

Joyce Corporation Ltd

(JYC \$2.29) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Seth Lizee	3 rd March 2021	\$3.15/sh ▲ from \$2.30/sh

Strong Half, Bright Future

Investment case

JYC has reported their 1H results. The company reported a \$3.2m normalised NPAT (vs. \$1.8m EHSL estimate), delivering strong earnings growth and exceeding our expectation. Both KWB and Bedshed reported robust operating conditions, delivering strong uplifts in revenue and margins. The balance sheet went from strong to stronger over the half, with \$12.7m in Net cash (ex. Leases) as 31-Dec. We remain cautiously optimistic towards the FY result with strong operating conditions continuing, beyond that we continue to see substantial long term organic growth potential in the business. As a result we have upgraded our Valuation and Price Target.

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 undemanding forward P/e of 9.8x with a 6.6% dividend yield.

We maintain our Speculative Buy recommendation with an upgraded \$3.15/sh. Price Target

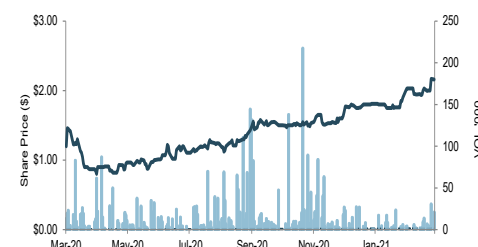
Key points

- Headline financials:
 - \$52.9m Revenue (+16% pcg)
 - \$13.7m EBITDA (Group., +83% pcg)
 - \$4.8m Reported NPAT (JYC, +208% pcg)
 - \$3.2m Norm NPAT (JYC, vs. \$1.8m EHSL Estimate)
 - \$12.9m operating cashflow (+336% pcg)
- KWB:
 - 3 new showrooms opened during H in NSW (Tweed Heads, Tuggerah, and Castle Hill)
 - Further showroom in Artarmon NSW planned to go operational in 4Q'21
- Bedshed:
 - Strong 1H results from both franchise and company owned stores
 - Strong franchise engagement and support, multiple franchise agreements renewed during H
 - Helensvale store transferred to franchise operation, there is now 32 franchise stores and 4 company owned ones
- Corporate strategy review underway
- Newly appointed management:
 - JYC CEO: Dan Madden
 - JYC Chairman: Jeremy Kirkwood

Joyce Corporation Ltd	Year End 30 June	
Share Price	2.29	A\$/sh
Price Target	3.15	A\$/sh
Valuation (Blend)	3.15	A\$/sh
WACC	11.0%	
Terminal Growth	2.5%	
Shares on issue	28 m, diluted	
Market Capitalisation	64.3	A\$m
Enterprise Value	65.7	A\$m
Cash	18.2	A\$m
Debt (inc. leases)	19.6	A\$m

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	87.6	98.2	109.3
EBITDA (A\$m)	16.6	20.5	21.6
EBIT (A\$m)	12.0	15.7	16.8
Normalised NPAT (A\$m)	4.1	6.0	6.0
Reported NPAT (A\$m)	-2.8	6.6	6.0
Gross Cashflow (A\$m)	6.8	7.9	7.3
Capex (A\$m)	-0.8	-1.5	-1.5
Op. Free Cashflow (A\$m)	6.3	6.7	6.5
Revenue Growth (%)	-13%	12%	11%
EBITDA Growth (%)	44%	24%	5%
Norm. NPAT Growth (%)	22%	46%	0%
Normalised EPS (Ac)	14.7	21.5	21.4
Norm. EPS growth (%)	21%	46%	0%
PER (x)	-23.3	9.8	10.7
DPS (Ac)	10.0	15.0	15.0
Dividend Yield (%)	4.4%	6.6%	6.5%

Share Price Chart



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- Record 7.0c fully franked Interim dividend declared (15cps EHSI estimated for FY21)
 - +40% pcp vs. 5c 1H'20
 - Targeting 60-80% FY dividend payout ratio
- JYC finished the H with \$1.4m in Net debt (inc. Leases, vs 7.1m Net debt Jun'H)
 - \$18.2m Cash
 - \$5.5m Borrowings
 - \$14.1m Lease liabilities
- We maintain our Speculative Buy recommendation with an upgraded \$3.15/sh. Price Target

Analysis

We build up our earnings as follows:

Valuation	Units	2020A	2021F	2022F	2023F
Locations					
KWB	x	20	24	27	30
Bedshed*	x	37	36	37	38
KWB	A\$m	67.5	81.3	93.3	105.7
Bedshed	A\$m	20.1	16.9	16.0	16.6
Total Revenue	A\$m	87.6	98.2	109.3	122.4
EBITDA	A\$m	16.6	20.5	21.6	24.0
KWB	A\$m	11.3	13.9	16.0	18.3
Bedshed	A\$m	3.6	4.5	3.5	3.6
Corp O/H	A\$m	-2.9	-2.7	-2.7	-2.7
Total EBIT	A\$m	12.0	15.7	16.8	19.2
Reported NPAT	A\$m	-2.8	6.6	6.0	6.9
Norm. NPAT	A\$m	4.1	6.0	6.0	6.9
DPS	Acps	10.0	15.0	15.0	17.5

*Franchises & Corp

Source: Euroz Hartleys Estimates

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Commentary:

- KWB (51% owned by JYC)
 - We anticipate 3 new showrooms added per year, JYC provides commentary around continuing NSW expansion in the near term with further potential in untapped states. We continue to see ample room for organic growth within the business, well beyond its current size;
 - We anticipate steady revenue/showroom going forward with modest margin improvement, we view this achievable through higher average value sales and increasing efficiencies;
 - Our EBIT estimates are normalised for JobKeeper, we ballpark estimate ~75% went to KWB;
- Bedshed (Franchises & Company Owned, 100% owned by JYC)
 - We forecast 1 additional franchise store per year in FY22 and beyond, we don't expect any new company stores, we rather see it more likely than not that company stores continue reducing overtime (as occurred this year)
 - We view the current operating environment (1H) as more of a sugar hit as a result of pent-up demand from COVID-19, based on this we anticipate avg. Rev/store to decrease in the 2H and normalise into FY22 and beyond. We further see company owned store revenues down FY21 and FY22 as the transfer of Helensvale to a franchise takes effect;
 - Similarly to KWB, our EBIT is adjusted for JobKeeper, we estimate ~20% of the total figure is attributable to Bedshed (franchises and company owned), we have additionally adjusted the EBIT for \$480k gain on lease modification (Helensvale transfer)
- Corporate / Other
 - We maintain our corporate overhead cost forecasts
 - We assumed \$1.0m of JobKeeper is repaid in the 2H, in line with commentary

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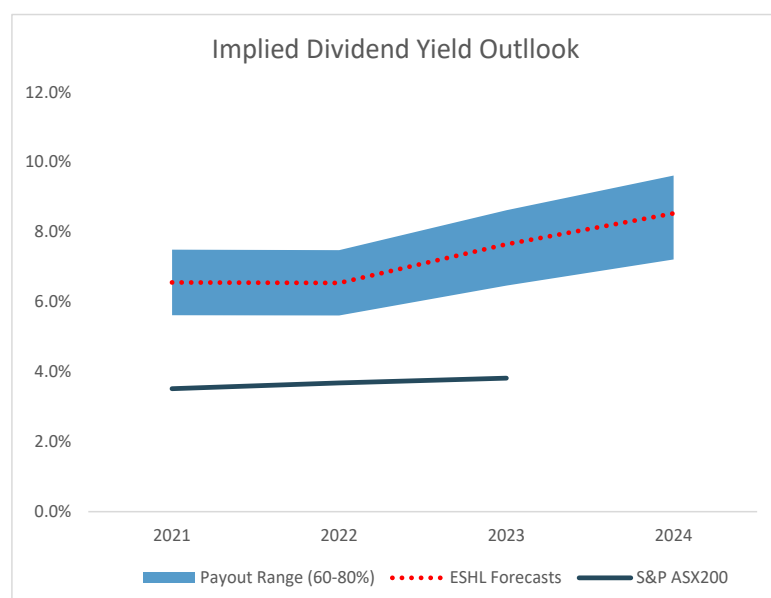
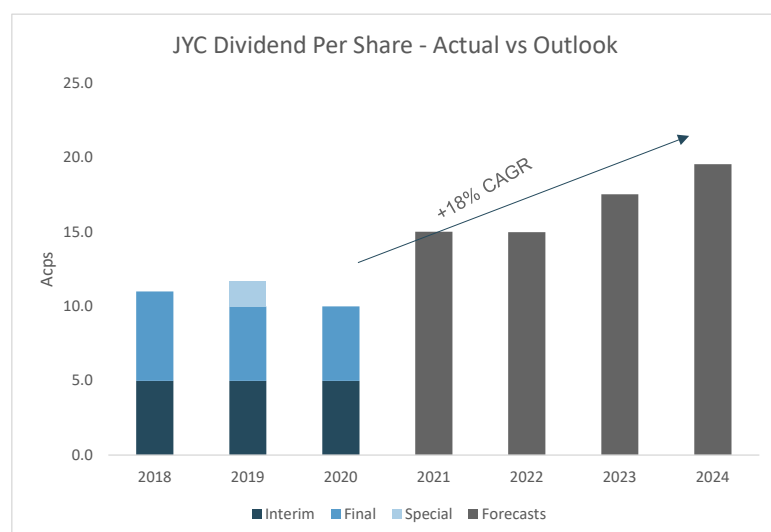
Dividends

JYC have declared a 7.0cps fully franked (10cps grossed up) for the 1H, +40% pcg.

Management have further outlined a dividend policy based on a 60-80% NPAT payout ratio going forward.

We have based our dividend forecasts on a 70% payout ratio (mid-point), as a result we are forecasting a 15cps fully franked dividend for FY'21 (21.4cps grossed up).

We outline actual and forecasted DPS and the implied dividend yield (forecast and payout range) below:



Source: ESHL estimates, company reports

- Commentary:
 - On last price this implies a 6.6% dividend yield based on our forecasts for FY21 (vs 3.5% S&P/ASX'200)

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Balance Sheet

JYC finished the 1H with 1.4m in net debt (including lease liabilities), this down \$5.7m HoH. The company currently sits on \$18.2m in cash (consolidated entity)

Noteworthy near term cash outflows:

- \$2.0m interim dividend payable
- \$1.0m JobKeeper repayable
- Ongoing \$1.5m/yr in capital expenditure

At this point in time we have not forecasted any changes in JYC gross borrowing balance.

Price Target and Valuation

Following a better than expected 1H result and continued positive outlook which have all translated into upgraded earnings forecasts, we have consequentially upgraded our equally Blended valuation and Price Target.

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

Component	Figure
P/e	\$ 3.23
DCF	\$ 3.07
Blended	\$ 3.15
Upside	38%

We maintain our Speculative Buy recommendation with an upgraded \$3.15/sh Price Target

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Financial Statements	2019A	2020A	2021F	2022F	Performance Ratios	2019A	2020A	2021F	2022F
Income Statement					Growth & Margins				
(+) BedShed	19.2	20.1	16.9	16.0	Revenue Growth	11%	-13%	12%	11%
(+) KWB	65.0	67.5	81.3	93.3	EBITDA Growth	13%	44%	24%	5%
(+) Loylds	17.0	0.0	0.0	0.0	EBIT Growth	7%	22%	31%	7%
(+/-) Other	0.0	0.0	0.0	0.0	Reported NPAT Growth	2%	-180%	-338%	-9%
Total Revenue	101.2	87.6	98.2	109.3	Normalized Net Profit Growth	12%	22%	46%	0%
(-) COGS	-50.6	-47.4	-53.1	-59.2	EBITDA margin	11%	19%	21%	20%
Gross Profit	50.5	40.2	45.1	50.2	EBIT margin	10%	14%	16%	15%
(-) Operating Expense	-37.0	-20.7	-21.8	-25.9	Normalized net profit margin	3%	-3%	7%	6%
(-) Corp O/H	-2.0	-2.9	-2.7	-2.7	Effective tax rate	29%	27%	30%	30%
EBITDA	11.5	16.6	20.5	21.6	Liquidity				
(-) D&A	-1.7	-4.6	-4.8	-4.8	Capex/depreciation (x)	1.1	0.2	0.3	0.3
EBIT	9.8	12.0	15.7	16.8	Current ratio (x)	0.8	0.9	1.0	1.1
(-) Net Finance	-0.3	-0.7	-0.6	-0.6	Quick ratio (x)	0.6	0.9	1.3	1.4
EBT	9.5	11.3	15.1	16.2	Receivable days	7.7	3.7	3.7	3.7
(-) Tax Expense	-2.8	-3.1	-5.2	-4.9	Payable days	101.9	98.4	97.4	96.4
(-) Non-Controlling interest	-3.3	-3.1	-4.6	-5.3	Risk Measures				
(+/-) Abnormals (pre-tax)	0.0	-7.8	1.3	0.0	Dividend Cover (x)	1.1	-1.0	1.6	1.4
Reported NPAT	3.5	-2.8	6.6	6.0	Payout ratio (%)	103%	-101%	70%	70%
Norm NPAT	3.4	4.1	6.0	6.0	Net interest cover (x)	10.1	12.7	16.3	17.3
					Net debt/equity (%)	14%	33%	10%	-6%
Cash flow (A\$m)					Returns				
NPAT	3.5	-2.8	6.6	6.0	Return on Invested Capital	10%	16%	21%	20%
(+) D&A	1.7	4.6	4.8	4.8	Return on Assets	6%	-5%	10%	8%
(-) Lease Expense	0.0	-3.1	-3.5	-3.5	Return on Equity	14%	-15%	33%	28%
(+) Impairment	0.0	5.5	0.0	0.0	Share Data/Valuation				
(+/-) Disc Operations	0.0	2.3	0.0	0.0	Share Data				
(+/-) Other	0.0	0.2	0.0	0.0	Issued shares (m)	27.9	28.1	28.1	28.1
Gross Cashflow	5.2	6.8	7.9	7.3	Weighted ave shares (m)	27.9	28.0	28.1	28.1
(-) Capex	-1.8	-0.8	-1.5	-1.5	Fully diluted shares (m)	27.9	28.1	28.1	28.1
(-) Change in NWC	1.8	0.3	0.4	0.7	Basic EPS (c)	12.4	-9.8	23.4	21.4
Operating Free Cashflow	5.2	6.3	6.7	6.5	YoY change (%)	2%	-179%	-338%	-9%
(+/-) Sale of Other Assets	0.0	2.0	3.3	0.0	Fully diluted EPS (c)	12.4	-9.8	23.4	21.4
(+/-) Sale of PP&E	0.1	0.1	0.0	0.0	YoY change (%)	2%	-179%	-338%	-9%
(+/-) other A/L changes	-0.2	0.0	0.0	0.0	Fully diluted normalised EPS (c)	12.1	14.7	21.5	21.4
(+/-) Other	0.0	0.1	-0.5	0.0	YoY change (%)	12%	21%	46%	0%
(+) NCI	3.3	3.1	4.6	5.3	Dividend/share (c)	11.7	10.0	15.0	15.0
(-) Purchase of Intangible	-0.5	0.0	0.0	0.0	Franking (%)	100%	100%	100%	100%
(-) Acquisition	0.0	0.0	0.0	0.0	Gross cashflow/share (c)	18.5	24.0	28.1	26.1
(-) Dividend Equity holders	-3.6	-1.4	-4.2	-4.2	NBV/share (c)	86.9	64.0	70.5	76.9
(-) Dividends NCI	-3.6	-1.5	-3.2	-3.7	NTA/Share (c)	32.7	50.3	61.8	74.0
Net Cashflow	0.5	8.6	6.7	3.9	Valuation				
BoP Net Cash	-4.3	-3.7	-7.1	-2.4	PER (Basic) (x)	18.5	-23.3	9.8	10.7
(+/-) Net Cashflow	0.5	8.6	6.7	3.9	PER (Fully diluted) (x)	18.5	-23.3	9.8	10.7
(+/-) AASB16 Adj.	0.0	-12.0	-2.0	0.2	PER (Fully diluted, normalized) (x)	18.9	15.6	10.7	10.7
EoP Net Cash	-3.7	-7.1	-2.4	1.8	P/CFPS (x)	12.4	9.5	8.2	8.8
					Price/NBV (x)	2.6	3.6	3.2	3.0
Balance Sheet (\$m)					Price/NTA (x)	7.0	4.5	3.7	3.1
Cash	7.0	10.6	17.1	21.2	Dividend Yield (%)	5%	4%	6.6%	7%
Receivables	2.1	0.9	1.0	1.1	EV/EBIT (x, Ex. NCI)	10.0	7.4	5.9	5.7
Inventories	3.2	3.0	3.3	3.7	EV/Revenue (x)	0.6	0.8	0.7	0.6
Other Assets	1.6	4.2	0.9	0.9	Other Information				
Other Financial Assets	0.0	0.2	0.2	0.2	Major shareholders:				
Total Current Assets	13.9	18.9	22.4	27.1	Dan Smetana (NED)	40.0%			
Receivables	0.4	0.2	0.2	0.2	John Westwood	8.5%			
Deferred Tax Assets	1.5	5.6	6.2	6.9	Estimated free float:	50%			
ROUA	0.0	10.2	12.4	12.4	12-mth High/Low (A\$/sh)	0.78/2.30			
PP&E	11.2	8.8	8.8	8.8	Average daily volume (A\$)	20.5k			
Inventories	0.5	0.0	0.0	0.0	ASX Code	JYC			
Investment Properties	9.6	9.6	9.6	9.6	Next result	Aug-21			
Intangibles	18.3	7.5	7.5	7.5					
Total Non-current Assets	41.6	41.9	44.7	45.4					
Total Assets	55.5	60.7	67.2	72.5					
Payables	14.1	12.8	14.2	15.6					
Dividends Payable	0.0	1.4	1.4	1.4					
Provisions	1.6	1.6	1.6	1.9					
Current Lease Liabilities	0.0	3.4	3.9	3.9					
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	22.0	23.8					
Borrowings	9.8	5.2	5.1	5.1					
Non-Current Lease Liabilities	0.0	8.6	10.0	10.0					
Deferred Tax Liability	0.6	3.9	3.9	3.9					
Provisions	0.9	1.3	1.3	1.5					
Total Non-Current Liabilities	11.3	18.9	20.3	20.5					
Total Liabilities	28.1	39.1	42.3	44.3					
Net Assets	27.4	21.7	24.8	28.2					
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	5.0	6.6					
Retained Earnings	6.1	-0.3	1.5	3.3					
Total Equity	27.4	21.7	24.8	28.2					
					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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