

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

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

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
Profitability							
Reported EBITDA	A\$m	25.8	13.0	15.1	28.2	31.7	34.1
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
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	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.

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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)*

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