

30 May 2019

Amway (M) Holdings Bhd

1Q19 Within Expectations

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Although only making up 18%/19% of our/consensus full-year estimates, 1Q19 NP of RM10.6m (+33% YoY, -52% QoQ) is deemed within expectations as 1Q is generally the group's weakest quarter. Maintain OP with a higher TP of RM7.25 from RM6.80 as we roll the valuation to FY20E based on an unchanged PER of 19.5x, implying -2SD of its 5-year historical mean forward PER.

1Q19 deemed within expectations. 1Q19 NP of RM10.6m (+33% YoY, -52% QoQ) is deemed within expectations despite only making up 18%/19% of our/consensus full-year estimates as 1Q is generally the weakest quarter for the group. A 1st interim DPS of 5.0 sen (1Q18: 5.0sen), was declared for the quarter as expected.

YoY, 1Q19 NP surged 33% boosted by: (i) stronger sales (+5%) due to positive Amway Business Owner (ABO) sales momentum and marketing plans for Performance Year (PY) 2019, as well as product buy-up ahead of a price increase effective mid-March 2019 (on average 2% for all products range), (ii) lower effective tax rate of 25.9% (1Q18: 27.3%), and (ii) higher PBT margin by 1.1ppt to 5.8% from 4.7% in 1Q18 from the lower import cost primarily attributed to favourable foreign exchange impact (which we believe was attributed to better hedge rate with its principal at RM4.00/USD starting 3Q18. AMWAY typically negotiates with its principal in 2Q, and the new forex rate will be effective for inventory bought in 3Q).

QoQ, 1Q19 NP plunged 52%, despite a marginal drop in revenue (-0.6%), mainly from: (i) higher effective rate of 25.9% (4Q18: 20.1%), and (ii) lower PBT margin by 5.2ppt to 5.8% from 11.0% in 4Q18 due to unfavourable products mix. Note that, 1Q19 is generally the weakest quarter for the group. The effective tax rate for 4Q18 and FY18 was lower than the statutory tax rate mainly due to a reduced tax rate on incremental taxable income which was granted by the Inland Revenue Board Malaysia under the 2017 Budget, and over provision of tax for FY17.

Outlook. Management highlighted that sales growth in 2019 will be driven by positive ABO response toward their sales and marketing plan, as well as the various growth initiatives set up to support the ABOs in growing their businesses. We are positive on the group's long-term focus to: (i) effectively manage operating costs to offset pressure on profitability, and (ii) implement various sales and marketing initiatives, as well as Amway Business Owners (ABO) experience-related infrastructure to support the ABO.

Maintain OUTPERFORM with a higher TP of RM7.25 as we roll over our valuation to FY20E (from FY19E) based on an unchanged PER of 19.5x, implying -2SD of its 5-year historical mean forward PER.

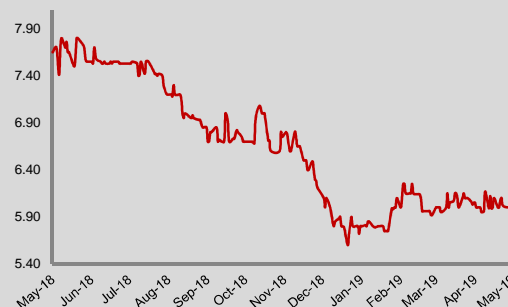
We like the stock for the following: - (i) beneficiary of expected stronger MYR rate (currently on hedging rate of c.RM4.00/USD effective until next revision tentatively this month and on inventory effective of 3Q) with expected improvement in net profit growth averaging at 7% per annum over the next two years, and (ii) steady dividend yield of 4.7% with a dividend payout policy of no less than 80% of PATAMI.

Risks to our call include: (i) lower-than-expected sales, and (ii) higher-than-expected operating costs.

OUTPERFORM ↔

Price: RM5.91
Target Price: RM7.25 ↑

Share Price Performance



KLCI	1,623.67
YTD KLCI chg	-4.0%
YTD stock price chg	-0.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AMW MK Equity
Market Cap (RM m)	971.5
Shares Outstanding	164.4
52-week range (H)	7.90
52-week range (L)	5.53
3-mth avg daily vol:	23,411
Free Float	26%
Beta	0.7

Major Shareholders

Gda B.V	51.7%
Skim Amanah Saham Bumiputera	13.1%
KWAP	9.2%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	972.3	994.1	1,014.0
EBIT	76.7	83.8	87.6
PBT	70.2	77.9	81.5
Net Profit	54.5	57.5	61.1
Consensus (NP)	-	56.9	60.1
Earnings Revision	-	-	-
Core EPS (sen)	33.2	35.0	37.2
Core EPS growth (%)	3.5	6.7	6.4
NDPS (sen)	27.5	27.5	27.5
BVPS (RM)	1.43	1.50	1.60
PER (x)	17.8	16.9	15.9
PBV (x)	4.1	3.9	3.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	4.7	4.7	4.7

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Result Highlight

	1Q	4Q	QoQ	1Q	YoY
FY Dec (RM 'm)	FY19	FY18	Chg	FY18	Chg
Turnover	247.5	249.0	-0.6%	235.3	5.2%
Gross Profit	58.9	74.0	-20.4%	51.0	15.5%
Operating Expenses	-46.0	-47.8	-3.7%	-41.7	10.3%
PBT	14.3	27.4	-47.8%	11.0	30.6%
Taxation	-3.7	-5.5	-32.7%	-3.0	23.8%
Net Profit (NP)	10.6	21.9	-51.6%	8.0	33.1%
EPS (sen)	6.5	13.3	-51.6%	4.9	33.2%
Gross margin	23.8%	29.7%		21.7%	
PBT margin	5.8%	11.0%		4.7%	
NP margin	4.3%	8.8%		3.4%	
Effective tax rate	25.9%	20.1%		27.3%	

*Source: Company, Kenanga Research**This rest of the page is intentionally left blank*

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)		Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
F&B AND RETAIL																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.49	1,745.5	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.8	31.5	29.9	24.8	24.0	77.5%	2.7%	1.35	UP		
AEON CO (M) BHD	1.47	2,063.9	Y	12/2019	6.5%	3.1%	17.3%	9.2%	19.5	16.6	15.2	1.1	1.0	5.3%	2.7%	2.00	OP		
AMWAY MALAYSIA HOLDINGS BHD	5.91	971.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.8	16.9	15.9	4.1	3.9	23.8%	4.7%	7.25	OP		
DUTCH LADY MILK INDUSTRIES BHD	63.50	4,064.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	32.8	28.0	27.3	38.5	38.6	115.2%	3.0%	62.90	MP		
FRASER & NEAVE HOLDINGS BHD	34.20	12,543.8	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.6	28.9	28.0	5.4	5.0	18.0%	1.9%	36.60	MP		
HAI-O ENTERPRISE BHD	2.36	685.3	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	11.5	8.1	6.7	2.1	2.0	15.2%	4.2%	2.10	UP		
MYNEWS HOLDINGS BHD	1.36	927.7	N	10/2019	27.3%	14.2%	21.0%	20.7%	35.0	28.9	24.0	3.3	3.1	11.1%	0.7%	1.25	UP		
NESTLE (MALAYSIA) BHD	147.50	34,588.8	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.3	47.2	45.3	52.9	52.9	114.7%	2.2%	137.00	MP		
PADINI HOLDINGS BHD	3.63	2,388.2	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	13.4	15.4	12.7	3.7	3.3	22.3%	3.2%	4.00	MP		
PARKSON HOLDINGS BHD	0.245	261.5	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	31.6	0.1	0.1	-1.7%	0.0%	0.240	MP		
POWER ROOT BHD	1.41	558.2	Y	03/2020	6.3%	8.6%	26.3%	16.8%	16.8	13.8	12.2	2.5	2.3	18.0%	6.4%	1.75	OP		
QL RESOURCES BHD	6.87	11,146.2	Y	03/2019	8.1%	12.2%	11.0%	7.3%	54.0	48.7	45.4	5.9	5.5	12.2%	0.7%	6.05	UP		
SPRITZER BHD	2.26	474.5	Y	12/2019	4.0%	5.0%	3.1%	12.6%	19.6	19.0	16.9	1.2	1.2	6.3%	1.8%	1.90	UP		
Simple Average					4.5%	5.2%	1.8%	64.2%	28.4	25.3	23.9	11.2	11.0	33.7%	2.6%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	31.00	8,851.4	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	18.9	21.4	21.0	21.0	20.0	96.0%	4.4%	29.55	UP		
CARLSBERG BREWERY MALAYSIA BHD	23.86	7,339.8	N	12/2019	11.4%	4.6%	6.9%	4.8%	26.8	25.0	23.9	40.6	44.1	173.9%	4.2%	23.00	MP		
HEINEKEN MALAYSIA BHD	23.36	7,057.0	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.0	24.3	23.1	19.0	18.8	77.9%	4.1%	23.25	MP		
Simple Average																			
CONSENSUS ESTIMATES																			
BERJAYA FOOD BHD	1.79	641.7	N	06/2019	8.2%	9.9%	2368.1%	15.4%	546.1	22.1	19.2	1.7	1.7	7.3%	2.7%	2.08	BUY		
BONIA CORPORATION BHD	0.260	207.2	Y	06/2019	-5.8%	2.2%	-38.0%	23.6%	10.5	16.9	13.7	0.6	0.4	2.9%	2.7%	0.250	SELL		
COCOALAND BHD	1.90	434.7	Y	12/2019	7.0%	5.2%	1.1%	7.6%	14.1	13.9	12.9	1.8	1.6	12.0%	4.1%	2.12	NEUTRAL		
LAY HONG BHD	1.36	488.9	Y	12/2019	16.7%	20.3%	54.9%	23.4%	21.4	13.8	11.2	1.5	1.4	10.4%	2.8%	2.16	BUY		
KAWAN FOOD	4.54	738.5	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.1	7.0	6.3	1.4	N/A	21.0%	N/A	6.45	BUY		
MAGNI-TECH INDUSTRIES BHD	1.79	641.7	N	06/2019	8.2%	9.9%	2368.1%	15.4%	546.1	22.1	19.2	1.7	1.7	7.3%	2.7%	2.08	BUY		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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