

24 May 2023

Nova Wellness Group

A Soft Patch, New SKUs to Boost Sales

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NOVA's 9MFY23 results missed our forecast. However, we stay upbeat on its earnings outlook, especially from FY24 onwards, driven by the gradual ramp-up of its new plant, full-year contribution from 35 new SKUs, and the absence of start-up cost. We cut our FY23-24F net profit forecasts by 18% and 4%, respectively, reduce our TP by 4% to RM0.96 (from RM1.00) but reiterate our OUTPERFORM call.

9MFY23 core net profit of RM10.8m missed our expectation at only 60% of our full-year forecast. The variance against our forecast came largely from a lower-than-expected sales volume and higher-than-expected start-up costs.

YoY, 9MFY23 revenue fell 9% due to lower sales volume which we believe was due to slower-than-expected ramp-up in its new plant and softer promotional campaigns. Normalised EBITDA (excluding gain from land sale) fell 17% as EBITDA margin fell slightly by 4ppts from 50% to 46% due to start-up cost incurred as its new plant commenced production. As a result, 9MFY23 core net profit declined by 26%. No dividend was declared which came in within expectation. QoQ, 3QFY23 normalised EBITDA margin fell 6ppts to 40% due to start-up cost incurred arising from commercial production of its new plant. We gathered that the start-up cost has come to a tail-end. 3QFY23 core net profit declined by 22%.

Outlook. We expect growth in subsequent quarters to be fuelled by gradual ramp-up of its new plant and full-year impact from the introduction of 35 new SKUs in FY22 (compared to 15 in FY21) including six low glycemic index bread (croissant and sourdough bread), six health supplements, and 23 Activmax and Sustinex range of functional food products such as plant-based protein including specialty Activmax for hospitals. Activmax and Sustinex are house-brand products developed with embedded vitamins and other nutrients to fulfill consumers' nutritional needs. Moreover, the group has made further inroads over the past 18 months penetrating local public hospitals which has grown from initially 32 to presently 50-60, accounting for <5% of revenue for its nutritional products currently. The group also saw doubling of distributors to over 900, with an expansion target of 1,200 by FY25.

Forecasts. We cut our FY23-24F net profit forecasts by 18% and 4%, respectively as: (i) we moderate our sales volume growth assumptions from 10-14% to 5-13% due to the slower-than-expected ramp-up of its new plant, and (ii) we conservatively reduce our EBITDA margin assumptions from 48-50% to 42-49%.

Consequently, we reduce our TP by 4% to RM0.96 (from RM1.00) based on 15x FY24F 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).

We like NOVA for its: (i) integrated business model which encompasses the entire spectrum of pharmaceutical value chain from product conceptualization, 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. Maintain **OUTPERFORM**.

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

OUTPERFORM ↔

Price: **RM0.86**
Target Price: **RM0.96** ↓

Expected Capital Gain: **RM0.10 11.6%**
Expected Divd. Yield: **RM0.03 3.3%**
Expected Total Gain: **RM0.13 14.9%**

KLCI Index 1,411.5

Stock Information

Bloomberg Ticker	NOVA MK Equity
Bursa Code	0201
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	318.7
Market Cap (RM m)	274.1
52-week range (H)	0.96
52-week range (L)	0.81
Free Float	14%
Beta	0.5
3-mth avg daily vol	39,379

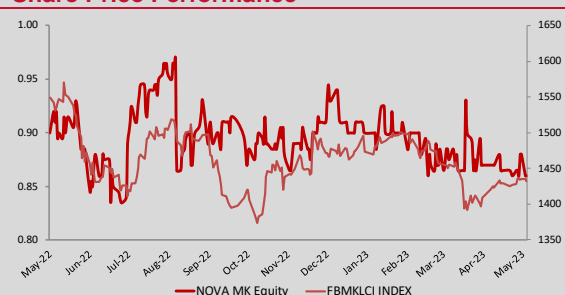
Major Shareholders

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	51.6	58.5
EBITDA	22.8	21.4	28.8
PBT	20.3	19.1	26.2
Net Profit	15.9	14.8	20.4
Core Net Profit	15.9	14.8	20.4
Consensus (NP)	-	-	-
Earnings Revision	-	-18%	-4%
Core EPS (sen)	5.0	4.7	6.4
Core EPS growth (%)	9.2	(7.0)	37.7
NDPS (sen)	3.3	3.0	3.5
Price to NTA (x)	2.9	2.7	2.4
PER (x)	17.2	19.3	14.0
PBV (x)	2.7	2.5	2.2
Net Gearing (%)	Cash	Cash	Cash
Net Div. Yield (%)	3.6	3.3	3.9

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.1%	-4.4%	-6.5%
Relative (%)	-0.4%	-1.3%	2.0%

Results Highlights								
FYE Jun (RM m)	3QFY23	2QFY23	QoQ Chg	3QFY22	YoY Chg	9MFY22	6MFY23	YoY Chg
Turnover	11.0	12.0	(8.0)	12.0	(8.0)	38.6	35.1	(9.1)
EBITDA	4.4	6.1	(28.5)	6.0	(26.4)	19.2	16.6	(13.1)
PBT	3.9	5.7	(31.2)	5.6	(31.0)	18.4	15.2	(17.3)
Net Profit (NP)	2.9	4.3	(31.4)	4.9	(39.8)	14.5	11.4	(20.7)
Core NP	2.9	3.7^	(21.6)	4.9	(39.8)	14.5	10.8^	(25.5)
EPS (sen)	0.9	1.3	(31.4)	1.5	(40.1)	4.6	3.6	(20.8)
EBITDA margin (%)	39.7	51.1		49.6		49.7	47.5	
PBT margin (%)	35.3	47.1		47.1		47.7	43.4	
Net profit (%)	26.6	35.7		40.7		37.6	32.8	
Effective tax rate (%)	24.6	24.3		13.6		21.2	24.4	

Source: Company, Kenanga Research
 ^exclude gain from divestment of land (RM0.6m)

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	☆		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	☆		
	Energy Efficiency	★	★	★		
	Education & Training	★	★	★	☆	
	Talent Management	★	★	★	☆	
	Supply Chain Management	★	★	☆		
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	5.90	7.00	18.6%	51,961	Y	12/2023	18.8	20.7	20%	10%	31.3	28.6	1.9	6.2%	7.0	1.2%
KOTRA INDUSTRIES BHD	OP	5.54	7.00	26.4%	820	Y	06/2023	42.8	46.7	2%	9%	13.0	11.9	2.7	23.0%	19.0	3.4%
KPJ HEALTHCARE BHD	OP	1.14	1.50	31.6%	4,975	Y	12/2023	4.7	5.3	22%	13%	24.2	21.4	2.2	9.2%	3.0	2.6%
MALAYSIAN GENOMICS	OP	0.520	0.800	53.8%	68	Y	06/2023	1.3	4.7	-75%	256%	39.1	11.0	1.5	4.3%	0.0	0.0%
RESOURCE CENTRE BHD																	
NOVA WELLNESS GROUP BHD	OP	0.860	0.960	11.6%	274	Y	06/2023	4.7	6.4	-11%	38%	19.3	14.0	2.5	14.1%	3.0	3.5%

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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