Life Water Berhad

(5328 | LWSABAH MK) Main | Consumer Products & Services

SHARIAH Compliant

Corporate Update

Corporate Update

Expanding Along the Food Value Chain

Maintain **BUY**

Revised Target Price **RM1.73**
(from RM1.63)

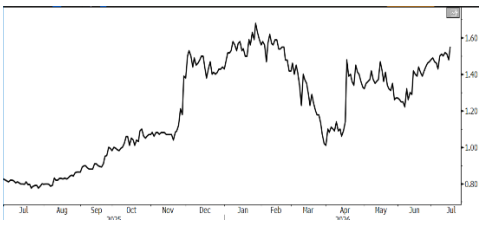
Maintain BUY with a higher TP of RM1.73 (from RM1.63). Life Water (LWSABAH) announced that it has entered into a share sale agreement for the proposed acquisition of 90% equity interests in Hung On Thong Mini Supermarket Sdn Bhd (HOTMS), Hung Tai Enterprise (Sabah) Sdn Bhd (HTE) and Kilang Mee Ban Soon Sdn Bhd (KMBS) for a total cash consideration of RM46.8m. We are positive on the proposed acquisition as it extends the Group's presence along the food value chain beyond bottled water, adds established staple-food brands and manufacturing capabilities, and is strategically aligned with the Group's distribution-led expansion across Sabah and neighbouring markets. We make no changes to our earnings forecasts pending completion of the deal, which is expected within 3 months of the SSA (by circa Oct-26, falling in 2QFY27). However, we raise our target PER to 17x from 16x to reflect the Group's improving earnings diversification and the accretive optionality from the acquisition that is not yet captured in our forecasts. Consequently, our **TP** is revised upward to **RM1.73,** based on 17x FY27F EPS of 10.2 sen.

Deal details. The purchase consideration of RM46.8m is derived from an agreed enterprise value of RM52.0m for 100% of the three companies, and will be fully satisfied in cash, funded equally by internally generated funds (RM23.4m) and new bank borrowings (RM23.4m). The targets are a related trio of Sabah-based staple-food businesses: HOTMS imports rice and rice noodles, HTE undertakes wholesale and distribution of food products alongside the manufacture of sauces and condiments and wholesale of animal feed, while KMBS manufactures noodles and red bean paste. HTE is the core asset, accounting for approximately 64% of the consideration. Collectively, the companies recorded an audited PAT of RM7.62m for FYE Dec-25 on net assets of RM28.4m. The vendors will retain a 10% stake through a continuing shareholder, and the acquisition requires no shareholder or regulatory approval, with the highest percentage ratio at 22.85%.

Strategically aligned FMCG expansion. The acquisition marks a meaningful step in Life Water's diversification into FMCG, following its earlier move into sauces and condiments via Twinine. It brings recognised household brands, established manufacturing capabilities and long operating histories in staple-food categories where demand is resilient, supported by population growth and consistent consumption. Importantly, the targets come with an existing customer base and a distribution network spanning Sabah, Labuan, Sarawak and Brunei, which both complements and extends the Group's own distribution reach, including into markets that currently sit outside its bottled water footprint. We see scope for operational synergies in logistics, procurement, distribution and administration as the businesses are folded into the enlarged group, consistent with the vertically integrated model that has underpinned the Group's margin performance in its core business.

RETURN STATISTICS	
Price @ 15th July 2026 (RM)	1.55
Expected share price return (%)	+11.4
Expected dividend yield (%)	+1.6
Expected total return (%)	+13.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	10.7	10.5
3 months	4.7	3.3
12 months	95.0	72.0

INVESTMENT STATISTICS

FYE JUNE (RM'm)	2026F	2027F	2028F
Revenue	229.2	281.1	312.2
EBITDA	68.8	80.2	91.7
PBT	52.4	62.4	72.1
Core PATANCI	41.9	48.1	55.5
Core EPS (sen)	8.9	10.2	11.7
DPS (sen)	2.2	2.5	2.9
Dividend Yield (%)	2.0	2.3	2.6

KEY STATISTICS

FBM KLCI	1,713.76
Issued shares (m)	473.18
Estimated free float (%)	21.14
Market Capitalisation (RM'm)	733.43
52-wk price range	RM0.75 - RM1.69
3-mth average daily volume (m)	1.83
3-mth average daily value (RM'm)	2.54
Top Shareholders (%)	
SCARECROW HOLDING SDN BHD	36.19
Lim Young Piau	18.10
Tan Hwong Kuen	18.07

Analyst
MBSB Research
research@mbsb.com

Attractively priced with downside protection. The consideration implies approximately 6.9x P/E against the profit guarantee and approximately 6.8x EV/PAT on the targets' audited FYE Dec-25 earnings, well below LWSABAH's own trading multiple and the 17x PER we ascribe in our valuation, making the deal mechanically value-accretive with no new shares issued. Deal protections are sensible: the vendors have guaranteed a minimum PAT of RM7.5m per annum for FY27 and FY28, backed by a RM5.0m retention sum, while at least two outgoing directors will remain for a 12-month handover period and a vendor-linked shareholder retains 10%, preserving continuity and aligning incentives through the transition.

Illustrative earnings impact. The acquisition is guided to have no material impact on FYE Jun-26 as completion falls after the financial year-end. For illustration, anchoring on the RM7.5m guaranteed PAT floor, a 90% attributable stake and after deducting estimated funding costs (assuming a 5% rate on the new borrowings and forgone returns on internal funds deployed), we estimate a net incremental PAT run-rate of approximately RM5.3m per annum. This would translate into potential earnings and EPS accretion of approximately +7% to FY27F (assuming eight months of consolidation) and +10% to FY28F, with upside should the targets sustain their FYE Dec-25 delivery of RM7.62m or synergies materialise. We stress these are scenario estimates and are not incorporated into our official forecasts pending completion.

Balance sheet remains manageable. Based on the proforma effects disclosed, total borrowings will rise by RM23.4m and gear increases to 0.62x from 0.51x, which we view as manageable given the Group's strong operating cash flow generation. As the consideration is fully cash-funded, there is no dilution to share capital, and NA per share is unchanged at RM0.44. We note the vendors will complete a pre-completion asset distribution, including ten properties distributed in-specie and a RM3.0m cash dividend, with leaseback tenancies executed over the three operating sites to preserve operational continuity.

Outlook. We keep our forecasts unchanged pending completion of the proposed acquisition, expected by Oct-26, but raise our target PER to 17x from 16x. We believe the re-rating is guaranteed as the acquisition structurally improves the quality and diversity of the Group's earnings base, reducing its reliance on a single product category by adding defensive staple-food exposure with a contractually guaranteed earnings floor of RM7.5m per annum through FY28. In addition, the transaction offers earnings accretion of approximately +7% to +10% that sits outside our unchanged forecasts, alongside synergy potential across logistics, procurement and distribution, which we view as justifying a modest premium to our previous valuation basis. Beyond the immediate earnings uplift, the deal signals management's intent to build a broader Sabah-centred consumer staples platform, supporting the longer-term growth trajectory that anchors our investment thesis.

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2024A	2025A	2026F	2027F	2028F
Revenue	166.5	173.0	229.2	281.1	312.2
Gross Profit	80.0	81.5	110.0	130.8	147.8
EBITDA	50.1	52.6	68.8	80.2	91.7
EBIT	39.3	39.7	56.0	66.4	76.5
PBT	36.6	35.0	52.4	62.4	72.1
Taxation	(8.4)	(5.0)	(10.5)	(14.4)	(16.6)
PAT	28.1	30.0	41.9	48.1	55.5
Core PATAMI	28.1	31.2	41.9	48.1	55.5
Core EPS (sen)	5.9	6.6	8.9	10.2	11.7
PER (x)	18.8	17.0	12.6	11.0	9.5
DPS (sen)	0.0	1.6	2.2	2.5	2.9
Dividend Yield (%)	0.0	1.4	2.0	2.3	2.6

Cash Flow (RM'm)	2024A	2025A	2026F	2027F	2028F
PBT	36.6	35.0	52.4	62.4	72.1
Operating cash flow	45.7	31.6	58.2	55.7	70.2
Investing cash flow	(54.4)	(76.0)	(21.1)	(25.4)	(28.0)
Financing cash flow	13.7	51.0	(4.4)	(6.4)	(8.7)
Net cash flow	5.0	6.6	32.7	23.9	33.4
Beginning cash flow	9.7	14.7	21.4	54.1	78.0
Ending cash flow	14.7	21.4	54.1	78.0	111.4

Growth (%)	2024A	2025A	2026F	2027F	2028F
Revenue Growth (%)	10.3	3.9	32.5	22.6	11.1
Gross Profit Growth (%)	22.8	1.9	35.0	18.8	13.1
EBITDA Growth (%)	38.5	5.0	30.8	16.6	14.3
Core PATAMI Growth	36.4	11.0	34.3	14.6	15.5

Profitability Ratios (%)	2024A	2025A	2026F	2027F	2028F
Gross Profit Margin	48.0	47.1	48.0	46.5	47.3
EBITDA Margin	30.1	30.4	30.0	28.5	29.4
EBIT Margin	23.6	22.9	24.4	23.6	24.5
Core PATANCI Margin	16.9	18.1	18.3	17.1	17.8

Balance Sheet (RM'm)	2024A	2025A	2026F	2027F	2028F
PPE	72.6	112.9	92.8	104.2	116.7
Right of use assets	53.5	64.1	53.6	53.8	54.1
Non-current assets	147.9	177.2	189.5	201.0	213.9
Inventories	20.6	35.6	29.4	37.1	40.5
ST Trade	23.0	24.0	22.0	27.0	29.9
Cash	16.5	23.1	54.1	78.0	111.4
Total current assets	95.2	159.5	182.2	218.8	258.7
Total Assets	243.1	336.7	371.7	419.8	472.5
Total Equities	122.0	208.8	240.2	276.2	317.8
LT Loans	84.6	81.9	85.0	92.5	100.0
Non-current liabilities	91.8	89.9	94.1	101.9	109.6
ST Trade payables	8.9	15.7	6.5	8.2	9.0
ST Loans	18.7	21.0	28.3	30.8	33.3
Current Liabilities	29.2	38.0	37.4	41.7	45.1
Total Liabilities	121.1	127.9	131.5	143.6	154.7

Source: Bloomberg, MBSBR

MBSB RESEARCH is part of MBSB Investment Bank Berhad 197501002077 (24878-X)

(Bank Pelaburan) (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report is prepared by MBSB Investment Bank Berhad (Company Registration No.: 197501002077 (23878-X)) and is for distribution only to the intended readers and under such circumstances as may be permitted by applicable law. Readers should be fully aware that this report is provided solely for informational purposes and does not constitute a Shariah advice nor constitute an investment recommendation or basis for any credit or other evaluation in any manner whatsoever.

The opinions and analyses contained in this report are based on information obtained or derived from sources that MBSB Investment Bank Berhad believes to be reliable. Any forward-looking statements in this report speak only as of the date of such statements. However, MBSB Investment Bank Berhad makes no representation or warranty, expressed or implied, as to the accuracy, completeness, or reliability of such information, and it should not be relied upon as such.

While the information presented in this report may include references to Shariah -compliant and non-compliant securities or other financial instruments, this report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments or to promote or endorse any specific investment. Investors are strongly advised to conduct their own due diligence and to consult licensed Shariah or financial advisors before making any investment decisions. Any action taken based on this report is at the sole discretion and risk of the investor.

The analyses in this report are based on numerous assumptions, and different assumptions could yield different results. All opinions and estimates in this report are subject to change without notice.

The research analysts will initiate, update, and cease coverage solely at the discretion of MBSB Investment Bank Berhad.

The directors, employees, and representatives of MBSB Investment Bank Berhad and MBSB Berhad may have interests in any of the securities mentioned and may benefit from the information contained herein. Members of MBSB Berhad and their affiliates may provide services to any company or its affiliates whose securities are mentioned in this report.

This report shall not be reproduced, distributed, or published in any form or for any purpose without the prior written consent of MBSB Investment Bank Berhad

MBSB INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology