

**Kenneth Leong**

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**Recommendation:** **BUY**

**Current Price:** **RM 1.66**

**Previous Target Price:** **RM 1.73**

**Target Price:** ↑ **RM 1.92**

**Upside/Downside:** **15.7%**

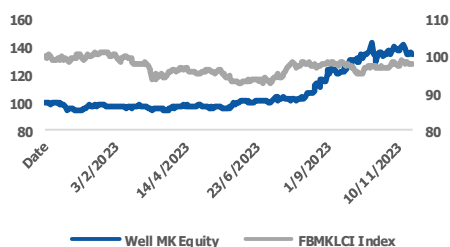
**Stock information**

Board	MAIN
Sector	Industrial Products
Bursa / Bloomberg Code	7231 / WELL MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	☆☆☆★
Bloomberg ESG Rating	N/A
Shares issued (m)	497.5
Market Cap (RM' m)	825.8
52-Week Price Range (RM)	1.69-1.11
Beta (x)	0.8
Free float (%)	69.3
3M Average Volume (m)	0.8
3M Average Value (RM' m)	1.2

**Top 3 Shareholders (%)**

MAXIMUM PERSPECTIVE SDN BH	11.3
Oversea-Chinese Banking Corp Ltd	10.0
UOB Kay Hian Hong Kong Ltd	8.0

**Share Price Performance**



	1M	3M	12M
Absolute (%)	9.2	23.0	38.3
Relative (%)	8.7	23.5	41.1

# Wellcall Holdings Berhad

## Another commendable quarter

### Summary

- **12MFY23 core net profit at RM48.7m came slightly ahead of our expectations, accounting to 104.8% of our core net profit forecast.**
- **Expansions remain on track with line expansion in Plant 3 is schedule for completion by end-1Q24, while demand is expected to remain fairly solid from oil & gas, automotive and critical industries.**
- **Re-iterate our BUY recommendation on WELLCAL with a higher target price of RM1.92, by pegging 17.0x P/E multiple to FY24F EPS of 11.3 sen.**


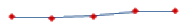




### Results Review

- **Results review.** 4QFY23 core net profit surged 136.2% yoy to RM17.9m, driven by. Revenue for the quarter rose 24.1% yoy to RM58.3m as a result of continuous efforts to strengthen global sales for industrial rubber hose. A fourth single tier interim dividend of 1.8 sen per share, together with a special dividend of 1.0 sen per share, both payable on 21 December 2023 was declared.
- **Results slightly ahead of expectations.** 12MFY23 core net profit at RM48.7m came slightly ahead of our expectations, accounting to 104.8% of our core net profit forecast at RM46.5m and was at 103.0% of consensus forecasted net profit of RM47.3m.
- **Operations Highlights.** In 4QFY23, export market continues to dominate at RM53.0m (91.0% of total revenue), while local market makes up to the remainder at RM5.2m (9.0% of total revenue). We gather that net margins remain fairly stable (>30% level) on stability in product prices and shipping costs. Orderbook remains healthy, supported by 2-3 months of revenue visibility.
- **Industry Highlights.** Global industrial hose market remains fairly solid amid the improving demand. Cost wise, nitrile price has tapered since end-October 2023, while natural rubber price has also come off from recent peak since early-November 2023.
- **Outlook.** Expansions remain on track with line expansion in Plant 3 is schedule for completion by end-1Q24. Demand is expected to improve from (i) oil & gas industry following the favourable crude oil prices, (ii) automobile industry with increasing usage of hoses for engine cooling system, brake oil carrier, fuel carrier and (iii) critical applications on the capability to withstand high temperatures and pressure.
- **Valuation.** Tweaked our earnings higher by 5.7% and 3.5% to RM56.2m and RM58.4m for FY24F and FY25F respectively to account for better margins. Re-iterate our **BUY** recommendation on WELLCAL with a higher target price of RM1.92, by pegging 17.0x P/E multiple to FY24F EPS of 11.3 sen.
- **Risk.** Fluctuation in raw material prices (rubber price). Exposure to foreign exchange risk given that majority of the sales are denominated in US\$. Slower-than-expected plant expansion may dampen earnings growth prospects.

Wednesday, November 29, 2023

Company Results

**Figure 1: Results Comparison**

FYE Sep (RM m)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	12MFY22	12MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	58.3	46.9	24.1	56.2	3.8	176.7	217.2	22.9		Improved sales volume
EBITDA	23.9	11.8	103.1	23.3	(2.7)	50.2	69.8	39.2		
Pre-tax profit	23.1	10.7	115.9	22.6	(2.5)	45.0	66.6	48.0		
Net profit	17.9	7.6	136.2	17.8	(0.6)	33.2	48.7	46.6		
Core net profit	17.9	7.6	136.2	17.8	(0.6)	33.2	48.7	46.6		Raw material prices turned stable
Core EPS (sen)	3.6	1.5	136.2	3.6	(0.6)	6.7	9.8	46.6		
EBITDA margin (%)	41.0	25.1		41.5		28.4	32.2			
PBT margin (%)	39.7	22.8		40.2		25.4	30.6			
Core PATMI margin (%)	30.7	16.1		31.6		18.8	22.4			

Source: Company, Apex Securities

**Financial Highlights**
**Income Statement**

FYE Sep (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Revenue</b>	<b>157.0</b>	<b>176.7</b>	<b>217.2</b>	<b>226.0</b>	<b>233.0</b>
<b>Gross Profit</b>	<b>56.6</b>	<b>56.4</b>	<b>90.0</b>	<b>90.4</b>	<b>93.2</b>
<b>EBITDA</b>	<b>46.7</b>	<b>45.4</b>	<b>77.6</b>	<b>78.0</b>	<b>80.4</b>
Depreciation & Amortisation	-5.4	-5.0	-4.9	-4.9	-4.8
<b>EBIT</b>	<b>41.3</b>	<b>40.4</b>	<b>72.7</b>	<b>73.1</b>	<b>75.6</b>
Net Finance Income/ (Cost)	0.1	0.2	17	19	2.3
Associates & JV	-0.7	-0.6	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>40.8</b>	<b>39.9</b>	<b>74.4</b>	<b>75.0</b>	<b>77.9</b>
Tax	-11.9	-11.5	-17.9	-18.7	-19.5
<b>Profit After Tax</b>	<b>28.9</b>	<b>28.4</b>	<b>56.5</b>	<b>56.2</b>	<b>58.4</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>28.9</b>	<b>28.4</b>	<b>56.5</b>	<b>56.2</b>	<b>58.4</b>
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>Core Net Profit</b>	<b>28.9</b>	<b>28.4</b>	<b>56.5</b>	<b>56.2</b>	<b>58.4</b>

**Key Ratios**

FYE Sep (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	29.8%	25.7%	35.8%	34.5%	34.5%
EBIT margin	26.3%	22.8%	33.5%	32.3%	32.5%
PBT margin	26.0%	22.6%	34.2%	33.2%	33.4%
PAT margin	18.4%	16.1%	26.0%	24.9%	25.1%
NP margin	18.4%	16.1%	26.0%	24.9%	25.1%
Core NP margin	18.4%	16.1%	26.0%	24.9%	25.1%
ROE	22.7%	22.8%	40.0%	36.2%	34.1%
ROA	48.4%	55.0%	101.6%	103.9%	110.6%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

**Key Assumptions**

FYE Sep (RM m)	FY21	FY22	FY23	FY24F	FY25F
Total production lines	58.4	58.6	69.1	69.1	69.1
Average utilisation rate (%)	58.0%	62.4%	63.2%	63.2%	65.6%
Total production (linear meter)	33.9	36.6	43.7	43.7	45.4

**Valuations**

	FY24F
Core EPS (RM)	0.13
P/E multiple (x)	17.0
<b>Fair Value (RM)</b>	<b>1.92</b>

Source: Company, Apex Securities

**Balance Sheet**

FYE Sep (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	61.6	62.8	74.4	91.8	105.6
Receivables	14.6	15.9	11.7	12.4	16.0
Inventories	20.1	29.1	25.4	23.3	27.5
Other current assets	0.0	0.0	0.6	0.7	0.7
<b>Total Current Assets</b>	<b>96.3</b>	<b>107.7</b>	<b>112.1</b>	<b>128.2</b>	<b>149.8</b>
Fixed Assets	56.1	51.7	49.2	47.6	46.4
Intangibles	0.0	0.0	0.3	0.3	0.3
Other non-current assets	3.5	0.0	6.1	6.1	6.1
<b>Total Non-current assets</b>	<b>59.6</b>	<b>51.7</b>	<b>55.6</b>	<b>54.1</b>	<b>52.8</b>
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Payables	21.5	27.8	18.8	20.7	20.4
Other Current Liabilities	2.4	2.4	3.4	3.4	3.4
<b>Total Current Liabilities</b>	<b>23.9</b>	<b>30.2</b>	<b>22.2</b>	<b>24.2</b>	<b>23.9</b>
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	5.0	4.6	4.3	3.0	7.5
<b>Total Non-current Liabilities</b>	<b>5.0</b>	<b>4.6</b>	<b>4.3</b>	<b>3.0</b>	<b>7.5</b>
Shareholder's equity	127.1	124.6	141.2	155.1	171.2
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Equity</b>	<b>127.1</b>	<b>124.6</b>	<b>141.2</b>	<b>155.1</b>	<b>171.2</b>

**Cash Flow**

FYE Sep (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Pre-tax profit</b>	<b>40.8</b>	<b>39.9</b>	<b>74.4</b>	<b>75.0</b>	<b>77.9</b>
Depreciation & amortisation	5.4	5.0	4.9	4.9	4.8
Changes in working capital	-6.5	-4.0	-3.5	-1.3	-7.6
Others	-6.0	-6.4	-15.9	-15.9	-15.9
<b>Operating cash flow</b>	<b>-7.1</b>	<b>-5.4</b>	<b>-14.4</b>	<b>-12.2</b>	<b>-18.7</b>
Net capex	-0.8	-0.5	-8.9	-3.4	-3.5
Others	0.2	0.1	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>-0.6</b>	<b>-0.4</b>	<b>-8.8</b>	<b>-3.4</b>	<b>-3.5</b>
Dividends paid	-27.9	-35.9	-39.8	-42.3	-42.3
Others	0.0	0.0	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>-27.9</b>	<b>-35.9</b>	<b>-39.8</b>	<b>-42.3</b>	<b>-42.3</b>
<b>Net cash flow</b>	<b>-35.6</b>	<b>-41.7</b>	<b>-63.1</b>	<b>-57.9</b>	<b>-64.5</b>
Forex	0.3	2.9	0.4	0.4	0.4
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	56.1	61.6	62.8	74.4	91.8
<b>Ending cash</b>	<b>61.6</b>	<b>62.8</b>	<b>74.4</b>	<b>91.8</b>	<b>105.6</b>

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**APEX SECURITIES BHD**

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**RESEARCH RECOMMENDATION FRAMEWORK**

**STOCK RECOMMENDATIONS**

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.

**HOLD:** Total returns\* are expected to be within +10% to – 10% within the next 12 months.

**SELL:** Total returns\* are expected to be below -10% within the next 12 months.

**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.

**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.

\*Capital gain + dividend yield

**SECTOR RECOMMENDATIONS**

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.

**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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