

PP14767/09/2012(030761)

Wednesday, May 18, 2016

## Amway (Malaysia) Holdings Bhd

## “Weak Start of FY16”

## Results Review

- **Actual vs. expectations.** Amway (Malaysia) Holdings Bhd (Amway) reported a lower 1Q16 revenue of RM305.9 million (-5% y-o-y) compared to 1Q15 when retailers and distributors stocked up goods ahead of the implementation of Goods & Services Tax (GST) on 1 April 2015. EBITDA was halved by 51 % to RM25 million, sending EBITDA margin to 8% versus 16% in 1Q15. PAT was hammered from RM36.8 million to RM18.0 million (-49% y-o-y) due mainly to hefty importation costs resulting from weakening Ringgit against US Dollar. 1Q16 earnings accounted 21% of our full year forecast and hence, within our expectation.
- **Strong Buy-Up in 1Q FY16.** Similar to the pre-GST stock buy-up in 1Q15, Amway's customers racked up their stock level ahead of the price adjustment in February and April 2016 which would see overall price increase by 9-10%. This, coupled with the momentum of sales from the group's 40<sup>th</sup> anniversary marketing activities and incentives programmes had attributed to a higher sales turnover (+14% q-o-q) and stronger PBT (+164% q-o-q) in 1Q16 versus 4Q15. Note that the group has not been increasing its average selling price since 2013.
- **Dividend.** Amway declared its first interim single tier dividend of 5.0 sen/share in 1Q FY16 or 50% lower than was paid in 1Q FY15 amid challenging business environment. Notwithstanding that, the group is committed to a minimum dividend payout of 80% annual net profit and we expect total payout in FY16/17/18 amounting to 47 sen/50 sen/61sen, respectively.

## HOLD (TP: RM8.62)

Current Price (RM)	RM9.20
New Fair Value (RM)	RM8.62
Previous Fair Value (RM)	RM8.50
Previous Recomm.	HOLD
Upside To Fair Value	-6.3%
Dividend Yield (FY16F)	5.8%

## Stock Code

Bloomberg	AMW MK
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## Stock &amp; Market Data

Listing	MAIN MARKET	
Sector	Consumer	
Shariah Compliance	Yes	
Issued Shares (mn)	164.4	
Market Cap (RM mn)	1,512mn	
YTD Chg In Share Price	-1.8%	
Beta (x)	0.44	
52-week Hi/Lo (RM)	RM11.06	RM9.08
6M Average Volume (thousand shares)	5.28	
Estimated Free Float	11%	

## Major Shareholders

GDA BV	51.70%
ASB	13.20%
Kumpulan Wang	9.18%
Persaraan	
EPF	6.02%

- **Weakening US Dollar Translates Into Stronger Ringgit And Better Results?** Being an import-oriented company, Amway's operating margins are adversely impacted by weaker Ringgit. Since 2Q15, the group's GP margin has eroded four quarters in a row by 3-6% on the year-on-year basis, largely because of dearer importation costs of goods sold locally. To mitigate the impact, the management adopted a centralised procurement system which allows them to hedge 70-85% of the cost of sales. The group can also re-negotiate its 1-year fixed exchange rate with its holding company and the new rate will be effective in June of the same year.

The recent rebound seen in commodity prices has weighed on the performance of US Dollar which saw the latter dipped against a basket of major currencies amid the likely delay of interest rate hike due to less convincing economy data. However, the weaker USD could only help offset the waning Ringgit for now and we foresee Ringgit to strengthen against the greenback to RM3.75/USD by the end of 2016.

- **Fundamentally Strong.** Despite facing headwinds amid unfavourable foreign exchange rate, we believe Amway's strong balance sheet will steer the group away from the storm during this tough business environment given its zero borrowings and hefty war chest of RM210 million as at 1Q16.
- **Changes to forecast.** We expect the escalating costs of imports will be cushioned by the price revision of Amway's products in the first and second quarter of the year as well as negotiation talks of fixing the foreign exchange rate to take place by 2Q16, which would help revive the group's earnings intensity in 2H16, limiting the overall impact in FY16 from weaker Ringgit. Besides, we reckon the marketing activities and incentive programmes for the group's 40<sup>th</sup> anniversary will continue to bode well for the bottom-line moving forward. Hence, we revise our FY16/17/18 PAT projection to RM86 million/ RM92 million/ RM112 million, respectively.
- **Valuation & recommendation.** We revise our target price slightly higher from RM8.50 to RM8.62 based on the DDM method (assuming 8% cost of equity and 2% growth rate) with a **HOLD** call. We're not over perturbed by higher operating costs faced by Amway as that also hits industry peers in the same time. Margin erosion is inevitable in this environment but the impact could be minimized by investing in sales and marketing programmes and focussing on growing Amway Business Owner force. While products sold via multi-level-marketing model could be perceived as price sensitive but we reckon that the long-standing company with strong brand name will continue to garner Amway an encouraging market share for both of its wide variety of products and distributor force.

Table 1: Peers comparison

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Amway	Dec	9.2	61	39	17	24	7	8	29	4	8.62	HOLD
CNI	Dec	0.08	-0.1	-0.1	-	-	1	1	-7	4	NA	NA
Zhulian	Nov	1.42	10	12	21	13	2	1	10	4	NA	NA
Hai-O	Apr	2.59	20	15	12	15	2	2	12	6	NA	NA
Average		3.32	23	16	17	17	3	3				

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

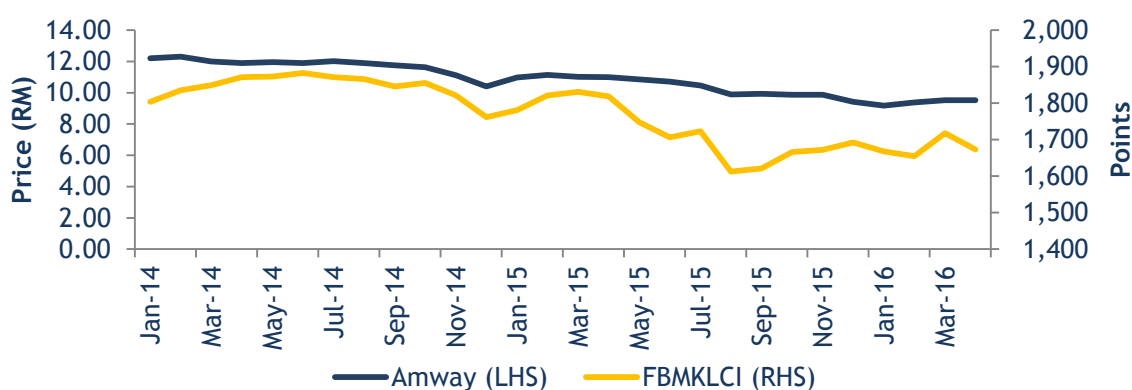
FYE DEC (RM million)	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue	856	1,020	1,294	1,390	1,711
EBITDA	120	74	110	118	146
D&A	8	7	7	7	6
EBIT	128	81	117	125	153
Net interest	6	7	7	7	8
PBT	135	89	117	125	153
Tax	(35)	(25)	(31)	(33)	(41)
PAT	100	64	86	92	112
Core net profit	100	64	86	92	112
EPS	61	39	52	56	68
EBITDA margin	14%	7%	9%	9%	9%
EBIT margin	15%	8%	9%	9%	9%
PBT margin	16%	9%	9%	9%	9%
Net profit margin	12%	6%	7%	7%	7%
PER (x)	15.2	23.7	17.6	16.5	13.6
P/BV (x)	6.5	7.4	7.1	6.8	6.5
Dividend (sen)	55.0	45.0	47.2	50.3	61.1
Dividend yield	6%	5%	5%	5%	6%

Source: Bursa Malaysia, M&amp;A Securities

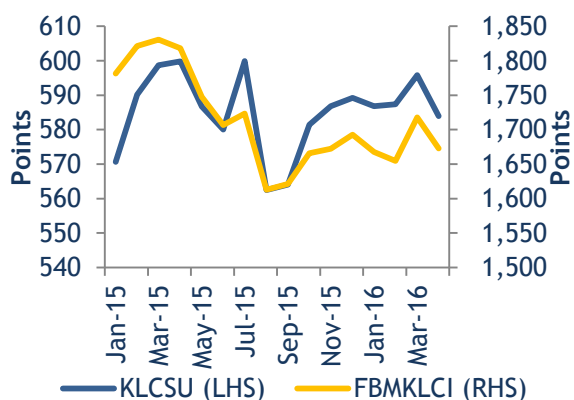
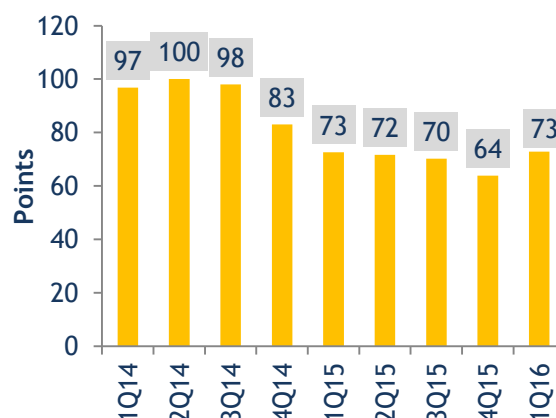
Table 3: Results Analysis

FYE DEC (RM million)	1Q16	4Q15	1Q15	Q-o-Q	Y-o-Y
Revenue	306	268	322	14%	-5%
EBITDA	25	9	50	170%	-51%
D&A	2	2	2	-8%	-10%
EBIT	23	7	49	213%	-53%
Net interest	2	2	2	-22%	15%
PBT	25	9	50	164%	-50%
Tax	-7	-4	-13	57%	-48%
PAT	18	5	37	255%	-51%
Core net profit	18	5	37	255%	-51%
EPS	11	3	22	255%	-51%
EBITDA margin	8%	3%	16%	5%	-8%
EBIT margin	7%	3%	15%	5%	-8%
PBT margin	8%	4%	16%	5%	-7%
Net profit margin	6%	1%	7%	5%	-1%

Source: Bursa Malaysia, M&amp;A Securities

Amway Share Price vs. KLCI  
(January 2014 - April 2016)

Source: Bloomberg, M&amp;A Securities

FBMKLCI vs. FBM Consumer Product  
(January 2015-April 2016)Malaysia Consumer Confidence Index  
(1Q14 - 1Q16)

Source: Bloomberg, M&amp;A Securities

## M&A Securities

### STOCK RECOMMENDATIONS

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

### SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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