential. If you are not the intended recipient no confidentiality is lost by your receipt of it. Please delete and destroy all copies, and contact Euroz Hartleys Limited on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz Hartleys Limited.

Disclaimer & Disclosure

Euroz Hartleys Limited, and their associates declare that they deal in securities as part of their securities business and consequently may have an interest in the securities recommended herein (if any). This may include providing equity capital market services to the issuing company, hold a position in the securities, trading as principal or agent and as such may effect transactions not consistent with the recommendation (if any) in this report.

You should not act on any recommendation issued by Euroz Hartleys Limited without first consulting your investment adviser in order to ascertain whether the recommendation (if any) is appropriate, having regard to your objectives, financial situation and needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz Hartleys Limited believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz Hartleys Limited accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference. The author of this publication, Euroz Hartleys Limited, its directors and their associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Euroz Hartleys Limited, and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of transactions arising from any advice mentioned in publications to clients.