

## Nova Wellness Group Bhd

### Within Expectation And Gradual Pick Up In House Brand

#### Summary

- **Below expectations.** Nova Wellness Group Berhad (NOVA) 2QFY24 core PATMI came in at RM3.1m (+17.8% QoQ, -62% YoY), which bring the sum to RM5.7m for 1FY24 (-28.2% YoY). The core earnings came in within expectations, despite only amounting to 44% and 33% of ours and consensus estimates of RM13.0m and RM17.7m, respectively as we believe demand should pick up in 2H24.
- **YTD.** For 1HFY24, cumulative core PATMI stood at RM5.7m, which saw a drop of -28.2% YoY, in tandem with the -13.9% YoY drop in revenue. The softer profit was due to the weaker demand in the House Brand segment, where it dropped -20% to RM18.0m vs. RM22.4m in 1HFY23. Meanwhile, other operating expenses and selling & distribution expenses increased slightly, while administrative expenses fell. Core PATMI margin stood at 27.4%.
- **YoY.** In 4Q23, revenue declined -14.9% YoY amid weaker demand for the House Brand segment, decreasing 29% YoY to RM8.1m. Meanwhile, revenue from the OEM segment added more than 250% to RM2.1m for the quarter.
- **QoQ.** Core PATMI increased 17.8% from RM2.6m to RM3.1m despite a marginal drop of 2.2% in revenue, mainly contributed by lower operating expenses such as other expenses (-37% QoQ) and selling & distribution expenses (-17% QoQ) as compared to 1Q24.
- **Outlook.** We believe NOVA will focus on driving demand on the House Brand segment, but we think it will be on a gradual pace. Meanwhile, we expect the overall operating costs could steepen in tandem with the elevated USD environment.

#### Valuation & Recommendation

- **Core PATMI forecast unchanged.** As the core PATMI came in within expectation, we maintained our earnings forecast.
- **Upgrade to HOLD, with unchanged TP of RM0.57.** As the share price has declined significantly prior to the release of results, we upgrade to HOLD (from SELL) with unchanged TP of RM0.57, where the target price is derived by ascribing a P/E of 14.0x to FY24f EPS of 4.07 sen.
- **Risks** will include the (i) potential supply chain disruptions and (ii) foreign currency risk relating to USD as a significant portion of its raw material purchases from abroad are denominated in USD.

Quarterly performance								
FYE Jun (RM m)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
Revenue	12.0	10.4	10.2	(2.2)	(14.9)	24.0	20.7	(13.9)
EBITDA	6.1	3.7	4.1	11.3	(32.5)	11.4	7.9	(31.0)
PBT	5.7	3.1	3.7	16.8	(35.1)	11.3	6.8	(39.7)
Core PATMI	3.7	2.6	3.1	17.8	(16.8)	7.9	5.7	(28.2)
Reported PATMI	4.3	2.6	3.1	17.8	(28.5)	8.5	5.7	(33.3)
Core EPS (sen)	1.3	0.8	1.0	17.8	(28.5)	2.7	1.8	(33.3)
EBITDA margin (%)	51.1	35.7	40.5			47.5	38.1	
PBT margin (%)	47.1	30.1	36.0			47.1	33.0	
Core PATMI margin (%)	30.6	24.9	29.9			32.8	27.4	

Source: Malacca Securities

#### Results Note – 2QFY24

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#### HOLD (from SELL)

Share price	RM0.515
Target price	RM0.57
Previous TP	RM0.57
Capital upside	10.7%
Dividend return	2.4%
Total return	13.1%

#### 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)	164.1
52W High/Low	0.93 / 0.515
Est. Free float (%)	14.4
Beta (x)	0.4
3-mth avg vol ('000)	194.5
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	-16.3	-23.1	-41.0
Relative	-20.0	-27.7	-44.1

#### Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	14.4	13.0	14.0
EPS (sen)	4.5	4.1	4.4
P/E (x)	11.4	12.6	11.7

#### Relative performance chart



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## Financial Highlights

Income Statement						Balance Sheet					
FYE Jun (RMm)	FY21	FY22	FY23	FY24f	FY25f	FYE Jun (RM m)	FY21	FY22	FY23	FY24f	FY25f
<b>Revenue</b>	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
<b>Profit before tax</b>	<b>19.3</b>	<b>20.3</b>	<b>19.2</b>	<b>17.1</b>	<b>18.5</b>	<b>Assets</b>	<b>104.5</b>	<b>112.4</b>	<b>118.5</b>	<b>135.0</b>	<b>147.6</b>
Tax	(4.7)	(4.2)	(4.8)	(4.1)	(4.4)	Debits	-	-	-	-	-
<b>Net profit</b>	<b>14.6</b>	<b>16.1</b>	<b>14.4</b>	<b>13.0</b>	<b>14.0</b>	Payables	3.2	5.9	6.8	4.7	4.9
Minority interest	-	-	-	-	-	Others	7.3	6.0	5.7	7.3	8.3
<b>Core earnings</b>	<b>14.6</b>	<b>16.1</b>	<b>14.4</b>	<b>13.0</b>	<b>14.0</b>	<b>Liabilities</b>	<b>10.5</b>	<b>11.9</b>	<b>12.5</b>	<b>12.1</b>	<b>13.2</b>
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	-	-	-	-	-
						<b>Equity</b>	<b>93.9</b>	<b>100.5</b>	<b>106.0</b>	<b>114.3</b>	<b>124.1</b>
Cash Flow Statement						Valuation & Ratios					
FYE Jun (RMm)	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)	11.3	10.2	11.4	12.6	11.7
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	5.8%	6.2%	6.4%	2.4%	2.6%
Others	0.1	(0.1)	0.7	-	-	BVPS (RM)	0.29	0.32	0.33	0.36	0.39
<b>Operating cash flow</b>	<b>9.1</b>	<b>12.3</b>	<b>8.8</b>	<b>32.8</b>	<b>15.8</b>	P/B (x)	1.7	1.6	1.5	1.4	1.3
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%
<b>Investing cash flow</b>	<b>(5.8)</b>	<b>(9.5)</b>	<b>(11.9)</b>	<b>(8.3)</b>	<b>(8.3)</b>	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%
<b>Financing cash flow</b>	<b>(8.5)</b>	<b>(10.1)</b>	<b>(9.8)</b>	<b>(3.9)</b>	<b>(4.2)</b>	Net gearing	CASH	CASH	CASH	CASH	CASH
<b>Net cash flow</b>	<b>(5.2)</b>	<b>(7.3)</b>	<b>(12.9)</b>	<b>30.1</b>	<b>6.0</b>						
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

<b>BUY</b>	The share price is expected to appreciate more than 10% over the next 12 months
<b>HOLD</b>	The stock price is expected to range between -10% and +10% over the next 12 months
<b>SELL</b>	The share price is expected to fall more than 10% over the next 12 months
<b>TRADING BUY</b>	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
<b>TRADING SELL</b>	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
<b>NOT RATED</b>	No recommendation is assigned

