

PP14767/09/2012(030761)

Thursday, November 19, 2015

Amway (Malaysia) Holdings Bhd

“Losing Its Grip”

Results Review

- Actual vs. expectations.** Amway (Malaysia) Holdings Bhd (Amway) made 9M15 net profit of RM59 million (-23% y-o-y) that was lower compared to RM77 million in 9M14. That said, 9M15 earnings came in below ours and consensus expectation, accounting 58% and 62% of ours and consensus full year estimates respectively. The lower net profit performance was hit by higher importation cost due to weakening of Ringgit against the USD and less favourable sales mix by the group.
- Dividend.** Amway declared an interim single tier dividend of 10.0sen/shares in 3Q15, bringing total dividend to 30.0sen/shares for 9M15 translating into 84% payout ratio, slightly higher from the previous year of 64%.
- Top line.** 9M15 revenue swelled to RM752 million, that rose by 20% y-o-y compared to RM626 million in 9M14. The double digits growth of revenue was pushed by pre-GST buying and promotional new launch of new product in 1H15. Nonetheless, gross profit margin declined to 25% in 9M15 compared to 30% in 9M14 hammered by higher cost of sales and marketing to support and grow their business post GST implementation.
- Weakening Ringgit to shave margins further.** Of note, Ringgit continued to tumble to an average of RM3.82/USD in 9M15 (-18% y-o-y) compared to 9M14 average of RM3.24/USD. As a result, Amway GP margin has narrowed by 50bps to 25% pressured by escalating cost (70% of products imported). Moving forward, we expect Amway GP margin to remain soft coinciding with weaker Ringgit that led to higher importation cost.

HOLD (TP: RM10.50)

Current Price (RM)	RM9.72
New Fair Value (RM)	RM10.50
Previous Fair Value (RM)	RM10.50
Previous Recomm.	HOLD
Upside To Fair Value	8.0%
Dividend Yield (FY15F)	5.8%

Stock Code

Bloomberg	AMW MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Consumer	
Shariah Compliance	Yes	
Issued Shares (mn)	164.4	
Market Cap (RM mn)	1,597mn	
YTD Chg In Share Price	5.3%	
Beta (x)	0.45	
52-week Hi/Low (RM)	RM11.98	RM9.86
6M Average Volume (mn shares)	0.124mn	
Estimated Free Float	12%	

Major Shareholders

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

Results Review - Amway (Malaysia) Holdings Bhd

- **Outlook.** GST spending cautiousness and weakening of Ringgit against USD have inflicted harmful impact to the group earnings in FY15. We foresee Amway will be facing challenging environment business due to higher cost of importation, hence will give negative impact to Amway's earnings performance. However, we believe Amway will continue to focus on growing their business in beauty and wellness products through various sales and marketing initiatives despite the temporary softness in consumers' spending. We expect sales and marketing activities will assist the group to face the challenging operation environment and give positive impact to earnings performance.
- **Changes to forecast.** We revise lower our FY15 and FY16 earnings forecast by 24% and 25% due to lower-than-expected earnings in 9M15 to RM77 million and RM80 million respectively. Hence, FY15 earnings projected to fall by 23% y-o-y impacted by weaker consumer spending but FY16 earnings expected to grow by 4% assisted by 1) aggressive launch of new products; and 2) continuous aggressive sales and marketing activities on existing product.
- **Valuation & recommendation.** We value our target price on Amway at RM10.50 based on DDM with a **HOLD** call. Re-rating catalyst may come from 1) higher expansion in contributor and 2) continuous aggressive sales and marketing activities on their existing product.

Table 1: Peers comparison (Calenderised)

Company	YE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Parkson*	Jun	1.03	17	19	17	16	1	1	5	NA	2.00	Buy
Amway	Dec	9.72	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	73.02	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	4.83	34	38	14	13	2	2	13	5.1	5.46	Buy
Dutch Lady	Dec	48.82	216	229	22	20	14	16	58	2.4	47.30	Hold
Padini*	Jun	1.62	15	18	13	11	3	3	24	5.0	1.45	Hold
Scientex	July	7.79	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	1.58	11	33	10	6	2	2	10	5.1	1.80	Buy
Aeon Co	Dec	2.79	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.16	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&A Securities

Results Review - Amway (Malaysia) Holdings Bhd

Table 2: Financial Forecast

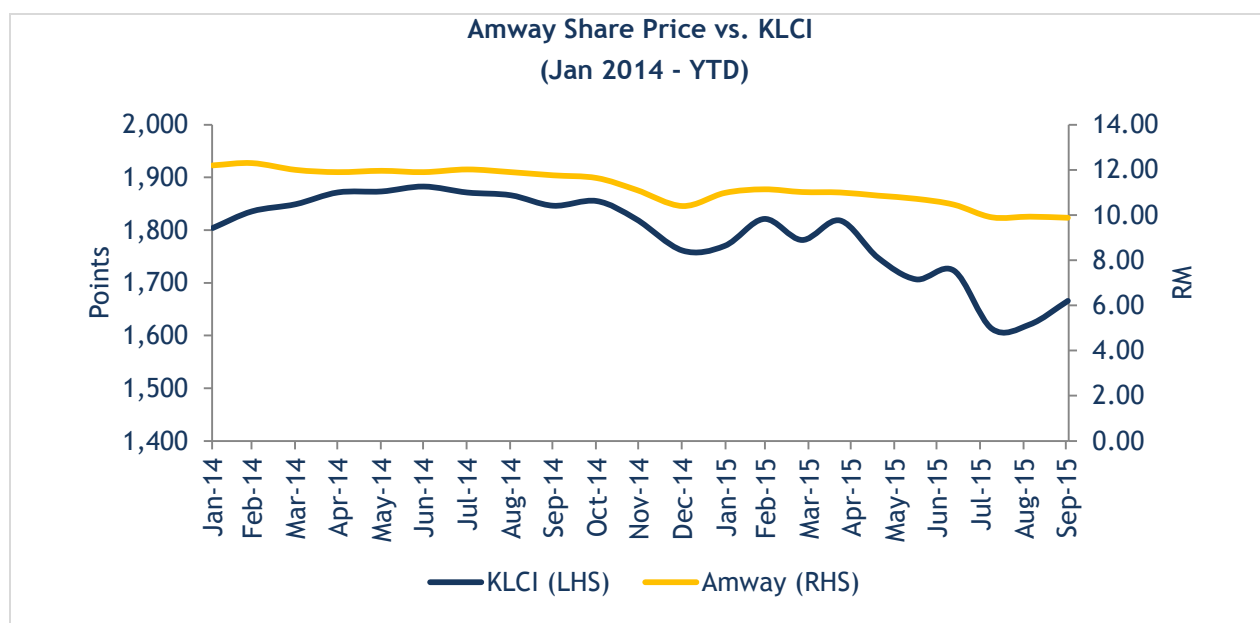
YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	798	861	856	890	917
Gross profit	252	272	258	251	262
Pre-tax Profit	137	148	135	114	121
Taxation	(37)	(40)	(35)	(37)	(41)
Net Profit	100	108	100	77	80
EPS (sen)	61	66	61	47	48
P/E (x)	19.8	18.6	17.1	18.0	17.6
P/BV (x)	8.7	8.7	8.2	8.1	8.1
GP Margin	31.5%	31.5%	30.2%	28.2%	28.5%
PBT Margin	17.2%	17.2%	15.7%	12.8%	13.2%
PAT Margin	12.5%	12.5%	11.7%	8.6%	8.7%
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

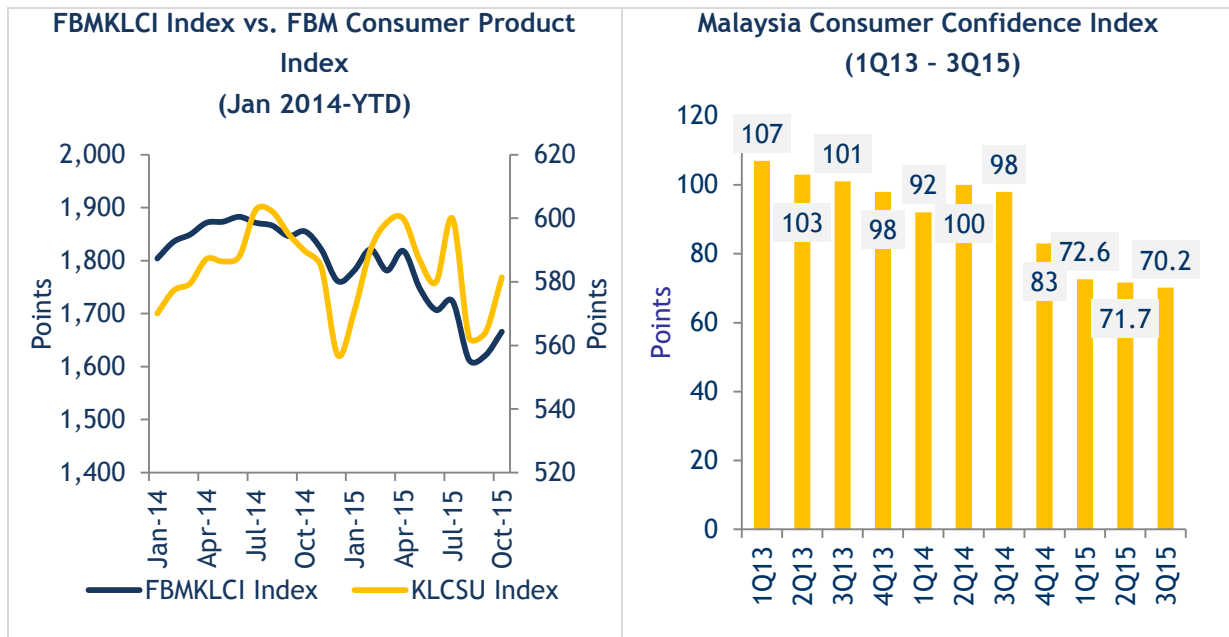
Table 3: Results Analysis

YE: Dec (RM million)	3Q15	3Q14	2Q15	q-o-q	y-o-y	9M15	9M14	y-o-y
Revenue	242	219	188	29%	10%	752	626	20%
Gross profit	57	64	46	23%	-11%	191	189	1%
Other income	3	2	2	58%	58%	6	5	33%
Pre-tax Profit	17	33	13	24%	-49%	80	102	-22%
Taxation	(5)	(8)	(3)	55%	-37%	(21)	(26)	-18%
Net Profit	12	25	10	15%	-53%	59	77	-23%
EPS (sen)	7	15	6	15%	-53%	36	47	-23%
GP Margin	24%	29%	25%			25%	30%	
PBT Margin	7%	15%	7%			11%	16%	
PAT Margin	5%	11%	5%			8%	12%	

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities



Source: Bloomberg, 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.

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