

Joyce Corporation Ltd

(JYC \$1.47) Speculative Buy

EUROZ

Analyst	Date	Price Target
Seth Lizee	2 nd September 2020	\$2.30/sh ▲ from \$2.20/sh

Full Year Results

Investment case

JYC has had a transformational year, operations have been streamlined in parallel to finishing the period with a significantly stronger balance sheet. The business delivered underlying earnings growth during what was a challenging time for the industry, including divesting Lloyds Online Auctions during the second half.

We are now wholly focused on KWB and Bedshed. Subject to no further deterioration of the COVID-19 situation we see potential for further earnings growth, specifically from KWB through additional market share. We believe if JYC can meet our forecast on its current portfolio of companies that the stock can re-rate. On our forecast JYC trades on a forward P/e of 9.1x and 7.5% dividend yield.

We maintain our Speculative Buy recommendation with an Increased \$2.30/sh. Price Target.

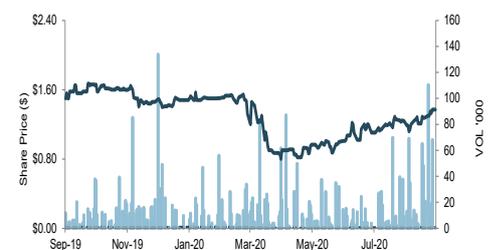
Key points

- Key Financial Highlights:
 - \$186.6m Network sales (Inc. Franchisee partners, +10.1% YoY)
 - \$87.6m revenue from continuing operations (+4% YoY)
 - \$12.0m EBIT from continuing operations (Inc. NCI, +20.3%)
 - \$2.3m loss from discontinued operations
- KWB Group commentary:
 - KWB now operates 21 showrooms including the additional showroom added in Tweed Heads this year, there are further plans for new showrooms in Sydney's northern suburbs in 2021
 - KWB has further been able to develop operational efficiencies during the pandemic, implementing a new customer engagement structure; this work is continuing with plans to improve internal operating systems into this year
- Bedshed commentary:
 - Bedshed's showrooms remained open during the pandemic, maintaining engagement with customers and suppliers, allowing the business to gain further market share and grow revenues
 - The company continued to work on improving customer experience through the rollout of its new point of sale and eCommerce solutions
- JYC divested its remaining 46% interest in Lloyds Online Auctions for \$3.8m during the second half
- Declared fully franked 2.7c final dividend, payable 16th November 2020
- \$10.6m cash as 30 June (+52% YoY from \$6.9m in FY'19)
 - Cash has increased \$2.2m since year end;

Joyce Corporation Ltd	Year End 30 June	
Share Price	1.47	A\$/sh
Price Target	2.30	A\$/sh
Valuation (Blend)	2.30	A\$/sh
WACC	10.0%	
Terminal Growth	2.0%	
Shares on issue	28	m, diluted
Market Capitalisation	41.3	A\$m
Enterprise Value	48.4	A\$m
Cash	10.6	A\$m
Debt	17.7	A\$m

Key Financials	2020a	2021f	2022f
Revenue (A\$m)	87.6	91.6	100.3
EBITDA (A\$m)	16.6	17.4	18.9
EBIT (A\$m)	12.0	12.7	14.2
Normalised NPAT (A\$m)	4.1	4.5	5.1
Reported NPAT (A\$m)	-2.8	4.5	5.1
Gross Cashflow (A\$m)	6.8	6.0	6.7
Capex (A\$m)	-0.8	-1.7	-1.8
Op. Free Cashflow (A\$m)	6.3	4.5	5.4
Revenue Growth (%)	-13%	5%	10%
EBITDA Growth (%)	44%	5%	9%
Norm. NPAT Growth (%)	-180%	-264%	13%
Normalised EPS (Ac)	14.7	16.1	18.2
Norm. EPS growth (%)	21%	10%	13%
PER (x)	-15.0	9.1	8.1
DPS (Ac)	7.7	11.0	12.0
Dividend Yield (%)	5.2%	7.5%	8.2%
Net Debt (A\$m)	7.1	1.3	-2.0
Net Debt:Equity (%)	33%	5%	-7%
Interest Cover (x)	12.7	13.5	15.0

Share Price Chart



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- Further \$3.3m cash once Lloyd's sale finalised;
- Board succession plan underway with Jeremy Kirkwood to move into Chair role following AGM
 - Mike Gurry will remain on board as non-executive director (subject to being elected)
- JYC CEO Keith Smith has recently announced he will be leaving the business, having made significant contributions to optimising the business model and processes
 - Keith has agreed to stay on with JYC as a new CEO transitions into the role

Analysis

We build up our earnings as follows:

Valuation	Units	2020A	2021F	2022F	2023F
Locations					
KWB	x	20	22	24	26
Bedshed	x	37	37	38	40
Revenues					
KWB	A\$m	67.5	71.5	79.5	87.9
Bedshed	A\$m	20.1	20.1	20.8	21.7
Total	A\$m	87.6	91.6	100.3	109.6
EBIT					
KWB	A\$m	11.3	11.9	13.3	14.7
Bedshed	A\$m	3.6	3.6	3.7	3.9
Corporate	A\$m	-2.9	-2.7	-2.7	-2.7
Total EBIT	A\$m	12.0	12.7	14.2	15.9
JYC EBIT	A\$m	6.5	6.9	7.7	8.7
NCI EBIT	A\$m	5.5	5.8	6.5	7.2
Margins					
KWB	%	17%	17%	17%	17%
Bedshed	%	18%	18%	18%	18%
Total EBIT	%	14%	14%	14%	14%
(-) Net Finance	A\$m	-0.7	-0.8	-0.8	-0.7
PBT	A\$m	11.3	12.0	13.5	15.1
(-) Tax Expense	A\$m	-3.1	-3.6	-4.0	-4.5
(-) Non-Controlling interest	A\$m	-3.1	-3.8	-4.3	-4.8
(+/-) Abnormals (pre-tax)	A\$m	-7.8	0.0	0.0	0.0
Reported NPAT	A\$m	-2.8	4.5	5.1	5.8
Norm NPAT	A\$m	4.1	4.5	5.1	5.8

Key Commentary:

- KWB
 - We have forecasted flat margins, however note there is further potential for additional expansion.
 - We anticipate two new showrooms coming online in FY'21, this including the recently opened Tweed Heads (opened July 1st)
 - We have maintained flat revenue/showroom, however we similarly

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highlight potential for further growth in time

- Bedshed
 - We have maintained flat margins and average revenue per store.
 - We anticipate no new stores being added in FY'21
 - We continue to see potential for greater market share growth, however per JYCs commentary COVID-19 seems to have delayed any new additions this year
 - JYC stating that its team was engaging with +100 live enquires in the first half, however these were delayed through the onset of the pandemic. JYC further state there continues to be a good level of interest
- We have slightly reduced our corporate overhead cost forecasts taking into account certain one-off costs which were included this year.

Balance Sheet

JYC has significantly bolstered its balance sheet over the past year, going from \$3.3m Net debt (ex. Leases) to \$4.9m Net Cash (ex. Leases). This the result of both operational cashflows and divesting of Lloyds.

As of 30 June 2020, there was \$10.6m in cash, JYC stating this has increased by a further \$2.2m since reporting.

In addition to this there is a further \$3.3m from Lloyds to be received, this payable to JYC by 24th September 2020.

All this shows how large JYC war chest has grown.

We highlight the number of different outcomes which may arise from this cash including:

- Special dividend payment/increasing dividend
- Opportunistic acquisitions

Both of these have the potential to create/unlock value for JYC shareholders, the latter more so, should JYCs management team identify a solid opportunity.

We have not assumed/included any of this in our valuation, rather highlight it as further upside should it materialise in any form.

Valuation and PT

We maintain our Speculative Buy recommendation with an Increased \$2.30/sh. Price Target.

Our price target uses a combination of capitalisation of forward looking NPAT and longer term DCF to calculate a 12 month PT of \$2.30/sh.

Valuation	Units	2021F
NPAT	A\$m	4.5
(x) multiple	x	15.0
Equity Value	A\$m	68.1
(/) SOI	m	28.0
Value per share	A\$/sh	\$2.43
DCF	A\$/sh	\$2.17
Average	A\$/sh	\$2.30

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Financial Statements	2019a	2020a	2021f	2022f	Performance Ratios	2019a	2020a	2021f	2022f
(+) BedShed	19.2	20.1	20.1	20.8	Growth & Margins				
(+) KWB	65.0	67.5	71.5	79.5	Revenue Growth	11%	-13%	5%	10%
(+) Loylds	17.0	0.0	0.0	0.0	EBITDA Growth	13%	44%	5%	9%
(+/-) Other	0.0	0.0	0.0	0.0	EBIT Growth	7%	22%	6%	12%
Total Revenue	101.2	87.6	91.6	100.3	Reported NPAT Growth	12%	22%	10%	13%
(-) COGS	-50.6	-47.4	-49.5	-54.3	Normalized Net Profit Growth	2%	-180%	-264%	13%
Gross Profit	50.5	40.2	42.0	46.0	EBITDA margin	11%	19%	19%	19%
(-) Operating Expense	-37.0	-20.7	-21.9	-24.4	EBIT margin	10%	14%	14%	14%
(-) Corp O/H	-2.0	-2.9	-2.7	-2.7	Normalized net profit margin	3%	-3%	5%	5%
EBITDA	11.5	16.6	17.4	18.9	Effective tax rate	29%	27%	30%	30%
(-) D&A	-1.7	-4.6	-4.6	-4.7	Liquidity				
EBIT	9.8	12.0	12.7	14.2	Capex/depreciation (x)	1.1	0.2	0.4	0.4
(-) Net Finance	-0.3	-0.7	-0.8	-0.8	Current ratio (x)	0.8	0.9	1.0	1.2
EBT	9.5	11.3	12.0	13.5	Quick ratio (x)	0.6	0.9	1.3	1.4
(-) Tax Expense	-2.8	-3.1	-3.6	-4.0	Receivable days	7.7	3.7	3.7	3.7
(-) Non-Controlling interest	-3.3	-3.1	-3.8	-4.3	Payable days	101.9	98.4	97.4	96.4
(+/-) Abnormals (pre-tax)	0.0	-7.8	0.0	0.0	Risk Measures				
Reported NPAT	3.5	-2.8	4.5	5.1	Dividend Cover (x)	1.1	-1.3	1.5	1.5
Norm NPAT	3.4	4.1	4.5	5.1	Payout ratio (%)	103%	-101%	68%	66%
					Net interest cover (x)	10.1	12.7	13.5	15.0
					Net debt/equity (%)	14%	33%	5%	-7%
					Returns				
					Return on Invested Capital	10%	16%	17%	18%
					Return on Assets	6%	-5%	7%	7%
					Return on Equity	14%	-15%	23%	24%
					Share Data/Valuation				
Cash flow (A\$m)	2019a	2020a	2021f	2022f	Share Data				
NPAT	3.5	-2.8	4.5	5.1	Issued shares (m)	27.9	28.1	28.1	28.1
(+) D&A	1.7	4.6	4.6	4.7	Weighted ave shares (m)	27.9	28.0	28.1	28.1
(-) Lease Expense	0.0	-3.1	-3.1	-3.1	Fully diluted shares (m)	27.9	28.1	28.1	28.1
(+) Impairment	0.0	5.5	0.0	0.0	Basic EPS (c)	12.4	-9.8	16.1	18.2
(+/-) Disc Operations	0.0	2.3	0.0	0.0	YoY change (%)	2%	-179%	-264%	13%
(+/-) Other	0.0	0.2	0.0	0.0	Fully diluted EPS (c)	12.4	-9.8	16.1	18.2
Gross Cashflow	5.2	6.8	6.0	6.7	YoY change (%)	2%	-179%	-264%	13%
(-) Capex	-1.8	-0.8	-1.7	-1.8	Fully diluted normalised EPS (c)	12.1	14.7	16.1	18.2
(-) Change in NWC	1.8	0.3	0.1	0.5	YoY change (%)	12%	21%	10%	13%
Operating Free Cashflow	5.2	6.3	4.5	5.4	Dividend/share (c)	11.7	7.7	11.0	12.0
(+/-) Sale of Other Assets	0.0	2.0	3.3	0.0	Franking (%)	100%	100%	100%	100%
(+/-) Sale of PP&E	0.1	0.1	0.0	0.0	Gross cashflow/share (c)	18.5	24.0	21.4	23.7
(+/-) other A/L changes	-0.2	0.0	0.0	0.0	NBV/share (c)	86.9	64.0	69.2	75.4
(+/-) Other	0.0	0.1	0.0	0.0	NTA/Share (c)	32.7	50.3	60.0	71.5
(+) NCI	3.3	3.1	3.8	4.3	Valuation				
(-) Purchase of Intangible	-0.5	0.0	0.0	0.0	PER (Basic) (x)	11.9	-15.0	9.1	8.1
(-) Acquisition	0.0	0.0	0.0	0.0	PER (Fully diluted) (x)	11.9	-15.0	9.1	8.1
(-) Dividend Equity holders	-3.6	-1.4	-3.1	-3.4	PER (Fully diluted, normalized) (x)	12.1	10.0	9.1	8.1
(-) Dividends NCI	-3.6	-1.5	-2.6	-2.8	P/CFPS (x)	7.9	6.1	6.9	6.2
Net Cashflow	0.5	8.6	5.9	3.4	Price/NBV (x)	1.7	2.3	2.1	1.9
BoP Net Cash	-4.3	-3.7	-7.1	-1.3	Price/NTA (x)	4.5	2.9	2.5	2.1
(+/-) Net Cashflow	0.5	8.6	5.9	3.4	Dividend Yield (%)	8%	5%	7.5%	8%
(+/-) AASB16 Adj.	0.0	-12.0	-0.1	-0.1	EV/EBIT (x, Ex. NCI)	7.4	5.4	5.4	4.9
EoP Net Cash	-3.7	-7.1	-1.3	2.0	EV/Revenue (x)	0.5	0.6	0.5	0.5
					Other Information				
Balance Sheet (\$m)	2019a	2020a	2021f	2022f	Major shareholders:				
Cash	7.0	10.6	16.4	19.7	Dan Smetana (NED)				42.0%
Receivables	2.1	0.9	0.9	1.0	John Westwood				9.5%
Inventories	3.2	3.0	3.1	3.4	Estimated free float:				50%
Other Assets	1.6	4.2	0.9	0.9	12-mth High/Low (A\$/sh)				1.67/1.30
Other Financial Assets	0.0	0.2	0.2	0.2	Average daily volume (A\$)				16,000
Total Current Assets	13.9	18.9	21.5	25.2	ASX Code				JYC
Receivables	0.4	0.2	0.2	0.2	Company Description				
Deferred Tax Assets	1.5	5.6	5.8	6.4	Joyce Corporation (JYC) is a Perth based investment company currently operating 3 core brands; these including KWB, Bedshed, and Lloyds Online Auctions. 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 and most recently Lloyds Online Auctions.				
ROUA	0.0	10.2	10.2	10.2					
PP&E	11.2	8.8	9.2	9.5					
Inventories	0.5	0.0	0.0	0.0					
Investment Properties	9.6	9.6	9.6	9.6					
Intangibles	18.3	7.5	7.5	7.5					
Total Non-current Assets	41.6	41.9	42.5	43.4					
Total Assets	55.5	60.7	64.0	68.6					
Payables	14.1	12.8	13.2	14.3					
Dividends Payable	0.0	1.4	1.4	1.4					
Provisions	1.6	1.6	1.6	1.8					
Current Lease Liabilities	0.0	3.4	3.4	3.4					
Borrowings	0.9	0.5	0.4	0.4					
Provisions for Income Tax	0.2	0.5	0.5	0.5					
Total Current Liabilities	16.8	20.1	20.6	21.8					
Borrowings	9.8	5.2	5.3	5.3					
Non-Current Lease Liabilities	0.0	8.6	8.6	8.6					
Deferred Tax Liability	0.6	3.9	3.9	3.9					
Provisions	0.9	1.3	1.3	1.4					
Total Non-Current Liabilities	11.3	18.9	19.1	19.2					
Total Liabilities	28.1	39.1	39.6	41.0					
Net Assets	27.4	21.7	24.3	27.5					
Contributed Equity	18.1	18.3	18.3	18.3					
Reserves	0.0	0.0	0.0	0.0					
Non-controlling interests	3.2	3.7	4.9	6.4					
Retained Earnings	6.1	-0.3	1.1	2.9					
Total Equity	27.4	21.7	24.3	27.5					

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