

Joyce Corporation Ltd

(JYC \$3.20) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Seth Lizee	1 st September 2021	\$4.25/sh ▲ from \$3.15/sh

Full Year Results: Record Earnings, Beat on Forecasts

Event

JYC have released their full year results, exceeding our expectations across the board.

Impact

- Financial Highlights:
 - \$111.2m in Revenue (+30%, vs EHL \$98.2m)
 - \$24.3m in EBITDA (+46%, vs EHL \$20.5m)
 - \$7.6m Reported NPAT to equity (vs EHL \$6.6m)
 - \$7.3m Norm. NPAT to equity (vs EHL \$6.0m)
 - \$27.2m Operating Cashflow (+103%)
- JYC returned \$1.5m of JobKeeper
- The company declared a final 10.0cps fully franked dividend, bringing the total dividend for the year to 17.0cps (vs EHL 15.0cps);
- JYC finished the year with \$19.9m in net cash and no debt (ex. leases);

Action

We have upgraded our forecasts post these results.

Noting continued uncertainty around the pandemic, we anticipate broadly neutral earnings growth as normalising operating conditions net out, beyond which we see continued double digit earnings growth.

We maintain our Speculative Buy Recommendation with an upgraded \$4.25/sh. Price Target.

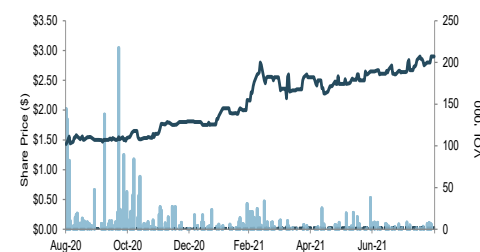
Key Catalyst

- Operating updates
- Half year results

Joyce Corporation Ltd	Year End 30 June	
Share Price	3.20	A\$/sh
Price Target	4.25	A\$/sh
Valuation (DCF)	4.56	A\$/sh
WACC	11.0%	
Terminal Growth	2.0%	
Shares on issue	28 m, diluted	
Market Capitalisation	90.2	A\$m
Enterprise Value	84.0	A\$m
Cash	19.9	A\$m
Debt	13.8	A\$m

Key Financials	2022F	2023F	2024F
Revenue (A\$m)	123.3	139.1	151.2
EBITDA (A\$m)	24.9	28.0	30.5
EBIT (A\$m)	20.2	23.3	25.8
Normalised NPAT (A\$m)	7.4	8.6	9.6
Reported NPAT (A\$m)	7.4	8.6	9.6
Gross Cashflow (A\$m)	8.6	9.9	10.9
Capex (A\$m)	-1.5	-1.5	-1.5
Op. Free Cashflow (A\$m)	8.6	10.0	10.5
Revenue Growth (%)	11%	13%	9%
EBITDA Growth (%)	2%	13%	9%
Norm. NPAT Growth (%)	1%	16%	11%
Normalised EPS (Ac)	26.3	30.6	34.1
Norm. EPS growth (%)	1%	16%	11%
PER (x)	12.2	10.4	9.4
DPS (Ac)	17.0	20.0	22.0
Dividend Yield (%)	5.3%	6.2%	6.9%
Net Debt (A\$m)	-12.2	-19.3	-26.5
Net Debt:Equity (%)	-39%	-52%	-61%
Interest Cover (x)	20.7	23.8	26.2

Share Price Chart



Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Joyce Corporation Ltd

(JYC \$3.20) Speculative Buy

Analysis

Financials:

We have summarised actuals results vs forecasts below:

	Units	FY'2021		Difference	
		Forecasts	Actuals	A\$m	%
KWB	A\$m	81.3	89.6	8.3	10%
BedShed	A\$m	16.9	21.5	4.7	28%
Total Revenue	A\$m	98.2	111.2	13.0	13%
KWB	A\$m	13.9	16.3	2.4	17%
BedShed	A\$m	4.5	5.9	1.3	30%
Corp O/H	A\$m	-2.7	-2.6	0.2	-6%
Total EBIT	A\$m	15.7	19.6	3.9	25%
(-) Net Finance	A\$m	-0.6	-0.5	0.1	-12%
(+/-) Other	A\$m	1.3	0.0		-100%
(-) Tax Expense	A\$m	-5.2	-6.1	-0.9	17%
(-) NCI	A\$m	-4.6	-5.4	-0.8	17%
Reported NPAT	A\$m	6.6	7.6	1.0	15%
Norm. NPAT	A\$m	6.0	7.3	1.3	21%

Source: EHL Estimates, Annual report

KWB Group Commentary:

- \$89.7m in Revenue (+34%, vs EHL \$81.3m);
- \$16.3m in EBIT (+45%, vs EHL \$13.9m);
- Record order book of \$107.2m (+44%);
- Improved EBIT margin was driven by operational and cost efficiencies;
- The business continued to deliver on its expansion plan with the rollout of 4 new showrooms over the FY, all of which have traded strongly and delivered accelerated paybacks;
- The brand now has 25 showrooms across QLD, SA, and NSW;
- *Outlook:*
 - The company notes there is significant potential to expand its footprint, with near term network expansion in NSW and longer term opportunities in the untapped states of VIC and WA
 - KWB is planning to add 4 showrooms per annum in FY22 and FY23, which will put the company in a position to be the number one kitchen renovator in Sydney by the end of FY22;

Bedshed Commentary:

- \$21.5m in Revenue (+18%, vs EHL \$16.9m);
- \$5.9m in EBIT (+229%, vs EHL \$4.5m);
- The business performed strongly, backed by effective advertising campaigns and well-executed product range launches;
- The company's e-commerce platform launched in Sydney during the FY, establishing a low cost entry into that market;
- Bedshed finished the year with 37 stores across WA, QLD, VIC and ACT (32 franchised stores);
- *Outlook:*
 - The company has noted intentions to continue its franchise network expansion;

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Joyce Corporation Ltd

(JYC \$3.20) Speculative Buy

EUROZ HARTLEYS

- Specifically focusing on establishing a presence in NSW (Sydney regional and metro), in addition to evaluating additional states and new locations
- Beyond this, the business will continue to leverage online sales through its new e-commerce platform

Corporate / Other:

- JYC returned \$1.5m of JobKeeper
- Declared final 10cps fully franked dividend bringing total full year dividend to 17cps (+70%, vs EHL 15cps)
 - This implies a 5.3% full franked dividend yield at last price
- The company increased group net cash (ex. Leases) to \$19.9m over the FY from \$4.9m, finishing the year with:
 - \$19.9m in cash (vs EHL \$17.1m);
 - No debt, fully paid down over the FY.

Forecasts

We build up our earnings as follows:

Valuation	Units	2021A	2022F	2023F	2024F
Locations					
KWB	x	24	28	32	35
Bedshed*	x	36	39	42	45
KWB	A\$m	89.6	104.6	119.5	130.7
Bedshed	A\$m	21.5	18.7	19.6	20.5
Total Revenue	A\$m	111.2	123.3	139.1	151.2
EBITDA	A\$m	24.3	24.9	28.0	30.5
KWB	A\$m	16.3	19.0	21.9	24.1
Bedshed	A\$m	5.9	3.7	4.0	4.3
Corp O/H	A\$m	-2.6	-2.6	-2.6	-2.6
Total EBIT	A\$m	19.6	20.2	23.3	25.8
Reported NPAT	A\$m	7.6	7.4	8.6	9.6
Norm. NPAT	A\$m	7.3	7.4	8.6	9.6
DPS	Acps	17.0	17.0	20.0	22.0

Source: EHL Estimates

* Includes company owned stores

Key Commentary:

- We have upgraded our forecasts post this years results, we however continue to note there remains uncertainty around the pandemic, which as always could impact our forecasts
- KWB:**
 - We anticipate the group will add 4 new locations in FY22 and 23, inline with the company's guidance;
 - Thereafter we forecasts 3 will be added in the FY;
 - We note there is further growth potential beyond these forecasts, should JYC look to expand into the untapped states of WA and VIC;

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Joyce Corporation Ltd

(JYC \$3.20) Speculative Buy

EUROZ HARTLEYS

- We forecast steady YoY average revenue per showroom, at this time we don't foresee any changes to this view on the basis rollouts be achieved and that the pandemic isn't exacerbated;
- We anticipate broadly steady segment margins.
- **Bedshed**
 - We anticipate the company will rollout 3 new franchise locations per year;
 - Similarly, we note the potential to exceed this should the company aggressively go after untapped markets;
 - We anticipate a YoY drop in average revenue per store as the demand sugar hit eases and operating conditions normalise;
 - For the same reason, we forecasts a decrease in segment margins for both franchise and retail owned stores,
- We anticipate broadly steady corporate overhead;
- We broadly anticipate neutral earnings growth in FY22, the result of KWB growth and Bedshed normalisation netting out, beyond which we see earnings growing by double digits;
- We anticipate a 17.0cps dividend per share in FY22, steady YOY;
- We anticipate capital expenditure will remain broadly steady with FY21

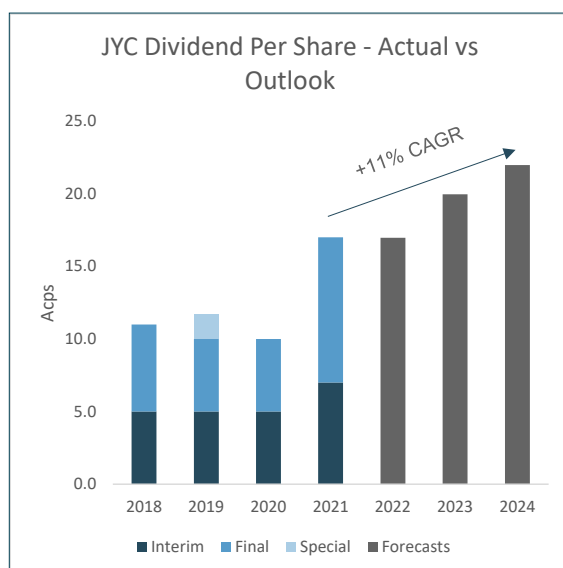
Dividend

JYC has declared a final 10.0cps full franked (14.3cps grossed up) dividend, this brings the total full year dividend to 17.0cps, 70% higher than FY'20

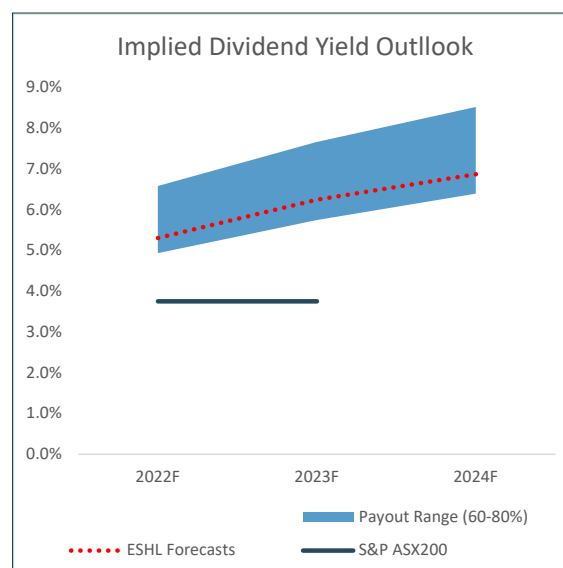
Management have previously outlined a dividend policy to pay out 60-80% of NPAT going forward.

We have based our dividend forecasts on a 65% payout ratio (lower end), as a result we are forecasting a 17.0cps fully franked dividend for FY'22.

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



Source: EHL Estimates, Annual report



Source: EHL estimates, Bloomberg LP

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Joyce Corporation Ltd

(JYC \$3.20) Speculative Buy

EUROZ HARTLEYS

Price Target and Valuation

We maintain our Speculative Buy recommendation with an upgraded \$4.25/sh. Price Target.

JYC trades on an undemanding 12x Forward P/E.

As a result of this better than expected result and our upgraded earnings forecasts, we have consequentially upgraded our blended valuation and Price Target.

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

Blended Valuation	Units	
NPAT (FY'22e)	A\$m	7.4
(x) multiple	x	15.0
Equity Value	A\$m	111.2
(/) SOI	m	28.2
Value per share	A\$/sh	\$3.95
DCF	A\$/sh	\$4.56
Blended Valuation	A\$/sh	\$4.25
Price Target	A\$/sh	\$4.25

Source: EHL Estimates

This Price Target per our analysis requires JYC achieving the level of earnings growth we forecast. The factors and risks surrounding these assumptions further drive our Speculative Buy recommendation.

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Joyce Corporation Ltd

(JYC \$3.20) Speculative Buy

EUROZ HARTLEYS

Financial Statements	2021A	2022F	2023F	2024F
Income Statement				
(+) BedShed	21.5	18.7	19.6	20.5
(+) KWB	89.6	104.6	119.5	130.7
(+) Loylds	0.0	0.0	0.0	0.0
(+/-) Other	0.0	0.0	0.0	0.0
Total Revenue	111.2	123.3	139.1	151.2
(-) COGS	-60.4	-67.0	-75.7	-82.2
Gross Profit	50.7	56.2	63.5	69.0
(-) Operating Expense	-23.9	-28.8	-32.9	-35.9
(-) Corp O/H	-2.6	-2.6	-2.6	-2.6
EBITDA	24.3	24.9	28.0	30.5
(-) D&A	-4.7	-4.7	-4.7	-4.7
EBIT	19.6	20.2	23.3	25.8
(-) Net Finance	-0.5	-0.5	-0.5	-0.5
EBT	19.1	19.7	22.8	25.3
(-) Tax Expense	-6.1	-5.9	-6.8	-7.6
(-) Non-Controlling interest	-5.4	-6.4	-7.3	-8.1
(+/-) Abnormals (pre-tax)	0.0	0.0	0.0	0.0
Reported NPAT	7.6	7.4	8.6	9.6
Norm NPAT	7.3	7.4	8.6	9.6
Cash flow (\$m)				
NPAT	7.6	7.4	8.6	9.6
(+) D&A	4.7	4.7	4.7	4.7
(-) Lease Expense	-3.4	-3.4	-3.4	-3.4
(+) Impairment	0.0	0.0	0.0	0.0
(+/-) Disc Operations	0.0	0.0	0.0	0.0
(+/-) Other	0.8	0.0	0.0	0.0
Gross Cashflow	9.6	8.6	9.9	10.9
(-) Capex	-1.4	-1.5	-1.5	-1.5
(-) Change in NWC	8.7	1.5	1.6	1.2
Operating Free Cashflow	16.9	8.6	10.0	10.5
(+/-) Sale of Other Assets	3.3	0.0	0.0	0.0
(+/-) Sale of PP&E	0.1	0.0	0.0	0.0
(+/-) other A/L changes	0.0	0.0	0.0	0.0
(+/-) Other	0.0	0.0	0.0	0.0
(+) NCI	5.4	6.4	7.3	8.1
(-) Purchase of Intangible	0.0	0.0	0.0	0.0
(-) Acquisition	0.0	0.0	0.0	0.0
(-) Dividend Equity holders	-4.8	-4.8	-5.6	-6.2
(-) Dividends NCI	-5.5	-4.1	-4.8	-5.2
Net Cashflow	15.5	6.1	7.0	7.2
BoP Net Cash	-7.1	6.1	12.2	19.3
(+/-) Net Cashflow	15.5	6.1	7.0	7.2
(+/-) AASB16 Adj.	-2.3	0.0	0.0	0.0
EoP Net Cash	6.1	12.2	19.3	26.5
Balance Sheet (\$m)				
Cash	19.9	26.0	33.0	40.3
Receivables	0.6	0.7	0.7	0.8
Inventories	3.2	3.6	4.0	4.4
Other Assets	0.5	0.5	0.5	0.5
Other Financial Assets	0.6	0.6	0.6	0.6
Total Current Assets	24.7	31.3	38.8	46.5
Receivables	0.1	0.1	0.1	0.2
Deferred Tax Assets	6.0	6.7	7.5	8.2
ROUA	12.5	12.5	12.5	12.5
PP&E	8.9	9.2	9.4	9.6
Inventories	0.0	0.0	0.0	0.0
Investment Properties	9.6	9.6	9.6	9.6
Intangibles	7.5	7.4	7.4	7.4
Total Non-current Assets	44.5	45.4	46.5	47.3
Total Assets	69.3	76.7	85.3	93.9
Payables	19.7	21.7	24.3	26.2
Dividends Payable	0.0	0.0	0.0	0.0
Provisions	2.4	2.9	3.2	3.5
Current Lease Liabilities	4.0	4.0	4.0	4.0
Borrowings	0.0	0.0	0.0	0.0
Provisions for Income Tax	1.7	1.7	1.7	1.7
Total Current Liabilities	27.8	30.3	33.2	35.4
Borrowings	0.0	0.0	0.0	0.0
Non-Current Lease Liabilities	9.8	9.8	9.8	9.8
Deferred Tax Liability	4.4	4.4	4.4	4.4
Provisions	0.6	0.8	0.9	0.9
Total Non-Current Liabilities	14.8	14.9	15.0	15.1
Total Liabilities	42.6	45.2	48.2	50.5
Net Assets	26.6	31.5	37.1	43.4
Contributed Equity	18.4	18.4	18.4	18.4
Reserves	0.7	0.7	0.7	0.7
Non-controlling interests	3.6	5.9	8.4	11.3
Retained Earnings	3.9	6.5	9.5	12.9
Total Equity	26.6	31.5	37.1	43.4
Performance Ratios				
Growth & Margins				
Revenue Growth	30%	11%	13%	9%
EBITDA Growth	46%	2%	13%	9%
EBIT Growth	64%	3%	15%	11%
Reported NPAT Growth	-374%	-2%	16%	11%
Normalized Net Profit Growth	77%	1%	16%	11%
EBITDA margin	22%	20%	20%	20%
EBIT margin	18%	16%	17%	17%
Normalized net profit margin	7%	6%	6%	6%
Effective tax rate	32%	30%	30%	30%
Liquidity				
Capex/depreciation (x)	0.3	0.3	0.3	0.3
Current ratio (x)	0.9	1.0	1.2	1.3
Quick ratio (x)	1.0	1.2	1.4	1.6
Receivable days	1.9	1.9	1.9	1.9
Payable days	119.2	118.2	117.2	116.2
Risk Measures				
Dividend Cover (x)	1.6	1.6	1.5	1.6
Payout ratio (%)	45%	65%	65%	65%
Net interest cover (x)	20.2	20.7	23.8	26.2
Net debt/equity (%)	-23%	-39%	-52%	-61%
Returns				
Return on Invested Capital	30%	25%	27%	27%
Return on Assets	11%	10%	10%	10%
Return on Equity	33%	29%	30%	30%
Share Data/Valuation				
Share Data				
Issued shares (m)	28.2	28.2	28.2	28.2
Weighted ave shares (m)	28.1	28.2	28.2	28.2
Fully diluted shares (m)	28.2	28.2	28.2	28.2
Basic EPS (c)	26.9	26.3	30.6	34.1
YoY change (%)	-374%	-2%	16%	11%
Fully diluted EPS (c)	26.9	26.3	30.6	34.1
YoY change (%)	-374%	-2%	16%	11%
Fully diluted normalised EPS (c)	26.0	26.3	30.6	34.1
YoY change (%)	77%	1%	16%	11%
Dividend/share (c)	17.0	17.0	20.0	22.0
Franking (%)	100%	100%	100%	100%
Gross cashflow/share (c)	34.1	30.7	35.1	38.6
NBV/share (c)	81.8	91.1	101.8	113.9
NTA/Share (c)	68.1	85.6	105.5	127.8
Valuation				
PER (Basic) (x)	11.9	12.2	10.4	9.4
PER (Fully diluted) (x)	11.9	12.2	10.4	9.4
PER (Fully diluted, normalized) (x)	12.3	12.2	10.4	9.4
P/CFPS (x)	9.4	10.4	9.1	8.3
Price/NBV (x)	3.9	3.5	3.1	2.8
Price/NTA (x)	4.7	3.7	3.0	2.5
Dividend Yield (%)	5%	5%	6.2%	7%
EV/EBIT (x, Ex. NCI)	5.9	6.1	5.3	4.8
EV/Revenue (x)	0.8	0.7	0.6	0.6
Other Information				
Estimated free float:				50%
12-mth High/Low (A\$/sh)				3.25/1.30
Average daily volume (A\$)				20.5k
ASX Code				JYC
Next result				Feb-22
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.				

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

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.

Euroz Hartleys Limited declares that they may have separately or jointly acted as an underwriter, arranger, co-arranger or adviser in equity capital raisings, and will have received a fee for its services, from or any company mentioned within this report during the last 12 months.

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.

Analyst Certification

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.

Contact Details

Euroz Hartleys Limited +61 8 9488 1400

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Mike Millikan - Resources Analyst	+61 8 9268 2805
Kyle De Souza - Resources Analyst	+61 8 9488 1427
Michael Scantlebury - Resources Analyst	+61 8 9268 2837
Steven Clark - Resources Analyst	+61 8 9488 1430
Trent Barnett - Senior Analyst	+61 8 9268 3052
Gavin Allen - Senior Analyst	+61 8 9488 1413
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
Seth Lizee - Associate Research Analyst	+61 8 9488 1414

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.