Eva Yip, CFA, CESGA
T: +852 2533 3723
E: evayip@sbichinacapital.com

Home Control (1747.HK)

Innovative products and expanding beyond traditional segments to drive recovery

Recommendation	STRONG BUY
Target price (HKD)	0.810
Last price (HKD)	0.315
52 week price range (HKD)	0.240 - 0.540
Market cap. (HKD mn)	160

Sources: Bloomberg and SBI China Capital

Home Control will continue to launch new and innovative home control solution products and expand beyond traditional segments. Our target price of HKD0.81 is based on 8X FY25 P/E. Maintain BUY. It has net cash of USD6.2 mn; the current valuation of 2.1X FY24E P/E (ex-cash) offers good risk/reward.

Revitalizing sales with innovative products and expanding beyond traditional segments

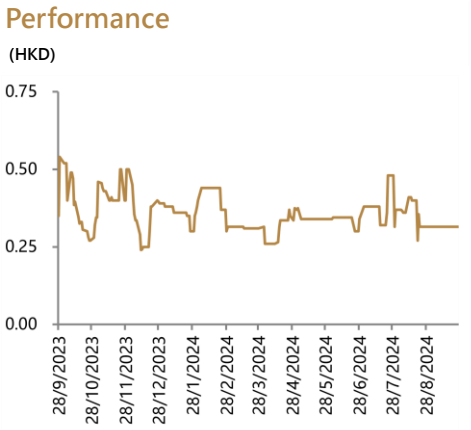
Home Control's 1H sales were supported by new product deliveries and it will continue to launch new home control solution products by maintaining investment in various remote-control technologies.

Remoted controls are commodity products, but Home Control leverages its established competitive advantages and dedicates R&D to design products that cater for a new age of user experience, which could bring more orders. The company aims to help its top-tier customers achieve their green goals and environmental net-zero targets by developing a sustainable product portfolio, including solar and ultra-low power platforms that can significantly reduce the use and disposal of batteries. It started expanding beyond traditional segments a few years ago, developing hearing aid solutions for a medical instrument company to expand its product portfolio, and brought in its first customer for this new product in Aug 2019. The medical business continued to perform well in 1H24 and we expect momentum to continue in 2H24. The company is actively exploring and developing business in the medical field that fits its high-volume production competencies.

Gross margin improved, positive interim results

Home Control's 1H24 revenue was up 2.6% HoH or 3.7% YoY to USD52.1mn. Revenue from North America and Europe regions rose 55% YoY and 35.9% YoY respectively due to a low base for the traditional business in 1H23 and also driven by new business, while revenue from Asia and Latin America dropped 48.2% YoY and 59.5% YoY respectively due to customer destocking. Supported by automation and cost-management measures implemented last year and changes in product mix due to more contribution from higher-margin medical accessories products, the gross-profit margin improved notably, by 7.15 ppts YoY to 29.6% in 1H24. The company

Performance



	1mth	3mth	12mth
Change	0.0%	5.0%	-30.0%
Relative to HSI	-15.4%	-11.5%	-47.1%

Sources: Bloomberg and SBI China Capital

maintained its SG&A ratio at 18.2%. Earnings rebounded after bottoming out with a net loss of USD1.5mn in 1H23, turning to a net profit of USD3.2mn in 1H24.

Maintain BUY, current valuation offers good risk/reward

We forecast Home Control's revenue and EPS CAGRs at 5.5%/10.6% respectively over FY24-26E. Given a recovery in its traditional business and increasing contributions from new products in the pipeline, we believe the business has emerged from the 2023 trough. Maintain BUY. Our target price of HKD0.81 is based on 8x FY25 P/E. Net cash is USD6.2mn; the current valuation of 2.1X FY24E P/E (ex-cash) offers good risk/reward.

Key financials

FYE Dec (USD mn)	2022 (A)	2023 (A)	2024 (E)	2025 (E)
Revenue	126.6	101.0	105.1	111.4
Net profit	4.6	(1.6)	5.8	6.3
EPS (USD cents)	0.91	(0.32)	1.14	1.23
EPS YoY	20.1%	N/A	N/A	8.4%
PE (X)	2.7	N/A	2.2	2.0
Div Yield	0.0%	0.0%	0.0%	0.0%

Sources: Bloomberg and SBI China Capital

1H result summary

USD'000	1H23	1H24	YOY	2H23	HOH
North America	14,013	21,713	54.9%	20,823	-4.1%
Europe	14,907	20,259	35.9%	17,698	-12.6%
Asia	13,251	6,864	-48.2%	9,718	41.6%
Latin America	8,075	3,271	-59.5%	2,523	-22.9%
Revenue	**50,246**	**52,107**	**3.7%**	**50,762**	**-2.6%**
Cost of sales	(38,953)	(36,668)	-5.9%	(38,744)	5.7%
Gross profit	**11,293**	**15,439**	**36.7%**	**12,018**	**-22.2%**
Gross margin	22.5%	29.6%	7.15 ppts	23.7%	5.95 ppts
Operating expenses	(9,091)	(9,489)	4.4%	(9,559)	0.7%
% of revenue	18.1%	18.2%	0.12 ppts	18.8%	-0.62 ppts
Operating profit	**(910)**	**4,519**	**N/A**	**1,450**	**-67.9%**
Operating margin	-1.8%	8.7%	N/A	2.9%	5.82 ppts
Finance costs - net	(923)	(413)	-55.3%	(1,180)	185.7%
Profit before tax	**(1,833)**	**4,106**	**N/A**	**270**	**-93.4%**
Pretax margin	-3.6%	7.9%	N/A	0.5%	7.35 ppts
Tax	344	(898)	N/A	(400)	-55.5%
Effective tax rate	-18.8%	-21.9%	N/A	-148.1%	N/A
Net profit	**(1,489)**	**3,208**	**N/A**	**(130)**	**N/A**
Attributable to owner of the Company	**(1,489)**	**3,208**	**N/A**	**(130)**	**N/A**
Net margin	-3.0%	6.2%	N/A	-0.3%	N/A
EPS (USD cents)	(0.30)	0.63	N/A	(0.02)	N/A

Sources: Bloomberg and SBI China Capital

Comparable companies

Ticker	Name	Trading Currency	Last Price (LC)	Mkt cap (LC mn)	YTD price chg (%)	YE	FY0 PE (X)	FY1E PE (X)	FY2E PE (X)	FY0 PB (X)	Div yield (%)
1747.HK	Home Control	HKD	0.315	159.6	(19.2)	12/2023	N/A	2.2	2.0	0.9	0.0
UEIC.US	Universal Electronics	USD	9.47	122.9	0.9	12/2023	N/A	N/A	11.6	0.8	0.0
301578.CH	GD Seneasy Intellgnt Techg	RMB	45.52	2,840	(23.3)	12/2023	33.8	N/A	N/A	2.3	1.1
Average							**33.8**	**N/A**	**11.6**	**1.6**	**0.5**

Sources: Bloomberg and SBI China Capital

Company background

Home Control is a globally leading home control solutions provider headquartered in Singapore. "Home control" is generally accepted as synonymous with remote controls for various home applications; and home controls for TV sets, over-the-top content (OTT) devices, and set-top boxes (STBs), in aggregate, account for more than 98% of the entire home control solution market on Frost & Sullivan data. The company designs, develops, and sells remote controls mainly for and to multi-service operator (MSOs), such as satellite and cable companies, as well as to TV and OTT device brands and their suppliers. Most of its revenue is generated from the sale of remote controls for STBs of MSO devices, OTT devices, and smart TVs.

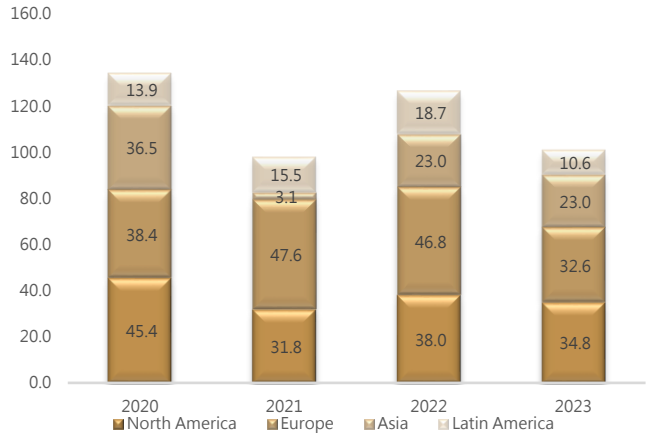
ESG in its business

- Committed to reducing the environmental impact of its business and increasing its positive social impact.
- Good corporate governance is reflected in zero cases of non-compliance with laws and regulations.
- The company helps its customers meet the environmental requirements for their products.
- Actively engages with and contributes to local communities.

Risk factors

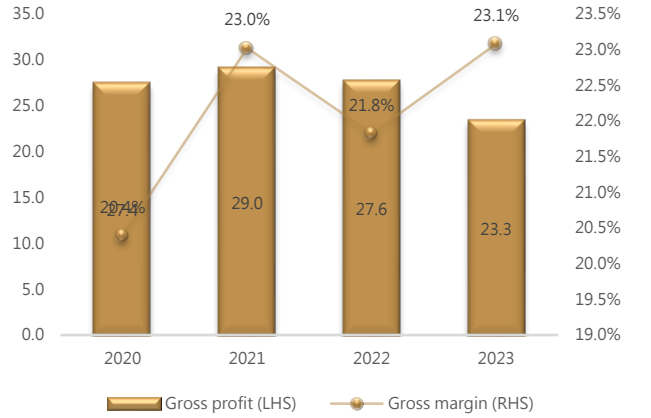
- Failure to attract digital-centric customers.
- Global systematic risks adversely affecting demand for the company's products.
- Unsuccessful development of adjacent products.

Revenue breakdown (USD mn)



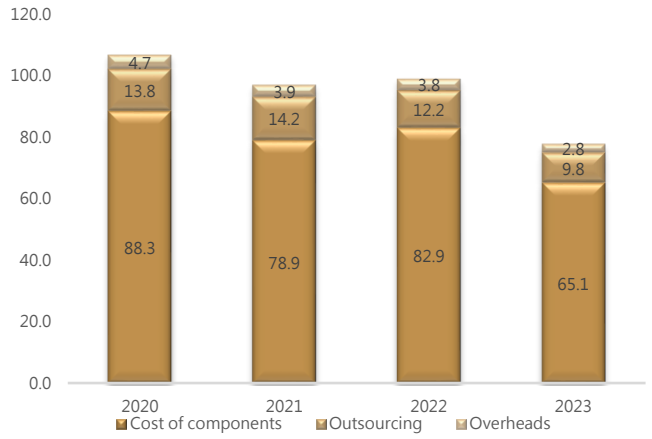
Sources: Company and SBI China Capital

Gross profit (USD mn) and gross margin



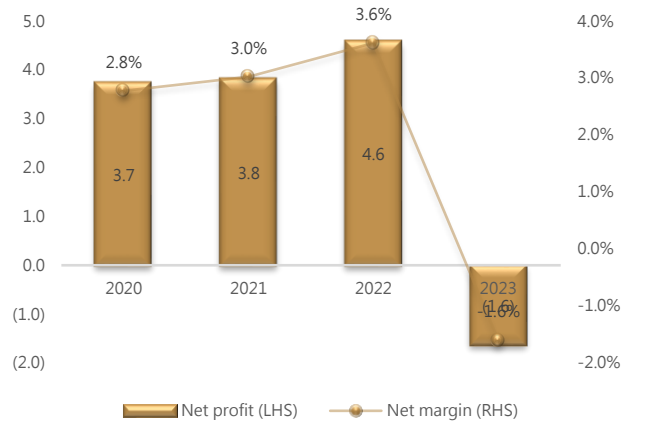
Sources: Company and SBI China Capital

Cost breakdown by categories (USD mn)



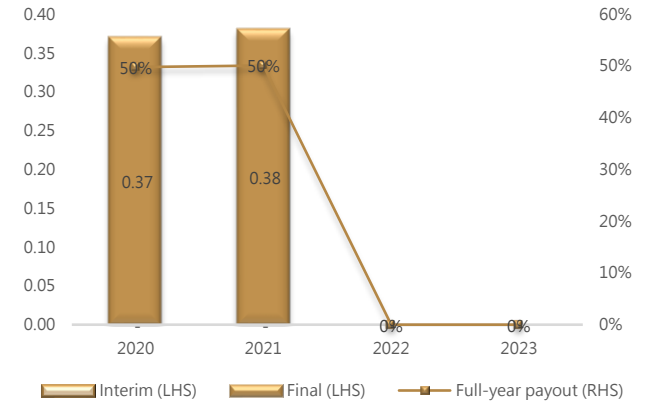
Sources: Company and SBI China Capital

Net profit (USD mn) and net margin



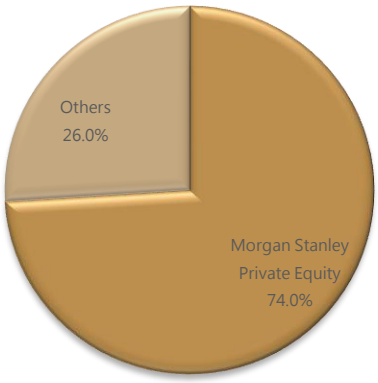
Sources: Company and SBI China Capital

DPS (US cents) and payout ratio



Sources: Company and SBI China Capital

Shareholder structure



Sources: Company, HKEx and SBI China Capital

Financial Statement

Profit & Loss

YE Dec (USD mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue	**101.0**	**105.1**	**111.4**	**116.9**
YoY growth	*-20.2%*	4.0%	6.0%	5.0%
COGS	**(77.7)**	**(74.6)**	**(79.6)**	**(83.3)**
Gross profit	**23.3**	**30.5**	**31.7**	**33.7**
Other income	0.2	0.1	0.1	0.1
Operating expenses	(22.9)	(22.3)	(23.0)	(23.9)
Operating profit	**0.5**	**8.3**	**8.9**	**9.9**
Finance cost-net	(2.1)	(0.9)	(0.8)	(0.8)
Income from associates/ JVs	-	-	-	-
Profit before tax	**(1.6)**	**7.4**	**8.0**	**9.0**
Tax	(0.1)	(1.6)	(1.8)	(2.0)
Profit after tax		**5.8**	**6.3**	**7.1**
Minority interest	-	-	-	-
Net profit	**(1.6)**	**5.8**	**6.3**	**7.1**
YoY growth	*N/A*	*N/A*	*8.4%*	*12.8%*
EPS (USD cents)	(0.32)	1.14	1.23	1.39
YoY growth	*N/A*	*N/A*	*8.4%*	*12.8%*
DPS (USD cents)	0.00	-	-	-
Adj. EBITDA	5.6	9.8	10.3	11.4

Balance Sheet

YE Dec (USD mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Net PP&E	2.8	2.3	2.4	2.8
Net intangible assets	0.0	0.0	0.0	0.0
Others	9.7	12.4	12.4	12.4
Non-current assets	**12.5**	**14.7**	**14.8**	**15.2**
Inventory	11.1	10.3	12.0	13.9
Trade receivables	26.3	24.5	25.9	27.2
Cash & cash equivalents	16.9	20.7	23.6	26.7
Others	4.0	0.6	0.5	0.4
Current assets	**58.2**	**56.1**	**62.0**	**68.2**
Total assets	**70.7**	**70.8**	**76.8**	**83.4**
LT debt	11.2	0.0	0.0	0.0
Others	0.4	0.3	0.3	0.3
Non-current liabilities	**11.6**	**0.3**	**0.3**	**0.3**
Trade payables	27.7	23.5	24.0	23.9
ST debt	3.8	12.9	12.9	13.0
Others	4.8	5.5	5.0	4.6
Current liabilities	**36.4**	**41.8**	**41.9**	**41.5**
Total liabilities	**47.9**	**42.2**	**42.2**	**41.8**
Shareholders' equity	22.8	28.6	34.8	41.9
Non-controlling interests	-	-	-	-
Total liabilities and equity	**70.7**	**70.8**	**77.1**	**83.7**

Sources: Company and SBI China Capital

Cash Flow

YE Dec (USD mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Profit before tax	(1.6)	7.4	8.0	9.0
Depreciation & amortization	2.5	1.5	1.4	1.6
Changes in working capital	12.6	(0.6)	(3.3)	(3.9)
Others	0.5	(0.4)	(0.6)	(0.9)
CFO	**14.1**	**7.9**	**5.3**	**5.8**
CAPEX	(0.8)	(1.0)	(1.5)	(2.0)
Others	0.1	-	-	-
CFI	**(0.7)**	**(1.0)**	**(1.5)**	**(2.0)**
Share issuance/(repurchase)	-	-	-	-
Change in debt	(9.6)	(2.1)	0.0	0.1
Dividend paid	-	-	-	-
Others	(2.3)	(0.9)	(0.8)	(0.8)
CFF	**(11.9)**	**(3.1)**	**(0.8)**	**(0.7)**
Change in cash	**1.5**	**3.8**	**3.2**	**3.1**
FCFF	**13.3**	**6.9**	**4.0**	**3.9**

Financial Ratios

YE Dec	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue YoY	-20.2%	4.0%	6.0%	5.0%
EPS YoY	N/A	N/A	8.4%	12.8%
Gross profit margin	23.1%	29.0%	28.5%	28.8%
Operating profit margin	0.5%	7.9%	8.0%	8.5%
Net profit margin	-1.6%	5.5%	5.6%	6.0%
Adj. EBITDA profit margin	3.0%	9.3%	9.2%	9.8%
Return on equity	N/A	22.4%	19.7%	18.4%
Return on assets	N/A	8.2%	8.5%	8.8%
Current ratio	160.1%	134.1%	148.1%	164.3%
Quick ratio	129.5%	109.4%	119.5%	130.9%
Cash ratio	46.4%	49.5%	56.4%	64.3%
Debt-to-equity ratio	21.2%	18.2%	16.7%	15.5%
Inventory turnover (days)	67.2	50.0	60.0	65.0
Receivable turnover (days)	102.2	85.0	85.0	85.0
Payable turnover (days)	122.8	115.0	110.0	105.0
Cash conversion cycle (days)	46.6	20.0	35.0	45.0
Dividend payout	0.0%	0.0%	0.0%	0.0%

Sources: Company and SBI China Capital

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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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