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Recommendation: BUY

Current Price:	RM 1.75
Previous Target Price:	RM 2.04
Target Price:	↔ RM 2.04
Upside/Downside:	16.6%

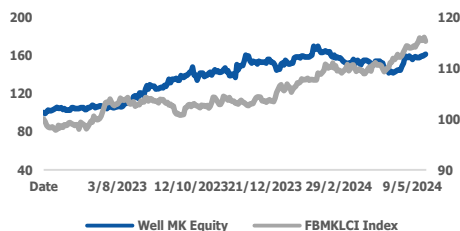
Stock information

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)	870.6
52-Week Price Range (RM)	1.87-1.12
Beta (x)	0.5
Free float (%)	73.3
3M Average Volume (m)	0.7
3M Average Value (RM' m)	1.1

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 (%)	12.2	1.7	54.4
Relative (%)	9.9	-2.3	34.3

Wellcall Holdings Berhad

Positioning for better days ahead










Summary

- **6MFY24 core net profit at RM25.5m deemed within expectations, accounting to 45.7% of our core net profit forecast as we reckon WELLCAL to deliver a seasonally better 2H figures.**
- **Deferred orders from the Red Sea crisis expected to normalise in coming quarters, while net margins may remain below the 25% threshold for FY24 amid the higher raw material prices.**
- **Re-iterate our BUY recommendation on WELLCAL with a target price of RM2.04, by pegging 18.0x P/E multiple to FY24F EPS of 11.3 sen.**

Results Review

- **Results review.** 2QFY24 core net profit fell 7.9% yoy to RM11.8m, dragged down by higher raw material cost as well as weaker revenue contribution particularly from the export market. Revenue for the quarter declined 2.1% yoy to RM49.1m. A second single tier interim dividend of 2.0 sen per share, payable on 20 June 2024 was declared.
- **Results deemed within expectations.** 6MFY24 core net profit at RM25.5m accounted to 45.3% of our core net profit forecast at RM56.2m and was at 45.7% of consensus forecasted net profit of RM55.7m. We reckon that 2HFY24 number may come in stronger as demand picks up in line with historical seasonal strong second half as demonstrated in prior year whereby 1HFY23 only makes up to 36.9% of FY23 figures.
- **Operations Highlights.** In 2QFY24, export market remains as the biggest contributor at RM45.2m (92.0% of total revenue), while local market makes up to the remainder at RM3.9m (8.0% of total revenue). During the quarter, net margins continue to shrink (<25% level), dragged by higher raw material costs. Meanwhile, cash level remains healthy at RM73.8m vs. RM77.0m in 1QFY24.
- **Industry Highlights.** Global industrial hose market remains stable in line with the growth across global economic activities. Meanwhile, nitrile price ticked higher in recent months and we expect prices to march higher due to disruption in feedstock supply. Meanwhile, natural rubber price also trended higher as demand picks up.
- **Outlook.** We gather that expansions remain on track for Plant 3 is schedule for completion by September 2024. The deferred orders from the Red Sea crisis is expected to normalise in coming quarters. Still, net margins are expected remain below the 25% threshold for FY24 amid the higher raw material prices.
- **Valuation.** Given that the reported earnings deemed within expectations, we kept our forecast unchanged. Re-iterate our **BUY** recommendation on WELLCAL with a target price of RM2.04, by pegging 18.0x 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 USD. Slower-than-expected plant expansion may dampen earnings growth prospects.

Figure 1: Results Comparison

FYE Sep (RM m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	6MFY23	6MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	49.1	50.1	(2.1)	58.3	(15.8)	102.7	101.5	(1.2)		Slower demand of industrial rubber hose
EBITDA	16.0	13.6	17.3	23.9	(33.1)	26.3	35.4	34.6		
Pre-tax profit	15.3	12.8	19.6	23.1	(33.7)	24.6	34.1	38.8		Higher raw material costs
Net profit	11.8	8.7	35.6	17.9	(33.9)	16.8	25.5	52.0		
Core net profit	11.8	8.7	35.6	17.9	(33.9)	16.8	25.5	52.0		
Core EPS (sen)	2.4	1.7	35.6	3.6	(33.9)	3.4	5.1	52.0		
EBITDA margin (%)	32.6	27.2		41.0		25.6	34.9			
PBT margin (%)	31.2	25.6		39.7		23.9	33.6			
Core PATMI margin (%)	24.1	17.4		30.7		16.3	25.1			

Source: Company, Apex Securities

Financial Highlights

Income Statement

FYE Sep (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	157.0	176.7	217.2	226.0	233.0
Gross Profit	56.6	56.4	90.0	90.4	93.2
EBITDA	46.7	45.4	77.6	78.0	80.4
Depreciation & Amortisation	-5.4	-5.0	-4.9	-4.9	-4.8
EBIT	41.3	40.4	72.7	73.1	75.6
Net Finance Income/ (Cost)	0.1	0.2	1.7	1.9	2.3
Associates & JV	-0.7	-0.6	0.0	0.0	0.0
Pre-tax Profit	40.8	39.9	74.4	75.0	77.9
Tax	-11.9	-11.5	-17.9	-18.7	-19.5
Profit After Tax	28.9	28.4	56.5	56.2	58.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	28.9	28.4	56.5	56.2	58.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	28.9	28.4	56.5	56.2	58.4

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	18.5%	17.8%	33.7%	30.8%	28.8%
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	59	59	69	69
Average containers/month	90-100	90-100	100-120	100-120	110-130

Valuations	FY24F
Core EPS (RM)	0.113
P/E multiple (x)	18.0
Fair Value (RM)	2.04

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
Total Current Assets	96.3	107.7	112.1	128.2	149.8
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
Total Non-current assets	59.6	51.7	55.6	54.1	52.8
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
Total Current Liabilities	23.9	30.2	22.2	24.2	23.9
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
Total Non-current Liabilities	5.0	4.6	4.3	3.0	7.5
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
Equity	127.1	124.6	141.2	155.1	171.2

Cash Flow

FYE Sep (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax profit	40.8	39.9	74.4	75.0	77.9
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
Operating cash flow	-7.1	-5.4	-14.4	-12.2	-18.7
Net capex	-0.8	-0.5	-8.9	-3.4	-3.5
Others	0.2	0.1	0.0	0.0	0.0
Investing cash flow	-0.6	-0.4	-8.8	-3.4	-3.5
Dividends paid	-27.9	-35.9	-39.8	-42.3	-42.3
Others	0.0	0.0	0.0	0.0	0.0
Financing cash flow	-27.9	-35.9	-39.8	-42.3	-42.3
Net cash flow	-35.6	-41.7	-63.1	-57.9	-64.5
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
Ending cash	61.6	62.8	74.4	91.8	105.6

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
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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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