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## Ticker (01747.HK)

Recommendation	<b>BUY</b>
Target price (HKD)	0.53
Current price (HKD)	0.45
Last 12 mth price range	0.43 – 0.75
Market cap. (HKD, mn)	227.1

Source: Bloomberg, SBI CHINA CAPITAL

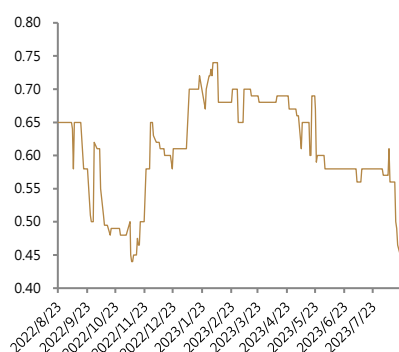
## Home Control (01747.HK)

Strategic restructuring in the light of ongoing destocking challenges, maintain the rating of “BUY” and slash the TP to HKD 0.53/share

Home Control (01747.HK) announced its interim result, with a turnover of USD 50.2mn in 1H23, implying a 22.7% YoY decline. This is primarily attributed to a notable contraction in revenues from the North America, Europe, and Latin America regions, amounting to approximately USD 17.2mn. However, this decrease has been partially counterbalanced by a recovering trend in the Asia regions, with a revenue rise of around USD 2.4mn. The Group's gross profit was slashed to USD 11.3mn in 1H23, a 22.8% YoY cut from USD 14.6mn in 1H22, while preserving a gross margin of 22.5%. The slower-than-expected global economic recovery significantly decelerated the destocking process, impacting the Group's sales orders for 1H23. This, coupled with surging interest rates and additional non-recurring restructuring and severance costs heightened its operating expenses, causing the Group to turn in the red with a reported net loss of USD 1.5mn in 1H23, a reversal from the profit of USD 3.2mn in 1H22. Neglecting the impact of the non-recurring restructuring and severance costs of around USD 2.0mn, the adjusted net profit plummeted 83.0% YoY from approximately USD 3.2mn to 0.5mn.

The overall performance in 1H23 fell short of our anticipations. In the wake of diminished demand for consumer electronics and peripheral devices, the sales of Home Control (01747.HK) faced headwinds in 1H23, resulting in a 22.7% YoY decrease to USD 50.2mn (comprising a 20.6%, 44.6% and 22.7% YoY sales fall to USD 14.0mn, USD 14.9 mn and USD 8.1mn in North America, Europe and Latin America respectively; but a 23.6% YoY sales growth to USD 13.3 mn in Asia, primarily attributable to the influx of new sales orders in 1H23, spurred by upcoming sports events in India).

## Performance (01747.HK)



	1mth	3mth	12mth
Change	-22.4%	-34.8%	-32.6%
Relative change	-17.7%	-26.3%	-12.7%

Source: Choice, SBI CHINA CAPITAL

**Potential continuation of destocking cycle into Q423**

Prompted by the initial IC scarcity following the COVID outbreak, manufacturers augmented their inventories to safeguard their production capacity, especially in 2H22, a move that inadvertently led to an oversupply in the drive to guarantee chip accessibility. In response, the Group's downstream customers are now managing to liquidate their significant stockpiles amidst dwindling demand, especially in a high-interest rate environment, resulting in a longer-than-expected destocking process. Initially positing the end of 2Q23 timeline for potential destocking and recovery, we have now revised this estimate in response to prevailing cross-market inventory stress and a decelerated economic rebound, extending the anticipated destocking phase to 4Q23. Consequently, we foresee the prolonged destocking may exert continued pressure on the Group's sales orders throughout 2H23.

**Strategic restructuring in response to protracted destocking disruptions**

The protracted destocking period has imposed challenges on the Group's sales orders, necessitating a restructuring process that incurred non-recurring severance costs of USD 2.0M in 1H23. Based on our estimates, the Group has strategically streamlined its workforce by approximately 15.0% to 20.0% to enhance operational efficiency, an action projected to result in an annual saving of approximately USD 2.0M in operating expenses. The continuation of destocking and varying downstream customer demand are expected to influence the Group's restructuring tendency in 2H23. However, we forecast the scale of the adjustments in 2H23 to be moderately less than those undertaken in 1H23.

**Strategic restructuring in the light of ongoing destocking challenges, maintain the rating of “BUY” and slash the TP to HKD 0.53/share**

The overall performance in 1H23 of Home Control(1747.HK) fell short of our anticipations. Facing the decline in demand for consumer electronics and peripheral devices, notably amidst a heightened interest rate environment, the sales of Home Control (01747.HK) faced headwinds in 1H23, resulting in a 22.7% YoY decrease to USD 50.2mn. We foresee the prolonged destocking may exert continued pressure on the Group's sales orders throughout 2H23. In response to ongoing market stress and a slow global economic recovery, we have revised our initial estimate, extending the anticipated destocking, initially projected to conclude by end of 2Q23, to potentially 4Q23. Amid the extended destocking challenges, the Group swiftly implemented strategic restructuring measures, set to bolster operational efficiency and contribute to an estimated annual operating expense savings of about USD 2.0M. Nevertheless, given the unsteady macroeconomic landscape, we uphold caution and remain vigilant in our assessment of the global systematic risks and their expanding influence on the demand for the Group's products. We maintain the rating of “BUY” and slash the TP to HKD 0.53/share, implying 4.6/3.7x/2.5x fw EV/EBITDA of 2023/2024/2025.

## Peers comparison

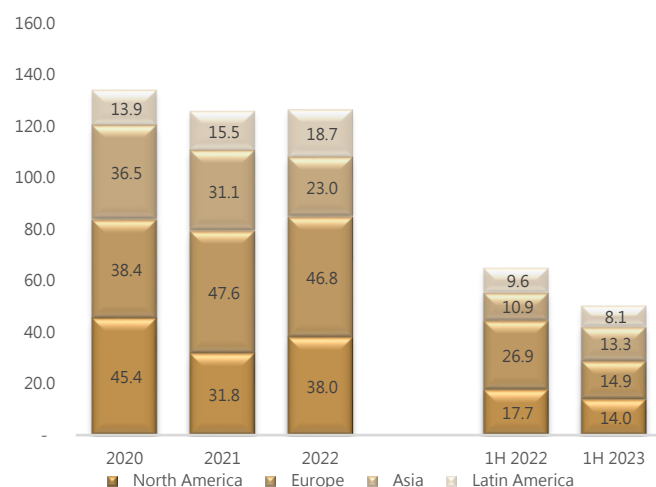
		Mkt cap	PE	Fw PE	PB	PS	Revenue	GM	ROE
		(HKD,mn)	(X)	(X)	(X)	(X)	(HKD,mn)	(%)	(%)
UEIC US Equity	Universal Electronics	967.4	N/A	24.3	0.6	0.2	4,250.1	28.1	(30.7)
6758.JP	Sony	818,970.0	15.9	16.1	2.1	1.2	669,097.7	27.2	13.5
066570.KS	LG Electronics	94,646.1	47.3	7.5	0.8	0.2	507,281.6	24.2	1.9
	<i>Average</i>	<i>304,861.2</i>	<i>31.6</i>	<i>16.0</i>	<i>1.2</i>	<i>0.6</i>	<i>393,543.1</i>	<i>26.5</i>	<i>(5.1)</i>
01747.HK	Home Control	227.1	N/A	N/A	1.3	0.3	991.0	21.8	(0.5)

Source: Bloomberg · SBI China Capital

## Risk factors

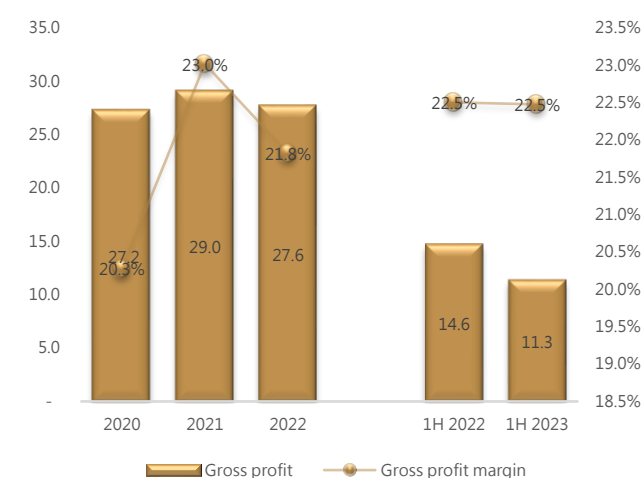
- Growth of subscription of MSO and OTT services is lower than expected
- Longer destocking cycle than expected
- Global systematic risks hit the demand for its products
- Unsuccessful development of adjacent products

### Revenue breakdown by geographical regions (USD, mn)



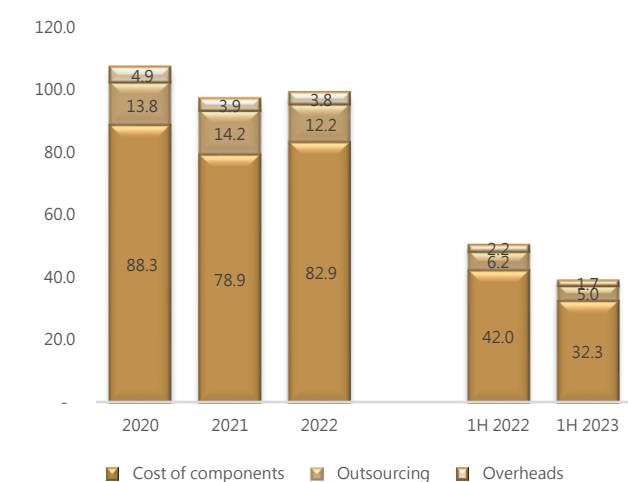
Source: Company data, SBI CHINA CAPITAL

### Gross margin and Gross profit (USD, mn)



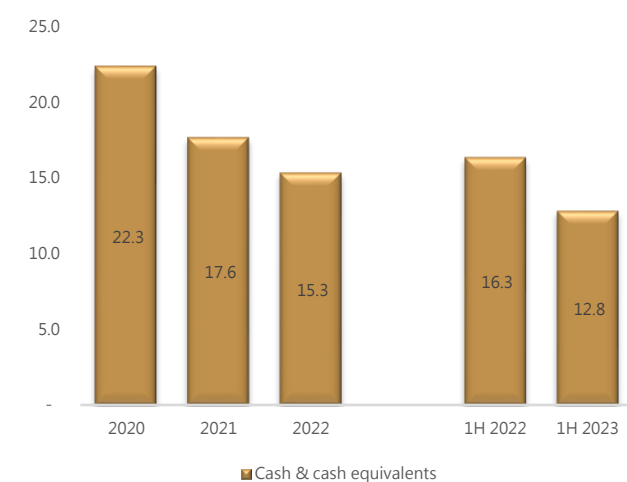
Source: Company data, SBI CHINA CAPITAL

### Cost breakdown by categories (USD, mn)



Source: Company data, SBI CHINA CAPITAL

### Cash & cash equivalent (USD, mn)



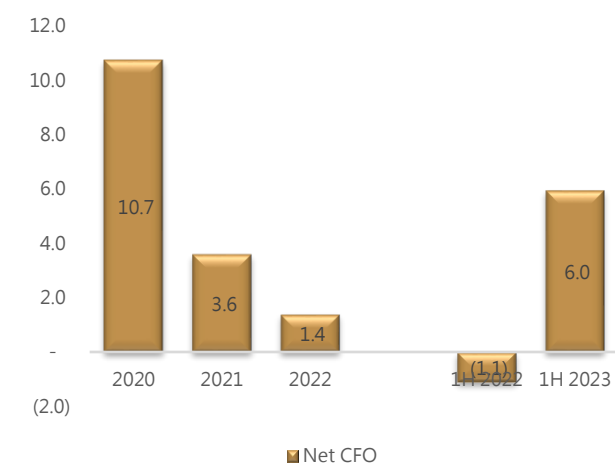
Source: Company data, SBI CHINA CAPITAL

### 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	2022	2023	2024	2025	Balance Sheet	2022	2023	2024	2025
(USD, mn)	(A)	(E)	(E)	(E)	(USD, mn)	(A)	(E)	(E)	(E)
Revenue	126.6	102.4	110.5	119.4	PPE & ROU assets	4.3	4.0	4.5	4.5
YoY growth	0.4%	-19.1%	7.9%	8.1%	Intangible assets	0.0	0.0	0.0	0.0
COGS	(98.9)	(80.0)	(86.3)	(93.3)	Others	12.1	8.9	8.9	8.9
Gross profit	27.6	22.4	24.2	26.1	Non-current assets	16.5	13.0	13.4	13.5
Other income	0.3	0.1	0.0	0.0					
Operating expenses	(20.5)	(20.7)	(18.2)	(19.7)	Inventories	17.5	19.4	18.0	20.1
Operating profit	7.4	1.8	6.0	6.5	Trade receivables	30.3	31.5	34.2	35.4
Finance expenses	(1.3)	(1.8)	(1.4)	(1.2)	Cash & cash equivalents	15.3	17.9	16.5	23.8
JV & Ass.	-	-	-	-	Others	0.8	4.3	1.1	1.1
Profit before tax	6.1	0.0	4.6	5.3	Current assets	63.9	73.1	69.8	80.3
Tax	(1.6)	0.0	(1.3)	(1.5)					
Net profit	4.6	0.1	3.2	3.8	Total assets	80.4	86.1	83.2	93.8
YoY growth	20.2%	-97.0%	2230.9%	16.2%	LT borrowings	16.0	17.1	12.9	12.2
					Others	1.0	1.1	1.2	1.3
Adj. EBITDA	12.7	8.2	9.2	10.5	Non-current liabilities	17.1	18.2	14.1	13.4
					Trade payables	24.6	33.8	28.8	36.1
					ST borrowings	8.5	3.5	3.5	3.5
					Others	5.9	5.5	8.9	9.0
					Current liabilities	39.0	42.7	41.3	48.7
					Total liabilities	56.1	61.6	55.4	62.1
					Non-controlling interests	-	-	-	-
					Controlling interests	24.3	24.5	27.9	31.7
					Total equities	24.3	24.5	27.9	31.7

Cash Flow	2022	2023	2024	2025	Financial Ratio	2022	2023	2024	2025
(USD,mn)	(A)	(E)	(E)	(E)		(A)	(E)	(E)	(E)
Profit before tax	6.1	0.2	4.6	5.3	Gross margin	21.8%	21.9%	21.9%	21.9%
Finance expenses	1.1	1.9	1.4	1.1	Operating margin	5.9%	2.0%	5.4%	5.4%
Finance income	-	(0.1)	-	-	Net profit margin	3.6%	0.1%	2.9%	3.2%
Depreciation&Amortization	3.1	2.1	1.4	2.0	Adj. EBITDA profit margin	10.0%	8.0%	8.3%	8.8%
Others	(1.7)	0.2	(1.1)	(1.3)	Return on Equity	19.9%	0.6%	12.4%	12.6%
Change in working capital	(7.2)	5.4	(5.8)	3.9	Return on Asset	4.9%	0.2%	3.8%	4.3%
<b>CFO</b>	<b>1.4</b>	<b>9.7</b>	<b>0.3</b>	<b>10.9</b>	Current ratio	163.8%	171.0%	169.2%	165.2%
					Quick ratio	119.0%	125.6%	125.6%	123.9%
CAPEX	(1.1)	(1.7)	(2.0)	(2.5)	Cash ratio	39.3%	41.8%	40.0%	48.9%
Others	-	-	-	-	Debt-to-Equity ratio	101.0%	86.8%	59.0%	49.4%
<b>CFI</b>	<b>(1.1)</b>	<b>(1.7)</b>	<b>(2.0)</b>	<b>(2.5)</b>	Inventory turnover days	82.4	84.1	79.1	74.5
					Receivable turnover days	102.5	110.2	108.6	106.4
Share issuance	-	-	-	-	Payable turnover days	138.2	133.1	132.4	127.1
Net borrowings	2.5	(3.3)	(1.4)	0.4					
Interest paid	(1.1)	(1.7)	(1.2)	(1.0)					
Dividend paid	(1.9)	-	-	-					
Others	(3.6)	(0.6)	(0.3)	(0.5)					
<b>CFF</b>	<b>(4.1)</b>	<b>(5.6)</b>	<b>(2.9)</b>	<b>(1.1)</b>					
<b>FCFE</b>	<b>2.8</b>	<b>4.7</b>	<b>(3.0)</b>	<b>8.8</b>					
<b>FCFF</b>	<b>1.1</b>	<b>9.2</b>	<b>(0.8)</b>	<b>9.1</b>					

Source: Company data, SBI CHINA CAPITAL

*SBI China Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: [research@sbichinacapital.com](mailto:research@sbichinacapital.com), [thomsononeanalytics.com](http://thomsononeanalytics.com), [factset.com](http://factset.com), S&P Capital IQ and [multex.com](http://multex.com).*

### SBI China Capital stock ratings:

**STRONG BUY** : absolute upside of >50% over the next 12 months

**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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A fellow subsidiary company of SBI China Capital Financial Services Limited owns more than one percent of the ordinary shares of HOME CONTROL INTERNATIONAL LIMITED (Stock code: 01747.HK).

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