

PP14767/09/2012(030761)

Monday, May 18, 2015

Amway (Malaysia) Holdings Bhd

“Good Starts, but Challenging Year”

Results Review

- Actual vs. expectations.** Amway (Malaysia) Holdings Bhd (Amway) recorded a higher sales revenue of RM322 million in 1Q15, that gained by 40% q-o-q and 51% y-o-y. The higher revenue was mainly driven by pre-GST buying and promotions undertaken by the company focusing on high value items during the quarter under review.
- Bottom line.** Amway’s PAT of RM37 million in 1Q15 rose by 59% q-o-q and 45% y-o-y due to higher sales achieved following the successful sales promotion on Amway products during the quarter. However, gross profit margin has squeezed to 27% y-o-y from 31% in 1Q15 impacted by the lower price of their product due to the promotional price discounts undertaken by the group. Amway’s 1Q15 PAT of RM37 million accounted 36% and 39% of our and consensus estimates respectively.
- Dividend.** Amway declared 1st interim single tier dividend of 10.0sen in 1Q15, translating into 45% payout ratio which is slightly lower from previous year of 65%.
- Performance review.** We foresee that the strong earnings recorded in the 1Q15 were mainly due to pre-GST implementation’s buying as a result of well received pre-GST promotions undertaken by the company. However, we anticipate that this might be only a one off event as consumers are concern over the price of the products after the implementation of GST. We expect earnings for the next quarters would be soft following the GST implementation, and hence reiterated that Amway may and/or will face a challenging operating business environment in the next couple of months.

HOLD (TP: RM10.50)

| | |
|--------------------------|---------|
| Current Price (RM) | RM10.80 |
| New Fair Value (RM) | RM10.50 |
| Previous Fair Value (RM) | RM10.50 |
| Previous Recomm. | HOLD |
| Upside To Fair Value | -2.7% |
| Dividend Yield (FY15F) | 5.9% |

Stock Code

| | |
|-----------|--------|
| Bloomberg | AMW MK |
|-----------|--------|

Stock & Market Data

| | | |
|-------------------------------|-------------|--------|
| Listing | MAIN MARKET | |
| Sector | Consumer | |
| Shariah Compliance | Yes | |
| Issued Shares (mn) | 164.4 | |
| Market Cap (RM mn) | 1,775.4mn | |
| YTD Chg In Share Price | 5.22% | |
| Beta (x) | 0.51 | |
| 52-week Hi/Lo (RM) | RM11.98 | RM9.86 |
| 6M Average Volume (mn shares) | 0.124mn | |
| Estimated Free Float | 18% | |

Major Shareholders

| | |
|---------------|--------|
| GDA BV | 51.70% |
| ASB | 14.46% |
| Kumpulan Wang | 9.10% |
| Persaraan | |
| EPF | 7.02% |

Results Review - Amway (Malaysia) Holdings Bhd

- **Outlook.** In-line with the management, we expect Amway's 2Q15 performance may turn to be lenient as there will be a pullback in consumer spending post GST implementation on-top-of the margins squeeze expected due to strength in USD on the cost of importation that may further impact Amway's FY15 performance. However, we foresee Amway will continue focusing to grow their business in beauty and wellness products through various sales and marketing initiatives to cater for the abovementioned impact.
- **Changes to forecast.** We maintain our FY15 and FY16 earnings forecast of RM102 million and RM105 million respectively for now pending further clue and direction on consumer sentiment and reassessment on the company's future outlook and strategy in the up-coming report. Amway's PAT for FY15 and FY16 forecast expected to grow by 2% and 4% respectively assisted by 1) aggressive launch of new products; and 2) continuous aggressive sales and marketing activities on existing product.
- **Valuation & recommendation.** We maintain our target price for Amway at RM10.50 based on DDM valuation and the stock is a HOLD.

Table 1: Peers comparison (Calenderised)

| Company | YE | Price (RM) | EPS (sen) | | P/E (X) | | P/BV (X) | | ROE (%) | DY (%) | TP (RM) | Call |
|--------------|------|------------|-----------|------|---------|------|----------|------|---------|--------|---------|------|
| | | | FY15 | FY16 | FY14 | FY15 | FY15 | FY16 | | | | |
| Parkson* | Jun | 2.05 | 17 | 19 | 17 | 16 | 1 | 1 | 5 | NA | 2.25 | Hold |
| Amway | Dec | 10.80 | 69 | 73 | 17 | 16 | 9 | 8 | 55 | 3.4 | 10.50 | Hold |
| Nestle | Dec | 72.80 | 254 | 277 | 27 | 24 | 18 | 18 | 58 | 3.5 | 59.30 | Sell |
| MSM | Dec | 5.45 | 34 | 38 | 14 | 13 | 2 | 2 | 13 | 5.1 | 5.30 | Hold |
| Dutch Lady | Dec | 47.02 | 216 | 229 | 22 | 20 | 14 | 16 | 58 | 2.4 | 48.80 | Hold |
| Padini* | Jun | 1.39 | 15 | 18 | 13 | 11 | 3 | 3 | 24 | 5.0 | 2.35 | Buy |
| Scientex | July | 6.85 | 68 | 80 | 10 | 8 | 2 | 2 | 20 | 4.0 | 7.30 | Hold |
| Zhulian | Nov | 2.05 | 11 | 33 | 10 | 6 | 2 | 2 | 10 | 5.1 | 1.80 | Sell |
| Aeon Co | Dec | 3.15 | 18 | 19 | 23 | 21 | 3 | 3 | 14 | 1.4 | NA | NA |
| QL Resources | Mac | 3.91 | 16 | 18 | 19 | 17 | 3 | 3 | 15 | 1.0 | NA | NA |
| Average | | | | | 18 | 15 | 5 | 5 | | | | |

Source: Bloomberg, M&A Securities

Table 2: Results Analysis

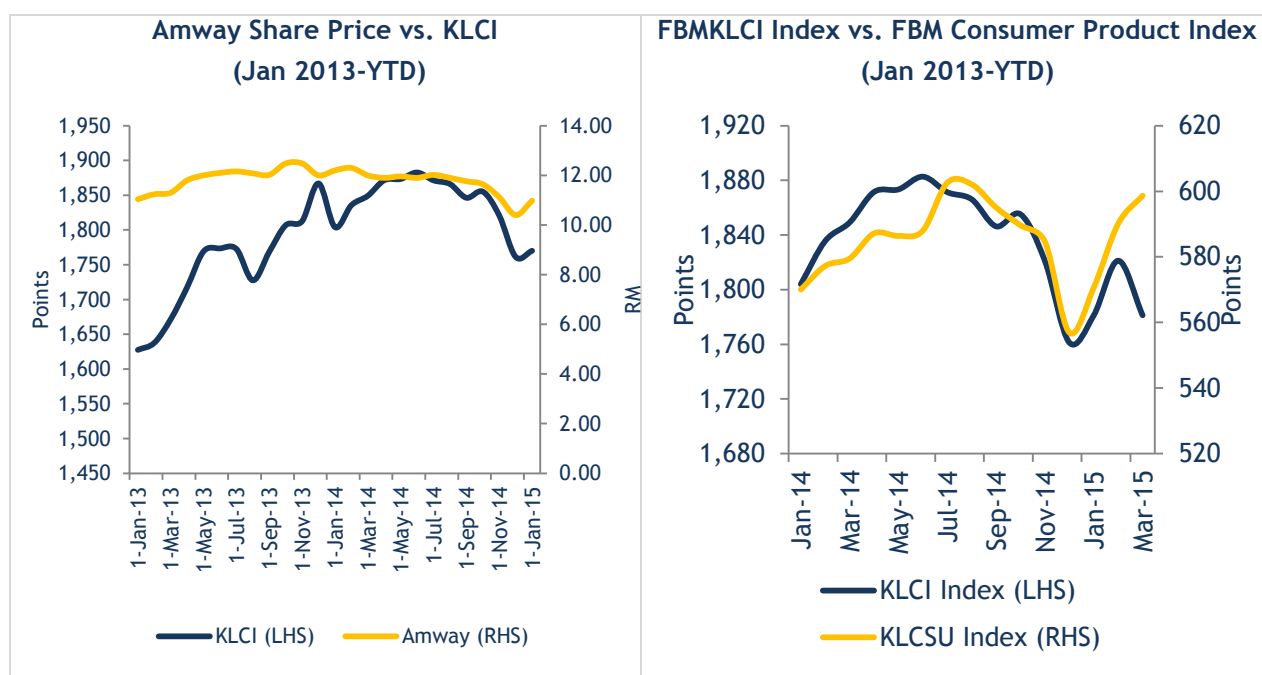
| YE: Dec (RM million) | 1Q15 | 1Q14 | 4Q14 | q-o-q | y-o-y | 3M15 | 3M14 | y-o-y |
|----------------------|------|------|------|-------|-------|------|------|-------|
| Revenue | 322 | 213 | 230 | 40% | 51% | 322 | 213 | 51% |
| Gross profit | 88 | 65 | 70 | 26% | 34% | 88 | 65 | 34% |
| Other income | 2 | 2 | 2 | -36% | -5% | 2 | 2 | -5% |
| Pre-tax Profit | 50 | 34 | 32 | 54% | 46% | 50 | 34 | 46% |
| Taxation | (13) | (9) | (9) | 43% | 49% | (13) | (9) | 49% |
| Net Profit | 37 | 25 | 23 | 59% | 45% | 37 | 25 | 45% |
| EPS (sen) | 22 | 15 | 14 | 59% | 45% | 22 | 15 | 45% |
| GP Margin | 27% | 31% | 30% | | | 27% | 31% | |
| PBT Margin | 16% | 16% | 14% | | | 16% | 16% | |
| PAT Margin | 11% | 12% | 10% | | | 11% | 12% | |

Source: Bursa Malaysia, M&A Securities

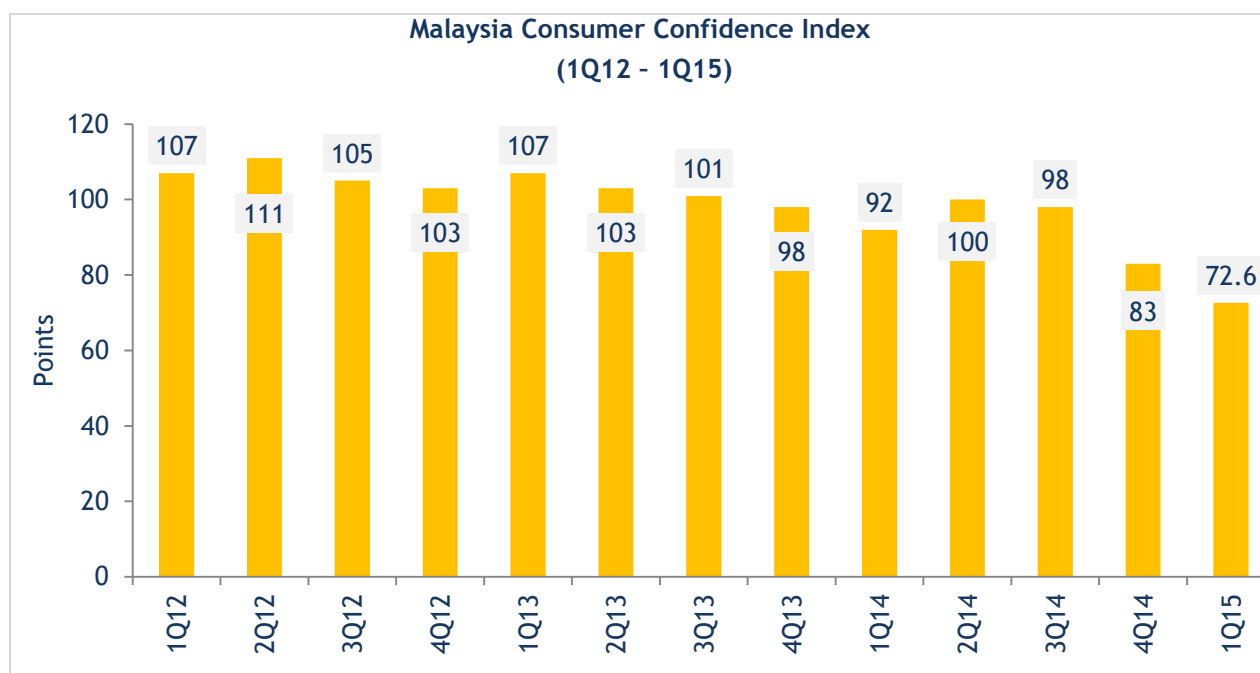
Table 3: Financial Forecast

| YE: Dec (RM million) | FY12 | FY13 | FY14 | FY15F | FY16F |
|----------------------|-------|-------|-------|-------|-------|
| Revenue | 798 | 861 | 856 | 890 | 917 |
| Gross profit | 252 | 272 | 258 | 275 | 286 |
| Pre-tax Profit | 137 | 148 | 135 | 139 | 147 |
| Taxation | (37) | (40) | (35) | (37) | (41) |
| Net Profit | 100 | 108 | 100 | 102 | 105 |
| EPS (sen) | 61 | 66 | 61 | 62 | 64 |
| P/E (x) | 19.8 | 18.6 | 17.1 | 18.0 | 17.6 |
| P/BV (x) | 8.7 | 8.7 | 8.2 | 8.1 | 8.1 |
| GP Margin | 31.5% | 31.5% | 30.2% | 30.9% | 31.2% |
| PBT Margin | 17.2% | 17.2% | 15.7% | 15.6% | 16.0% |
| PAT Margin | 12.5% | 12.5% | 11.7% | 11.4% | 11.5% |
| Dividend (RM) | 0.66 | 0.72 | 0.55 | 0.60 | 0.60 |
| Dividend yield (%) | 7.1 | 3.3 | 5.0 | 5.8 | 5.8 |
| Dividend payout | 120.6 | 103.0 | 90.5 | 97.0 | 94.0 |

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities



Source: Nelson Consumer Confidence, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

| | |
|--------------------|--|
| BUY | Share price is expected to be $\geq +15\%$ over the next 12 months. |
| TRADING BUY | Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow. |
| HOLD | Share price is expected to be between -10% and $+10\%$ over the next 12 months. |
| SELL | Share price is expected to be $\geq -15\%$ over the next 12 months. |

SECTOR RECOMMENDATIONS

| | |
|--------------------|--|
| OVERWEIGHT | The sector is expected to outperform the FBM KLCI over the next 12 months. |
| NEUTRAL | The sector is expected to perform in line with the FBM KLCI over the next 12 months. |
| UNDERWEIGHT | The sector is expected to underperform the FBM KLCI over the next 12 months. |

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47, 43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my