

Stock Digest

Tuesday, 07 Nov, 2023

Nova Wellness Group Bhd

Started FY24 on a weaker note

Summary

- **Results below expectation.** NOVA started FY24 on a weaker tone, registering a core PATMI of RM2.6m in 1Q24. The core PATMI was down 26.0% QoQ, and 38.2% YoY. It was below our expectation of RM16.6m for FY24f, accounting for only 16%, while 13% versus consensus estimate of RM20.4m. The key deviations were mainly due to the higher cost of sales that was incurred during the quarter, coupled with the provisions made for stock obsolescence.
- **QoQ.** In 1Q24, NOVA's core PATMI declined 26.0%. Revenue for the OEM segment dropped significantly by 83%, while it was offset by the increase of House Brand by 34%. However, the weaker set of core PATMI was believed to be caused by stronger USD, where NOVA's raw material purchases and packaging materials from overseas are denominated in USD; the costs of sales for 1Q24 rose 63% QoQ. Meanwhile, the other expenses were up more than 100% on the back of provisions made for stock obsolescence.
- **YoY.** Meanwhile, core PATMI fell 38% YoY, due to higher costs of sales and increased other expenses due to stronger USD and provisions made for the stock obsolescence.
- **Outlook.** We noticed that the raw material costs have spiked up in tandem with the stronger USD environment in the previous quarters. Despite the recent weakening of USD against ringgit, overall post-Covid-19 landscape and global economic uncertainties with the slowdown in China will be challenging for NOVA to achieve a target outlets of 1,200 by end-2023. Hence, it may stretch into 2024 for that objective. Nonetheless, NOVA remains committed to expand its product portfolio market presence while striving for enhanced production efficiencies.
- **Forecasts.** We revise NOVA's core PATMI downwards by -21.2%-21.8% from RM16.6-17.8m for FY24-25f to RM13.0-14.0m, respectively. The downward revision of earnings has taken into account the softer contribution from the OEM segment, coupled with higher operating costs environment.
- **Downgrade to SELL, TP: RM0.57.** With the downward revision in our earnings forecast, we downgrade NOVA to **SELL** (from Hold), with a target price of RM0.57 (from RM0.73) pegged to FY24f forecasted earnings. The target price is derived by ascribing a P/E of 14.0x to FY24f EPS of 4.07 sen. Meanwhile, NOVA has a dividend policy of distributing not less than 30.0% of its annual net profit after tax.
- **Risks** will include the (i) potential supply chain disruptions, which may impact the availability of raw materials, (ii) foreign currency risk relating to USD as a significant portion of its raw material purchases from abroad are denominated in USD and (iii) any depreciation in ringgit will result in increased costs for raw materials and packaging materials, potentially affecting the group's margin.

Results note – 1QFY24

Loui Low Ley Yee
louilow@msec.com.my
(603) 2201 2100

SELL (from Hold)

Share price	RM0.73
Target price	RM0.57
Previous TP	RM0.73
Capital upside	-21.9%
Dividend return	2.1%
Total return	-19.8%

Company profile

Principally involved in the development, production and sales of nutraceutical and skincare products.

Stock information

Bursa Code	0201
Bloomberg ticker	NOVA MK
Listing market	MAIN
Share issued (m)	318.7
Market Cap (m)	232.7
52W High/Low	0.937 / 0.68
Est. Free float	14.4
Beta (x)	0.7
3-mth avg vol ('000)	28.3
Shariah compliant	Yes

Major shareholders

	%
Tan Sok Mooi	42.4
Phang Nyie Lin	7.9
Phang Yeen Nung	7.9

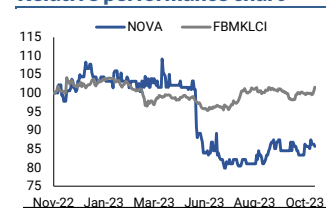
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-0.7	5.8	-16.9
Relative	-3.9	4.4	-18.1

Earnings snapshot

FYE (Dec)	FY22	FY23	FY24f
PATMI (m)	16.1	14.4	13.0
EPS (sen)	5.1	4.5	4.1
P/E (x)	17.0	16.2	17.9

Relative performance chart



Quarterly results performance

Quarterly performance					
FYE Jun (RM m)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	12.0	10.5	10.4	(0.3)	(13.0)
EBITDA	5.3	5.1	3.7	(27.4)	(29.2)
PBT	5.6	4.6	3.1	(31.2)	(44.2)
Core PATMI	4.2	3.5	2.6	(26.0)	(38.2)
Reported PATMI	4.2	3.5	2.6	(26.0)	(38.2)
Core EPS (sen)	1.3	1.1	0.8	(26.0)	(38.2)
EBITDA margin (%)	43.8	49.0	35.7		
PBT margin (%)	47.0	43.6	30.1		
Core PATMI margin (%)	35.0	33.5	24.9		

Source: Company, Malacca Securities Research

Financial Highlights

Income Statement						Balance Sheet					
FYE Jun (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Jun (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	40.5	49.1	45.5	42.6	45.3	Cash	27.7	20.4	7.5	37.6	43.6
EBITDA	19.8	21.3	20.6	19.2	20.8	Receivables	15.2	17.9	23.6	14.0	14.9
EBIT	18.7	19.8	18.9	16.6	18.0	Inventories	14.5	19.7	22.9	13.1	13.5
Net finance income/ (cost)	0.6	0.4	0.3	0.5	0.5	PPE	33.8	41.7	51.0	56.5	61.8
Associates & JV	-	-	-	-	-	Others	13.3	12.7	13.5	13.7	13.8
Profit before tax	19.3	20.3	19.2	17.1	18.5	Assets	104.5	112.4	118.5	135.0	147.6
Tax	(4.7)	(4.2)	(4.8)	(4.1)	(4.4)	Debts	-	-	-	-	-
Net profit	14.6	16.1	14.4	13.0	14.0	Payables	3.2	5.9	6.8	4.7	4.9
Minority interest	-	-	-	-	-	Others	7.3	6.0	5.7	7.3	8.3
Core earnings	14.6	16.1	14.4	13.0	14.0	Liabilities	10.5	11.9	12.5	12.1	13.2
Exceptional items	(0.0)	-	(0.6)	-	-	Shareholder's equity	93.9	100.5	106.0	114.3	124.1
Reported earnings	14.6	16.1	15.0	13.0	14.0	Minority interest	-	-	-	-	-
						Equity	93.9	100.5	106.0	114.3	124.1
Cash Flow Statement						Valuation & Ratios					
FYE Jun (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Jun (RM m)	FY21	FY22	FY23	FY24f	FY25f
Profit before taxation	19.3	20.3	19.2	17.1	18.5	Core EPS (sen)	4.6	5.1	4.5	4.1	4.4
Depreciation & amortisation	1.1	1.4	1.7	2.6	2.9	Diluted EPS (sen)	4.6	5.1	4.5	4.1	4.4
Changes in working capital	(6.7)	(5.2)	(8.0)	17.2	(1.1)	P/E (x)	16.0	14.4	16.2	17.9	16.6
Share of JV profits	-	-	-	-	-	DPS (sen)	3.0	3.2	3.3	1.2	1.3
Taxation	(4.7)	(4.2)	(4.8)	(4.1)	(4.4)	Dividend yield	4.1%	4.4%	4.5%	1.7%	1.8%
Others	0.1	(0.1)	0.7	-	-	BVPS (RM)	0.29	0.32	0.33	0.36	0.39
Operating cash flow	9.1	12.3	8.8	32.8	15.8	P/B (x)	2.5	2.3	2.2	2.0	1.9
Net capex	(0.9)	(13.5)	(8.1)	(8.8)	(6.4)	EBITDA margin	48.9%	43.3%	45.2%	45.0%	46.0%
Others	(0.3)	-	-	-	-	EBIT margin	46.2%	40.4%	41.4%	38.9%	39.7%
Investing cash flow	(5.8)	(9.5)	(11.9)	(8.3)	(8.3)	PBT margin	47.6%	41.3%	42.1%	40.1%	40.7%
Changes in borrowings	-	-	-	-	-	PAT margin	36.0%	32.8%	31.6%	30.5%	31.0%
Issuance of shares	-	0.0	0.9	-	-	Core PAT margin	36.0%	32.8%	31.6%	30.5%	31.0%
Dividends paid	(9.5)	(10.2)	(10.5)	(3.9)	(4.2)	ROE	16.1%	16.6%	13.9%	11.8%	11.8%
Others	1.0	-	-	-	-	ROA	14.5%	14.9%	12.5%	10.2%	9.9%
Financing cash flow	(8.5)	(10.1)	(9.8)	(3.9)	(4.2)	Net gearing	CASH	CASH	CASH	CASH	CASH
Net cash flow	(5.2)	(7.3)	(12.9)	30.1	6.0						
Forex	-	-	-	-	-						
Others	0.0	-	-	-	-						
Beginning cash	32.9	27.7	20.4	7.5	37.6						
Ending cash	27.7	20.4	7.5	37.6	43.6						

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(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned
