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Recommendation: **BUY**

Current Price: **RM 1.50**

Previous Target Price: **RM 2.12**

Target Price: ↓ **RM 1.90**

Upside/Downside: **26.7%**

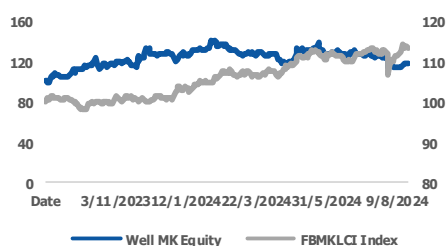
Stock information

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)	746.2
52-Week Price Range (RM)	1.87-1.282
Beta (x)	0.5
Free float (%)	73.3
3M Average Volume (m)	0.4
3M Average Value (RM' m)	0.6

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 (%)	-6.3	-14.3	11.8
Relative (%)	-9.1	-17.9	-3.0

Wellcall Holdings Berhad

Earnings growth impacted by weaker demand

Summary

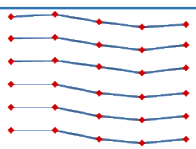
- **WELLCAL's 3QFY24 core net profit slipped -23.4% yoy, but rose +15.3% qoq to RM13.6m, bringing 9MFY24 core net profit at RM39.1m (+1.2% yoy) came slightly below expectations, amounting to 69.5% of in-house and 70.2% of consensus expectations.**
- **Trimmed our earnings forecast by -5.0%/-4.8%/-4.5% to RM53.6m/RM55.6m/RM59.8m for FY24F/FY25F/FY26F respectively, adjusted to the softer demand as well as higher raw material prices.**
- **Re-iterate our BUY recommendation on WELLCAL with a lower target price of RM1.90, by pegging 17.0x P/E multiple to rolled-over FY25F EPS of 11.2 sen.**

Results Review

- **Results review.** 3QFY24 core net profit slipped -23.4% yoy, but rose +15.3% qoq to RM13.6m, as the weaker yoy performance was impacted by softer rubber hose demand from global markets. Revenue for the quarter stood at RM51.2m (-8.8% yoy and +4.4% qoq). A third single tier interim dividend of 2.0 sen per share, payable on 25 September 2024 was declared.
- **Below expectations.** 9MFY24 core net profit at RM39.1m (+1.2% yoy) accounted to 69.5% of our core net profit forecast at RM56.2m and was at 70.2% of consensus forecasted net profit of RM57.8m. The variance is mainly stemmed from the softer-than-expected demand.
- **Operations Highlights.** In 3QFY24, export market remains as the biggest contributor at RM45.6m (89.0% of total revenue), while local market makes up to the remainder at RM5.7m (11.0% of total revenue). Meanwhile, cash level remains healthy at RM77.5m vs. RM73.8m in 2QFY24.
- **Industry Highlights.** Nitrile price ticked higher in recent months and we expect prices to march higher due to disruption in feedstock supply (August 2024 price at US\$0.97/kg vs US\$0.75/kg in August 2023). Meanwhile, natural rubber price also trended higher to US\$1.41/kg in August 2024 (+25.9% yoy) as demand picks up.
- **Outlook.** We gather that expansion plans remain on track for Plant 3 that is schedule for completion by September 2024. Deferred orders stemmed from the Red Sea crisis is expected to normalise in subsequent quarters. Still, we opine that net margins are expected remain below the 30% threshold amid the higher raw material prices.
- **Valuation.** Given that the reported earnings came slightly below expectations, we trimmed our earnings forecast by -5.0%/-4.8%/-4.5% to RM53.6m/RM55.6m/RM59.8m for FY24F/FY25F/FY26F respectively, adjusted to the softer demand as well as higher raw material prices. Nevertheless, we re-iterate our **BUY** recommendation on WELLCAL with a lower target price of RM1.90, by pegging 17.0x P/E multiple to rolled-over FY25F EPS of 11.2 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)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY23	9MFY24	YoY (%)	5 Quarters Trend	Comments	
Revenue	51.2	56.2	(8.8)	49.1	4.4	158.9	152.8	(3.9)		Weaker yoy global demand for industrial rubber hose	
EBITDA	18.9	23.3	(18.7)	16.0	18.4	53.7	54.4	1.2			
Pre-tax profit	18.2	22.6	(19.4)	15.3	18.6	51.2	52.3	2.0			
Net profit	13.6	17.8	(23.4)	11.8	15.3	38.6	39.1	1.2			
Core net profit	13.6	17.8	(23.4)	11.8	15.3	38.6	39.1	1.2			
Core EPS (sen)	2.7	3.6	(23.4)	2.4	15.3	7.8	7.9	1.2			
EBITDA margin (%)	37.0	41.5		32.6		33.8	35.6				
PBT margin (%)	35.5	40.2		31.2		32.2	34.2				
Core PATMI margin (%)	26.6	31.6		24.1		24.3	25.6				

Source: Company, Apex Securities

Financial Highlights

Income Statement

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	176.7	217.2	215.0	222.0	236.9
Gross Profit	56.4	90.0	86.0	88.8	94.8
EBITDA	45.4	77.6	74.2	76.6	81.7
Depreciation & Amortisation	-5.0	-4.9	-4.9	-4.7	-4.6
EBIT	40.4	72.7	69.3	71.8	77.1
Net Finance Income/ (Cost)	0.2	1.7	2.0	2.3	2.6
Associates & JV	-0.6	0.0	0.0	0.0	0.0
Pre-tax Profit	39.9	74.4	71.2	74.1	79.7
Tax	-11.5	-17.9	-17.8	-18.5	-19.9
Profit After Tax	28.4	56.5	53.4	55.6	59.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	28.4	56.5	53.4	55.6	59.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	28.4	56.5	53.4	55.6	59.8

Key Ratios

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
EBITDA margin	25.7%	35.8%	34.5%	34.5%	34.5%
EBIT margin	22.8%	33.5%	32.2%	32.4%	32.6%
PBT margin	22.6%	34.2%	33.1%	33.4%	33.7%
PAT margin	16.1%	26.0%	24.8%	25.0%	25.2%
NP margin	16.1%	26.0%	24.8%	25.0%	25.2%
Core NP margin	16.1%	26.0%	24.8%	25.0%	25.2%
ROE	22.8%	40.0%	35.1%	33.6%	33.1%
ROA	17.8%	33.7%	29.9%	28.8%	28.3%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Key Assumptions

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Average containers/month	90-100	100-120	100-120	110-130	110-130

Valuations

	FY25F
Core EPS (RM)	0.112
P/E multiple (x)	17.0
Fair Value (RM)	1.90

Source: Company, Apex Securities

Balance Sheet

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	62.8	74.4	95.7	103.5	120.2
Receivables	15.9	11.7	11.8	15.2	16.2
Inventories	29.1	25.4	16.7	20.9	22.5
Other current assets	0.0	0.6	0.6	0.7	0.7
Total Current Assets	107.7	112.1	124.8	140.2	159.6
Fixed Assets	51.7	49.2	47.5	46.1	45.0
Intangibles	0.0	0.3	0.3	0.3	0.3
Other non-current assets	0.0	6.1	6.1	6.1	6.1
Total Non-current assets	51.7	55.6	53.9	52.5	51.5
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Payables	27.8	18.8	20.7	23.0	23.9
Other Current Liabilities	2.4	3.4	3.4	3.4	3.4
Total Current Liabilities	30.2	22.2	24.2	26.4	27.3
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	4.6	4.3	2.2	0.8	3.2
Total Non-current Liabilities	4.6	4.3	2.2	0.8	3.2
Shareholder's equity	124.6	141.2	152.3	165.6	180.6
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	124.6	141.2	152.3	165.6	180.6

Cash Flow

FYE Sep (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Pre-tax profit	39.9	74.4	71.2	74.1	79.7
Depreciation & amortisation	5.0	4.9	4.9	4.7	4.6
Changes in working capital	-4.0	-3.5	6.2	-10.0	-3.8
Others	-6.4	-15.9	-15.9	-15.9	-15.9
Operating cash flow	-5.4	-14.4	-4.8	-21.1	-15.0
Net capex	-0.5	-8.9	-3.2	-3.3	-3.6
Others	0.1	0.0	0.0	0.0	0.0
Investing cash flow	-0.4	-8.8	-3.2	-3.3	-3.5
Dividends paid	-35.9	-39.8	-42.3	-42.3	-44.8
Others	0.0	0.0	0.0	0.0	0.0
Financing cash flow	-35.9	-39.8	-42.3	-42.3	-44.8
Net cash flow	-41.7	-63.1	-50.3	-66.7	-63.4
Forex	2.9	0.4	0.4	0.4	0.4
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	61.6	62.8	74.4	95.7	103.5
Ending cash	62.8	74.4	95.7	103.5	120.2

APEX SECURITIES BERHAD – CONTACT LIST

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

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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