

Wellspire Holdings Berhad

TP: RM0.27 (+17.4%)

Exclusive Distributor of ChaCha Sunflower Seeds and Nuts in Thailand

Ace Market Listing

NOT RATED

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Background

Wellspire Holdings Berhad (Wellspire) is an investment holding company principally involved in the distribution of consumer packaged foods.

IPO Statistic

The IPO entails a public issue of 124.6mn new shares, representing 17.5% of the group's enlarged issued share capital, at an issue price of RM0.23 per share.

Public issue:

- 36,000,000 new shares for application by the Malaysian public.
- 10,000,000 new shares for application by eligible persons.
- 78,600,000 new shares for private placement to selected investors.

Competitive Advantages

1. Exclusive distributor for ChaCha brand snack foods for the Thailand market.
2. Established indirect distribution channels to provide wide coverage of end-consumers.
3. Customers include large chain retailers, providing market access to a large potential end-consumer base.

Valuation

Based on IPO price of RM0.23/share, Wellspire is priced at a trailing PE of 14.7x FY21 EPS (based on enlarged issued share capital of 712.125mn). We ascribe a target PE multiple of 15x FY23 EPS, hence deriving a fair value of RM0.27/share.

Not Rated.

Earnings Summary

FYE Dec (RM mn)	FY20	FY21	FY22E	FY23F	FY24F
Revenue	119.7	136.7	126.0	148.0	159.6
Gross Profit	36.7	38.2	31.0	41.1	44.1
EBIT	22.2	19.4	12.0	21.1	22.1
Net Finance Cost	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
PBT	22.0	19.1	11.7	20.7	21.7
Taxation	(6.2)	(3.7)	(3.5)	(4.1)	(4.3)
Net Profit	11.8	11.1	5.0	12.7	13.0
Core Net Profit	12.6	10.3	5.0	12.7	13.0
EPS (sen)*	1.7	1.6	0.7	1.8	1.8
PER (x)^	13.8	14.7	32.7	12.9	12.6
DPS (sen)*	0.0	3.2	0.2	0.4	0.5
Dividend Yield (%)^	0.2	13.9	0.8	1.9	2.4

*Based on enlarged issued share capital of 712.125mn, ^Based on IPO price of RM0.23/share

Share Information

Listing	Ace Market
Enlarged Share Capital (mn)	712.1
Market Cap @ RM0.23 (RM mn)	163.8
Issue price (RM)	0.23
Oversubscription rate	N/A
Estimated free float (%)	17.5

Tentative Listing Dates

Opening of the IPO	27-Dec-22
Closing of the IPO	4-Jan-23
Balloting of Applications	6-Jan-23
Allotment of Shares	13-Jan-23
Listing	16-Jan-23

Ratio & Analysis

NTA per share (post IPO) (RM)	0.07
Price to NTA (x)	3.4
Proforma Gearing (x)	0.06

Utilisation of Proceeds

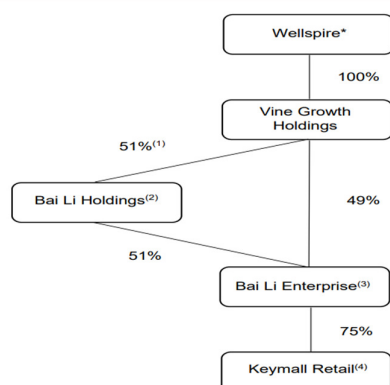
	RM (mn)	%
Acquire/Construct a warehouse and operational facility in Thailand	16.0	55.8
Working Capital	6.0	20.8
Estimated Listing Expenses	6.7	23.4
TOTAL	28.7	100.0

Business Overview

Wellspire is an investment holding company which is principally involved in the distribution of consumer packaged foods. The group's main product is sunflower seeds where Wellspire is the exclusive distributor of ChaCha brand sunflower seeds and nuts for the Thailand market since January 2013. QiaQia is a China-based company that produces roasted seeds and nuts, and baked snack foods under the brand "ChaCha" and "ChaCheer" with sales in China and export countries including Thailand, Malaysia, Indonesia, Vietnam, the United States and Canada, among others.

Other than that, Wellspire also distributes other snack foods such as other seeds and nuts, and baked and confectionery products comprising third-party brands (Cundo) as well as own brands (Pee Ree, Miyu, King Kong). Its other snack foods are imported from China. A small proportion of the group's revenue is derived from online retail sales of consumer packaged foods commenced in 2020 (0.14% of total sales in FY21). The group's structure, subsidiaries, and business model are as shown below:

Figure 1: Group Structure



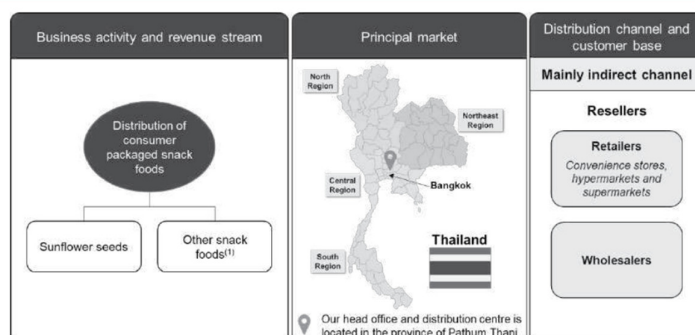
Source: Company, TA Securities

Table 1: Subsidiaries and Principal Activities

Subsidiaries	Principal Activities
Vine Growth Holdings	Investment holding company and provision of management consultancy services
Bai Li Holdings	Investment holding company
Bai Li Enterprise	Distribution of consumer packaged foods
Keymall Retail	Online retailer of consumer packaged foods

Source: Company, TA Securities

Figure 2: Business Model

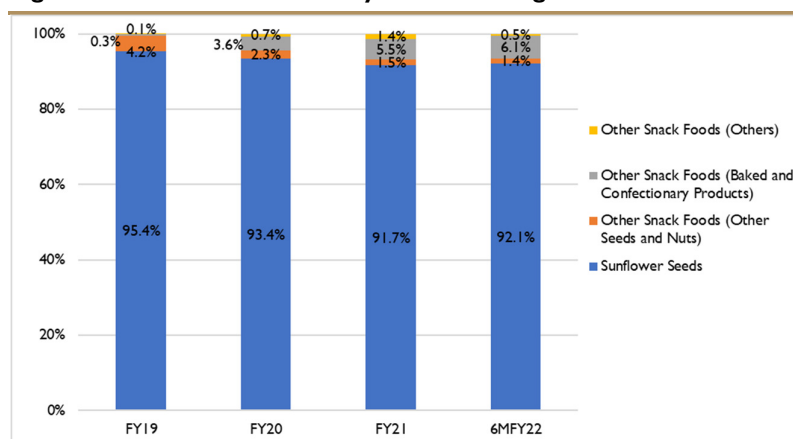


Source: Company, TA Securities

Breaking down Wellspire's sales into different product categories, sunflower seeds is the largest revenue contributor, making up 91.7% of its revenue in FY21. The remaining is contributed by other snack foods such as other seeds and nuts (1.5% in FY21), and baked and confectionary products (5.5% in FY21). Geographically, all the group's revenue is generated in Thailand.

Figure below illustrates the segmental revenue breakdown by product categories:

Figure 3: Revenue Breakdown by Product Categories



Source: Company, TA Securities

IPO Structure

The detail of IPO is as shown in Table 2:

Table 2: IPO Structure

Categories	Number of Shares	% of Enlarged Share Cap
Public Issue:		
Malaysian Public	36,000,000	5.1%
Eligible Persons	10,000,000	1.4%
Private Placement to selected investors	78,600,000	11.0%
Total	124,600,000	17.5%

Source: Company, TA Securities

Utilisation of Proceeds

The estimated gross proceeds of RM28.7mn raised are expected to be utilised for the following:

Table 3: Utilisation of Proceeds

Utilisation of Proceeds	RM'000	%	Est. Time Frame for Utilisation
Acquire/Construct a warehouse and operational facility in Thailand	16,000	55.8	Within 18 months
Working Capital	5,960	20.8	Within 6 months
Estimated Listing Expenses	6,700	23.4	Within 3 months
Total	28,660	100.0	

Source: Company, TA Securities

Competitive Advantages

1) Exclusive distributor for ChaCha brand snack foods for the Thailand market.

For FY19, FY20 and FY21, revenue derived from ChaCha brand of sunflower seeds and nuts accounted for 96.1%, 93.8% and 91.9% of Wellspire's total revenue respectively. As the exclusive distributor for ChaCha brand of sunflower seeds and nuts in Thailand, the group benefits directly from its established brand equity in China. In addition, the group has continuously built up the brand awareness and equity of the ChaCha brand in Thailand since it commenced distribution in 2012.

2) Established indirect distribution channels to provide wide coverage of end-consumers.

Wellspire mainly utilises the indirect distribution channels where it sells snack food products through intermediaries who will then resell the products to their respective networks of customers. Through the group's indirect distribution channel, it has customer base that includes retailers such as chain and standalone convenience stores, hypermarkets, cash and carry stores, supermarkets, petrol kiosks, and sundry shops, and a wholesaler who utilises its existing network to sell snack food products to sundry shops and other small retailers.

3) Customers include large chain retailers, providing market access to a large potential end-consumer base.

Wellspire's customers operate large retail convenience stores such as 7-Eleven, FamilyMart, Lotus's Go Fresh mini market, Mini BigC and Lawson I08, cash and carry stores such as Makro, hypermarkets such as Lotus's and Big C, supermarkets such as Tops, Lotus's Go Fresh and Big C Market. These customers have a large potential end-consumer bases, which would provide market access to Wellspire's products. As a distributor, the group benefits from the wide market coverage and access from these recognisable brand name retail outlets to provide growth to its business in the distribution of consumer packaged foods.

Key Risks Relating to Business and Industry

- 1) Dependent on distributor agreement for ChaCha sunflower seeds and nuts;**
- 2) Dependent on a group of major customers (CP All group accounted for 66.3% of total revenue in FY21); and**
- 3) Dependent on a single product, sunflower seeds, and QiaQia Group as the single supplier for the sunflower seeds.**

Future Plans and Business Strategies

1) Acquisition/ construction of a warehouse and operating facility in Thailand

The group is currently operating in a rented distribution centre in Pathum Thani province, which is in the Central region of Thailand, with total built-up area of approximately 4,897m² on total land area of approximately 9,636m². As part of the group's business strategies, Wellspire intends to allocate up to RM16.0mn of the IPO proceeds within 18 months from listing to acquire or construct a warehouse and operating facility as a long-term investment to increase the group's asset base instead of renting the distribution centre.

2) Expansion of product range

Wellspire plans to continue expanding its range of products to include new third-party brands of consumer packaged snack foods from existing suppliers and foreign countries. The group also intends to source and import new products, namely ultra-high temperature dairy beverages. These products are expected to be introduced between 2023 and 2024 and will be funded via internally generated funds.

3) Enhancement of e-commerce platform

Wellspire plans to enhance its existing e-commerce platform operated by its subsidiary, Keymall Retail. The group has an existing e-commerce platform website which is currently not in use. Wellspire's existing e-commerce platform has basic features to showcase its product offerings on the website but does not have a payment gateway system and is only available in Thai language. It plans to engage a website developer by 1QFY23 to re-design the ecommerce platform to provide users with ease of usage and carrying out transactions, as well as facilitate storage of users' past purchase patterns and search trends to better match specific products to users' preferences and purchase profiles.

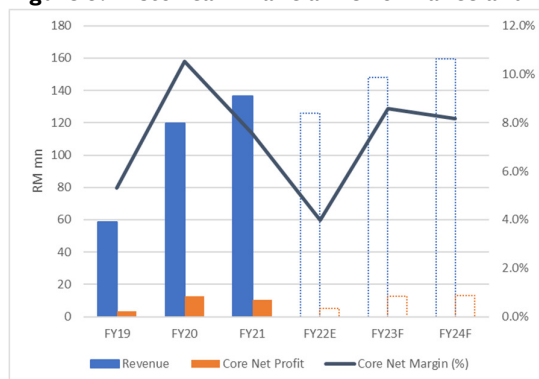
Outlook

According to an independent market research report by Vital Factor Consulting, based on Thailand Standard Industrial Classification (TSIC) code, Wellspire Group distributes consumer packaged foods, which is included in the segment under "Other food products not elsewhere classified". In 2021, the wholesale value of "Other food products not elsewhere classified" grew by 25.6% YoY to THB279.8bn. According to Vital Factor Consulting, Wellspire's market share for wholesale of "Other food products not elsewhere classified" is 0.4% in 2021.

Thailand is the second largest economy in Southeast Asia, where the economy is largely driven by foreign tourism and industrial activities. The distribution of consumer packaged food industry is dependent on Thailand's economy as people are likely to spend more when they have higher spending power. In 2022, Thailand's economy is projected to expand by 3.2%, and is expected to expand within the range of 3.0% to 4.0% in 2023, mainly supported by recovery of domestic tourism, expansion of both private and public investments, improved domestic demand, and the favourable growth of agricultural sector.

Financial Highlights and Earnings Forecast

Figure 5: Historical Financial Performance and Earnings Forecast



Source: Company, TA Securities

In FY20, Wellspire's revenue soared 103.6% YoY from RM58.8mn to RM119.7mn, underpinned by increased sales for sunflower seeds by 99.3% and commencement of new Cundo layer cakes and Miyu Chocolate snacks that boosted the sales of baked and confectionary products. Correspondingly, core profit more than tripled from RM3.1mn to RM12.6mn.

In FY21, the group's revenue advanced 14.2% YoY to RM136.7mn, driven by 12.2% growth in sales of sunflower seed and 70.8% growth in sales of baked and confectionary products. However, core profit dropped 18.1% YoY due to margin compression from increase in purchase price of sunflower seeds and other snack products. Gross margin declined 2.7%-pts to 27.9% in FY21.

Moving forward, we forecast that the revenue and core profit would decline in FY22 due to normalisation of demand for snacks as the economy reopens. However, we expect sales to pick up from FY23 onwards as the group explores expansion into new products and consumer demand for snacks recovers. Furthermore, we expect margin squeeze in FY23 due to elevated cost of materials, which would gradually improve as the group adjusts the selling price in tandem with the elevation in cost.

All in all, our FY22-FY24 earnings projections are based on the following key assumptions:

- Revenue growth of -7.8%/17.5%/7.8% for FY22/FY23/FY24 respectively;
- Gross margins of 24.6%/27.8%/27.6% for FY22/FY23/FY24 respectively;
- Effective tax rate of 30%/20%/20% for FY22/FY23/FY24 which is the same as the statutory tax rate except in FY22 due to higher non-tax deductible expenses.

Balance Sheet

On a pro forma basis, post-listing and use of IPO proceeds, the gearing ratio is expected to improve from 0.11x to 0.06x.

Dividend Policy

Wellspire has a target dividend payout ratio of 30%. We forecast a dividend payout ratio of 25%/25%/30% for FY22/FY23/FY24 respectively.

Valuation

Based on IPO price of RM0.23/share, Wellspire is priced at a trailing PE of 14.7x FY21 EPS. We ascribe a target PE multiple of 15x FY23 EPS, hence deriving a fair value of RM0.27/share (**Not Rated**). This translates to a discount to its closest peer trading at trailing PE multiple of 15.5x CY21 EPS on the stock exchange of Thailand. We believe this is justified, taking into account the group's proven track record, healthy topline growth and established indirect distribution channels. Note that there is no comparable peer listed on local bourse.

Table 4: Peers Comparison

Stocks	Share Price (RM)	Market Cap (RM mn)	EPS (sen)	PE Ratio (x)	DPS (sen)	Dividend Yield (%)
Premier Marketing Public PCL#	1.25	696.5	8.0	15.5	5.9	4.7
Wellspire Holdings Berhad*	0.23	163.8	1.8	12.9	0.4	1.9

Note: *Based on pro-forma balance sheet for CY23

#Based on CY21, share capital of 558.12mn, exchange rate of THB1 = RM0.13

Source: Company, Bloomberg, TA Securities

Appendix

Exhibit 1: ChaCha 5 Flavours of Sunflower Seeds



Exhibit 2: ChaCha Coconut Flavoured Sunflower Seeds



Exhibit 3: ChaCha Sunflower Seeds (Other Flavours)



Exhibit 4: Other Seeds and Nuts



Exhibit 5: Baked and Confectionary Products

Cundo layer cakes



Kingkong mixed nuts and dried fruit bars



Miyu cone-based snack



Miyu biscuits



Miyu biscuits filled with cream



Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	NR	NR	NR	NR
Remark	NR	NR	NR	NR

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

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As of Tuesday, January 3, 2023, the analyst, Ong Tze Hern, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

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