

Stock Digest

Tuesday, 15 Aug, 2023

Nova Wellness Group Bhd

Still a challenging landscape for a recovery

Summary

- To recap, NOVA's 3Q23 core net profit declined 39.8% YoY to RM2.9m, bringing 9M23 core net profit to RM10.9m (-24.9% YoY). The results were below expectations and key deviations were mainly attributed to a (i) lower-than-expected contribution from the House Brand segment and (ii) higher cost of sales, admin costs (employee bonus and benefits) as well as other operating expenses (higher R&D costs). Overall, core net profit margin shrank from 40.7% to 26.6% YoY.
- QoQ, core net profit plummeted 20.1%, resulted primarily from the (i) decrease in sales order for the House Brand products, and (ii) increase in admin and operating expenses.
- Production facilities.** The ongoing construction of Phase 2 of NOVA's new plant is underway and it will serve as an expansion to its current supplement and skin care manufacturing. For the skincare manufacturing, it will introduce a fresh lineup of products including cream, balms, ointment, and shampoos. Since this will involve a new product range and brand, it is expected to take at least 2-3 years for it to establish a strong presence in the market.
- Outlook.** Still, we expect a slower growth on NOVA's performance as the group navigates the challenging post-Covid-19 landscape and global economic uncertainties and we believe NOVA's target outlets of 1,200 may be tough to achieve in CY23. Nonetheless, NOVA remains committed to expand on the product portfolio and its market presence while striving for enhanced production efficiencies. Additionally, the group is working on introducing new programmes for its partners.

Valuation & Recommendation

- In our previous report, we have revised our core net earnings to RM14.8m, RM16.6m, and RM17.8m for FY23f, FY24f, and FY25f respectively. The forecasted earnings take into account the slower-than-expected growth on the contribution from House Brand segment, as well as the higher contribution from OEM segment.
- Given the share price has fell near 20% since the previous report, we upgrade our recommendation on NOVA to **HOLD** (from SELL), with a target price of RM0.73 pegged to FY24f forecasted earnings (in the previous report). The target price is derived by ascribing a P/E of 14.0x to FY24f EPS of 5.2 sen. Do note that, NOVA has a dividend policy of distributing not less than 30.0% of its annual net profit after tax.
- Risks to our recommendation include the possibility of supply chain disruptions, both domestically and internationally, which may impact the availability of raw materials. Besides, the group is exposed to foreign currency risk relating to USD as a significant portion of its raw material purchases from abroad are denominated in USD. Any depreciation in ringgit against USD will result in increased costs for raw materials and packaging materials, potentially affecting the group's margin.

Company update

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HOLD

Share price	RM0.86
Target price	RM0.73
Previous TP	RM0.75
Capital upside	-15.1%
Dividend return	1.8%
Total return	-13.3%

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)	274.1
52W High/Low	0.957 / 0.814
Est. Free float	14.0
Beta	0.5
3-mth avg vol ('000)	39.3
Shariah compliant	Yes

Major shareholders

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

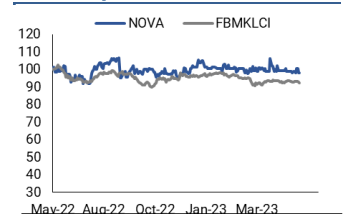
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-1.1	-3.2	-4.1
Relative	-0.4	0.0	4.0

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	16.1	14.8	16.6
EPS (sen)	5.1	4.6	5.2
P/E (x)	17.0	18.5	16.5

Relative performance chart



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Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Jun (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Jun (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	40.5	49.1	47.1	49.7	52.3	Cash	27.7	20.4	30.4	37.6	43.6
EBITDA	19.8	21.3	20.5	23.1	24.8	Receivables	15.2	17.9	16.1	16.3	17.2
EBIT	18.7	19.8	19.2	21.6	23.2	Inventories	14.5	19.7	15.5	13.8	14.2
Net finance income/ (cost)	0.6	0.4	0.5	0.5	0.5	PPE	33.8	41.7	47.8	53.8	59.6
Associates & JV	-	-	-	-	-	Others	13.3	12.7	13.4	14.2	15.0
Profit before tax	19.3	20.3	19.7	22.1	23.7	Assets	104.5	112.4	123.2	135.7	149.7
Tax	(4.7)	(4.2)	(4.9)	(5.5)	(5.9)	Debtors	-	-	-	-	-
Net profit	14.6	16.1	14.8	16.6	17.8	Payables	3.2	5.9	5.2	5.0	5.1
Minority interest	-	-	-	-	-	Others	7.3	6.0	7.7	8.9	10.2
Core earnings	14.6	16.1	14.8	16.6	17.8	Liabilities	10.5	11.9	13.0	13.8	15.3
Exceptional items	(0.0)	-	-	-	-	Shareholder's equity	93.9	100.5	110.2	121.9	134.3
Reported earnings	14.6	16.1	14.8	16.6	17.8	Minority interest	-	-	-	-	-
						Equity	93.9	100.5	110.2	121.9	134.3
Cash Flow Statement						Valuation & Ratios					
FYE Jun (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Jun (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	19.3	20.3	19.7	22.1	23.7	Core EPS (sen)	4.6	5.1	4.6	5.2	5.6
Depreciation & amortisation	1.1	1.4	1.3	1.5	1.7	Diluted EPS (sen)	4.6	5.1	4.6	5.2	5.6
Changes in working capital	(6.7)	(5.2)	5.3	1.2	(1.2)	P/E (x)	18.8	17.0	18.5	16.5	15.4
Share of JV profits	-	-	-	-	-	DPS (sen)	3.0	3.2	1.4	1.6	1.7
Taxation	(4.7)	(4.2)	(4.9)	(5.5)	(5.9)	Dividend yield	3.5%	3.7%	1.6%	1.8%	1.9%
Others	0.1	(0.1)	1.4	1.2	1.4	BVPS (RM)	0.29	0.32	0.35	0.38	0.42
Operating cash flow	9.1	12.3	22.8	20.5	19.7	P/B (x)	2.9	2.7	2.5	2.2	2.0
Net capex	(0.9)	(13.5)	(8.1)	(8.8)	(6.4)	EBITDA margin	48.9%	43.3%	43.5%	46.5%	47.5%
Others	(0.3)	-	-	-	-	EBIT margin	46.2%	40.4%	40.7%	43.5%	44.3%
Investing cash flow	(5.8)	(9.5)	(8.3)	(8.3)	(8.3)	PBT margin	47.6%	41.3%	41.9%	44.6%	45.3%
Changes in borrowings	-	-	-	-	-	PAT margin	36.0%	32.8%	31.4%	33.4%	34.0%
Issuance of shares	-	0.0	-	-	-	Core PAT margin	36.0%	32.8%	31.4%	33.4%	34.0%
Dividends paid	(9.5)	(10.2)	(4.4)	(5.0)	(5.3)	ROE	16.1%	16.6%	14.0%	14.3%	13.9%
Others	1.0	-	-	-	-	ROA	14.5%	14.9%	12.5%	12.8%	12.5%
Financing cash flow	(8.5)	(10.1)	(4.4)	(5.0)	(5.3)	Net gearing	CASH	CASH	CASH	CASH	CASH
Net cash flow	(5.2)	(7.3)	10.0	7.2	6.0						
Forex	-	-	-	-	-						
Others	0.0	-	-	-	-						
Beginning cash	32.9	27.7	20.4	30.4	37.6						
Ending cash	27.7	20.4	30.4	37.6	43.6						