15 January 2024

Consumer Cyclical | Consumer Products

Synergy House (SYNERGY MK)

Buy (Maintained)

Strong Synergy With Online Sales; Initiate BUY

Target Price (Return):	MYR1.08 (+57%)
Price (Market Cap):	MYR0.69 (USD74.2m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	1.84m/0.39m

- **Initiate BUY with MYR1.08 TP, 57% upside with c.3% FY24F yield.** Synergy House stands out from other listed furniture players with its asset-light model – focusing on design and primarily selling online (80% of 9MFY23 sales). This spares it from high overhead costs and allows it to be versatile and quick in adapting to market changes. With a FY24F ROE of 32%, we believe its current valuation is compelling – it is trading at a low FY24F PEG ratio of 0.29x and at a steep discount to the peer average.
- **Set apart from other listed furniture players.** Synergy has evolved from a furniture manufacturer in 1990 into a pure-play furniture distributor that fully outsources manufacturing works. Thanks to its asset-light business model (operating in lower-cost Asian nations like Malaysia), the group can now channel all resources into design & development (D&D) – from 360 designs in 2019 to a whopping 2,500 as of Dec 2023. As Malaysia's only cross-border e-commerce furniture distributor, Synergy has a foothold in the US, the UK, and United Arab Emirates (UAE) via its ready-to-assemble (RTA) furniture exports. These are considered affordable fast-moving consumer goods (FMCG).
- **Business-to-consumer (B2C) sales to eclipse business-to-business (B2B) sales.** In response to the furniture stock oversupply, the group stands out from peers by implementing product differentiation strategies across various markets and platforms. As of 9M23, B2C sales grew to 43% of total sales (FY22: 25.6%). Note: Around 80% of total B2C designs are generating healthy recurring monthly sales on reputable third-party e-commerce platforms. By mirroring its Wayfair US success in other platforms, the group's higher-margin B2C sales is on track to reach 70% of total sales by 2025. Going forward, Synergy is setting B2C footprints in new markets, including Germany and France.
- **High exposure to online sales.** Synergy has adeptly steered over 80% of its customer base and total sales into the rapidly expanding e-commerce realm. This includes not only its B2C segment but also a significant portion of its B2B customers, with approximately 65% engaging in online furniture retail. The group's focus on online sales is timely, as online furniture sales growth (2022-2028 CAGR of 12.6%) has recently surpassed traditional physical store sales growth. Major platforms like Wayfair and Amazon – where Synergy has a strong presence – dominate this sector, contributing significantly to the global market. The US, Synergy's primary market, drives this growth with its high population, spending power, and digital infrastructure that is conducive to online shopping.
- **Exponential earnings growth.** Coupled with its expansion plans, Synergy is forecasted to grow at a 3-year earnings CAGR of 38.1%. We peg a FY24F P/E of 15x to arrive at a MYR1.08 TP. Key downside risks include: i) Dependency on third-party manufacturers, ii) absence of long-term contracts with B2B customers, iii) competition risk, and iv) high exposure to FX fluctuations.

Forecasts and Valuation	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	194	271	356	454
Recurring net profit (MYRm)	17	27	36	46
Recurring net profit growth (%)	(5.8)	56.5	33.2	28.1
Recurring P/E (x)	19.98	12.77	9.58	7.48
P/B (x)	7.4	3.5	2.8	2.2
P/CF (x)	17.66	24.58	13.80	10.64
Dividend Yield (%)	1.7	2.3	3.1	4.0
EV/EBITDA (x)	13.01	8.26	6.58	5.03
Return on average equity (%)	41.2	36.3	32.2	32.8
Net debt to equity (%)	76.7	0.3	net cash	net cash

Source: Company data, RHB

Analyst

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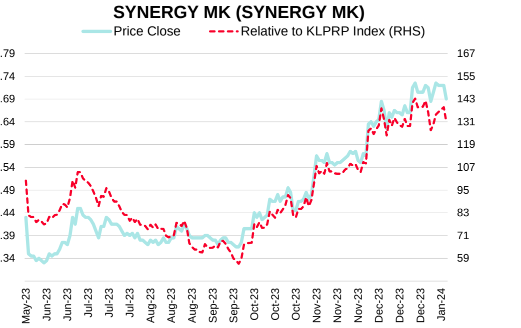
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.1)	10.4	48.4	68.3	0.0
Relative	(5.7)	3.9	47.0	43.6	0.0
52-wk Price low/high (MYR)					0.33 – 0.73



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: EXCELLENT
Synergy uses particle board which does not contribute to more deforestation, as the raw material of its home furniture sold is certified by the Forest Stewardship Council (FSC).

S: MODERATE
Synergy promotes good health and a healthy working environment by having constant company events and weekly sports activities among staff. It also makes donations to aid different parts of society.

G: GOOD
Synergy has a comprehensive framework to help detect and prevent bribery and corruption. The group also has an internal controls policy that includes a code of conduct declaration by all employees, as well as mandatory learning to educate staff on business ethics.

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia
Malaysia
Consumer Cyclical
Synergy House
SYNERGY MK
Buy

Valuation basis

15x P/E on FY24F EPS

Key drivers

i. Different from other listed furniture players;
ii. B2C sales to eclipse B2B sales;
iii. High exposure to online furniture sales.

Key risks

i. Dependent on third-party manufacturers;
ii. Absence of long-term contracts with B2B customers;
iii. High exposure to foreign exchange fluctuation;
iv. Competition risk.

Company Profile

Synergy House is a cross-border e-commerce seller and furniture exporter that specialises in aesthetically pleasing designs which are affordable, as well as ready-to-assemble (RTA) home furniture.

Financial summary (MYR)	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring EPS	0.03	0.05	0.07	0.09
DPS	0.01	0.02	0.02	0.03
BVPS	0.09	0.20	0.25	0.31
Return on average equity (%)	41.2	36.3	32.2	32.8

Valuation metrics	Dec-22	Dec-23F	Dec-24F	Dec-25F
Recurring P/E (x)	19.98	12.77	9.58	7.48
P/B (x)	7.4	3.5	2.8	2.2
FCF Yield (%)	2.9	3.3	6.2	8.4
Dividend Yield (%)	1.7	2.3	3.1	4.0
EV/EBITDA (x)	13.01	8.26	6.58	5.03
EV/EBIT (x)	13.82	8.66	6.86	5.20

Income statement (MYRm)	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover	194	271	356	454
Gross profit	46	77	107	141
EBITDA	29	42	51	64
Depreciation and amortisation	(2)	(2)	(2)	(2)
Operating profit	28	40	49	62
Net interest	(3)	(3)	(2)	(1)
Pre-tax profit	23	36	47	61
Taxation	(7)	(10)	(11)	(15)
Reported net profit	17	26	36	46
Recurring net profit	17	27	36	46

Cash flow (MYRm)	Dec-22	Dec-23F	Dec-24F	Dec-25F
Change in working capital	0.0	(17.1)	(14.7)	(17.2)
Cash flow from operations	19.5	14.0	25.0	32.4
Capex	(9.7)	(2.5)	(3.5)	(3.5)
Cash flow from investing activities	(14.7)	(2.5)	(3.5)	(3.5)
Dividends paid	(5.9)	(7.9)	(10.8)	(13.8)
Cash flow from financing activities	(3.6)	6.7	(12.5)	(15.1)
Cash at beginning of period	21.5	27.4	45.7	54.7
Net change in cash	1.3	18.3	9.0	13.8
Ending balance cash	27.4	45.7	54.7	68.5

Balance sheet (MYRm)	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total cash and equivalents	27	46	55	69
Tangible fixed assets	55	55	57	58
Total assets	131	178	210	250
Short-term debt	25	18	18	18
Total long-term debt	38	28	28	28
Total liabilities	85	79	86	93
Total equity	46	99	124	157
Total liabilities & equity	131	178	210	250

Key metrics	Dec-22	Dec-23F	Dec-24F	Dec-25F
Revenue growth (%)	5.3	39.5	31.5	27.5
Recurrent EPS growth (%)	(5.8)	56.5	33.2	28.1
Gross margin (%)	23.9	28.3	30.2	31.0
Operating EBITDA margin (%)	15.1	15.4	14.3	14.1
Net profit margin (%)	8.6	9.8	10.1	10.2
Dividend payout ratio (%)	35.5	30.0	30.0	30.0
Capex/sales (%)	5.0	0.9	1.0	0.8
Interest cover (x)	8.07	12.16	19.34	24.44

Source: Company data, RHB

Investment Thesis

Online shopping trend by the growing Generation Z (Gen Z) population. Synergy has successfully carved out a significant presence in the furniture industry by focusing on online e-commerce sales, where over 80% of its business is concentrated. This includes not only its B2C segment but also c.65% of its B2B clients which also engage in online furniture sales. The online furniture market is booming, and its value is projected to double from USD95.35bn in 2022 to USD194.33bn by 2028 (Business Growth Reports, Jul 2023). As shown in Figure 1, online furniture sales growth (2022-2028 CAGR of 12.6%) recently surpassed physical stores' sales growth. Wayfair, a major player in the industry and Synergy's top customer, has contributed greatly to this success – reflecting the industry's shift from traditional brick-and-mortar stores to digital platforms. In this competitive landscape, Wayfair and Amazon stand out, collectively holding over 20% of the global market share, with the US leading the charge with 45% (Figure 2). The group's strategic alignment with the growing online furniture shopping trend, particularly in the US market, places it at a sweet spot. The convenience, variety, and technological advancements like augmented reality in online shopping, appeal to the younger, tech-savvy demographic and is further emphasised by the COVID-19 pandemic's influence on shopping behaviour.

Products with affordability and quick turnaround time. RTA furniture is known for its affordability and caters to consumers who prefer to update furnishings frequently, offering a quick turnaround time for product changes. The RTA furniture market has seen substantial growth, with its value increasing from USD12.3bn in 2018 to approximately USD13.9bn in 2022. Projections by market researchers IMARC Group suggest it will reach USD19.1bn by 2028. Synergy's focus on RTA furniture is in line with the preferences of younger consumers in the US, the UK, and the UAE, who increasingly opt for rental living due to economic constraints, ie high house prices and mortgage challenges. This demographic, often mobile and living in smaller urban spaces, finds RTA furniture appealing for its affordability, style, and ease of assembly and disassembly – fitting their transient lifestyles. The growth of e-commerce further attracts Gen Z – tech-savvy consumers who value the convenience of comparing and purchasing furniture online. RTA furniture, catering predominantly to the rental market, remains resilient and maintains its appeal with affordable options during economic downturns and recessions – relevant in this global economic climate of slowdowns and high interest rates.

Higher-margin B2C business to eclipse B2B business. In addition to the steady B2B business growth, Synergy distinguishes itself from traditional retailers by embracing an innovative "new retail" model through its burgeoning B2C cross-border e-commerce segment – by direct-selling furniture products on international third-party e-commerce platforms. Synergy's B2C sales achieved a 3-year CAGR of 192.2% (FY19-22). As of 9M23, B2C sales contributed 43% of total sales, ie a substantial increase from 25.6% in FY22, and has already exceeded the previous year's total by MYR27.5m. Over 80% of Synergy's B2C designs are successfully generating consistent monthly sales across the global platforms. Its performance on other major international platforms has been formidable, with sales in the first nine months of FY23 more than triple the total sales clocked in FY22. This success attests to the group's deep market insight and ability to replicate Wayfair US platform's success across other venues. Recent trends indicate that the UK market is set to become Synergy's second-largest market, as evidenced by the 135% and 55% QoQ growth in Wayfair UK and Amazon UK in Q3FY23. In tandem with the expansion of store-keeping units (SKUs) and platforms with higher recurring sales, Synergy is targeting c.70% of its total sales from its B2C business (which commands higher GPM of 36%, 14% higher than its B2B business) by 2025.

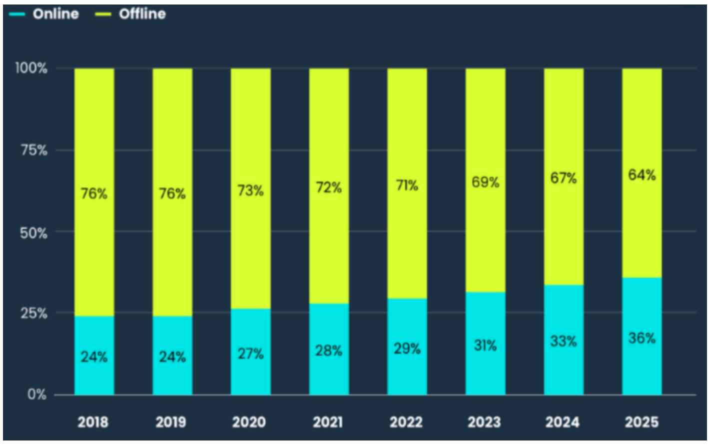
Presence in nations with higher purchasing power. According to *GlobeNewswire*, the cross-border B2C e-commerce market is projected to hit USD6.59trn at a CAGR of 27.3% by 2030. North America (including US and Canada) dominates this market, accounting for 45.8% of global market share in 2022. This is followed by Europe, where Synergy is aiming to expand, in the near future. The group is in a sweet spot as more than 85% of its B2C sales are generated from the North America market. In addition, the selection of the US, the UK, and the Middle East as target markets is strategic. These regions not only have stronger currencies relative to Malaysia, but also higher purchasing power than most countries, including ASEAN nations. Moreover, the US and Middle East, in particular, have large populations, providing a larger potential customer base. The US accounts for approximately 4.25% of the global population, while the collective population of the Middle East countries makes up 5.7%.

In the sweet spot of the US-China trade war. As the US enforced an anti-dumping duty on China-made wooden bedroom furniture – Synergy's main product – the group has come out with its specialised bedroom designs and tested capabilities by selling its furniture on the US' biggest online home stores Wayfair and Amazon since 3Q20 and 3Q19.

Synergy is working on extending its product offerings to include bathroom and kitchen furniture – segments for which the US enforces import taxes on China-made products.

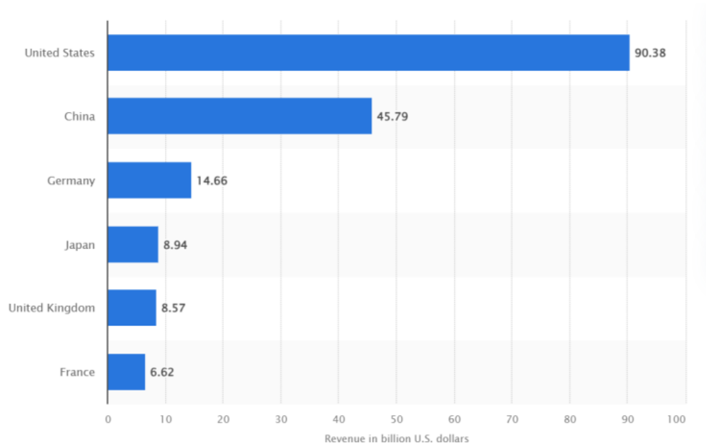
New product order for the B2B business. On the B2B front, Synergy recently made significant strides by securing a new product order for drawers with an interlocking system from Customer A, catering to an American multinational hypermarket company. The initial order, successfully delivered in 4Q23, is expected to lead to recurring orders until at least FY24. This development comes in the wake of the US Consumer Product Safety Commission (CPSC) enforcing a new safety standard for clothing storage units to prevent injuries and deaths as a result of such units tipping over. The safety standard mandates the requirement for interlocks in clothing storage units, and is well-aligned with Synergy's latest product offering. In general, B2B sales are set to grow steadily with the group's long-term relationships with customers in the US, the UK and UAE. Management sees higher sales forecast orders from existing B2B customers.

Figure 1: Online vs offline furniture sales



Source: Statista

Figure 2: Furniture e-commerce market revenue worldwide in 2023, by country (in USDbn)



Source: Statista

Valuation & Recommendation

We initiate coverage on Synergy with a BUY recommendation and TP of MYR1.08. We derive our MYR1.08 TP, which reflects a P/E of 15x on FY24F earnings. The ascribed P/E is at a 20% discount to the international furniture players' P/E mean, and points to the company's large exposure to online sales, due to its smaller market capitalisation. We also notice that its locally-listed peers, who are mainly distributing RTA furniture (namely Spring Art Holdings, Ecomate Holdings, and Heveaboard) are trading at premiums compared to other furniture players (Figure 3). It's worth noting that Synergy is also involved in RTA furniture. The significance here is that RTA furniture, known for its affordability and quick turnaround, is more recession-proof. In addition, the group's expected profit growth is more exciting than that of most local peers. We also highlight its superior ROE (FY23F: 36%). Synergy is trading at a modest FY24F PEG of 0.29x, compared to the local and international peer averages of 0.7x and 0.9x. This is unwarranted, as Synergy's exciting growth prospects are not priced in.

Figure 3: Peer comparison

Company	Country	FYE	Mkt cap (USDm)	Price 12-Jan-23	P/E (x)			Div. yld (%)	ROE (%)	EV/ EBITDA	NP growth (%)		PEG
				(Local currency)	Actual	1-yr fwd	2-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd	1-yr fwd	2-yr fwd	
Synergy	MA	12/2023	74.2	0.69	20	12.8	9.6	2.2	36.3	8.3	54.2	33.2	0.29
Local furniture players													
SPRING ART HOLDINGS*	MA	12/2023	17.9	0.20	36.2								
ECOMATE HOLDINGS*	MA	02/2024	55.1	0.72	39.5								
HEVEABOARD*	MA	12/2023	42.0	0.35	19.8	-39.3	50.4	2.9	21.4	3.8	-150.3	-178.0	na
LII HEN INDUSTRIES	MA	12/2023	109.2	0.94	6.4								
POH HUAT RESOURCES HLDGS	MA	10/2024	75.8	1.33	12.9	8.9	8.2	5.6	21.4	0.9	44.5	7.9	1.0
HOMERITZ CORP	MA	08/2024	51.8	0.52	9.0	9.4	8.7	3.8	20.9		-4.6	8.4	1.0
WEGMANS HOLDINGS	MA	12/2023	23.1	0.20	5.1								
RHONG KHEN INTERNATIONAL	MA	06/2024	52.0	1.24	10.3	20.8	15.9	1.5	21.4	0.3	-50.2	30.8	0.5
MOBILIA HOLDINGS	MA	12/2023	24.9	0.17	9.3								
SWS CAPITAL	MA	12/2023	17.6	0.27	29.5								
SHH RESOURCES HOLDINGS	MA	06/2024	30.3	1.41	36.7								
Mkt. cap weighted avg.			**61.2**		**16.6**	**2.7**	**18.1**	**3.7**	**21.3**	**1.1**	**-26.1**	**-21.8**	**0.7**
Simple average			**45.4**		**19.5**	**0.0**	**20.8**	**3.5**	**21.3**	**1.7**	**-40.2**	**-32.7**	**0.9**
*local players involved in RTA furniture													
International peers – large exposure in online furniture sales													
WILLIAMS-SONOMA INC	US	01/2024	12979.0	202.34	11.5	13.8	14.0	1.8	21.5	8.3	-16.5	-1.6	na
ZHIOU HOME FURNISHING TECH-A	CH	12/2023	1394.5	24.88	37.5	25.2	20.5	na	75.2	16.3	48.7	23.1	0.9
TEMPLE & WEBSTER GROUP LTD	AU	06/2024	725.3	8.80	129.8	202.2	117.9	na	74.5	95.2	-35.8	71.5	1.6
SUOFEIYA HOME COLLECTION C-A	CH	12/2023	2090.6	15.55	13.2	11.4	9.9	4.8	21.5	7.0	16.0	14.8	0.7
Mkt. cap weighted avg.			**10197.9**		**18.8**	**22.4**	**18.4**	**1.9**	**28.1**	**12.4**	**-8.1**	**5.5**	**0.9**
Simple avg.			**4297.4**		**48.0**	**63.2**	**40.6**	**3.3**	**48.2**	**31.7**	**3.1**	**26.9**	**1.1**

Source: Bloomberg, RHB

Financial Overview

Synergy achieved a 3-year revenue CAGR of 20.3% between FY19 and FY22, driven by the commendable growth from both the B2B and B2C businesses. Sales from the former have shown positive growth from FY19 to FY21 – derived from the incoming of and substantial contributions from a new customer – Hillsdale Furniture (Hillsdale) – as well as higher sales orders from existing customers. Hillsdale – a US-based wholesaler – became a customer in FY20. During FY21 and FY22, it became the group's biggest and second-largest customer.

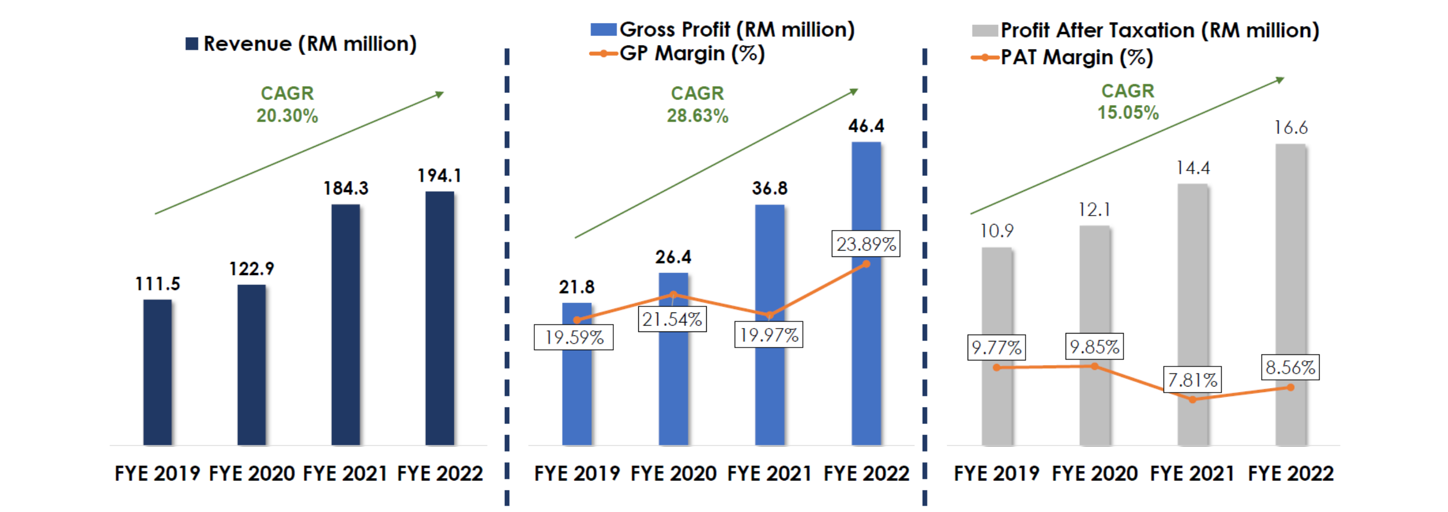
Despite the global normalisation of e-commerce sales post COVID-19 – as furniture buyers began frequenting brick & mortar stores again – Synergy's B2C sales managed to achieve a 3-year CAGR (FY19-22) of 192.2%. The exponential growth was led by Wayfair's e-commerce platform focusing on the US, Canadian, and the UK markets, as well as through local third-party e-commerce platforms, ie Shopee and Lazada.

Wayfair US has now emerged as the most lucrative platform for Synergy, accounting for 76.4% of 9M23 B2C total sales, with over 660 SKUs offered – about 92% of which are generating recurring sales after extensive testing on the platform. Since initiating sales on Wayfair US in 2020, Synergy has witnessed remarkable growth, skyrocketing from MYR1.16m in FY20 to MYR37.2m in FY22. This growth trajectory translates to an impressive 2-year sales CAGR of 466.3%, although 3Q23 experienced a 9% dip when compared to 2Q23 – likely due to the seasonal impact of the summer holiday period.

In tandem with the growth in revenue, Synergy charted a 3-year earning CAGR of 15.1% between FY19 and FY22. There was a dip in PAT margins from 9.9% in FY20 to 7.7% in FY21, though, mainly attributable to the weakening of the USD against the MYR and higher outsourced manufacturing costs due to a shortage of furniture raw materials – brought about by global supply chain disruptions.

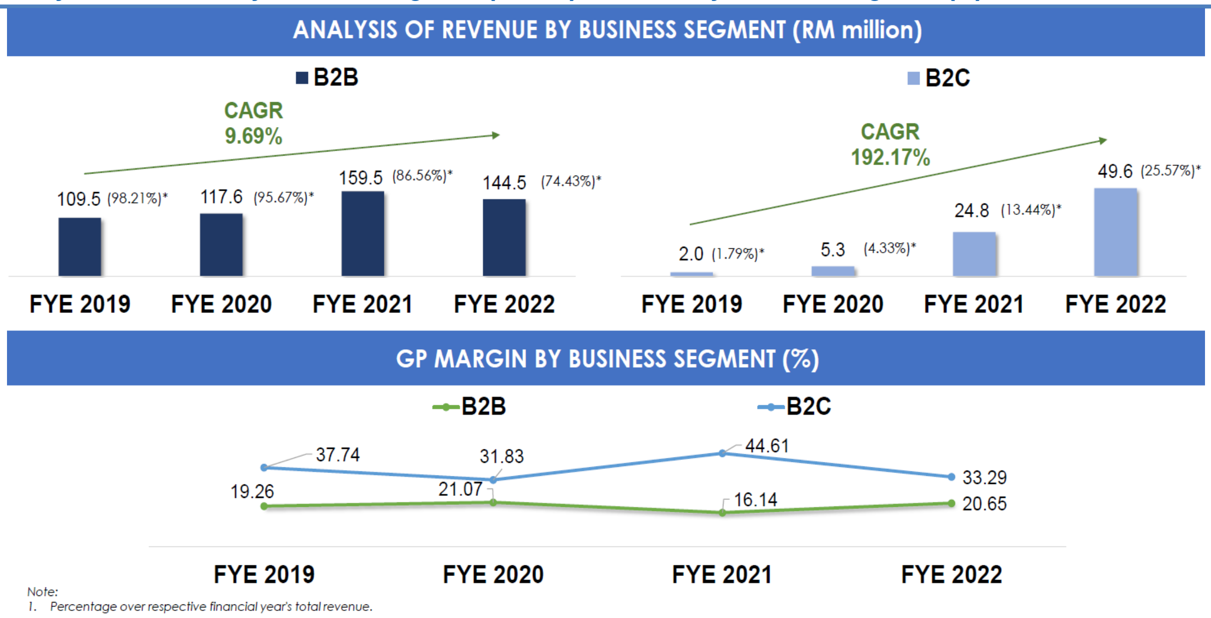
There was also YoY dip in its FY22 B2C business, – mainly due to higher promotions and discounts for that year to increase sales. This was because the group had just started in some new markets, and wanted to attract buyers and create brand awareness.

Figure 4: Revenue, gross profit, and profit after tax (FY19-22)



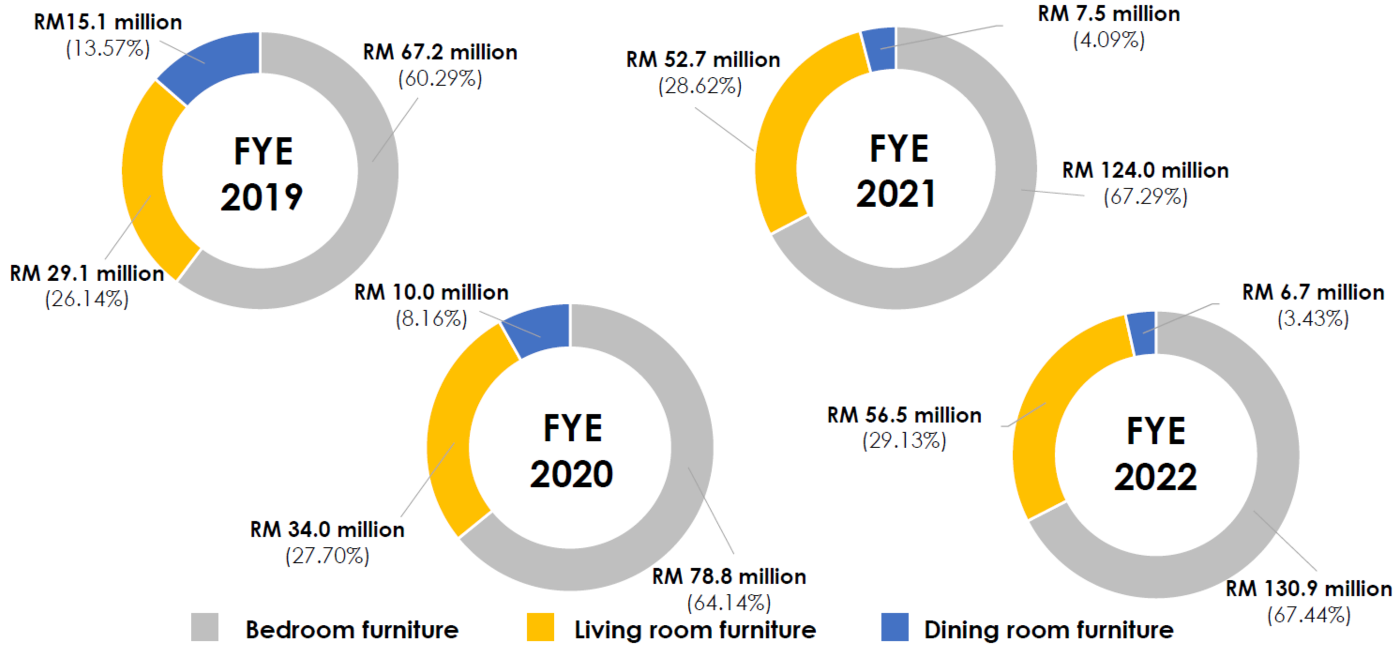
Source: Company data

Figure 5: Analysis of revenue by business segment (MYRm) and GPM by business segment (%)



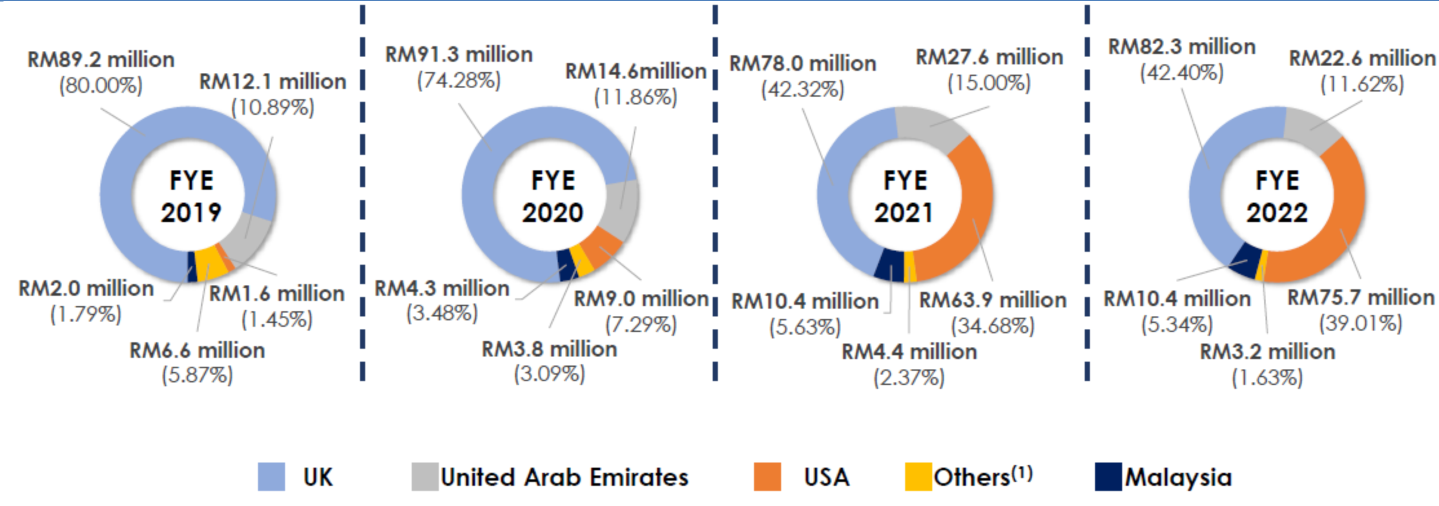
Source: Company data

Figure 6: Analysis of revenue by product categories (MYRm)



Source: Company data

Figure 7: Analysis of revenue by geographical market (MYRm)



Remarks:
1. Others comprise of Ireland, Australia and Asian countries, i.e. Indonesia, India, Thailand, Singapore, and Lebanon.
2. The percentages may not add up due to rounding.

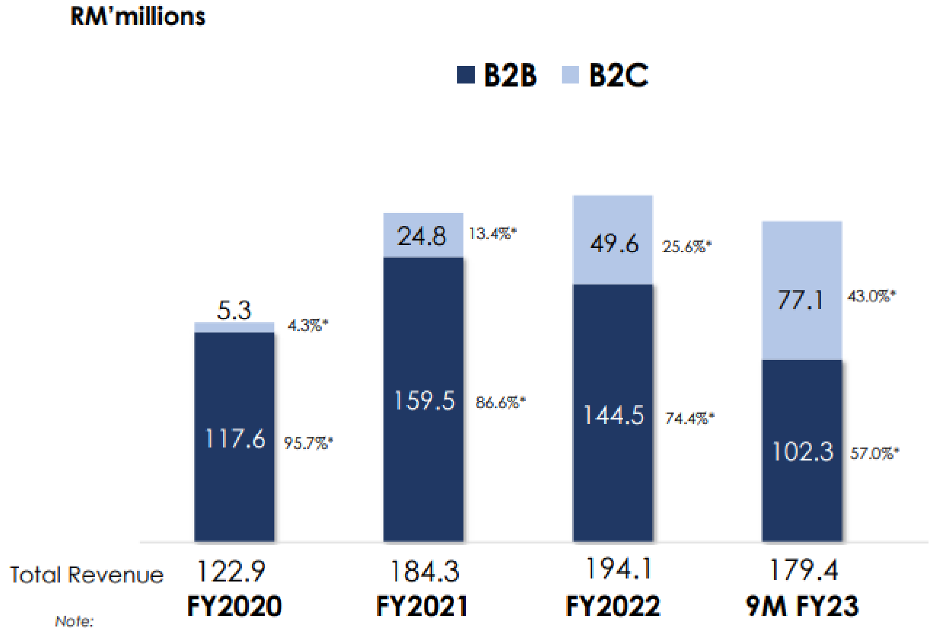
Source: Company data

Synergy registered a revenue of MYR69.2m in 3Q23 (+18.2% QoQ), which took 9M23 revenue to MYR179.4m. The QoQ increase was contributed by the QoQ rise in sales, particularly in B2B at MYR42.7m (+33% QoQ; mainly from the US and the UK) while B2C sales remained the same at MYR26.5m. Specifically, the US remains the top contributor to the group's revenue base, accounting for 46.7% of Synergy's 9M23 topline.

Another bright positive: 9M23 B2C sales stood at MYR77.1m. This exceeded FY22's total 12-month B2C of MYR49.6, which is in line with the group's aim to grow B2C sales. Note: The latter commands c.10% higher GPMs vis-à-vis the B2B segment.

Overall PAT saw an increase of 30.2% QoQ, but PAT margins only saw a shy increase of just over 1% from 10.6% in 2Q23 to 11.7% in 3Q23. The stable PAT margins were mainly attributable to steady freight costs and cost of purchases QoQ. On another side note, there was a favourable FX rate, where the weighted average rate was higher by 2% QoQ.

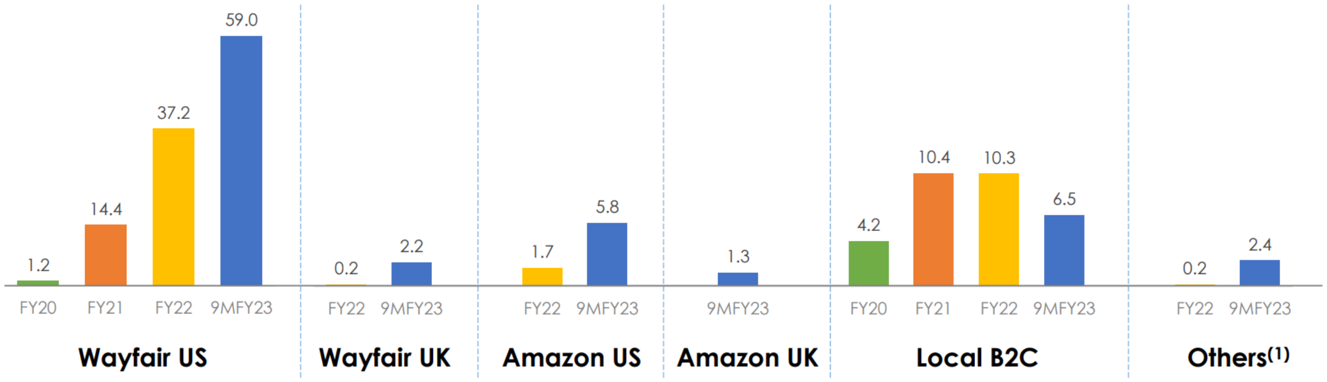
Figure 8: Analysis of revenue by product category (MYRm)



Note:
1. Percentage over respective financial year's total revenue.

Source: Company data

Figure 9: B2C breakdown by key platform (MYRm)



Source: Company data

Forecasts. Synergy's B2C sales are characteristically seasonal, peaking in the final quarter of the calendar year to align with the Western world's festive period. Despite a weaker USD/MYR QoQ, the outlook for 4Q23 remains promising – supported by an advantageous revenue mix. This trend underlines Synergy's adept market positioning and strategic sales timing – particularly during key retail periods.

We project a 3-year revenue CAGR of 32.8% on a stable B2B business and exponential growth of the B2C division. This projection is based on: i) Assumptions of a USD/MYR FX rate of 4.4, ii) a continued doubling of B2C sales across most platforms in the coming year, iii) maintenance of existing B2B customer orders without reductions, iv) no major delay of shipments by B2B customers, and v) no major reduction in the selling prices of its products.

We are assuming an average GPM of 22% and 36% for Synergy's B2B and B2C segments. We also expect the group's B2C business, which commands higher margins, to grow from 45% in FY23 to 64% in FY25. Improvements in the revenue mix should boost PATM to 10.2% by FY25, in our estimation.

We forecast a 3-year earnings CAGR of 38.1%. This is as Synergy continues to focus on expanding its B2C sales – which command higher GPMs of c.36% – while it looks to tap into the recovery in consumer spending in FY24. This projected 3-year earnings CAGR of 38.1% is based on several key assumptions: i) A USD/MYR currency exchange rate of 4.40, ii) a continued doubling of B2C sales across most platforms in the coming year, and iii) no major fluctuations in the cost of raw materials, particularly wood. These assumptions paint a promising picture for Synergy's financial trajectory, underpinning the forecasted growth rate.

Healthy balance sheet. With its earnings growth, we expect the group to stand at net cash positions of MYR8.7m and MYR22.5m in FY24 and FY25. We do not rule out the possibility of any acquisition activities in view of the estimated high net cash position in FY25.

Sensitivity analysis. Synergy has c.30% of its total costs (comprising freight costs, advertisements on platforms, outbound charges, overseas warehouse charges, platform charges, and c.17% of raw materials) and records c.96% of sales in USD terms. The rest are mostly in MYR. According to our sensitivity analysis, a 1% strengthening of the USD against the local currency will lead to a 6% increase in earnings and vice versa for FY24.

Dividends. Although there is no dividend policy, Synergy has been consistently paying dividends between 19.6% and 110.7% over the last four FYs. With its high earnings growth, we assume a dividend payout of 30%, which indicates a FY24F yield of 3.1%.

Company Overview

Synergy, initially a furniture manufacturer in 1990, has successfully transformed into a furniture distributor focusing on D&D. This shift to a distribution model has led to a significant increase in product designs, from 360 in 2019 to 2,500 by Dec 2023. The Malaysia-based group uses online platforms to sell globally, eliminating the need for physical stores in different countries. This strategy makes Synergy unique in Malaysia and positions the group against international e-commerce and furniture distributor peers.

Synergy collaborates with local furniture manufacturers for production, turning potential competitors into partners. This allows the group to concentrate on design and distribution while manufacturers handle production. Operating from a cost-effective Malaysia, Synergy's strategy minimises overheads and allows for quick adaptation to market changes and customer preferences, especially through e-commerce. In short, the group's evolution showcases a modern approach to international trade, combining collaboration and internet use to strengthen its global market presence.

Synergy is a public listed company on the ACE Market. The group, along with its subsidiaries, is a cross border e-commerce seller and furniture exporter that specialises in aesthetically pleasing home furniture designs that are affordable and RTA. Synergy outsources all manufacturing for its home furniture offerings to third-party manufacturers according to its requirements, only focusing on D&D and sale of its RTA home furniture.

As of Dec 2023, 2,500 home furniture designs have been made available for sale to consumers. The group focuses on B2B and B2C business models, selling its RTA home furniture to chain store retailers, online retailers, and wholesalers via a B2B sales model. It also undertakes direct sales to end-consumers through its in-house online store and third party e-commerce platforms via the B2C sales model. Synergy's products that have been sold to online retailers are – in due course – sold through the respective e-commerce platforms to end-consumers. Moreover, several chain store retailers carry the group's furniture for sale to end-customers through the latter's respective e-commerce platforms or physical stores. Synergy also stands out by implementing distinct product differentiation strategies for its B2B and B2C segments, developing unique designs for various platforms and markets.

The group's current B2C e-commerce presence spans several key platforms, including Wayfair US, Amazon US, Wayfair UK, Amazon UK, Wayfair Canada, Cenports Commerce, Mano-Mano UK, Lazada Malaysia, and Shopee Malaysia. As an independent e-commerce seller, Synergy exercises control over its product range and pricing, which helps it adapt to market changes and mitigate risks like currency fluctuations – this is as 96% of its sales are in USD.

The group's business operations are based in Malaysia and it serves a regional and international customer base. Its principal markets include the UK, US, UAE, Malaysia, and others.

Its sales are generated from:

i. **Export market (94.7% of FY22 revenue).** Exports made up the majority of Synergy's FY22 revenue. The group's B2C sales model allows it to capitalise on the ever-progressing global furniture e-commerce market. Furniture e-commerce has been gradually gaining attention as consumers realise the convenience of browsing and purchasing furniture online. Synergy ensures it remains amongst the top players in the industry by establishing networks and long-term relationships with customers. This segment consists of:

   a) **The UK (42.4% of FY22 revenue).** The UK is the biggest consumer of the group's home furniture. Two of its major customers for FY22 are online retailers from this country and have had close business ties with Synergy for many years. As of 2023, Shop Direct Home Shopping and Studio Retail have maintained 20- and 11-year business relationships with the group;

   b) **The US (39% of FY22 revenue).** Two of Synergy's major customers in FY22 were from the US, ie Hillsdale and Wayfair – both have 3-year business relationships with the group;

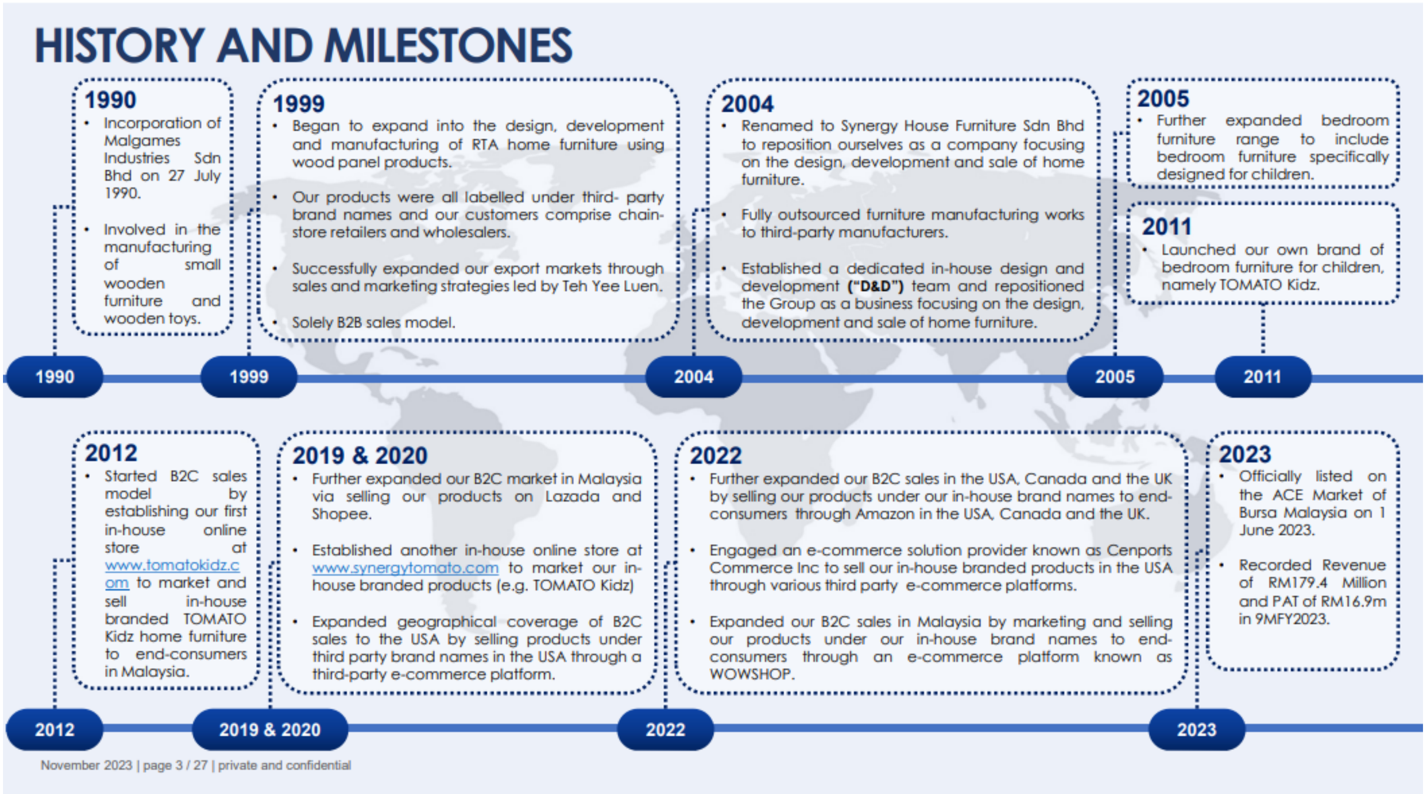
   c) **UAE (11.6% of FY22 revenue).** The last large contender among Synergy's major consumers is a chain-store retailer from the UAE, RNA Resources Group, which has maintained a close to 7-year business relationship with the group as of 2023;

   d) **Others (1.6% of FY22 revenue).** These include customers from Australia, Ireland, Singapore, Thailand, Indonesia, India, and Lebanon, among others;

ii. **Domestic market (5.3% of FY22 revenue).** As of 2023, Synergy's domestic market is not as strong as its international customer base. Its B2C model includes third-party e-commerce platforms such as Shopee, Lazada, and Amazon. The group has plans to expand its customer reach by focusing on a new target market, as well as selling and listing more product options and adding more third-party e-commerce platforms.

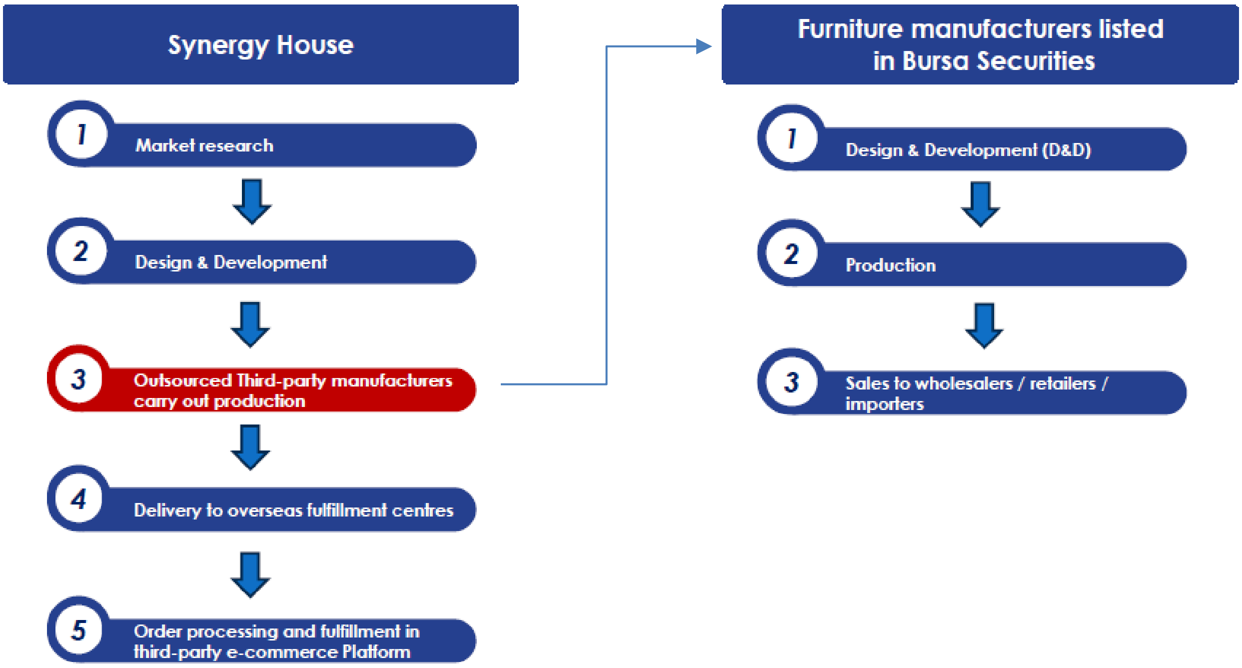
Synergy is led by a team of accomplished directors and senior management. Leading the group are Non-Independent Executive Directors Tan Eu Tah and Teh Yee Luen – both have more than 20 years of experience in the furniture industry. Kenneth Ng Boon Kean is Synergy's CFO and has 13 years of work experience in the finance and accounting industries. With 20 years of work experience in the marketing industry, Tan Yee Chi acts as the group's marketing director.

Figure 10: Synergy's history and milestones



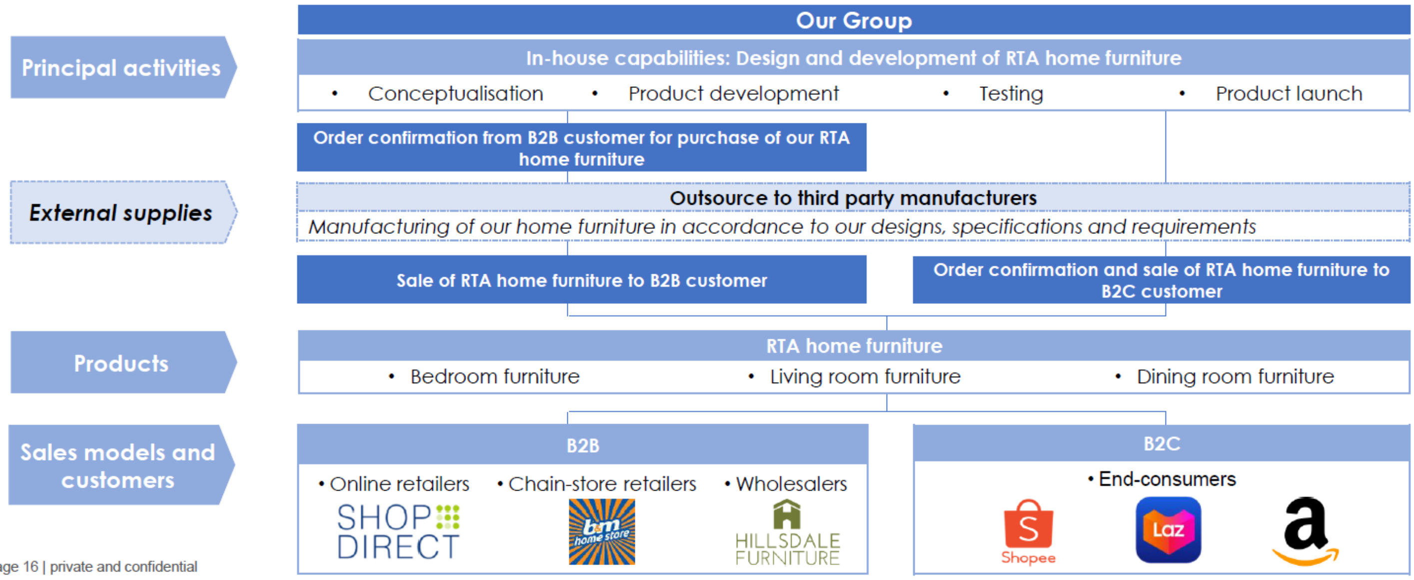
Source: Company data

Figure 11: Synergy's value proposition



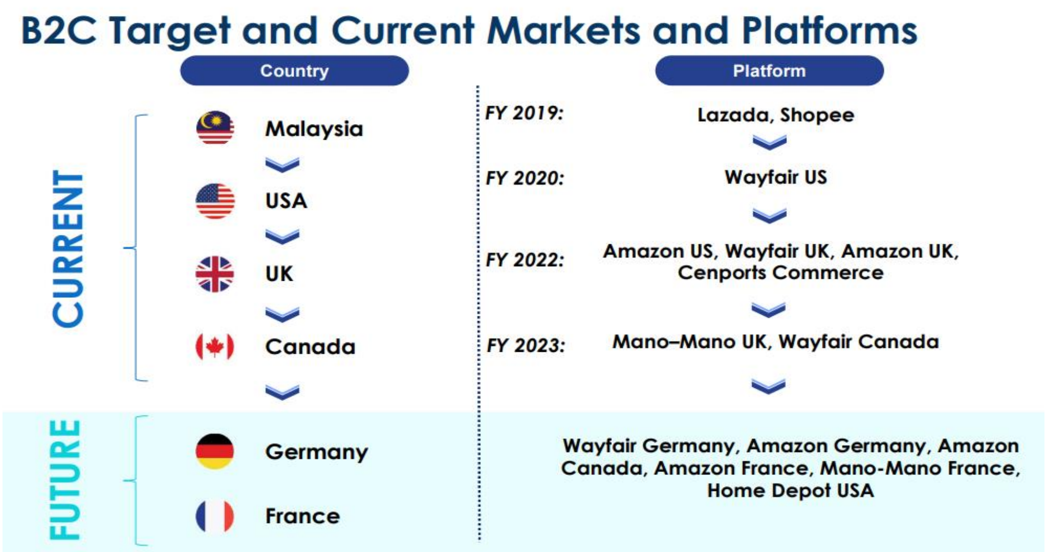
Source: Company data

Figure 12: Synergy's business model



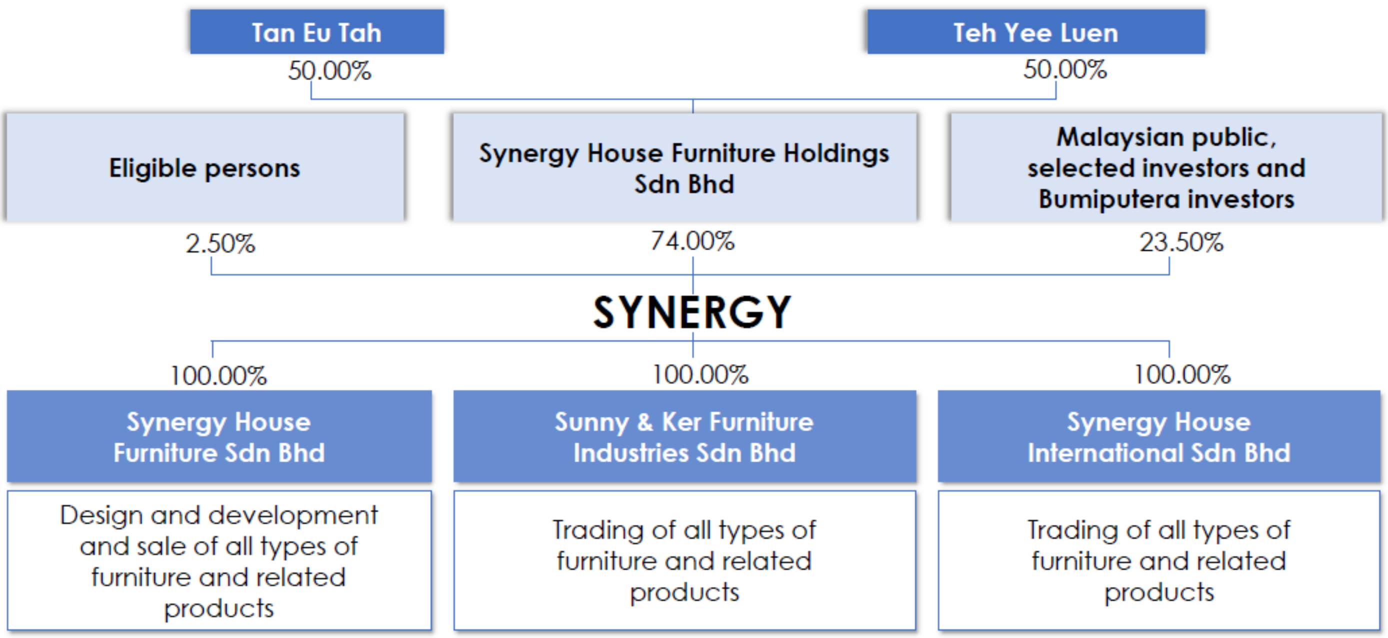
Source: Company data

Figure 13: B2C target markets and platforms



Source: Company data

Figure 14: Corporate structure upon listing



Source: Company data

Figure 15: Types of furniture category

Source: Company data

Figure 16: Bedroom furniture, eg wardrobes, study desks, chest drawers, night stands, and cabin beds

Source: Company data

Figure 17: Dining room furniture, eg dining tables and chairs, and benches

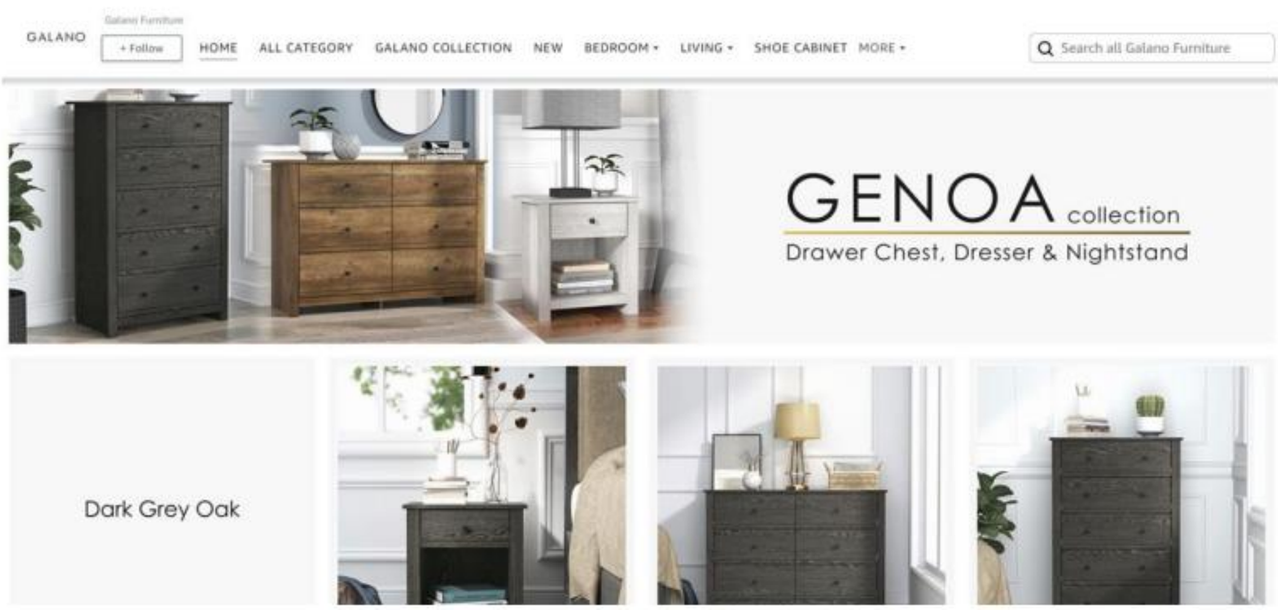
Source: Company data

Figure 18: Living room furniture, eg television cabinets, sideboards, and coffee tables

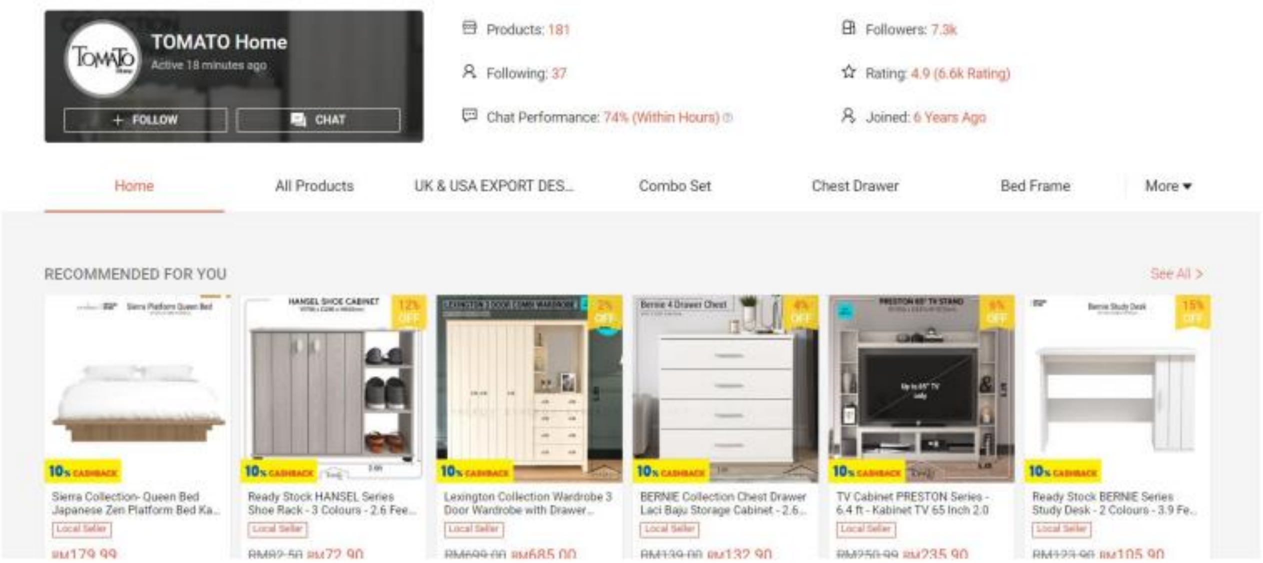
Source: Company data

Figure 19: Synergy's listing on Amazon and Shopee

Amazon



Shopee



Source: Company data

Figure 20: Award from Wayfair

Source: Company data

Future Plans & Strategies

Marketplace expansion. Synergy is actively expanding its reach by on-boarding new marketplaces in key regions – the US, the UK, Canada, Germany, and France – to broaden its international footprint. Alongside geographical expansion, it is also diversifying its product range by offering more product categories and SKUs. This effort is supported by actively sourcing for well-established third-party manufacturers from Malaysia, China, Indonesia, and Vietnam, ensuring a diverse and high-quality product portfolio.

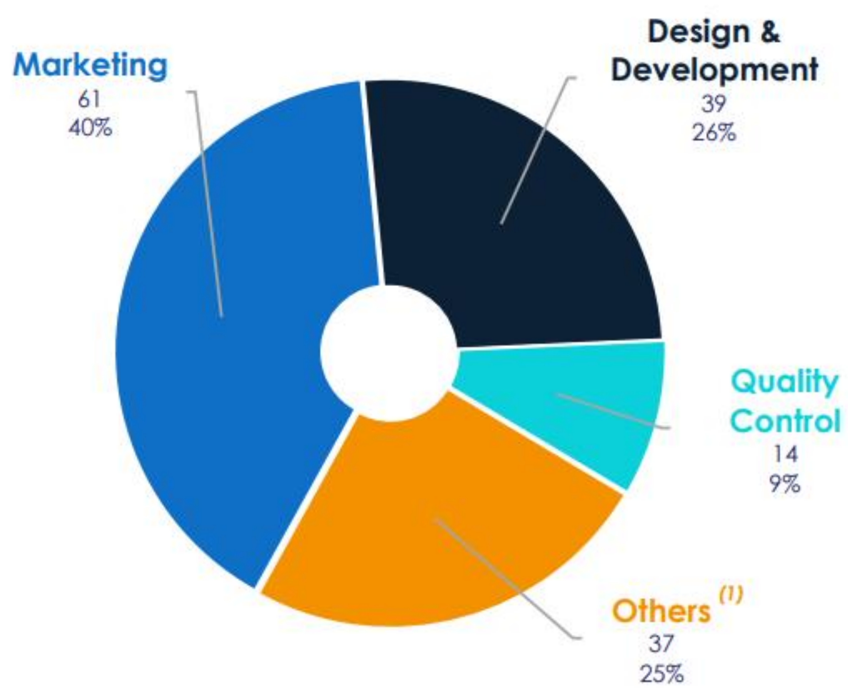
Enhanced marketing strategies. Synergy is intensifying its focus on online sales by bolstering its e-commerce department. This includes enhancing advertisement monitoring and improving product visibility in various marketplaces. Concurrently, it is committed to further strengthening its customer service department – ensuring superior customer experiences. Additionally, Synergy is expanding its market research team and investing in market intelligence software – to be equipped with critical insights for strategic decision-making. It is also improving the inventory management system for more efficient sales tracking and replenishment.

Workforce expansion. As of Oct 31 2023, the group has a robust team of 151 employees. Notably, approximately 66% of the team is concentrated in the design and development (D&D) and marketing departments. These departments are pivotal to the group's strength, driving innovation and market presence.

In FY2022, Synergy demonstrated impressive operational efficiency with sales per staff amounting to MYR1.72m. This figure is a testament to the productivity and effectiveness of the team. Going forward, the group has set ambitious targets for workforce expansion. By end-FY24, it aims to increase its employee headcount to 200. This expansion is in line with the plan to occupy new rented office space – necessitating a larger team to support its growth trajectory. With the increase in workforce, Synergy projects its sales per staff to reach MYR200m in FY24.

In line with this expansion, Synergy plans to hire more designers, data scientists, and quality controllers. These roles are crucial for accelerating the introduction of new SKUs into the market, optimising data-driven strategies, and ensuring the highest standards of quality – all key aspects that define the group's market differentiation and commitment to excellence. Furthermore, Synergy is developing a well-organised training module to cultivate and train talented individuals, underlining its commitment to fostering a skilled and dynamic workforce.

Figure 21: Manpower breakdown by department as at 31 Oct 2023



Note: (1) Others consists of Finance, Operation, Purchasing, Human Resource, IT, Internal Control, Key Senior Management, and Executive Directors.
Source: Company data

Key Risks

Dependent on third-party manufacturers. Synergy is only responsible for the D&D and sales of home furniture. All manufacturing works are outsourced to third-party manufacturers that are in charge of the purchasing of raw materials, manufacturing, and packaging of the furniture in accordance with the group's designs, specifications, and requirements. If Synergy loses the services of these third-party manufacturers without timely replacements, it will face interruptions in the fulfilment of orders, which, in our view, will create an unfavourable impact on its operations, financial performance, and reputation.

Additionally, as these third-party manufacturers are in charge of purchasing raw materials and manufacturing Synergy's products using in-house labour, the group's cost of sales will increase significantly if there is an increase in manufacturing costs. Moreover, these third-party manufacturers may experience resource constraints, financial difficulties, or other challenges that could affect their ability to carry out manufacturing works. This, in turn, would result in delays in the fulfilment of orders – ultimately having a negative impact on Synergy's overall operations.

As of 31 Dec 2023, Synergy has 42 third-party manufacturers (of which 31 are Malaysian companies). To mitigate risks, the group continues to source for more third-party manufacturers from Malaysia, China, Indonesia, and Vietnam. We also believe that there is always an oversupply of capacity rather than a shortage of manufacturing supply in the furniture industry. Hence, Synergy is in the right position to have higher negotiating power than the manufacturers it outsources to.

Absence of long-term contracts. The group does not enter into any long-term contracts with its customers, as its customers (primarily its B2B customers) purchase home furniture from Synergy through purchase orders. The absence of long-term contracts is mainly due to the nature of the group's business, as the demand for its home furniture is subject to customers' design preferences during a particular period of time. If Synergy loses any existing customers – especially its major customers – and is unable to secure additional sales from other existing customers, this will have an adverse impact on its financial performance.

Exposed to product liability claims. Synergy is responsible for the quality of its home furniture – even though the manufacturing is outsourced to third-party manufacturers. While the group has implemented quality-control procedures at every crucial stage of the manufacturing process and regularly conducts on-site quality checks on workflow, this does not guarantee that there will be zero defects in its home furniture offerings. Products are also susceptible to improper handling by logistics service providers. In the event products received by customers are defective, the group is liable to product liability claims and will be subjected to significant legal costs. This will also damage its reputation and negatively impact its financial performance.

Highly exposed to FX fluctuations. The largest contributor to revenue during the FY19-22 period was export sales, which made up 98.21%, 96.52%, 94.37%, and 94.66% of its topline. Synergy primarily exports to the UK, UAE, the US, and other countries. Therefore, the revenue generated from export sales are denominated in USD, GBP, and CAD. The group's purchases are also exposed to FX fluctuation risks that arise from engaging with overseas third-party manufacturers – mainly from China, Indonesia, and Vietnam for the supply of finished goods – and these purchases are denominated in USD and CNY. Hence, Synergy will record higher revenues and purchases in MYR after conversion in situations where the USD significantly appreciates against the MYR. Likewise, the group will record lower revenues and purchases if the USD significantly depreciates against the MYR. If Synergy is unable to pass on these costs to its customers, its financial performance will be severely affected.

Currently, the fluctuations in exchange rates between the GBP, CAD, CNY, and MYR do not have any material impact on the group's revenue and purchases, as the contributions to topline are relatively low at this time.

Hike in freight cost. Synergy bears the freight costs of its B2C sales. Any hike in freight costs would trigger an increase in the cost of its B2C business. A freight cost hike may also cause its B2B customers to delay shipments. However, Synergy is able to transfer the cost to end-customers of its B2C business if required.

Competition risk. Furniture is a consumer product which is susceptible to changing market trends and consumer preferences. As Synergy exports its home furniture to many countries, it is crucial that the group has a wide variety of designs, and is able to respond to changes in market trends and consumer preferences to suit the unique requirements of consumers from different countries. As a result of these evolving market trends and consumer preferences, Synergy faces the risk of its D&D team not being able to respond promptly to these changes and provide innovative designs in a timely manner. Also, there is no assurance that any or all home furniture designs will be well accepted by its customers at all times. Any failure to keep up with market demands, and delays and/or inability to launch innovative designs may result in a loss of customers, which could lead to an adverse effect on its business and financial performance.

There could also be a low barrier of entry for its third-party manufacturers to penetrate into online furniture sales through B2B customers or direct listing on third-party e-commerce platforms. However, for its B2C business, Synergy is now among Wayfair’s Top 10 Asia resellers. It is also currently the only Malaysian company that sells furniture products on both Wayfair and Amazon. Hence, it has a first-mover advantage compared to any new players in Malaysia. As Wayfair has annual sales of USD12bn, there is still a lot of market share in this e-commerce furniture industry.

ESG Efforts

Environment

Application of particle boards. Particle boards are wood-based products that do not contribute to more deforestation, as they are made from wood particles being glued together to produce lightweight, affordable wood alternatives. Simply put, it uses wood leftovers like wood chips, shavings, and sawdust collected from sawmills. Home furniture sold by Synergy House are made using this type of wood. Not only does it minimise waste, it also does not contribute to deforestation as it uses leftovers, unlike plywood. This has helped the group to obtain a valid Forest Stewardship Council (FSC) certificate, which verifies that the group uses materials that are up to FSC's standards.

Efficient logistics system. The group uses biodegradable carton packaging, which is more environmentally friendly compared to traditional plastics like PET, which take somewhere between 20 and 500 years to be completely broken down. The group also regularly performs testing to ensure the optimal use of polyfoam in the packaging process. This initiative, together with flat-packed form packaging, helps maximise container utilisation during transportation, which translates to less carbon footprint, as opposed to transporting furniture in the completely built up form.

Social

Promoting good health and a healthy work environment. The group emphasises on empowering its workforce and giving back to the community. The former is achieved by holding weekly sports activities and providing subsidies to those interested in gym workouts. The group is also consistent in organising monthly company events. In FY23, Synergy had 12 staff engagement activities.

Contributing to society. The group strongly believes in contributing to society in many forms. In FY23, Synergy donated to Pertubuhan Anak Yatim Berkat Kasih, held a team building session by helping to clean up the facilities, and also provided necessities to the orphanage.

Governance

Integrity comes first. The group places emphasis on the governance aspect to ensure that effective decisions are made, and also to meet the needs of external stakeholders. This includes the establishment of a comprehensive framework for the prevention and detection of bribery and corruption. Other than that, the group introduced its internal controls policy, which includes a code of conduct declaration for all employees, as well as mandatory learning to cover various elements of business ethics.

Board Of Directors

Mok Juan Chek, independent non-executive chairman. Mok was appointed to the Board on 3 Dec 2021. He has more than 30 years of experience in management. He joined Chung Khiaw Bank as an assistant manager in 1990 and was subsequently promoted to deputy manager. He later assumed senior positions at various firms including as General Manager at Hong Leong Bank, Senior Vice President at AmBank, and Strategic Advisor for Affin Hwang Asset Management. The positions that he has held display his capabilities to oversee Synergy's business operations.

Tan Eu Tah, promoter, substantial shareholder, and executive director. Tan was appointed to the Board on 3 Aug 2021. After graduating with a Bachelor of Science in Business Administration from the US, he joined the group through Malgames Industries as General Manager in 1997 to assist his father, who was one of the founders of the group. He has played a pivotal role in determining the overall strategic decisions and management of the group. This includes building and managing relationships with clients and customers, spearheading design and operations, as well as developing marketing plans to expand its overseas markets. In 2004, together with Teh Yee Luen, Tan transformed the business model from that of a home furniture manufacturing business to solely focus on the design, development, and sale of home furniture.

Teh Yee Luen, promoter, substantial shareholder, and executive director. Teh was appointed to the Board on 3 Aug 2021. Just like Tan, he graduated with a Bachelor of Science in Business Administration from the US, and subsequently joined Yong Leon Sports as a business development manager. He was actively involved in identifying new markets for the sales of sports equipment and developing new products for the East Malaysian market. Leveraging on this experience, he then joined the group as marketing manager to oversee marketing initiatives as well as explore business opportunities for the overseas markets. As mentioned above, Teh and Tan transformed the business model to solely focus on the sale of home furniture due to the growing sales of RTA home furniture and with the intention to scale up the business.

Yew Yong Ling, independent non-executive director. Yew was appointed to the Board on 3 Dec 2021. She graduated from University of London with a Bachelor of Law and has 16 years of experience in conveyancing, specialising in real estate transactions, loan documentation, and commercial agreements. Having started as a legal officer in Shuang Hor Enterprise (M), she was involved in handling the legal aspects of the company's expansion into other Asian countries, and the registration of trademarks. In Apr 2004, she was called to the Bar and shortly afterwards joined Pathology & Clinical Laboratory (M) as a legal manager. Two years later, she founded the Yew & Partners law firm.

Lieu Pei Yee, independent non-executive director. Lieu was appointed to the Board on 3 Dec 2021. She graduated with a Diploma in Accounting from SEGi University College in Jul 2010 and has been a member of the ACCA since Jan 2018. Throughout her career of over 10 years, she has assumed various positions, starting from audit associate in Crowe Horwath in Oct 2014. Four years later, she joined Ernst & Young as an audit assistant and was promoted to audit manager in 2019 to manage audit engagement quality and relationships with clients, as well as oversee team performance. She has accumulated audit experience encompassing multiple industries including e-commerce, technology services, and property development. She is now group consolidation manager at Crown Worldwide Shared Services, where she is responsible for forecasting analysis and reviewing the group's restructuring and business acquisitions.

Yong Kim Fui, independent non-executive director. Yong was appointed to the Board on 9 May 2022. He has been a chartered accountant of the Malaysian Institute of Accountants (MIA) since Jun 2001. He kick-started his career with PwC as an auditor in 1995. Five years later, he co-founded KYL Consulting to provide accounting, taxation, and advisory services. In 2017, he left KYL Consulting and became the CFO for Securemetric Technology, where he now holds the position of non-independent executive director.

Key Management Team

Tan Eu Tah, executive director. (Please refer to board of directors' section for his profile).

Teh Yee Luen, executive director. (Please refer to board of directors' section for his profile).

Kenneth Ng Boon Kean, CFO. Ng joined the group in Jan 2022 and is responsible for managing and overseeing the accounting and finance functions including financial reporting, audit, tax, and banking related matters. He started his career in KPMG PLT as an audit associate in 2010. Four years later, he was promoted to assistant manager, leading more complex and sizable audit engagements. In 2017, he joined Ban Seng Lee Industries as group accounts manager and was responsible for managing corporate finance-related matters and ensuring compliance with corporate governance practices. Subsequently, he was promoted to group senior finance manager before leaving Ban Seng Lee Industries in Dec 2021.

Tan Yee Chi, marketing director. Tan joined the group as a marketing executive after graduating with a Bachelor of Arts (Hons) in Business Information in Nov 2002. Six years later, she was promoted to marketing manager to supervise the sales and marketing team, maintaining relationships with customers as well as assessing market potential to increase sales. She was promoted to marketing director in 2015, where she is responsible for managing and overseeing the sales and marketing department of the group.

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
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