

Nova Wellness Group Bhd

Ended FY23 Within Expectations

Summary

- **Results within expectation.** NOVA registered a core PATMI of RM3.5m (QoQ: +19.5%, YoY +156.5%) for 4QFY23, bringing the full year core PATMI to RM14.3m, the result was within our and consensus forecasts at 97%, respectively.
- **QoQ.** Core PATMI rose 19.5% due to the drop in cost of sales by 42%, offsetting the increase in (i) administrative, (ii) selling & distribution and other expenses. The raw material costs may have started to normalize in this quarter.
- **YoY.** Core PATMI surged 156.5% attributed to the drop in costs of sales, administrative and selling & distribution by 50%, 44% and 12%, respectively. The decline in admin expenses was due to the decrease in staff cost during the quarter.
- **YTD.** FY23 core net profit, however fell 9.5% to RM14.3m, in tandem with the lower revenue generated for FY23 at RM45.5m vs. RM49.1m. The drop in revenue by 7.3% was due mainly to softer House Brand performance, falling 13.4% YoY in FY23.
- **Outlook.** We expect NOVA's performance to take a better shape, generating better performance for the rest of CY23 with the normalization of the raw material costs, and may provide upside potential to its earnings for FY24. Nevertheless, in view of the challenging post-Covid-19 landscape and global economic uncertainties, we believe NOVA's target outlets of 1,200 may be tough to achieve in CY23 and may stretch into CY24. Nonetheless, NOVA remains committed to expand its product portfolio market presence while striving for enhanced production efficiencies.
- **Forecasts.** Unchanged core PATMI forecast of RM16.6-17.8m for FY24-25f respectively. The forecasted earnings take into account the softer contribution from House Brand, and higher contribution from OEM segment.
- **Maintain HOLD, TP: RM0.73.** Given the forecast is unchanged; we maintain our HOLD recommendation on NOVA, with a target price of RM0.73 pegged to FY24f forecasted earnings. 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** 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

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HOLD

Share price	RM0.72
Target price	RM0.73
Previous TP	RM0.73
Capital upside	1.4%
Dividend return	2.2%
Total return	3.6%

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)	229.5
52W High/Low	0.957 / 0.68
Est. Free float	14.0
Beta (x)	0.4
3-mth avg vol ('000)	59.7
Shariah compliant	Yes

Major shareholders

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

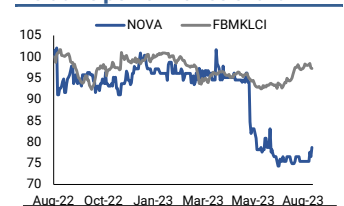
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	4.3	-18.2	-23.6
Relative	2.0	-19.2	-20.5

Earnings snapshot

FYE (Dec)	FY22	FY23	FY24f
PATMI (m)	16.1	14.3	16.6
EPS (sen)	5.1	4.7	5.2
P/E (x)	17.0	15.6	16.5

Relative performance chart



Quarterly performance								
FYE Jun (RM m)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	10.6	11.0	10.5	(5.1)	(1.0)	49.1	45.5	(7.3)
EBITDA	2.8	4.4	5.1	17.0	83.1	21.8	20.4	(6.5)
PBT	1.7	3.9	4.6	17.4	164.7	20.1	19.8	(1.7)
Core PATMI	1.4	2.9	3.5	19.5	156.5	15.8	14.3	(9.5)
Reported PATMI	1.4	2.9	3.5	19.5	143.1	15.9	14.9	(6.1)
Core EPS (sen)	0.5	0.9	1.1	19.5	143.1	5.0	4.7	(6.1)
EBITDA margin (%)	26.5	39.7	49.0			44.4	44.8	
PBT margin (%)	16.3	35.3	43.6			40.9	43.4	
Core PATMI margin (%)	12.9	26.6	33.5			32.2	31.5	

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As of **Monday, 21 Aug, 2023**, the analyst(s), **Loui Low Ley Yee**, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(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