

2 October 2023

Consumer Cyclical | Consumer Products

# Synergy House (SYNERGY MK)

Not Rated

## Strong Synergy With E-Commerce

- **MYR0.64 FV based on 11x FY24F P/E.** Unlike other listed furniture players, Synergy House fully outsources its furniture manufacturing works. Its new e-commerce venture has also grown by leaps and bounds in the US and UK. The cross-border business is set to be driven by prolonged US-China tensions, market share gains, higher purchasing power in western markets, and growing demand for online furniture. An asset-light model offers a high FY23F ROE of c.30%. Notwithstanding the expected exponential growth, the FY24F P/E of c.7x makes for a compelling investment.
- **Different from other furniture players on Bursa Malaysia.** Synergy has evolved from a furniture manufacturer in 1990 to a pure-play furniture distributor today where it fully outsources the manufacturing works. Thanks to the asset light business model (operating in lower-cost Asian nations like Malaysia), the group can now channel all resources on design & development (D&D) – from 360 designs in 2019 to a whopping 2,155 as of June. Synergy – Malaysia's only cross-border e-commerce furniture distributor – has planted footholds in the US, UK, and United Arab Emirates (UAE) via ready-to-assemble (RTA) furniture. These are considered as affordable fast-moving consumer goods or FMCGs.
- **Upping the ante with e-commerce business-to consumer (B2C) business.** In addition to the steady business-to-business (B2B) growth, Synergy's differentiates itself vis-à-vis traditional retailers and has a unique position as a "new retail" firm via its B2C cross-border e-commerce segment. This contemporary business model is set to leapfrog its current B2B model. As of 1H23, B2C sales have grown to 46% of total sales (FY22: 25.6%). Driven by western markets' higher-spending power and rising adoption of online shopping, the group's e-commerce and higher-margin B2C sales momentum is on track to reach 70% of total sales by 2025. Note: c.60% of total B2C designs are generating healthy recurring monthly sales on reputable third-party e-commerce platforms (locally and internationally). Leveraging on this, Synergy is setting its B2C footprints in new markets like the UK and Western Europe.
- **In the sweet spot of US-China trade war.** As the US has enforced anti-dumping duty on China-made wooden bedroom furniture – ie Synergy's main product – the group can come out batting with its specialised bedroom designs and testing capabilities in terms of selling its furniture on the US' biggest online home stores, ie Wayfair and Amazon since 3Q20 and 3Q19. Synergy is working on extending its product offerings to include bathroom and kitchen furniture – segments where the US enforces import taxes on China-made equivalents.
- **Exponential earnings growth.** Coupled with its expansion plans, Synergy is forecasted to grow at a 3-year earning CAGR of 34.9%. We peg a FY24F P/E of 11x to arrive at a MYR0.64 FV. Key risks includes: i) Dependency on third-party manufacturers, ii) absence of long-term contracts with B2B customers, and iii) high exposure to FX fluctuations.

Fair Value (Return): MYR0.64 (58.2%)  
Price: MYR0.405  
Market Cap: USD43.1m  
Avg Daily Turnover (MYR/USD) 0.91m/0.20m

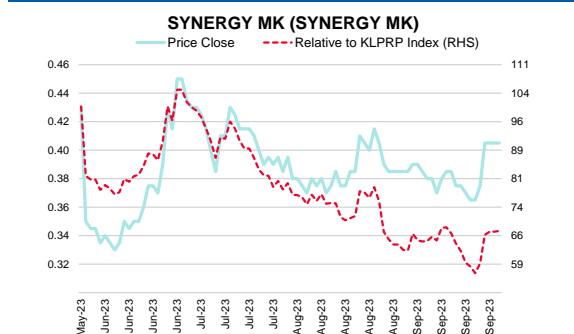
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	5.2	(10.0)	0.0	0.0
Relative	0.0	3.2	(36.6)	0.0	0.0
52-wk Price low/high (MYR)				0.33 – 0.45	



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	184	194	245	320	426
Recurring net profit (MYRm)	18	17	22	29	43
Recurring net profit growth (%)	54.8	(5.8)	27.1	32.7	47.3
Recurring P/E (x)	11.05	11.73	9.23	6.95	4.72
P/B (x)	5.9	4.4	2.1	1.7	1.4
P/CF (x)	21.49	10.37	10.86	9.43	6.91
Dividend Yield (%)	3.2	2.9	3.2	4.3	6.4
EV/EBITDA (x)	8.65	8.14	5.68	4.41	2.84
Return on average equity (%)	52.8	41.2	30.1	27.5	32.7
Net debt to equity (%)	114.0	76.7	net cash	net cash	net cash

Source: Company data, RHB

### Note:

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

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Malaysia	Recurring EPS	0.04	0.03	0.04	0.06	0.09
Consumer Cyclical	DPS	0.01	0.01	0.01	0.02	0.03
<b>Synergy House</b>	BVPS	0.07	0.09	0.19	0.23	0.29
SYNERGY MK	Return on average equity (%)	52.8	41.2	30.1	27.5	32.7
Not Rated						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	11.05	11.73	9.23	6.95	4.72
11x P/E on FY24F EPS	P/B (x)	5.9	4.4	2.1	1.7	1.4
	FCF Yield (%)	0.3	4.9	9.2	9.9	14.5
<b>Key drivers</b>	Dividend Yield (%)	3.2	2.9	3.2	4.3	6.4
i. Different from other furniture players on Bursa Malaysia;	EV/EBITDA (x)	8.65	8.14	5.68	4.41	2.84
ii. Ups the ante with its e-commerce business-to-consumer or B2C business;	EV/EBIT (x)	9.10	8.65	6.02	4.63	2.94
iii. Beneficiary of US-China trade tensions.						
	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	184	194	245	320	426
i. Dependent on third-party manufacturers;	Gross profit	37	46	68	97	133
ii. Absence of long-term contracts with business-to-business or B2B customers;	EBITDA	28	29	34	42	59
iii. High exposure to FX fluctuations.	Depreciation and amortisation	(1)	(2)	(2)	(2)	(2)
	Operating profit	27	28	32	40	57
<b>Company Profile</b>	Net interest	(2)	(3)	(2)	(1)	(1)
Synergy is a cross border e-commerce seller and furniture exporter who specialises in aesthetically pleasing designs which are affordable and ready-to-assemble or RTA home furniture.	Pre-tax profit	19	23	29	38	56
	Taxation	(5)	(7)	(8)	(9)	(14)
	Reported net profit	14	17	21	29	43
	Recurring net profit	18	17	22	29	43
	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	0.0	0.0	(6.8)	(10.9)	(16.3)
	Cash flow from operations	9.4	19.5	18.7	21.5	29.3
	Capex	(8.7)	(9.7)	0.0	(1.5)	0.0
	Cash flow from investing activities	(13.0)	(14.7)	0.0	(1.5)	0.0
	Dividends paid	(6.4)	(5.9)	(6.4)	(8.7)	(12.9)
	Cash flow from financing activities	6.5	(3.6)	8.8	(10.1)	(13.6)
	Cash at beginning of period	14.2	21.5	27.4	54.9	64.8
	Net change in cash	2.9	1.3	27.5	9.9	15.7
	Ending balance cash	21.2	27.4	54.9	64.8	80.5
	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	22	27	55	65	80
	Tangible fixed assets	44	55	53	52	50
	Total assets	112	131	172	198	236
	Short-term debt	25	25	18	18	18
	Total long-term debt	35	38	28	28	28
	Total liabilities	77	85	76	82	90
	Total equity	34	46	96	116	146
	Total liabilities & equity	112	131	172	198	236
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	50.0	5.3	26.2	30.4	33.5
	Recurrent EPS growth (%)	54.8	(5.8)	27.1	32.7	47.3
	Gross margin (%)	20.0	23.9	27.6	30.2	31.2
	Operating EBITDA margin (%)	15.2	15.1	13.9	13.0	13.9
	Net profit margin (%)	7.8	8.6	8.7	9.1	10.1
	Dividend payout ratio (%)	44.4	35.5	30.0	30.0	30.0
	Capex/sales (%)	4.7	5.0	0.0	0.5	0.0
	Interest cover (x)	11.4	8.1	10.7	15.6	22.5

Source: Company data, RHB

## Financial Overview

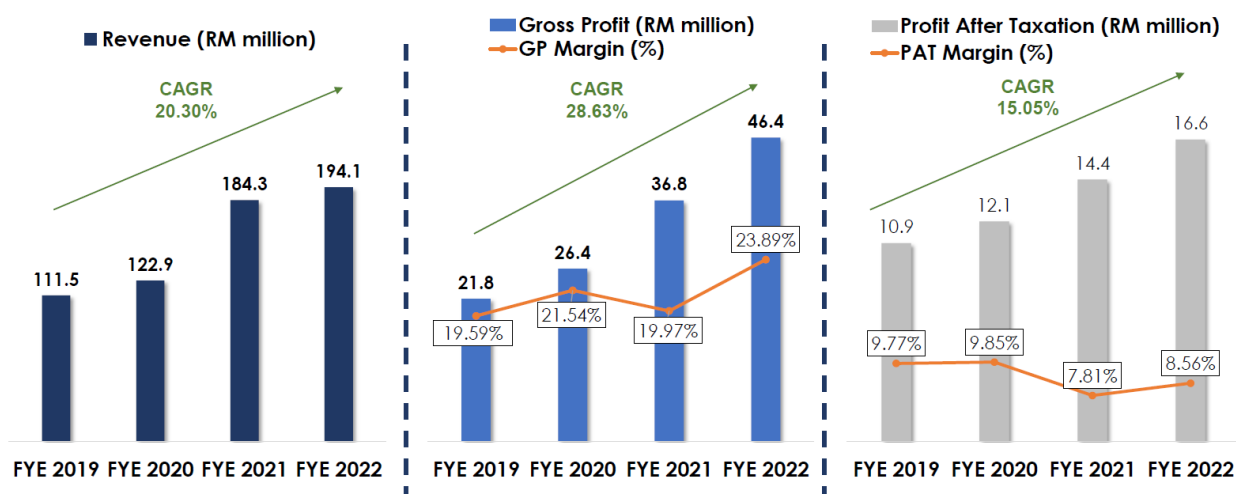
Synergy achieved a 3-year revenue CAGR of 20.3% between FY19 and FY22, driven by the commendable growth from both the B2B and B2C businesses. The sales from the former have shown positive growth from FY19 to FY21, which was derived from the incoming of and substantial contributions from a new customer – Hillsdale Furniture (Hillsdale) – as well as increase of 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 managed to achieve a 3-year CAGR of 192.2% (FY19-22). The exponential growth was led by Wayfair's e-commerce platform focusing on the US, Canadian, and UK markets, as well as through local third-party e-commerce platforms, ie Shopee and Lazada.

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 that was brought about by the global supply chain disruptions.

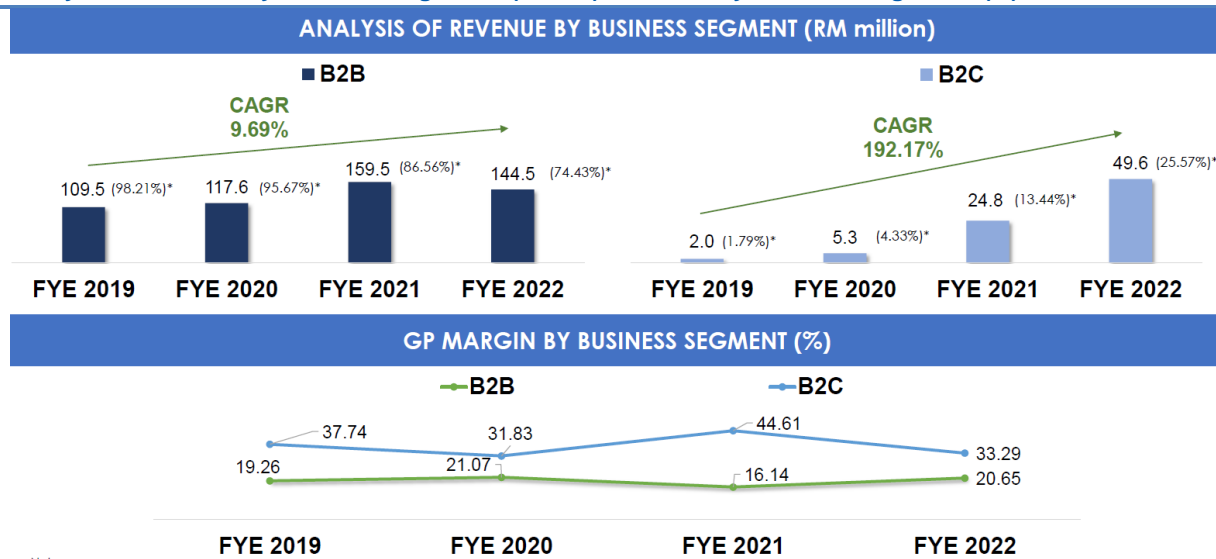
There was also YoY dip in its FY22 B2C business, – mainly due to higher promotions and discounts for that year to increase sales. This was because the group had just started in some new markets, and wanted to attract buyers and create brand awareness.

**Figure 1: Revenue, gross profit, and profit after tax (FY19-22)**



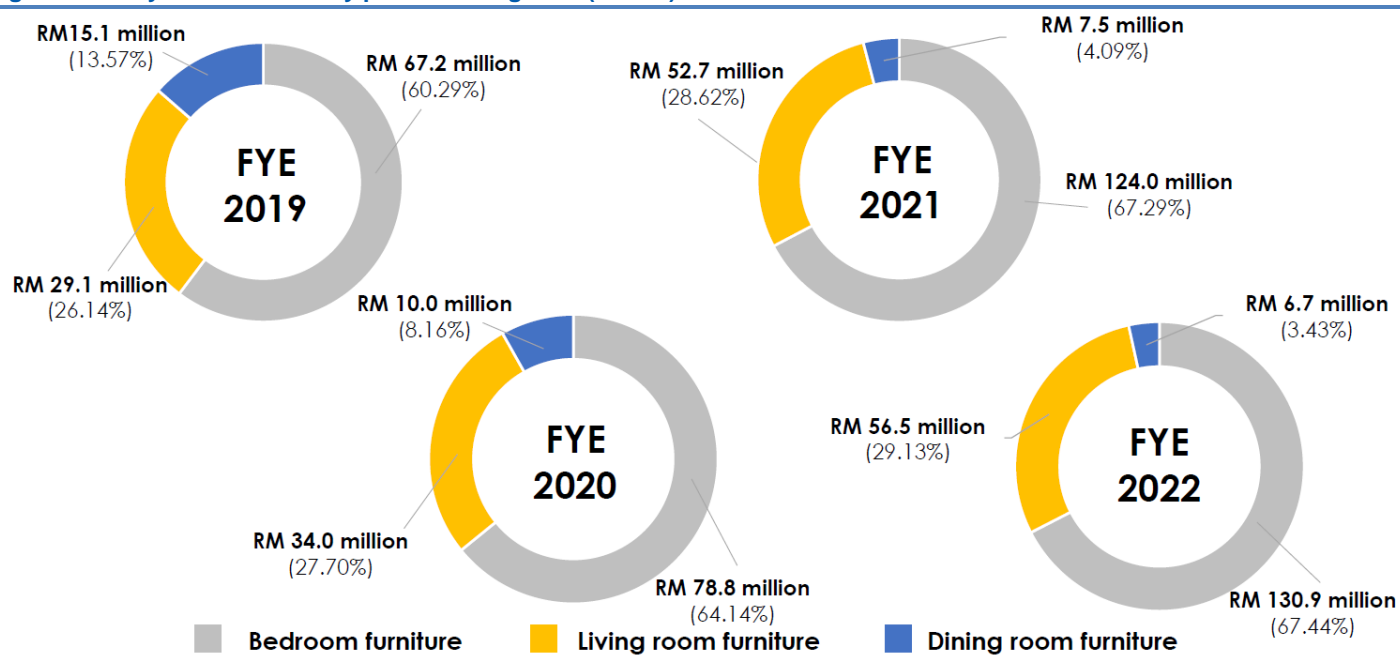
Source: Company data

Figure 2: Analysis of revenue by business segments (MYRm) and GPM by business segments (%)



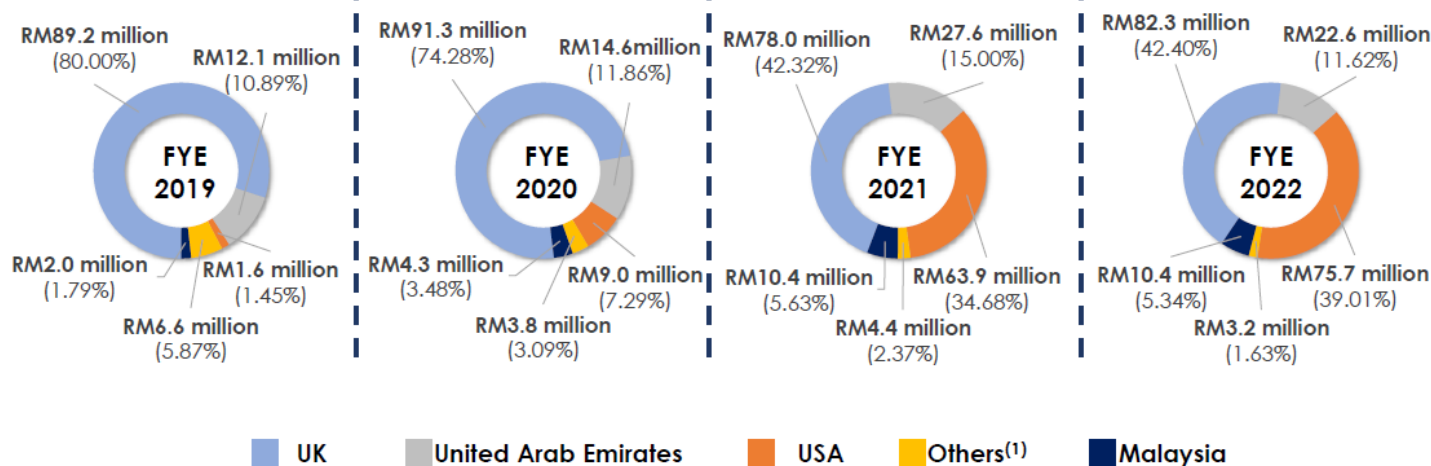
Source: Company data

Figure 3: Analysis of revenue by product categories (MYRm)



Source: Company data

Figure 4: Analysis of revenue by geographical markets (MYRm)

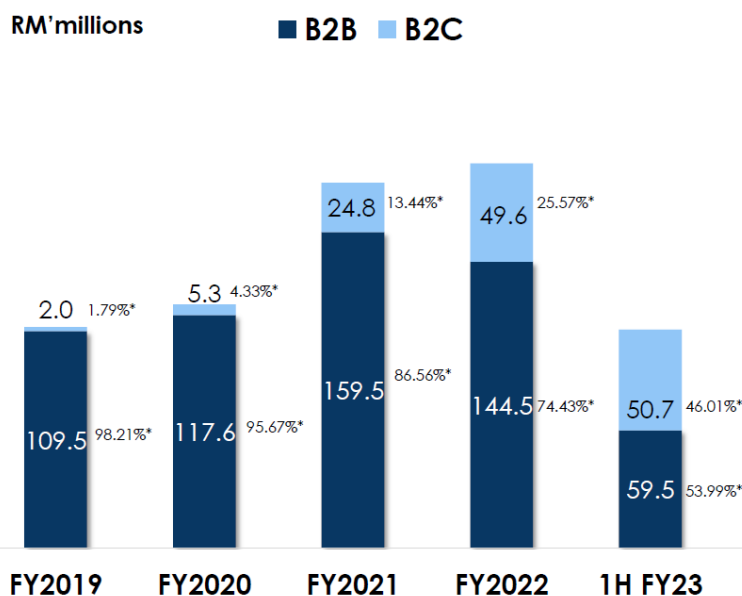


Source: Company data

Synergy registered revenue of MYR58.6m in 2Q23 (+13.6% QoQ), which took 1H23 revenue to MYR110.2m. The QoQ increase was contributed by the QoQ rise in sales from both the B2B (+17% QoQ; mainly from the UK and Middle East) and B2C (+10% QoQ; mainly from the US) segments. Specifically, the US remains the top contributor to the group's revenue base, accounting for more than 45% of Synergy's topline. Another bright positive: On another bright note, 1H23 B2C sales stood at MYR50.7m, exceeding FY22 total 12-month B2C of MYR49.6m, which is in line with the group aim of growing B2C sales – the latter commands c.10% higher GPMs vis-à-vis the B2B segment.

Overall PAT margin increased from 5.1% in 1Q23 to 10.6% in 2Q23, mainly attributable to lower purchase costs (inventory with lower freight costs incurred) and favourable FX where the weighted average rate was higher by 3% QoQ.

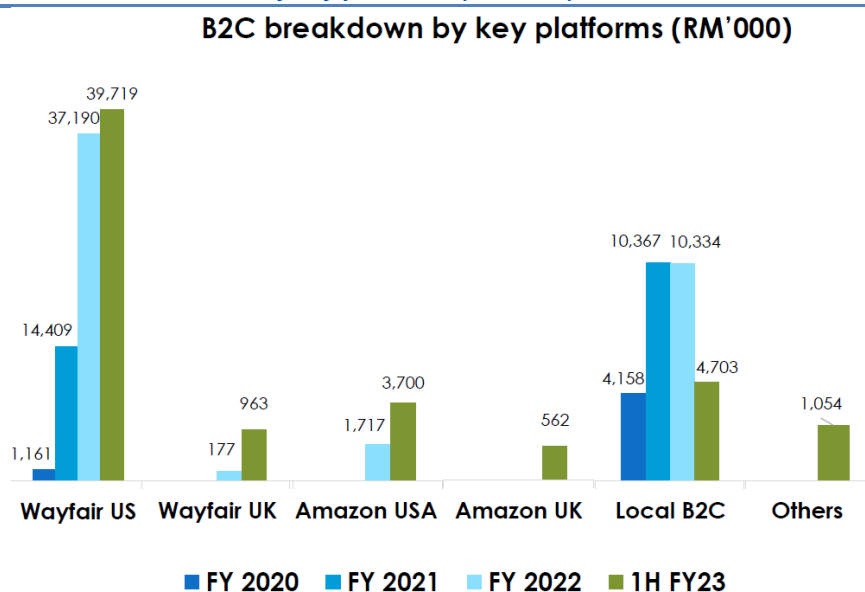
Figure 5: Analysis of revenue by product categories (MYRm)



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

Source: Company data

Figure 6: B2C breakdown by key platforms (MYR'000)



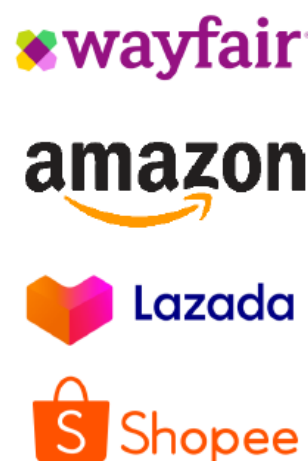
Source: Company data

## Industry Overview

A growing millennial and younger generation population is dovetailing with the rising internet and smartphone proliferation. Subsequently, the reliance on technology to shop online is growing with the increasing preference for a convenient shopping experience that provides consumers access to diverse products.

According to GlobeNewswire, the cross-border B2C e-commerce market is projected to hit USD6,585.3bn 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 followed by Europe, where Synergy is aiming to expand into 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. While it continues to grow sales with its current platforms, Synergy is also striving to expand into more third-party e-commerce platforms in the latter market to repeat its historical exponential sales growth in the B2C segment.

Figure 7: B2C target markets and platforms



Source: Company data



## Earnings Forecasts And Valuations

**Forecasts.** Seasonally, Synergy's B2B customers tend to increase orders starting in 3Q to prepare for festive sales nearer to year's end. Meanwhile, the group's B2C platforms historically generate higher sales at the end of any given year. Hence, we are expecting 2H23 to be strong, especially with its better revenue mix. We also forecast a 3-year earnings CAGR of 34.9%, as Synergy continues to focus on expanding its B2C sales – which command higher GPMs of c.36% – while looking to tap into the recovery in consumer spending in FY24.

The group's B2C sales model is well positioned to capitalise on the growing global furniture e-commerce market. Its asset-light business model also enables it to focus on D&D and sales & marketing. Synergy's cross-border business is expected to be propelled by the prolonged US-China tensions, market share gains, higher purchasing power in western markets, and growing taste for online furniture. As the group is still new with regards to third-party e-commerce platforms, there is still ample room to capture market share and grow, especially with its design capabilities and new product launches.

Conversely, B2B sales are set to steadily grow with Synergy's long-term relationships with customers in the US, UK, and UAE. Management is seeing higher sales forecast orders from existing and new B2B customers.

**Sensitivity analysis.** The group purchased c.17% of its raw material 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 MYR will lead to a 1% increase in earnings and vice versa for FY24.

**Undemanding valuation.** Pegged to a P/E of 11x based on its FY24F earnings, we arrive at a FV of MYR0.64. The ascribed P/E multiple is at a premium to the local furniture players given Synergy's unique business model and differentiation by having large exposure to western B2C markets instead of pure the B2B markets popular with local players (Figure 8), notwithstanding its expected higher earnings growth.

For reference, another regional player operating in a similar B2C model as Synergy is Zhiou Home Furnishing (ZHF), which is now trading at 2-year forward P/E of 18.3x. As the group continues to expand its B2C business faster than its B2B wing, we note that its B2C business is very similar to ZHF, as both firms sell their products on Amazon and Wayfair in the US and Europe.

**Dividends.** Although there is no any dividend policy, Synergy has been consistently paying dividends between 19.6% and 110.7% over the last four FYs. With its current net cash position and positive free cash flow, we assume a dividend payout of 30%, which indicates a FY23F yield of 3.2%.

Figure 8: Peer table

Company	Country	FYE	Mkt cap (USDm)	Price	P/E (x)			Div. yld (%)	ROE (%)	EV/ EBITDA	NP Growth (%)		PEG
				29-Sep-23 (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	43.1	0.41	10.4	10.9	9.4	3.2	30.1	5.7	27.1	32.7	na
<b>Local furniture players involved in B2B business</b>													
Lii Hen Industries	MA	12/2023	98.3	0.86	5.8								
Poh Huat Resources	MA	10/2023	73.4	1.30	3.8	10.7	7.8	5.7	21.3	1.5	-64.5	37.4	0.2
Homeritz Corp	MA	08/2023	48.8	0.50	5.1	10.3	9.4	2.6	22.0	1.9	-50.7	10.2	0.9
Wegmans	MA	12/2023	22.8	0.20	5.1								
Spring Art	MA	12/2023	15.1	0.17	30.5								
Ecomate	MA	02/2024	53.8	0.71	38.5								
Sern Kou Resources	MA	06/2024	137.8	0.60	474.3								
Jaycorp	MA	07/2023	40.9	0.72	9.1	11.6	11.3	5.4	21.3	4.7	-21.0	2.4	4.7
SWS Capital	MA	12/2023	21.1	0.36	35.5								
SHH Resources	MA	06/2024	21.7	1.02	26.3								
Mobilia	MA	12/2023	24.6	0.17	9.2								
<b>Mkt. cap weighted avg.</b>			<b>77.5</b>		<b>127.2</b>	<b>10.8</b>	<b>9.1</b>	<b>4.7</b>	<b>21.5</b>	<b>2.5</b>	<b>-49.5</b>	<b>20.5</b>	<b>1.5</b>
<b>Simple average</b>			<b>50.8</b>		<b>58.5</b>	<b>10.9</b>	<b>9.5</b>	<b>4.6</b>	<b>21.5</b>	<b>2.7</b>	<b>-45.4</b>	<b>16.7</b>	<b>1.9</b>
<b>International peers – cross border e-commerce home furniture player</b>													
Zhiou Home Furnishing Tech-A	CH	12/2023	1,252	22.76	33.7	23.2	18.5	0.8	73.4	15.0	45.2	25.6	0.7

Source: Bloomberg, RHB

## Company Overview

Synergy is a public listed company on Bursa Malaysia's Main 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 April, 2,047 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 has 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 former's respective e-commerce platforms or physical stores.

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

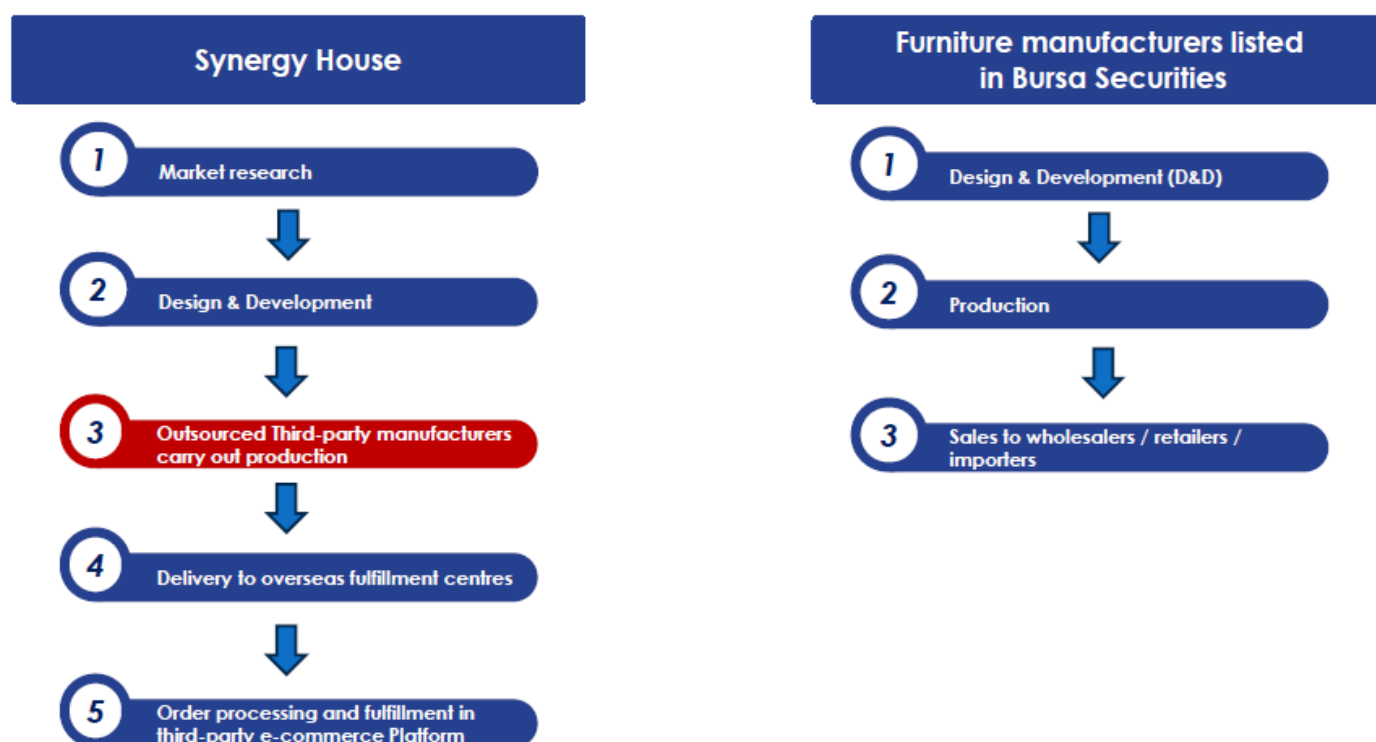
Its sales are generated from:

- i. **Exports market (94.7% of FY22 revenue).** Exports make up the majority of the 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) **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 the UK, which 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) **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 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 or Lazada. 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. Ng Book Kean Kenneth is Synergy's accountant 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.

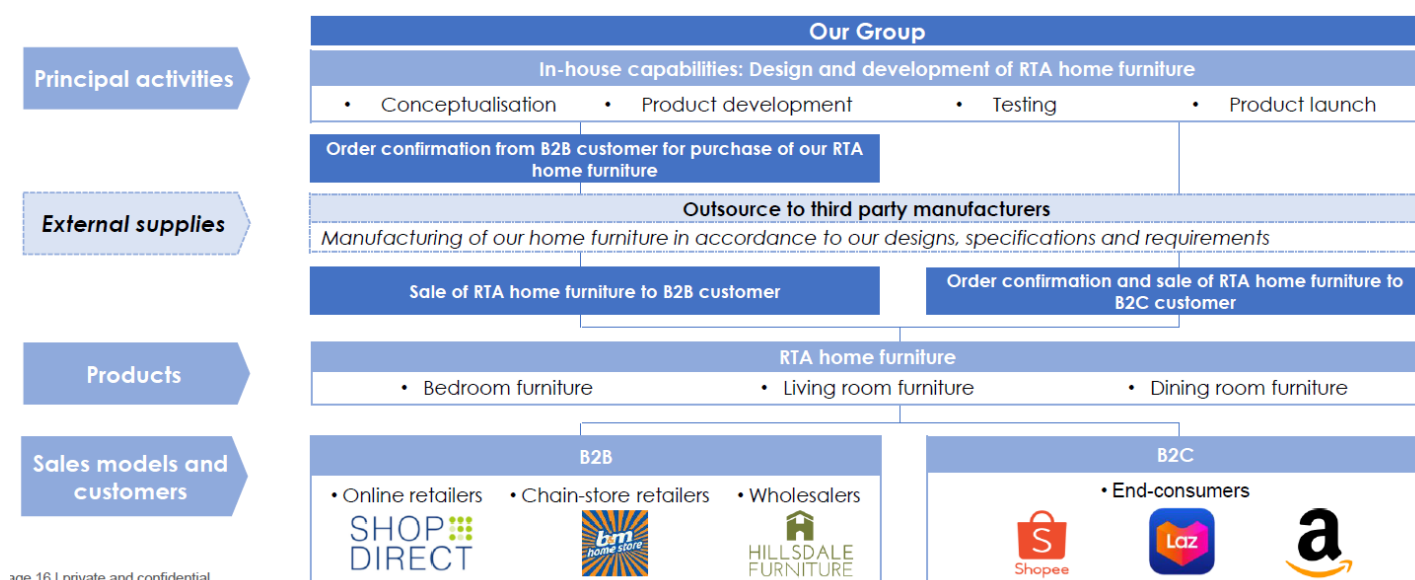


Figure 9: Synergy's value proposition



Source: Company data

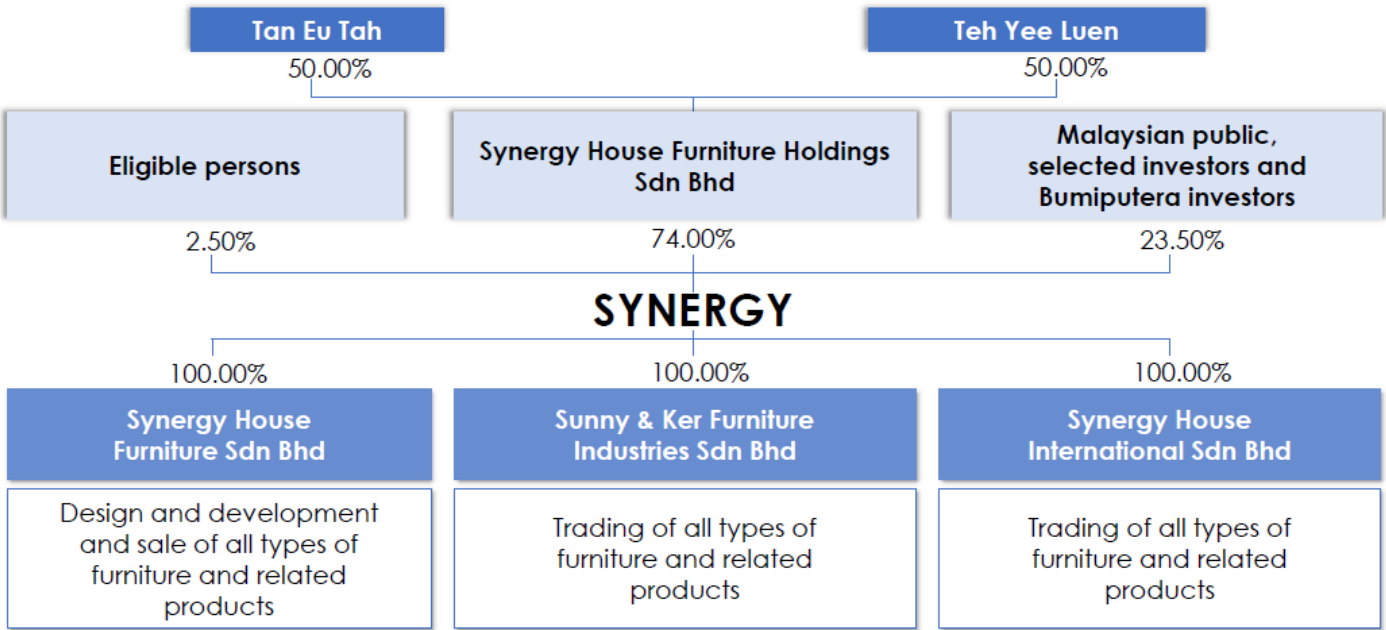
Figure 10: Business model



Page 16 | private and confidential

Source: Company data

Figure 11: Corporate structure upon listing



Source: Company data

Figure 12: Bedroom furniture, eg wardrobes, study desks, chest drawers, night stands, and cabin beds



Source: Company data

**Figure 13: Dining room furniture, eg dining tables, dining chairs, and benches**

Source: Company data

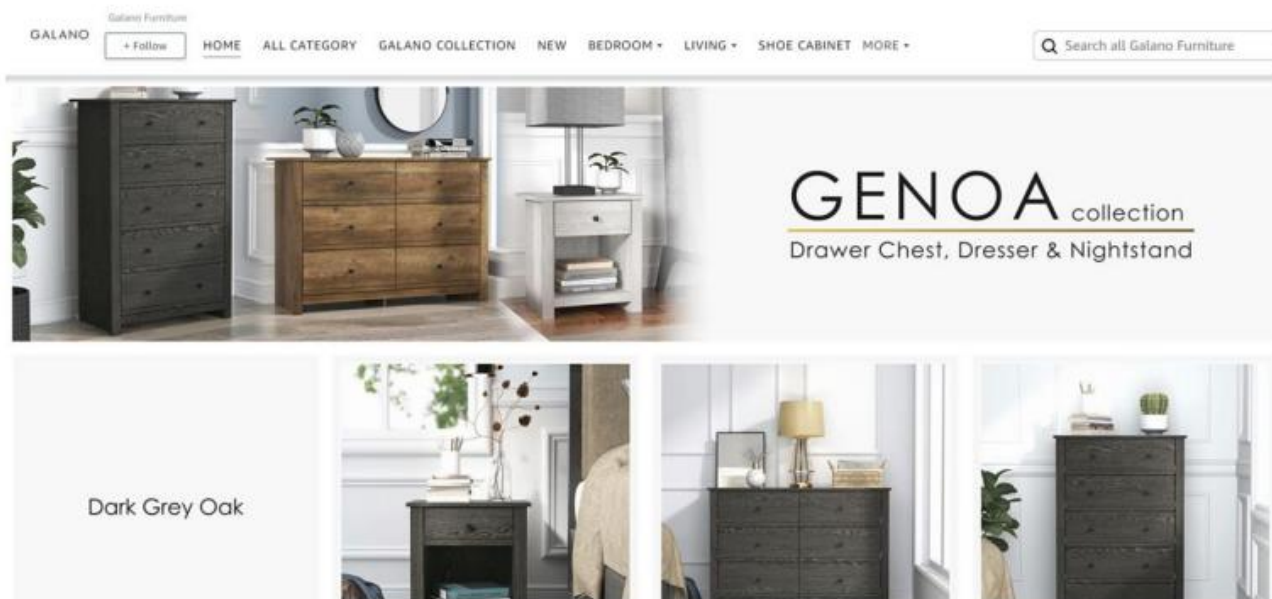
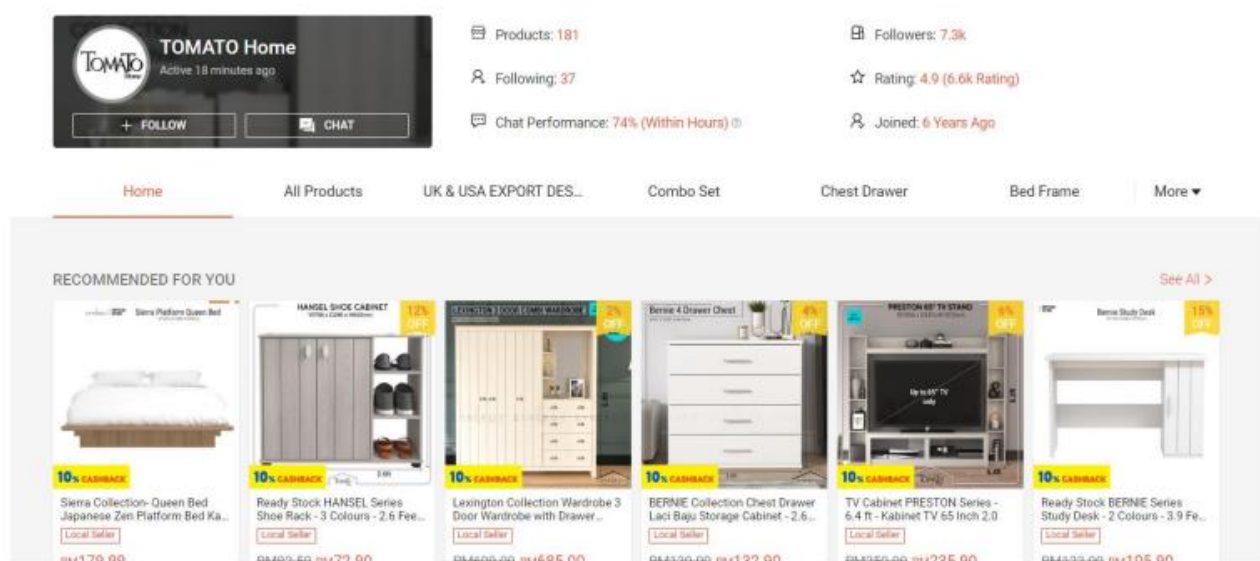
**Figure 14: Living room furniture, eg television cabinets, sideboards, and coffee tables**

Source: Company data

2 October 2023

Consumer Cyclical | Consumer Products

Figure 15: Synergy's products listed on Amazon and Shopee

AmazonShopee

Source: Company data



## Key Risks

**Dependent on third-party manufacturers.** Synergy is only responsible for the D&D and sale 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 to the group's designs, specifications, and requirements. In the event of it loses the services of these third-party manufacturers without timely replacements, this will lead to interruptions in the fulfilment of orders, in our view, which 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 difficulties that might affect their ability to carry out manufacturing works. In turn, this can result in delays in fulfilling orders – ultimately having a negative impact on Synergy's overall operations.

**Absence of long-term contracts.** The group does not enter into any long-term contracts with its customers, as the latter (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 – primarily its major customers – and are unable to secure additional sales from other pre-existing customers, the group will see adverse impacts 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 with its home furniture offerings. Synergy's products are also susceptible to improper handling from logistics services providers. In the event products received are defective, the group is liable for 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 FY19-22 were export sales, making up 98.21%, 96.52%, 94.37%, and 94.66% of its topline during this period. Synergy primarily exports to the UK, UAE, US, and other countries. Therefore, the revenue generated from the export sales are denominated in USD, GBP and CAD. Additionally, the group's purchases are also exposed to FX fluctuation risks that arise from engaging with overseas third-party manufacturers that are mainly from China, Indonesia, and Vietnam for the supply of finished goods – 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 Malaysian currency Likewise, the group will also record lower revenues and purchases should the USD significantly depreciate against the MYR. Should Synergy be unable to pass the cost to its customers, its financial performance will be severely affected.

Currently, the fluctuations in exchange rates between the GBP, CAD, CNY, and MYR does not have any material impact to the group's revenue and purchases, as the topline denominated is comparatively low at this time.

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