

23 May 2024

# Nova Wellness Group

## A Soft Patch, New SKUs to Drive Growth

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NOVA's 9MFY24 results disappointed. Its 9MFY24 core net profit declined 18% on reduced sales and the resulting deterioration of operating scale. However, we remain upbeat on its prospects driven by higher production at its new plant and the recovery in consumer spending. We cut our FY24-25F net profit forecasts by 16% and 15%, respectively, reduce our TP by 5% to RM0.70 (from RM0.74) but reiterate our OUTPERFORM call.

Its 9MFY24 core net profit of RM9m disappointed, accounting for only 57% and 58% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from weaker-than-expected sales, we believe, as consumers temporarily held back purchases on weak spending sentiment and lower-than-expected margin. No dividend was declared which came in within expectation.

YoY, its 9MFY24 revenue fell 12%, we believe, as consumers held back purchases. Its core net profit declined by a sharper 18% on loss of operating scale both in terms of manufacturing and marketing.

QoQ, its 3QFY24 top line was flattish while core net profit fell 24% due to: (i) we believe, cost pressure; and (ii) a higher tax rate on the depletion of deferred tax assets.

**Outlook.** We expect consumer sentiment to gradually improve during the year as and when more clarity emerges over subsidy rationalisation, especially in relation to RON95. Once put in place, consumers will gradually "come to terms" with it and resume spending in accordance with what they can afford. A 13% hike in the salary of civil servants from Dec 2024 and a gradual pick-up in the local economy and job market in-line with the recovery in the global economy will also help.

Meanwhile, NOVA is ramping up production at its new plant during the year. There is also earnings impact from the introduction of 15-20 new SKUs in FY23 (in addition to 35 in FY22) including skincare products, health supplements, and Activmax and Sustinex range of functional food products such as plant-based protein including specialty Activmax for hospitals.

**Forecasts.** We cut our FY24-25F net profit forecasts by 16% and 15% as we moderate our annual sales volume growth assumptions to only 2-7% (from 6-9%) respectively, and lower our EBITDA margin assumption for both years to 40% (from 45%).

**Valuations.** Consequently, we reduce our TP by 5% to RM0.70 (from RM0.74) also to reflect the rolling forward of our valuation base year to FY25F (from FY24F). The basis of our TP of 15x FY25F EPS, is in line with its peers' average. There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us (see Page 2).

**Investment case.** We continue to 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:	RM0.615
Target Price:	RM0.70 ↓
Expected Capital Gain:	RM0.085 13.8%
Expected Divd. Yield:	RM0.03 4.9%
Expected Total Gain:	RM0.115 18.7%

KLCI Index 1,622.09

### 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)	196.0
52-week range (H)	0.86
52-week range (L)	0.51
Free Float	14%
Beta	0.6
3-mth avg. daily vol.	377,185

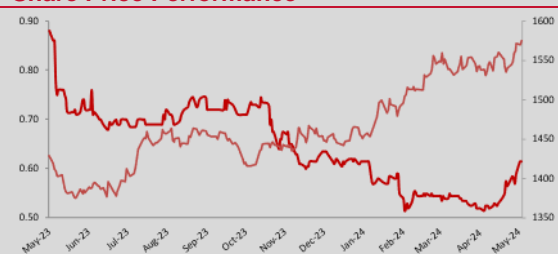
### Major Shareholders

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

### Summary Earnings Table

FY Jun (RM m)	2023A	2024F	2025F
Turnover	45.5	49.3	54.9
EBITDA	21.7	19.6	22.0
PBT	19.8	16.9	19.1
<b>Net Profit</b>	<b>15.0</b>	<b>13.1</b>	<b>14.8</b>
<b>Core Net Profit</b>	<b>14.3</b>	<b>13.1</b>	<b>14.8</b>
Consensus (NP)	-	15.4	17.7
Earnings Revision	-	-16%	-15%
Core EPS (sen)	4.5	4.1	4.7
Core EPS Growth (%)	(10.1)	(8.3)	13.2
NDPS (sen)	3.3	3.0	3.0
Price to NTA (x)	2.0	1.8	1.7
PER (x)	13.7	14.9	13.2
PBV (x)	1.8	1.7	1.6
Net Gearing (%)	Cash	Cash	Cash
Net Div. Yield (%)	5.4%	4.9%	4.9%

### Share Price Performance



	1-mth	3-mth	12-mth
Absolute (%)	7.6%	-3.4%	-34.3%
Relative (%)	3.7%	-7.7%	-48.6%

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Result Highlights								
FYE Jun (RM m)	3QFY24	2QFY24	QoQ Chg (%)	3QFY23	YoY Chg (%)	9MFY3	9MFY24	YoY Chg (%)
Turnover	10.1	10.2	(1.4)	11.0	(8.7)	35.1	30.7	(12.3)
EBITDA	3.5	4.1	(14.5)	4.4	(19.3)	16.0	12.8	(20.2)
Depreciation	(0.5)	(0.5)	(3.0)	(0.6)	(9.1)	(1.7)	(1.7)	(1.5)
Net interest expense	0.1	0.1	0.0	0.1	(16.9)	0.3	0.2	(26.2)
EI	0.0	0.0	NM	0.0	NM	0.6*	(1.4)^	NM
PBT	3.1	3.7	(16.0)	3.9	(20.7)	15.2	9.9	(34.8)
Tax	(1.2)	(0.6)	102.9	(1.0)	30.0	(3.7)	(2.4)	(35.0)
Net Profit (NP)	1.8	3.1	(39.8)	2.9	(37.3)	11.5	7.5	(34.8)
Core NP	1.8	3.1	(39.8)	2.9	(37.3)	10.9	8.9	(18.3)
EPS (sen)	0.6	1.0	(39.6)	0.9	(37.2)	3.6	2.4	(34.8)
EBITDA margin (%)	35.1	40.5		39.7		45.8	41.7	
PBT margin (%)	30.6	35.9		35.3		43.4	32.2	
Net profit (%)	18.3	29.9		26.6		32.8	24.4	
Effective tax rate (%)	40.3	16.7		24.6		24.4	24.3	

Source: Company, Kenanga Research

^excluding one-off provision of stock obsolescence (RM1.4m)

\*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	★	★	☆		
<b>OVERALL</b>		★	★	★	

☆ 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.
<b>Stocks Under Coverage</b>																	
IHH HEALTHCARE BHD	OP	6.27	7.00	11.6%	55,220	Y	12/2024	20.6	21.6	41.6%	4.8%	30.4	29.0	1.8	6.1%	7.0	1.1%
KOTRA INDUSTRIES BHD	OP	4.50	5.35	18.9%	667	Y	06/2024	29.5	35.6	-33.0%	20.6%	15.2	12.6	2.1	14.9%	26.0	5.8%
KPJ HEALTHCARE BHD	OP	2.01	1.95	-3.0%	9,098	Y	12/2024	6.2	6.9	7.4%	12.0%	32.6	29.1	3.6	11.2%	3.4	1.7%
NOVA WELLNESS GROUP BHD	OP	0.615	0.700	13.8%	196	Y	06/2024	4.1	4.7	-8.4%	13.0%	14.9	13.2	1.7	11.9%	3.3	5.4%
PHARMANIAGA BHD	UP	0.320	0.310	-3.1%	461	Y	12/2024	3.1	3.2	-41.9%	2.7%	10.2	10.0	(1.8)	-16.4%	0.0	0.0%

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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