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Bonia Corporation

Wooring Younger Audience

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INVESTMENT MERIT

BONIA is poised for growth through a partnership with the Malaysian subsidiary of a leading Hong Kong based fashion retailer, focusing on the youth streetwear market. Furthermore, its shift to digital branding and boutique retailing aligns with the evolving consumer trends. Despite current subdued consumer sentiment, an improvement is expected in 2HCY24, influenced by clearer subsidy rationalization plans from the government. BONIA's net profit is projected to rise to RM47m in FY25, a 35% YoY increase from RM35m in FY24. An 'ADD' rating has been given to BONIA, with a fair value of RM1.98, representing a 30% discount to the sector leader's PER.

Embracing streetwear. BONIA is poised for expansion through a proposed collaboration with the Malaysian subsidiary of a prominent Hong-Kong based fashion retailer. This venture involves an initial equity investment of RM10m, granting BONIA exclusive distribution rights in Southeast Asia for a 10-year period (5+5 years). If the above venture materialises, BONIA is planning to focus on marketing apparel appealing to the younger demographic, particularly streetwear items priced between RM100 and RM300. This approach is in line with BONIA's objective to strengthen its position in the streetwear market, catering to its predominantly sub-40-year-old customer base.

Digital rebranding and demographic shift: BONIA has been harnessing the power of social media and digital marketing since FY19 to reshape its brand identity. This rebranding initiative has successfully aligned with the evolving age demographics of its customers. Currently, over 70% of BONIA's customer base is aged between 20 and 40 years, a significant shift from the previously dominant demographic of those aged 35 and above. This shift reflects BONIA's successful blend of classic elegance with contemporary design, offering a balance of physical and digital interactions. This change also mirrors a broader trend in consumer behaviour, with an increasing demand for brands that integrate digital experiences, lifestyle elements, and experiential engagement in their offerings.

Adapting to changing retail preferences: BONIA has noted a change in consumer spending patterns in recent years, especially among the younger demographic which now prefer boutique-style shopping over traditional department stores. Aligning with this trend, BONIA is expanding its boutique operations. As of the end of FY23, BONIA increased its boutique count to 101, up from 99 a year ago, while reducing its consignment counters from 301 to 244. This strategic shift is significant, with the boutique segment contributing 49% to BONIA's total turnover in FY23, surpassing the 37% from consignment. Additionally, BONIA is pivoting towards growing its brand distributorships, moving away from its previous focus on licensed business models.

	Rating	Fair Value
Last Price	-	RM1.68
Kenanga	ADD	RM1.98
Consensus	-	-

Stock Information

Shariah Compliant	Yes
Stock Name	BONIA CORPORATION BHD
CAT Code	9288
Industry	Consumer, Cyclical
Industry Sub-sector	Retail-Apparel/Shoe
YTD stock price chg	-6.7%
Market Cap (RM'm)	336.7
Shares Outstanding (m)	200.4
52-week range (Hi)	2.77
52-week range (Low)	1.64
3-mth avg daily vol:	171,905
Free Float	20%
Beta	1.4
Altman's Z-score	2.8

Major Shareholders

Bonia Holdings Sdn B	27.3%
Freeway Team Sdn Bhd	22.3%
Chiang Sang Sem	11.0%

Financials

FYE Jun (RM m)	2023A	2024F	2025F
Revenue	424.1	402.9	423.1
Gross Profit (GP)	257.9	245.8	262.3
Profit Before Tax (PBT)	79.7	44.3	59.2
Net Profit (NP)	62.6	35.0	47.4
EPS (sen)	31.2	17.4	23.6
EPS growth (%)	19	-44	35
BV/Share (RM)	2.1	2.2	2.4
PER (x)	5.4	9.6	7.1
Price/BV (x)	0.8	0.7	0.7
Net Gearing (x)	-0.1	-0.1	-0.1
DPS (sen)	12	8	10
Div Yield (%)	7.1	4.8	6.0

Quarterly Financial Data (RM m)

	3Q23	4Q23	1Q24
Revenue	95.1	98.9	96.4
Revenue Growth (QoQ)	-15%	4%	-3%
Gross Profit (GP)	58.7	59.3	59.2
GP Margin	62%	60%	61%
EBIT	15.5	17.9	14.2
EBIT Margin	16%	18%	15%
Net Profit	10.9	11.5	9.0
EPS	5.4	5.7	4.5
EPS Growth (QoQ)	-49%	6%	-22%

Navigating subdued consumer spending: BONIA is not overly concerned over the current soft consumer spending, owing to its strategic position as a premium yet affordable contemporary brand that bridges the luxury and mass market segments. With a diverse product portfolio catering to various generations and spending capacities, BONIA is well-equipped to navigate these challenging times. The company recognizes brand recognition as a crucial factor in this climate. Therefore, BONIA is committed to enhancing the appeal of its brands through continuous product innovation and targeted marketing campaigns, aimed at elevating brand awareness.

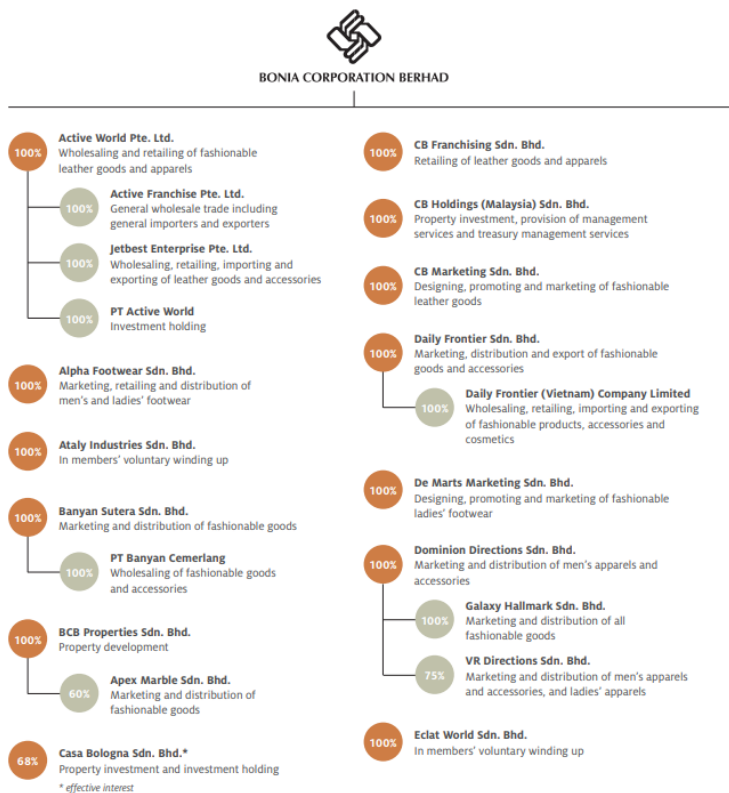
Forecasts. BONIA's revenue fell by 3.3% YoY to RM96.4m in 1QFY24, impacted by weaker consumer sentiment and inflation-related spending changes. The Group's PBT, meanwhile, reduced significantly by 38.5% to RM12.1m, no thanks to the increase in staff costs, higher depreciation from new boutiques, and rising finance costs due to increased borrowing. Consequently, with a higher taxation rate, the group's PAT dropped by 46% YoY to RM9.0m.

Moving forward, the current trend of weaker consumer sentiment is expected to continue through 1HCY24. Nevertheless, improvements are anticipated in 2HCY24 following more clarity from the authorities on the subsidy rationalization plan. For the full financial year, we expect BONIA to record a lower PAT of RM35.0m (-44% YoY) in FY24, with prospects of a recovery to RM47m in FY25 as consumer sentiment stabilised.

ADD rating with FV of RM1.98. We value Bonia at RM1.98, based on a targeted FY25F PER of 8.4x. This represents a 30% discount compared to the targeted 12.0x PER for the industry leader, Padini. We consider this discount reasonable, taking into account BONIA's comparatively smaller market capitalisation and turnover. There is no change to our TP based on ESG given 3-star rating as appraised by us (see Page 5).

Risks to our call include: (i) weaker-than-expected consumer sentiment, (ii) diminished demand for its current offerings and brand distributorship businesses, (iii) a shift towards to a less favourable mix of fashion products, and (iv) inability to raise prices to safeguard profit margins.

CORPORATE STRUCTURE



BUSINESS OVERVIEW

Being an expert of leather, BONIA offers wide range of leather goods including leather handbags, footwear and accessories for both ladies and gentlemen as well as other non-leather fashion item such as men's apparels. As an international luxury brand, BONIA has boutiques all around the world: Malaysia, Singapore, Thailand, Cambodia, Vietnam, Myanmar, Indonesia, Japan, Taiwan, Kuwait and Saudi Arabia.

BUSINESS SEGMENTS

- As of FY23, the boutique, consignment, outright/export, e-commerce and royalty income segments contributed 48.5%/36.7%/8.8%/4.9% and 1.1%, respectively, to the group's total revenue.
- In terms of store distribution, the group has scaled back its consignment segment, reducing the number of counters to 244 in FY23 from 301 in the previous year. Meanwhile, the number of its boutique stores has increased to 101, up from 99 in the prior year.
- In FY23, BONIA brand led revenue contributions with 45%, followed by BRAUN BUFFEL at 35%, SEMBONIA at 9%, and licensed brands comprising the remaining 11% of the group's total turnover.



BONIA CORPORATION BERHAD



Source: Company

Daily Charting – Bonia Corp. Bhd



Comment:

BONIA has been in an extended consolidation period, fluctuating between RM1.66 and RM2.00 since June 2023, after reaching a high of RM2.83 in February of that year. Despite the stochastic indicator moving into oversold territory, the stock is likely to continue its sideways trading pattern. If BONIA falls below its consolidation range's lower limit of RM1.66, it may enter a new downtrend. Alternatively, a strong breakout above RM1.76, its long-term downward trend line, could lead to it testing its key 200-day resistance at RM1.86. A clear break above this resistance level would suggest the beginning of a new upward trend.

Source: Kenanga Research

About the stock:

Name : BONIA CORPORATION BHD
Bursa Code : BONIA
CAT Code : 9288

Key Support & Resistance level

Resistance : RM1.76 (R1) RM1.86 (R2)
Support : RM1.66 (S1) RM1.53 (S2)
Outlook : Neutral

Appendix
ESG Ratings

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	☆		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	☆	
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	★		
SPECIFIC	Product Quality & Safety	★	★	★	☆	
	Effluent/Waste Management	★	★	☆		
	Digitalisation & Innovation	★	★	☆		
	Use of Biodegradable Materials	★	★	★		
	Supply Chain Management	★	★	☆		
	Energy Efficiency	★	★	★	☆	
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Source: Kenanga Research

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