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Home Control (01747.HK)

Moves beyond hardest phase with strategic actions, destocking normalization and industry transition reviving opportunities, maintain the rating of "BUY" and slash the TP to HKD 0.38/share

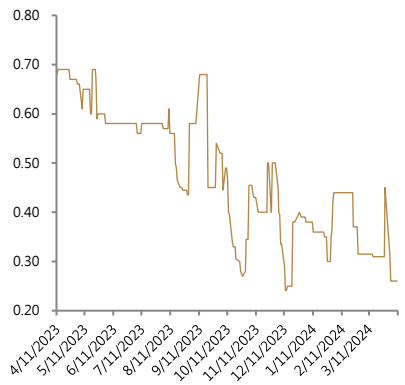
Ticker (01747.HK)

Recommendation	**BUY**
Target price (HKD)	0.38
Current price (HKD)	0.26
Last 12 mth price range	0.24 – 0.70
Market cap. (HKD, mn)	131.7

Source: Bloomberg, SBI CHINA CAPITAL

Home Control (01747.HK) reported a 20.2% YoY revenue fall to USD 101.0 mn in 2023, with North America/Europe/Asia/Latin America experiencing sales declines of 8.4%/30.4%/0.2%/43.3%, amounting to YoY sales cutback to USD 34.8mn/ 32.6mn/ 23.0mn/ 10.6mn respectively. This is primarily attributed to slower-than-expected inventory destocking by clients in 1H23, leading to fewer orders for the Group. Though this resulted in a 15.6% YoY drop in gross profit to USD23.3mn in 2023, the Group's gross profit margin still improved by 1.3% to 23.1%. This mainly stems from increased orders for higher-margin medical accessories in Europe and North America. Owing to a protracted inventory reduction cycle, alongside high interest rates and an additional USD 2.5 mn in non-recurring restructuring and severance costs, the Group recorded a net loss of approximately USD 1.6 mn for 2023, compared to a net profit of USD 4.6mn in 2022. Setting aside the one-off restructuring and severance costs, the adjusted net profit remained positive at USD 0.9mn, despite a 80.6% decrease from the previous year's figure of approximately USD 4.6mn.

Performance (01747.HK)



	1mth	3mth	12mth
Change	-17.5%	-31.6%	-61.8%
Relative change	-23.1%	-38.1%	-45.4%

Source: Choice, SBI CHINA CAPITAL

Destocking normalization and sales diversification driving turnaround in Europe & North America, while Latin America facing capital control

While Home Control (01747.HK) faced headwinds in 1H23, we observed a gradual normalization in the destocking pace of global consumer electronics in 2H23. Despite persistent cord-cutting challenges in Europe and North America, the Group's strategic sales force diversification into new market segments has yielded positive results. The securing of electrical medical accessories orders in both regions represents a tentative step forward, and it appears to provide a buffer against the impacts of cord-cutting. We expect the Group will further expand its sales force to diversify into various adjacent business areas, aiming to drive a turnaround and revitalize revenue growth. However, clients in Argentina encountered payment difficulties from local capital controls, which led to a noticeable reduction in orders during 2H23. Nevertheless, easing of these restrictions is anticipated in 2024, likely restoring sales orders gradually.

Industry transformation counteracting cord-cutting challenges and reviving opportunities

As the pay TV industry transforms in response to viewers' growing preference for streaming over traditional cable, providers are strategically partnering with vMVPDs. One of the clients, a clear standout of this evolution, has strategically launched a streaming platform in 2023, directly sustaining the Group's revenue in the US during 2H23. The industry's ongoing transition is expected to enable the Group to attract more digital-centric customers, offsetting the impact of declining traditional pay TV subscriptions due to cord-cutting. We believe the Group has likely surmounted the toughest phase of its market transformation.

Moves beyond hardest phase with strategic actions, destocking normalization and industry transition reviving opportunities, maintain the rating of "BUY" and slash the TP to HKD 0.38/share

The overall performance in 2023 of Home Control(1747.HK) aligned with our expectations. Faced with slower-than-expected inventory offloading in 1H23 and a heightened interest rate environment throughout 2023, the Group recorded a 20.2% YoY decline in revenue to USD 101.0mn. Reacting to the destocking challenge in 1H23 and the impact of cord-cutting, the Group rapidly enacted cost optimization strategies, projecting an annual reduction in operating expenses by around USD 2.0mn. Simultaneously, the Group strategically diversified its sales force into adjacent business segments, a move that has begun to yield positive results. We also observed the global destocking process gaining momentum towards normalization in 2H23, prompting a recovery in the two major regions of Europe and North America. However, sales in Latin America were negatively impacted by Argentine clients struggling with local capital controls. In terms of the Asian sector, we forecast that the majority of sales from the India region will remain steady. In addition, the industry's shift toward streaming service has serendipitously benefited the Group, facilitating the attraction of orders from digital-centric customers in the US. However, under a fluctuating economic environment, we continue to exercise caution and closely assess the global systematic risks that could impact the Group's product demand. We maintain the rating of "BUY" and slash the TP to HKD 0.38/share, implying 8.2/6.9/5.9x fw PE of 2024/2025/2026.

Peers comparison

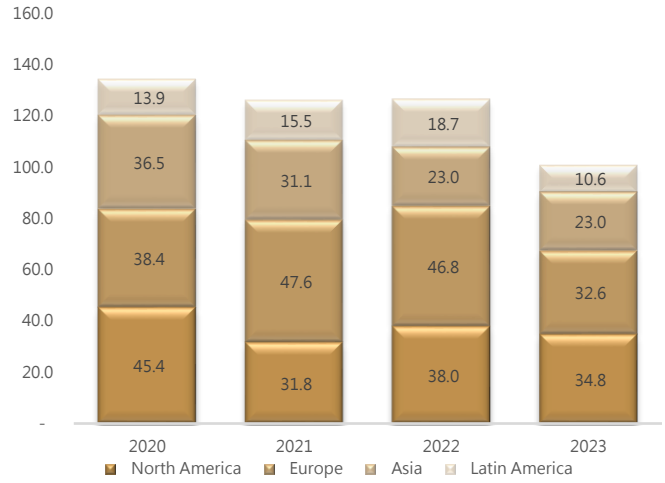
		Mkt cap	PE	Fw PE	PB	PS	Revenue	GM	ROE
		(HKD,mn)	(X)	(X)	(X)	(X)	(HKD,mn)	(%)	(%)
UEIC US Equity	Universal Electronics	1,076.4	N/A	44.2	0.8	0.3	3,291.7	23.2	(43.9)
6758.JP	Sony	834,669.1	17.6	17.4	2.2	1.3	669,097.7	27.2	13.1
066570.KS	LG Electronics	91,486.6	24.4	8.0	0.8	0.2	504,930.1	23.5	3.3
	Average	*309,077.4*	*21.0*	*23.2*	*1.2*	*0.6*	*392,439.8*	*24.6*	*(9.2)*
01747.HK	Home Control	131.7	N/A	N/A	0.7	0.2	790.8	23.1	(6.9)

Source: Bloomberg、SBI China Capital

Risk factors

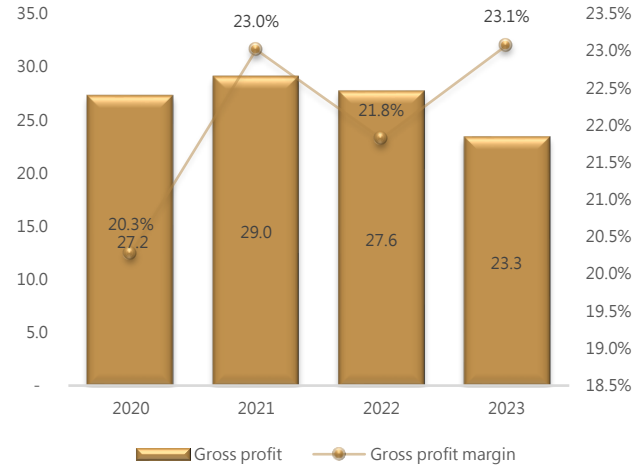
- Failure to acquire digital-centric customers
- Global systematic risks hit the demand for its products
- Unsuccessful development of adjacent products

Revenue breakdown by geographical regions (USD, mn)



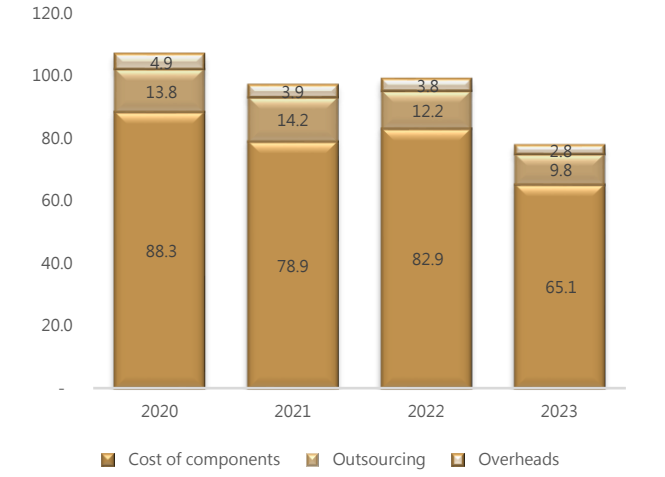
Source: Company data, SBI CHINA CAPITAL

Gross margin and Gross profit (USD, mn)



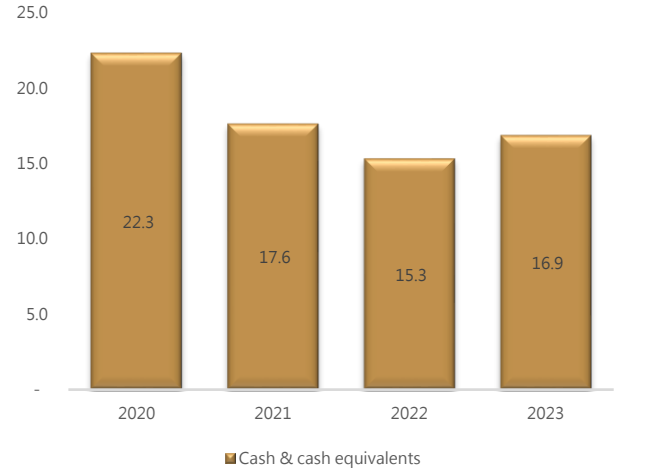
Source: Company data, SBI CHINA CAPITAL

Cost breakdown by categories (USD,mn)



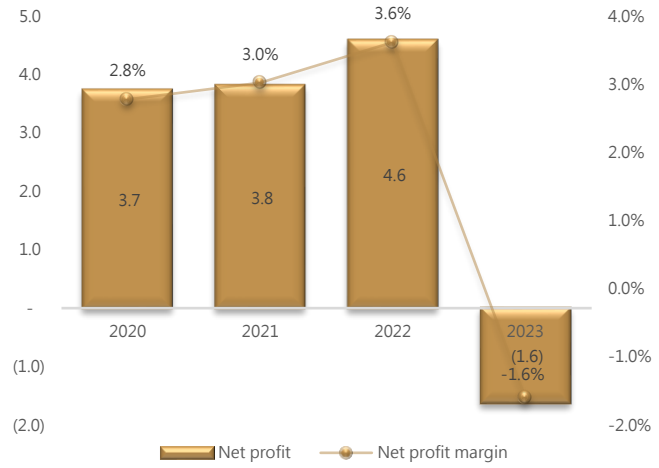
Source: Company data, SBI CHINA CAPITAL

Cash & cash equivalent (USD,mn)



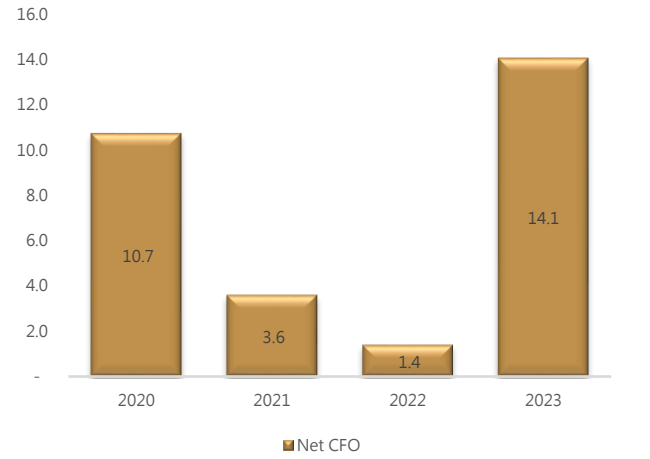
Source: Company data, SBI CHINA CAPITAL

Net profit margin and net profit (USD,mn)



Source: Company data, SBI CHINA CAPITAL

Net Operating Cash flow (USD,mn)



Source: Company data, SBI CHINA CAPITAL

Financial Statement

PnL (USD, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue	**101.0**	**108.6**	**117.0**	**126.2**
YoY growth	*-20.2%*	*7.5%*	*7.7%*	*7.9%*
COGS	(77.7)	(83.5)	(89.9)	(96.9)
Gross profit	**23.3**	**25.1**	**27.1**	**29.3**
Other income	0.2	0.3	0.4	0.4
Operating expenses	(22.9)	(20.5)	(21.4)	(23.0)
Operating profit	**0.5**	**4.9**	**6.1**	**6.7**
Finance expenses	(2.1)	(1.2)	(1.3)	(1.1)
JV & Ass.	-	-	-	-
Profit before tax	-1.6	3.7	4.7	5.5
Tax	(0.1)	(0.7)	(1.2)	(1.4)
Net profit	-1.6	3.0	3.6	4.2
YoY growth	*-135.4%*	*-284.8%*	*18.8%*	*17.0%*
Adj. EBITDA	**7.5**	**8.1**	**9.4**	**10.4**

Balance Sheet (USD, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)
PPE & ROU assets	2.8	2.6	2.3	2.3
Intangible assets	0.0	0.0	0.0	0.0
Others	9.7	8.9	8.9	8.9
Non-current assets	**12.5**	**11.6**	**11.2**	**11.2**
Inventories	11.1	14.5	12.8	16.0
Trade receivables	26.3	31.1	30.2	32.1
Cash & cash equivalents	16.9	22.9	23.0	28.5
Others	4.0	1.2	2.1	3.1
Current assets	**58.2**	**69.7**	**68.1**	**79.8**
Total assets	**70.7**	**81.3**	**79.4**	**91.0**
LT borrowings	11.2	13.2	12.3	11.9
Others	0.4	0.7	0.8	0.9
Non-current liabilities	**11.6**	**13.8**	**13.1**	**12.8**
Trade payables	27.7	31.9	33.3	37.4
ST borrowings	3.8	5.6	5.3	5.1
Others	4.8	5.2	0.7	6.1
Current liabilities	**36.4**	**42.7**	**39.3**	**48.6**
Total liabilities	**47.9**	**56.5**	**52.4**	**61.4**
Non-controlling interests	-	-	-	-
Controlling interests	22.8	24.7	27.0	29.6
Total equities	**22.8**	**24.7**	**27.0**	**29.6**

Cash Flow (USD,mn)	2023 (E)	2024 (E)	2025 (E)	2026 (E)
Profit before tax	(1.6)	3.7	4.7	5.5
Finance expenses	1.7	1.1	1.3	1.1
Finance income	-	-	-	-
Depreciation&Amortization	2.6	1.4	1.4	1.5
Others	(2.4)	(0.6)	(1.0)	(1.2)
Change in working capital	13.7	(3.0)	(0.4)	4.2
CFO	**14.1**	**2.7**	**5.9**	**11.2**
CAPEX	(0.8)	(1.0)	(1.5)	(2.0)
Others	-	-	-	-
CFI	**(0.8)**	**(1.0)**	**(1.5)**	**(2.0)**
Share issuance	-	-	-	-
Net borrowings	(9.5)	3.8	(1.2)	(0.5)
Interest paid	(1.7)	(1.0)	(1.1)	(0.9)
Dividend paid	-	(1.2)	(1.4)	(1.7)
Others	(0.6)	(0.5)	(0.5)	(0.6)
CFF	**(11.9)**	**1.1**	**(4.3)**	**(3.7)**
FCFE	**3.7**	**5.5**	**3.2**	**8.7**
FCFF	**15.0**	**2.4**	**5.3**	**9.9**

Financial Ratio	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Gross margin	23.1%	23.1%	23.2%	23.2%
Operating margin	0.5%	4.5%	5.2%	5.3%
Net profit margin	-1.6%	2.8%	3.0%	3.3%
Adj. EBITDA profit margin	7.4%	7.5%	8.1%	8.2%
Return on Equity	-6.9%	12.6%	13.8%	14.7%
Return on Asset	-2.1%	3.9%	4.4%	4.9%
Current ratio	160.1%	163.2%	173.3%	164.2%
Quick ratio	129.5%	129.2%	140.6%	131.3%
Cash ratio	46.4%	53.6%	58.4%	58.7%
Debt-to-Equity ratio	65.8%	76.0%	65.1%	57.6%
Inventory turnover days	67.2	56.1	55.6	54.3
Receivable turnover days	102.2	96.4	95.6	90.1
Payable turnover days	122.8	130.2	132.4	133.1

Source: Company data, SBI CHINA CAPITAL

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SBI China Capital stock ratings:

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BUY : absolute upside of >10% over the next 12 months

HOLD : absolute return of -10% to +10% over the next 12 months

SELL : absolute downside of >10% over the next 12 months

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