

17 November 2022

Nova Wellness Group

A Strong Start to FY23

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NOVA's 1QFY23 results met our forecast. The strong sequential quarterly performance indicated that its recent price hikes were well absorbed by the market, and also to a certain extent, we believe on consumers stocking up health supplement products taking precautions amidst rising cases of the common flu and influenza-like illnesses. We maintain our forecasts, TP of RM1.09 and OUTPERFORM call.

1QFY23 core net profit of RM4.4m met our expectation at 21% of our full-year forecast.

YoY, 1QFY23 revenue and net profit fell 17% and 15%, respectively. However, we are unperturbed as we believe it was due to the high base effect in 1QFY22, probably on the back of introduction of new products or stronger promotional campaigns.

QoQ, 1QFY23 turnover grew 13% due to price hikes and to a certain extent, we believe, on consumers stocking up health supplement products taking precautions amidst rising cases of the common flu and influenza-like illnesses (following increased contacts within the population after the lifting of pandemic restrictions). 1QFY23 core net profit more than doubled on reduced start-up cost incurred arising from commercial production in its new plant and better overhead absorption on improved sales volumes.

Outlook. The prospect for the domestic health supplement market is strong, driven by the rising awareness for proper nutrition intake and growing ageing population. The Malaysia nutraceuticals market is projected to reach USD1,382.3m by 2027 from USD794.4m in 2020.

Zooming in on NOVA, the group guided for a 15-18% volume growth (which is consistent with our FY23F volume and ASP assumption of 17% and 2% increases, respectively), having chalked up an average volume growth rate of 16-18% in FY20-22. Specifically, FY23F volume growth is expected to be fueled by full-year impact from the introduction of 35 new SKUs in FY22.

Forecasts. We maintain our FY23F/FY24F forecasts and TP of RM1.09 based on 15x CY23F EPS, in line with closest comparable peers. There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us (see Page 2). Maintain OUTPERFORM.

We like NOVA for its: (i) integrated business model which encompasses the entire spectrum of pharmaceutical value chain from product conceptualization starting from R&D to manufacturing and sales, (ii) superior margins due to its original business manufacturing (OBM) business model, and (iii) earnings growth driven by capacity expansion, a widening distribution network and penetration into local public hospitals.

Risks to our call include: (i) intense competition from existing/new and local/foreign players, (ii) weak ringgit resulting in high cost of imported inputs, and (iii) product safety and regulatory risks.

OUTPERFORM ↔

Price: **RM0.91**
Target Price: **RM1.09** ↔

Expected Capital Gain: **RM0.18** 19.8%
Expected Divd. Yield: **RM0.02** 2.2%
Expected Total Gain: **RM0.20** 22%

KLCI Index 1,448.38

Stock Information

Bloomberg Ticker	NOVA MK Equity
Bursa Code	0201
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	318.4
Market Cap (RM m)	288.2
52-week range (H)	1.05
52-week range (L)	0.82
Free Float	14%
Beta	0.5
3-mth avg daily vol	79,346

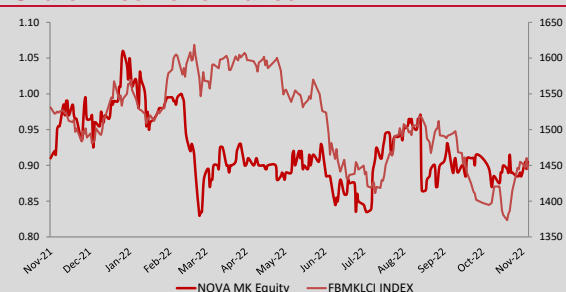
Major Shareholders

Tan Sok Mooi	42.4%
Phang Yeen Aun	7.9%
Phang Yeen Nung	7.9%

Summary Earnings Table

FY Jun (Rm m)	2022A	2023F	2024F
Turnover	49.1	59.5	70.3
EBITDA	22.8	29.7	34.9
PBT	20.3	27.4	32.3
Net Profit	15.9	21.2	25.1
Core Net Profit	16.6	21.2	25.1
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
Core EPS (sen)	5.2	6.7	7.9
Core EPS growth (%)	13.9	27.7	18.7
NDPS (sen)	3.3	2.3	2.8
Price to NTA (x)	3.1	2.7	2.3
PER (x)	17.3	13.5	11.4
PBV (x)	2.9	2.5	2.2
Net Gearing (%)	Cash	Cash	Cash
Net Div. Yield (%)	3.6	2.6	3.1

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-0.5%	-6.2%	-1.1%
Relative (%)	-5.3%	-1.6%	3.8%



Result Highlight					
	1Q FY22	4Q FY22	1Q FY23	QoQ Chg %	YoY Chg %
FY Jun (RM m)					
Turnover	14.5	10.6	12.0	13.4	(17.0)
EBITDA	7.1	3.1	6.1	98.5	(13.8)
PBT	6.9	1.7	5.6	>100	(18.0)
Net Profit (NP)	5.2	1.4	4.3	>100	(17.9)
Core NP^	5.2	2.1	4.4	>100	(15.4)
EPS (sen)	1.6	0.5	1.3	>100	(18.3)
EBITDA margin (%)	49.2	29.2	51.1		
PBT margin (%)	47.6	16.3	47.0		
Net profit (%)	36.0	13.6	35.6		
Effective tax rate (%)	24.4	16.4	24.3		

Source: Company, Kenanga Research
 ^exclude one-off share options

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
	SPECIFIC	Medical waste disposal	★	★	★	
Usage of biodegradable materials		★	★	☆		
Energy efficiency		★	★	★		
Product safety		★	★	★	☆	
Work site safety		★	★	★	☆	
Staff welfare		★	★	☆		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	5.95	7.20	21%	52,396	Y	12/2022	18.6	20.5	2%	11%	32.1	29.0	2.2	7%	6.0	1%
KPJ HEALTHCARE BHD	MP	0.850	0.870	2%	3,692	Y	12/2022	2.8	3.4	129%	23%	30.5	24.7	1.6	5%	1.2	1%
MALAYSIAN GENOMICS	OP	0.735	1.07	46%	91	Y	06/2023	4.6	6.3	-14%	37%	16.1	11.7	1.9	14%	0.0	0%
RESOURCE CENTRE BHD																	
NOVA WELLNESS GROUP BHD	OP	0.905	1.09	20%	288	Y	06/2023	6.7	7.9	20%	18%	13.6	11.5	2.5	20%	3.0	3%
PHARMANIAGA BHD	MP	0.555	0.590	6%	727	Y	12/2022	6.1	5.4	-54%	-12%	9.1	10.3	1.5	17%	3.3	6%
Simple Average																	

Source: Company, Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations****

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**** The Expected Total Return might contain rounding discrepancy**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published by:

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