



OB Holdings Bhd

A New Healthcare Wellness Player

ACE Market
Healthcare Sector
Subscribe
IPO Price: RM0.24
Fair Value: RM0.29

Valuation / Recommendation

We have a **SUBSCRIBE** recommendation on OB Holdings Bhd (OBH), with an **FV of RM0.29 based on 14x FY26F EPS**, representing a potential upside of 20% to the IPO price. Our target PE of 14x reflects a 20% discount to comparable peer's average, given OBH's smaller market capitalisation. We like the stock for its competitive strength over its peers, strategic expansion plans, and healthy balance sheet with stable margins.

Investment Highlights

Competitive edge from customisations. OBH has achieved a remarkable 3-year revenue CAGR of 19.6%, driven by its competitive edge in offering comprehensive, end-to-end manufacturing services for fortified F&B and dietary supplements. This one-stop service appeals to clients seeking convenience in outsourcing the entire process. OBH further strengthens its market position by offering customised formulations and utilising its in-house research capabilities and insights into market trends. These unique offerings, which are not typically available in the industry, enhance OBH's competitive advantage, setting it apart from its peers in the sector.

New facilities and machinery expansion. OBH currently operates two factories: Selayang for both fortified F&B and dietary supplements, and Rented Serendah for fortified F&B. Due to inefficient layouts and limited floor space, OBH is building a new 105k sqft Serendah factory with optimised workflow and modern facilities (office and new laboratory for R&D). Once completed, fortified F&B operations will be consolidated there, while Selayang focuses on dietary supplements. OBH is planning to invest RM5.0m (17.4% of IPO proceeds) in new machinery to scale up production. With Malaysia's ageing population projected to rise, demand for health-related products is set to increase, positioning OBH favourably for future growth.

Margins to pick up in FY26-27F. OBH has maintained a steady GP margin of 40-43% from FY21 to FY24, primarily driven by growth in its in-house brands segment, where management effectively optimised costs to mitigate the decline in margins from third-party manufacturing services. Despite that, the PBT margin still fell from 24.0% to 17.1% during this period, largely due to increased selling and distribution expenses associated with new product launches. Looking ahead, we expect a slight decline in OBH's PAT margin for FY25F, followed by a recovery in FY26-27F as production capacity increases and expenses normalise with larger economies of scale.

Risk factors for OBH include (1) Risks of counterfeit products; (2) Intense competition; and (3) Failure to renew licenses.

FY May	FY23	FY24	FY25F	FY26F	FY27F
Revenue (RM m)	46.4	50.9	57.1	65.8	76.6
EBITDA (RM m)	15.0	10.8	12.5	16.8	19.6
PAT (RM m)	9.6	5.5	6.4	8.0	9.9
PAT Margin (%)	20.6	10.8	11.3	12.2	12.9
EPS (sen)	3.5	2.0	1.6	2.1	2.5
EPS Growth (%)	16.4	(42.5)	(18.9)	25.1	22.9
BV Per Share (sen)	9.9	11.9	24.9	27.8	31.5
PE (x)	6.8	11.9	14.6	11.7	9.5
Net Gearing (x)	0.4	0.3	Cash	Cash	Cash
ROE (%)	35.7	17.0	9.5	10.6	11.6

Business Overview

OBH is principally engaging in provision of manufacturing services of fortified food and beverage (F&B) and dietary supplements to third party brand owners, as well as under its own household brand. Besides, OBH also involves in trading of milk powder and other services.

Listing Details

Listing date	29 Oct 2024
New shares (m)	120.0
Offer for sale (m)	0.0
Funds raised (RM m)	28.8

Post Listing

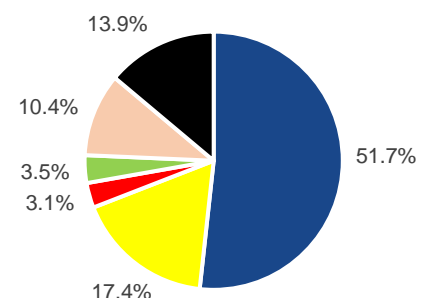
Ordinary shares (m)	391.6
Market cap (RM m)	94.0
Free float	30.6
P/E (FY26F)	11.7

Top 3 Shareholders

Goodone Holding Sdn Bhd	30.0%
ES Teoh	19.7%
CT Wong	19.7%

Utilisation of Proceeds

	RM m
Repayment of bank borrowings	14.9
Purchases of machines	5.0
Product development expenditure	0.9
Marketing and advertisement	1.0
Working capital	3.0
Estimated listing expenses	4.0



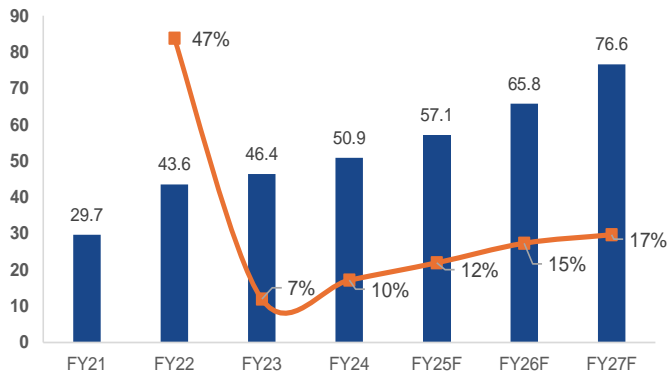
Source: Company, Mercury Securities



Financial Highlights and Valuation

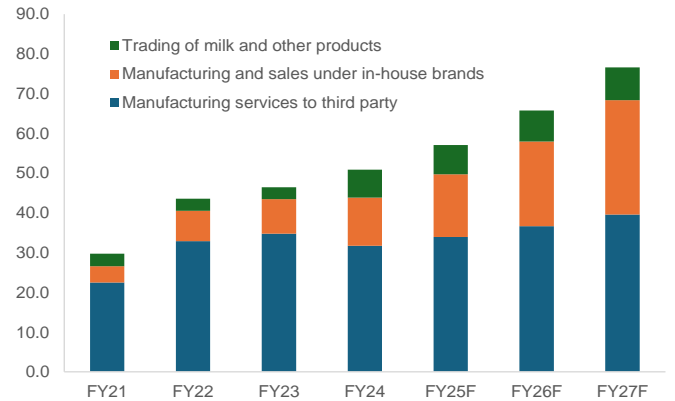
Resilient revenue growth. OBH has shown consistent revenue growth, achieving an impressive 3-year CAGR of 19.6%, with revenue increasing from RM29.7m in FY21 to RM50.9m in FY24. This growth mainly stems from the strong sales of their in-house brands of fortified F&B and dietary supplements, driven by its multi-channel strategy utilising e-commerce platforms like Shopee, Lazada, TikTok, and Facebook. While the provision of manufacturing services to third parties remains a key revenue contributor, its share is expected to decline as in-house brand sales and the trading of milk powder and other products ramp up. See Figure 2.

Figure 1: OBH's revenue trend (in RM m)



Source: Company, Mercury Securities

Figure 2: OBH's revenue breakdown (in RM m)



Source: Company, Mercury Securities

One-stop solution provider for third-party brands. OBH offers end-to-end manufacturing services for fortified F&B and dietary supplements, covering everything from product development and registration to supplier sourcing, manufacturing, and delivery. This allows clients to streamline their production by outsourcing all processes to one provider. OBH's comprehensive service package strengthens its competitive edge in the industry, as most players do not offer such an all-inclusive solution, enhancing its position as a key manufacturer in the fortified F&B and dietary supplement market.

Capable of customising formulations. OBH offers customised, evidence-based formulation services tailored to client needs, leveraging its in-house research, market trend insights, and capabilities in cultivating probiotics and extracting botanical-based active ingredients. To date, OBH has developed a cumulative total of 1,217 formulations, with 228 actively manufactured during the fiscal year under review (refer to Figure 3 and 4). These formulations are differentiated by functionality, raw materials usage, and cost structure, making them difficult for competitors to replicate. This expertise allows OBH to align product offerings with market trends, thus bolstering its position as a leading producer in the fortified F&B and dietary supplement space.

Figure 3: Cumulative number of formulations created since 2011

Segments	Fortified F&B	Dietary Supplements
Third-party brand	1,189	95
House brand	28	11
Total	1,217	106

Source: Company

Figure 4: Number of active formulations in production

Segments	Fortified F&B	Dietary Supplements
Third-party brand	158	37
House brand	22	11
Total	180	48

Source: Company

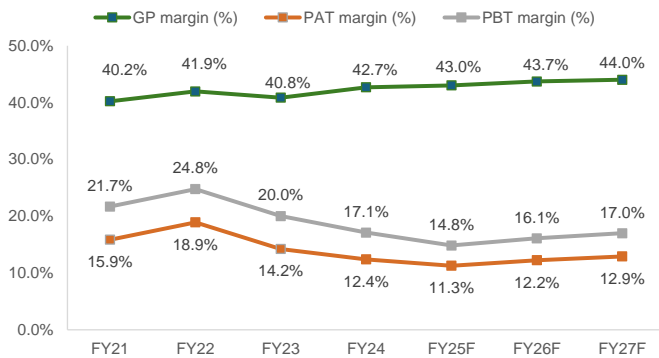


New facility and machinery to cater for future expansion. Currently, OBH operates two factories: the Selayang Factory, which manufactures both fortified F&B and dietary supplements, and the Rented Serendah Factory, which manufactures fortified F&B. Due to inefficient layouts and limited floor space at current factories, OBH is constructing a new Serendah Factory (105k sqft) with optimised flow and modern facilities (office and new laboratory for R&D). Upon completion, fortified F&B operations will be consolidated there, and the Selayang Factory will focus on dietary supplements. Additionally, OBH plans to boost capacity by using RM5.0m (17.4% of IPO proceeds) to acquire new machinery for its product manufacturing lines to support future growth and higher sales volume.

Benefiting from aging population in Malaysia. According to data from the Department of Statistics of Malaysia (DOSM), Malaysia's population is ageing, with the population aged 65 and above experiencing a higher growth rate of 7.4% in 2023 (compared to 7.2% in 2022). DOSM projects that by the year 2040, Malaysia will have nearly an equal share of young and older population. This demographic shift indicates that health concerns will likely drive increased demand for fortified F&B and dietary supplements, creating favourable conditions for OBH as a well-established manufacturer with a diverse product range.

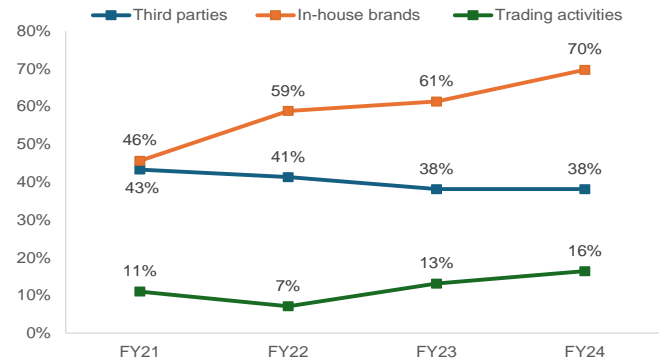
Margins to pick up in FY26-27F. OBH maintained a steady gross profit margin of 40-43% from FY21 to FY24, primarily driven by growth in the in-house brands segment, where management effectively optimised costs to mitigate the decline in margins from third-party manufacturing services (see Figure 6). Despite that, the PBT margin still fell from 24.0% to 17.1% during this period, largely due to increased selling and distribution expenses associated with new product launches. Looking ahead, we expect a slight decline in OBH's PAT margin for FY25F, followed by a recovery in FY26-27F as production capacity increases and expenses normalise with larger economies of scale.

Figure 5: OBH's margin trend (%)



Source: Company, Mercury Securities

Figure 6: OBH's gross margin by business segment (in %)



Source: Company, Mercury Securities

Healthy balance sheet. OBH maintained a healthy gearing ratio of less than 10% before utilising bank borrowings for land acquisition related to the New Serendah Factory construction in FY23. Although the gearing ratio rose to 32% in FY24, it is projected to turn net cash post-listing, as around RM14.9m (50% of IPO proceeds) will be allocated to repay the term loan for the factory's construction. We do not expect OBH to pay dividends going forward as they need to preserve internal funds for future growth.

RM0.29 FV based on 14x FY26F EPS. Given its smaller market capitalisation, we peg a target PE valuation of 14x for OBH, reflecting a 20% discount to its comparable peer's average. As a fortified F&B and supplement manufacturer, OBH has only one similar profit-making peer listed in Malaysia (i.e. Nova Wellness). Applying it to our FY26F EPS of 2.1sen, we arrive at an FV of RM0.29 for OBH.

Peer Comparison – Trailing 12-month basis (as of 11 October 2024)

Company	Bloomberg Ticker	Share price (RM)	Mkt Cap (RM m)	CY25 EPS Growth (%)	P/E (x)	P/B	ROE (%)	Net Dividend Yield (%)
Nova Wellness	NOVA MK	0.44	143.4	6.1	17.4	1.3	7.5	2.8
OB Holdings	OBHB MK	0.24	94.0	19.2	13.9	1.0	9.5	0.0

Source: Bloomberg, Mercury Securities



Company Background

Manufacturing solutions provider for fortified F&B and dietary supplements. OBH provides full-range manufacturing services of fortified F&B and dietary supplements to third-party brand owners. The manufacturing services are provided to both local and foreign customers, comprised of brand owners, wholesalers, chain pharmacies, and direct-selling companies. Upon request, OBH also provides contract packaging services whereby they repack bulk milk powder (sourced from their suppliers), tea leaves, and honey (both provided by customers) into various retail packaging sizes.

In-house brands. OBH also develops and manufactures fortified F&B and dietary supplements under their in-house brands, such as Bonlife, GoHerb, Zen Night, Sleepin' Beaute, EZ:Nitez, Beyoute, Zen Youte, and Zenliv. These products are sold through physical and online retailers.

Trading of milk powder and other activities. This involves the trading of surplus food ingredients or raw materials from OBH's manufacturing activities such as milk powders, packaging materials and others. The company also engages in trading surplus food ingredients and raw materials from its manufacturing activities, including milk powder and packaging materials.

Figure 7: Business Overview

Principal Activities	Provision of manufacturing services of fortified F&B and dietary supplements to third party brand owners ⁽¹⁾	Manufacturing, sales and marketing of fortified F&B and dietary supplements under our house brands	Trading and other activities ⁽²⁾
Products	<p>Fortified F&B</p> <ul style="list-style-type: none"> Fruit-based products Milk-based products Vegetable-based beverages mix Probiotic-based beverages mix Coffee-based beverages mix Oat-based beverages mix Herb-based products Collagen-based products Soy-based beverages mix Tea-based beverages mix <p>Dietary supplements</p> <ul style="list-style-type: none"> Botanical-based products Nutraceutical-based products 	<p>House Brands (Fortified F&B and Dietary Supplements)</p> <p>(Fortified F&B)</p>	Milk Powder
Suppliers	<ul style="list-style-type: none"> Raw material cultivators, producers and suppliers Food ingredient producers and suppliers Printing and packaging manufacturers and suppliers 		Milk powder producers and suppliers
Distribution Channel	Third party brand owners	Distributors, chain retailers, online store retailers, e-commerce platforms (i.e. directly to consumers), marketing agents	Direct sales (i.e. manufacturers and distributors)
Principal Place of Business	Head office: Selayang, Selangor Selayang Factory: Selayang, Selangor Rented Serendah Factory: Serendah, Selangor		

Source: Company



Figure 8: Corporate Milestone

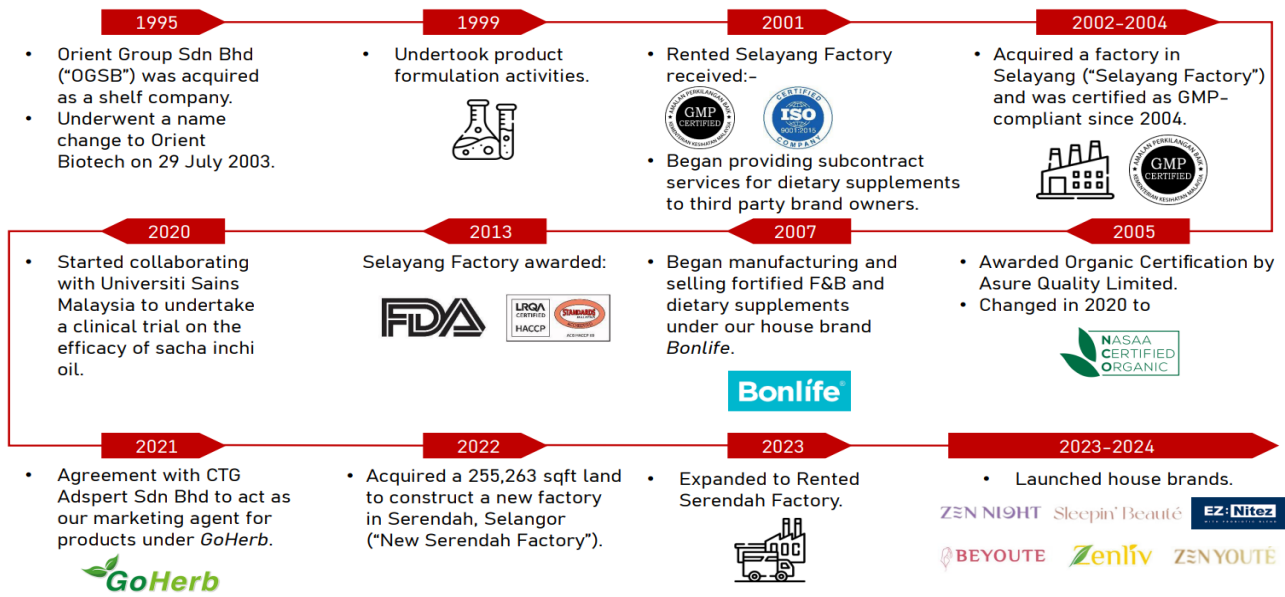


Figure 9: Equipment and certified facilities used by OBH



Source: Company

Figure 10: Product offerings by OBH



Source: Company



Figure 11: The operation process flow of OBH's Manufacturing Services

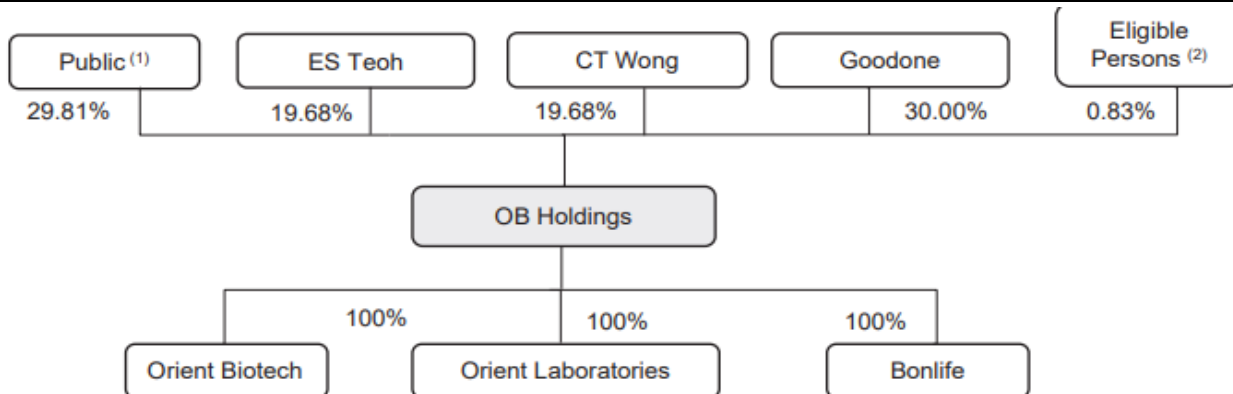


Notes:

- (1) While our Group primarily sources raw materials which comprise active ingredients from our suppliers, we also carry out small scale extraction of active ingredients from herbs and plants, as well as the culturing of a particular strain of probiotic, namely *Lactobacillus acidophilus*, for use in our manufacturing.
- [] denotes the segments of involvement of our Group.

Source: Company

Figure 12: Group Structure Post Listing



Notes:

- (1) The public shareholdings spread upon Listing is 29.81%.
- (2) Based on 3,247,000 IPO Shares to be allocated to Eligible Persons who are not included as public pursuant to the Pink Form Allocation and assuming the pink form allocated to them are fully subscribed.

Source: Company



Figurer 13: Key Management Team

Name and Designation	Age	Profile
ES Teoh Managing Director	61	<ul style="list-style-type: none">• Co-founded Orient Biotech together with his wife, CT Wong. Started the business with the activity of supplying food ingredients to beverages and dietary supplement manufacturers before venturing into the business of undertaking product formulation activities to develop new products formulations for fortified F&B and dietary supplements.• Oversees the in-house research team to develop new products formulations for fortified F&B and dietary supplements.• Focuses on the sales and marketing aspects of OBH, where he helps to identify new markets, both locally and internationally, for existing and new products.• Oversees the group's overall finance matters, overall business direction and strategic planning of OBH
Lee Bao Yu Executive Director	36	<ul style="list-style-type: none">• Started as a data analytic manager in which she is responsible for data collection and analysis of the sales performance of the products and impact of marketing initiative undertaken.• Responsible for the marketing aspects in particular the sales and marketing for Bonlife products.• Responsible for ensuring effective communication, coordination and alignment between different departments.• Responsible for identifying business opportunities, developing and executing strategic plan to achieve sales target and expanding customer base of OBH.
Faun Chee Yarn Financial Controller	64	<ul style="list-style-type: none">• Oversees the group's financial matters, tax-related matters as well as human resources and administrative matters.• Bachelor of Social Science (Honours) from University Sains Malaysia and a member of the Accountant of Chartered Certified Accountants (ACCA).
Lew Yoke Chin General Manager	42	<ul style="list-style-type: none">• Oversees the group's sales, marketing, manufacturing department as well as the business development activities.• Bachelor of Science with Education (Biology) degree from Universiti Teknologi Malaysia.
Lee Chee Keat R&D Manager	40	<ul style="list-style-type: none">• Oversees and leads the group's research and development department.• Bachelor of Science Nutrition (Honours) degree from Universiti Kebangsaan Malaysia.
Lee Kok Onn Factory Manager	63	<ul style="list-style-type: none">• Oversees all aspect of the group's factory operations such as production management, quality assurance, health and safety compliance, inventory control and staff management.• Bachelor of Business Administration degree from Tunghai University, Taiwan.
Pang Poh Lye Legal Manager	63	<ul style="list-style-type: none">• Responsible for providing legal advice to the group and ensuring the group is in compliance with the relevant laws and regulations.• Bachelor of Laws (Honours) degree from University of London, UK.

Source: Company



Future Plans & Business Strategies

Improving efficiency and capacity. OBH is planning to construct a new factory in Serendah in order to enhance the layout of its manufacturing operations. The current layout and limited space at its Selayang factory are impeding the manufacturing flow. The new factory will feature a tailored layout to optimise machinery configuration and facilitate the automation of specific workflows. Upon completion, OB Holdings will relocate the manufacturing of fortified F&B from the Selayang and rented Serendah factories to the new Serendah Factory. The Selayang Factory will then concentrate on producing dietary supplement products.

Purchase of new machinery. OBH intends to purchase new machinery to cater to its planned expansion of manufacturing capacity in the new Serendah Factory. The machinery to be purchased for the new Serendah Factory includes a multilane sachet packing machine, freeze-dry machines, extraction and concentration machines, stability chamber, and supercritical carbon dioxide extraction machine. Additionally, OBH will also purchase new machinery for manufacturing dietary supplements at the Selayang Factory, specifically a gelatin loading tank (softgel equipment).

Expanding product development. OBH plans to expand its product development activities by conducting a clinical trial on its in-house brand products. Additionally, the company aims to enhance its in-house culturing of probiotic strains by establishing a new laboratory at its New Serendah Factory.

Key Risks

Risk of counterfeit products. OBH develops and manufactures its products using its own in-house research capabilities. If counterfeit products that replicate their items exist in the market, it could harm their business in several ways. This includes damaging their reputation due to a loss of customer trust, reducing their market competitiveness because of lower-priced imitations, and impacting their financial performance by diverting sales away from their authentic products.

Intense competition. In August 2024, Malaysia had around 180 registered dietary supplement manufacturers. OBH needs to compete by offering customizable formulations, a variety of product forms, competitive pricing, high-quality products, timely delivery, and strong manufacturing capabilities. It's crucial to provide end-to-end solutions, including product registration, sourcing, manufacturing, and delivery. Failing to remain competitive could lead to reduced sales and negatively impact OBH's financial performance.

Failure to renew the required licenses. OBH's subsidiaries, such as Orient Laboratories, need a manufacturing license from MITI. Bonlife requires a wholesaler's license issued by NPRA as prescribed under Regulation 12 of the Controlled Drugs and Cosmetics Regulations. Additionally, Orient Biotech needs certificates of registration as a feed manufacturer issued by the Feed Board under Regulation 3(1) of the Feed (Manufacture and Sale of Feed or Feed Addictive) Regulations 2012. If OBH fails to renew these necessary licenses, their business operations will be disrupted.



IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
Retail Offering				
Eligible Persons	-	7.8	1.8	2.0
Malaysian Public (Non-Bumiputera)	-	19.6	4.7	5.0
Private placement to selected investors	-	43.6	10.5	11.1
Selected Bumiputera investors approved by MITI	-	49.0	11.8	12.5
Total	-	120.0	28.8	30.6

Source: Company



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