

24 June 2020

Amway (M) Holdings Bhd

1QFY20 Within Expectations

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1QFY20 NP of RM10.2m (-4% YoY, -11% QoQ) came in within our/consensus expectation at 23%/21% of full-year estimate. Post-MCO, the group will continue to invest in critical e-Commerce related infrastructure and attractive incentives-linked growth strategy to better serve the ABOs (Amway Business Owners). Nevertheless, the group anticipates that such support measures, and the economic impact of COVID-19 will exert pressure on its near-term operating margins. Maintain MP with a higher TP of RM5.10 (from RM4.40) as we roll over valuation base to FY21E (from FY20E).

1QFY20 within expectations. 1QFY20 NP of RM10.2m (-4% YoY, -11% QoQ) came in within our/consensus expectation at 23%/21% of full-year estimate. A 1st interim DPS of 5.0 sen was declared for the quarter, as expected.

Results' highlights. 1QFY20 net profit declined 4% YoY and 11% QoQ due to softer sales (-5% YoY, -7% QoQ) due to shops closure following the government's imposition of Movement Control Order (MCO) to control the pandemic outbreak of COVID-19. This was worsened by: (i) contraction in GP margin to 21.4% compared to 1QFY19 at 23.8% and 4QFY19 at 24.9% from the high import cost primarily ratcheted by unfavourable foreign exchange impact (unfavourable hedge rate with its principal, which we believe was set at RM4.17/USD starting 3QFY19 compared RM4.00/USD, previously), and (ii) higher effective tax rate of 26.5% compared to 25.9% in 1QFY19 and 0.5% (recognition of deferred tax) in 4QFY19.

Outlook. Given the prolonged weakness in USD/MYR forex rate, we believe Amway was on the unfavorable side during the hedging rate negotiations which should have taken place in April/May. Note that Amway uses the Bloomberg 1-year forward rate as a hedge rate base, which we believe was at RM4.17/USD, and effective for 3QFY19 inventory until 2QFY20 (the hedge rate is higher, compared to RM4.00/USD previously). Nevertheless, we are positive on the group's long-term focus such as: (i) effectively managing operating costs to offset pressure on profitability, and (ii) implementing various sales and marketing initiatives, as well as ABO experience-related infrastructure to support them. Post-MCO, the group will continue to invest in critical e-Commerce related infrastructure as well as a more attractive incentives-linked growth strategy to better serve the ABOs and place them in a stronger position to take advantage of future megatrends. However, the group anticipates that such support measures and the economic impact of COVID-19 will exert pressure on its near-term operating margins.

Maintain MARKET PERFORM with a higher TP of RM5.10 (from RM4.40) as we roll over valuation base to FY21E EPS (from FY20E EPS) based on unchanged PER of 16x (-2.0SD to its 5-year historical mean PER).

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

MARKET PERFORM ↔

Price: RM5.04
Target Price: RM5.10 ↑

Share Price Performance



KLCI	1,507.04
YTD KLCI chg	-5.1%
YTD stock price chg	-10.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AMW MK EQUITY
Market Cap (RM m)	828.5
Shares Outstanding	164.4
52-week range (H)	6.16
52-week range (L)	4.50
3-mth avg daily vol:	20,142
Free Float	11%
Beta	0.6

Major Shareholders

Gda B.V	51.7%
Amanah Saham Nasional	17.7%
KWAP	9.2%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	966.3	956.5	975.7
EBIT	65.2	65.3	76.3
PBT	64.6	59.7	70.5
Net Profit	51.2	44.8	52.2
Consensus (NP)	-	48.9	53.7
Earnings Revision	-	-	-
Core EPS (sen)	31.1	27.3	31.7
Core EPS growth (%)	-6.1	-12.4	16.4
NDPS (sen)	27.5	27.5	27.5
BVPS (RM)	1.35	1.35	1.39
PER (x)	16.2	18.5	15.9
PBV (x)	3.7	3.7	3.6
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	5.5	5.5	5.5

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Result Highlight

	1Q	4Q	QoQ	1Q	YoY	3m	3m	YoY
FY Dec (RM m)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	234.6	253.0	-7.3%	247.5	-5.2%	234.6	247.5	-5.2%
Gross Profit	50.1	62.9	-20.3%	58.9	-14.9%	50.1	58.9	-14.9%
Operating Expenses	-37.5	-52.6	-28.8%	-46.0	-18.6%	-37.5	-46.0	-18.6%
PBT	13.9	11.5	20.7%	14.3	-3.1%	13.9	14.3	-3.1%
Taxation	-3.7	-0.1	>100%	-3.7	-0.8%	-3.7	-3.7	-0.8%
Net Profit (NP)	10.2	11.4	-10.8%	10.6	-3.9%	10.2	10.6	-3.9%
EPS (sen)	6.2	7.0	-10.8%	6.5	-3.9%	6.2	6.5	-3.9%
Gross margin	21.4%	24.9%		23.8%		21.4%	23.8%	
PBT margin	5.9%	4.5%		5.8%		5.9%	5.8%	
NP margin	4.3%	4.5%		4.3%		4.3%	4.3%	
Effective tax rate	26.5%	0.5%		25.9%		26.5%	25.9%	

Source: Company, Kenanga Research

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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.			
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.30	1,495.2	N	12/2020	4.6%	3.4%	3.7%	7.0%	29.6	28.6	26.7	15.7	16.6	56.5%	3.8%	1.30	MP
AEON CO. (M) BHD	1.01	1,418.0	Y	12/2020	-5.8%	-0.6%	-43.1%	28.5%	13.0	22.8	17.7	0.8	0.8	3.7%	4.0%	1.00	UP
AMWAY (MALAYSIA) HOLDINGS BHD	5.04	828.5	Y	12/2019	-1.0%	2.0%	-12.5%	16.5%	16.2	18.5	15.9	3.7	3.7	20.1%	5.5%	5.10	MP
DUTCH LADY MILK INDUSTRIES BHD	43.38	2,776.3	Y	12/2020	1.7%	1.7%	2.5%	2.3%	26.3	25.7	25.1	19.2	15.3	66.2%	2.5%	40.50	MP
FRASER & NEAVE HOLDINGS BHD	32.50	11,920.3	Y	09/2020	0.6%	2.2%	-3.4%	9.1%	28.4	29.4	26.9	4.7	4.4	15.5%	1.8%	36.20	OP
HAI-O ENTERPRISE BHD	1.82	528.4	N	04/2020	-28.1%	2.4%	-41.1%	8.6%	11.2	18.9	17.4	1.7	1.7	8.9%	4.4%	0.850	UP
MYNEWS HOLDINGS BHD	0.700	477.5	N	10/2020	15.7%	11.3%	-19.0%	18.0%	17.8	22.0	18.7	1.6	1.5	7.0%	1.4%	0.550	UP
NESTLE (MALAYSIA) BHD	139.90	32,806.6	Y	12/2020	-2.2%	1.9%	-4.4%	5.8%	50.3	52.7	49.8	48.9	48.0	92.0%	1.9%	122.30	UP
PADINI HOLDINGS BHD	2.57	1,690.8	Y	06/2020	-6.6%	4.7%	-15.8%	10.3%	10.8	12.8	11.6	2.3	2.1	17.2%	4.5%	2.65	MP
POWER ROOT BHD	2.21	915.2	Y	03/2021	-1.4%	14.1%	-5.8%	11.3%	16.8	17.9	16.1	3.6	3.3	19.2%	5.2%	2.45	MP
QL RESOURCES BHD	9.38	15,218.5	Y	03/2020	10.9%	11.6%	13.1%	9.6%	70.2	62.1	56.7	7.5	7.0	12.1%	0.6%	8.30	OP
SPRITZER BHD	2.01	422.0	Y	12/2020	2.3%	7.9%	-3.8%	20.7%	13.5	14.1	11.7	1.0	1.0	7.1%	2.5%	2.30	OP
Simple Average					-0.8%	5.2%	-10.8%	12.3%	25.4	27.1	24.5	9.2	8.8	27.1%	3.2%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	11.04	3,152.3	N	12/2020	-24.6%	-1.9%	-38.8%	-0.1%	8.7	14.3	14.3	7.3	7.2	51.0%	6.8%	10.05	UP
CARLSBERG BREWERY MALAYSIA BHD	23.50	7,185.1	N	12/2020	-28.3%	35.0%	-29.5%	36.0%	24.9	35.3	26.0	43.5	27.1	98.1%	1.4%	21.00	UP
HEINEKEN MALAYSIA BHD	21.92	6,622.0	N	12/2020	-28.7%	16.1%	-19.8%	13.9%	21.2	26.4	23.1	18.5	18.9	68.8%	3.8%	20.85	UP
Simple Average					-27.2%	16.4%	-29.4%	16.6%	18.3	25.3	21.1	23.1	17.7	72.6%	4.0%		

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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