

19 November 2020

Amway (M) Holdings Bhd

9MFY20 Beats Expectations

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9MFY20 CNP of RM38.5m (-3% YoY) came in above expectations at 86%/79% of our/consensus forecasts, due to stronger-than-expected sales spurred by Covid-19-related products. Moving ahead, revenue looks to be supported by sustained demand for health supplements and home-care products amid Covid-19. However, higher import costs from weaker MYR could continue to dampen profitability. Maintain MP with higher TP of RM5.20 following an earnings upgrade.

Beats expectations. 9MFY20 CNP of RM38.5m (arrived at after stripping off gains on disposal of PPE of RM4.1m) came in above expectations, at 86% of our forecast and 79% of consensus. The positive surprise could be due to better-than-expected sales, driven by covid-related products. The declared dividend of 5.0 sen (YTD: 15.0 sen) is within our expectation.

Boosted by healthcare products. YoY, 9MFY20 revenue rose 17% to RM837.4m, on the back of: (i) greater demand for immunity boosting supplements and home appliances during Covid-19, (ii) successful marketing campaigns, coupled with (iii) effective incentives taken to support ABOs (Amway Business Owners). Nonetheless, higher import costs mainly attributable to weaker Ringgit led GP margin to contract by 6.2ppt. As a result of that, CNP fell 3% to RM38.5m. Note that c.80% of Amway's products are imported from its headquarter in the United States.

QoQ, 3QFY20 revenue rose by 15%, driven by sustained demand momentum for immune-boosting health products, as well as boosted by new product launches. Nonetheless, higher administrative costs and tax rates sequentially caused CNP to drop by 32% to RM11.5m.

Unfavourable forex to dampen profitability. Moving ahead, we believe the group's top-line should continued to be supported by the growing demand for health supplements and home care products following the shift in consumer shopping patterns brought by the global pandemic. Nonetheless, the higher import costs from the unfavourable USD/MYR forex rate are likely to exert pressure on margin, leading to poorer profitability. Note that Amway uses the Bloomberg 1-year forward rate as a hedge rate base, which we believe was at RM4.36/USD, and is effective from 3QFY20 to 2QFY21 (versus RM4.17/USD previously).

Post-results, we pumped our FY20E and FY21E earnings by 10.8% and 2.3%, respectively, as we pencilled in stronger revenue growth assumptions. Meanwhile, dividend forecasts are maintained at 27.5 sen per share for both FY20E and FY21E (as it had been for the past three years).

Maintain MARKET PERFORM with a higher TP of RM5.20 (from RM5.10) following the earnings upgrade. Our TP is based on unchanged 16x FY21E EPS (near -1SD of its 3-year historical mean PER). We believe the stock is fairly valued at this juncture, as the YTD 9% drop in its share price may have more than priced in the near-term negatives. Nonetheless, the stock offers a decent dividend yield of c.5%, which could be attractive to yield seekers. **Risks to our call include:** (i) higher/lower-than-expected sales, and (ii) higher/lower-than-expected import costs.

MARKET PERFORM ↔

Price: RM5.12
Target Price: RM5.20 ↑

Share Price Performance



KLCI 1,604.75
YTD KLCI chg 1.0%
YTD stock price chg -9.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AMW MK EQUITY
Market Cap (RM m)	841.7
Shares Outstanding	164.4
52-week range (H)	5.91
52-week range (L)	4.50
3-mth avg daily vol:	14,143
Free Float	11%
Beta	0.6

Major Shareholders

Gda B.V	51.7%
Skim Amanah Saham Bumiputera	17.7%
KWAP	9.1%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	966.3	976.0	982.8
EBIT	65.2	77.2	77.9
PBT	64.6	71.7	72.1
Net Profit	51.2	53.7	53.4
Core Net Profit	51.2	49.6	53.4
Consensus (NP)	-	49.0	54.1
Earnings Revision	-	10.8%	2.3%
Core EPS (sen)	31.1	30.2	32.5
Core EPS growth (%)	-6.1	-3.0	7.5
NDPS (sen)	27.5	27.5	27.5
BVPS (RM)	1.35	1.41	1.46
PER (x)	16.5	17.0	15.8
PBV (x)	3.8	3.6	3.5
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	5.4	5.4	5.4

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Result Highlight								
	3Q	2Q	QoQ	2Q	YoY	9M	9M	YoY
FY Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	322.0	280.8	14.7%	235.1	37.0%	837.4	713.3	17.4%
Gross Profit	60.2	50.0	20.3%	58.4	3.1%	160.4	180.9	-11.4%
Operating Expenses	-44.0	-28.6	53.7%	-45.5	-3.3%	-110.1	-132.3	-16.7%
PBT	21.2	22.2	-4.7%	14.2	48.8%	57.3	53.1	8.0%
Taxation	-5.6	-5.4	2.8%	-3.6	53.6%	-14.7	-13.3	10.1%
Net Profit	15.6	16.8	-7.1%	10.6	47.1%	42.6	39.7	7.3%
Core Net Profit	11.5	16.8	-31.5%	10.6	8.5%	38.5	39.7	-3.0%
CEPS (sen)	7.0	10.2	-31.5%	6.5	8.5%	23.4	24.2	-3.0%
DPS (sen)	5.0	5.0	0.0%	5.0	0.0%	15.0	15.0	0.0%
Gross margin	18.7%	17.8%		24.8%		19.2%	25.4%	
PBT margin	6.6%	7.9%		6.1%		6.8%	7.4%	
Net margin	4.8%	6.0%		4.5%		5.1%	5.6%	
Core net margin	3.6%	6.0%		4.5%		4.6%	5.6%	
Effective tax rate	26.3%	24.4%		25.5%		25.6%	25.1%	

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.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.34	1,514.6	N	12/2020	4.6%	3.4%	3.7%	7.0%	30.5	29.5	27.5	16.2	17.1	56.5%	3.7%	1.30	MP
AEON CO. (M) BHD	0.815	1,144.3	Y	12/2020	-5.8%	-0.6%	-43.1%	28.5%	10.5	18.4	14.3	0.7	0.7	3.7%	4.9%	1.00	OP
AMWAY (MALAYSIA) HOLDINGS BHD	5.12	841.7	Y	12/2019	1.0%	0.7%	-3.1%	7.7%	16.4	17.0	15.8	3.8	3.6	23.7%	5.4%	5.20	MP
DUTCH LADY MILK INDUSTRIES BHD	37.98	2,430.7	Y	12/2020	-3.0%	5.0%	-14.2%	13.2%	23.6	27.5	24.3	16.8	13.4	54.2%	2.1%	37.55	MP
FRASER & NEAVE HOLDINGS BHD	32.18	11,802.9	Y	09/2021	5.1%	2.2%	9.6%	2.1%	29.2	26.7	26.1	4.3	4.0	15.7%	2.0%	33.80	OP
MYNEWS HOLDINGS BHD	0.645	440.0	N	10/2020	-14.7%	15.8%	-135.4%	91.6%	16.4	N.A.	24.2	1.5	1.5	-3.2%	0.0%	0.480	UP
NESTLE (MALAYSIA) BHD	141.00	33,064.5	Y	12/2020	-3.4%	3.9%	-18.1%	23.4%	50.7	61.9	50.2	49.3	48.8	79.3%	1.6%	129.30	UP
PADINI HOLDINGS BHD	2.50	1,644.8	Y	06/2021	4.8%	5.0%	58.1%	16.9%	21.9	13.8	11.8	2.2	2.0	15.2%	4.6%	2.90	OP
POWER ROOT BHD	2.24	941.7	Y	03/2021	-1.4%	14.1%	-5.8%	11.3%	17.1	18.1	16.3	3.6	3.3	19.2%	5.1%	2.75	OP
QL RESOURCES BHD	6.40	15,575.4	Y	03/2021	13.2%	7.4%	13.6%	9.1%	65.1	57.3	52.5	7.5	7.0	12.6%	0.9%	6.60	MP
Simple Average					0.0%	5.7%	-13.5%	21.1%	28.1	30.0	26.3	10.6	10.2	27.7%	3.0%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	11.26	3,215.1	N	12/2020	-17.7%	0.1%	-32.7%	2.3%	8.9	13.2	12.9	7.5	7.2	55.5%	7.1%	11.05	OP
CARLSBERG BREWERY MALAYSIA BHD	22.42	6,854.9	N	12/2020	-28.3%	35.0%	-40.3%	60.8%	23.7	39.7	24.7	44.1	28.8	87.9%	1.2%	26.50	OP
HEINEKEN MALAYSIA BHD	21.54	6,507.2	N	12/2020	-33.4%	65.4%	-42.9%	76.3%	20.8	36.4	20.6	16.5	13.7	39.6%	1.4%	22.95	OP
Simple Average					-26.5%	33.5%	-38.6%	46.4%	17.8	29.8	19.4	22.7	16.6	61.0%	3.2%		

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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