

17 November 2022

# Amway (M) Holdings Bhd

## Better Product Mix Carries Earnings

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**AMWAY's 9MFY22 results came in above expectations as improved product mix carried earnings growth. Overall, despite only a minor increase in revenue, earnings grew 50.7% as lower operating costs and better product mix expanded margins. Post results, we raise FY22F/FY23F earnings by 16.5%/8.1% and TP to RM5.65, and upgrade AMWAY to OUTPERFORM from MARKET PERFORM.**

**Above expectations.** 9MFY22 PATAMI beat both our and consensus expectations, accounting for 90.2% and 96.8% of respective full-year forecasts. We believe the positive deviation came from better-than-expected margin resilience from cost consolidation and better product mix. The announced dividend of 5.0 sen brings the total up to 15.0 sen, in line with our expectations as the group normally pays out a larger dividend at the year-end.

**YoY.** 9MFY22 revenue grew marginally by 2.2%. Sales of consumer products grew 2.1% YoY while sign-up fees grew 9.4%. However, EBITDA (+26.4% YoY) and EBIT (+48% YoY) both saw much better improvements mainly from the standardisation of the Amway Business Owner (ABO) incentives and a price increase across their product offerings. We also believe this is due to better product mix from increased demand for supplements and personal care products. Overall, PATAMI grew by 50.7% as earnings benefitted from the improved margins.

**QoQ.** 3QFY22 revenue increased by 4.8% following new product bundle launches during the quarter. Consumer product sales grew 4.9% QoQ while sign-up fees remained relatively flat. Overall, earnings grew 22.3% mainly due to better sales volume and the adjustment of sales incentives for their agents.

**Outlook.** Looking forward, the group remains cautiously optimistic in maintaining its top-line around FY21 level. However, we remain wary of the elevated MYR/USD exchange rate eating into earnings. While performance so far has been encouraging, but if the effect of the poor exchange rate is lagged due to hedging, there may be a window of weakness during 1HFY23. Conversely, global supply chain disruptions are expected to ease going into FY23. This could spell out lower costs for the group which imports its products from its United States headquarters.

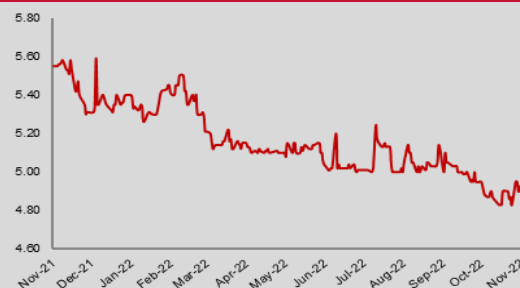
**Post results.** We raise our FY22F/FY23F earnings by 16.5%/8.1% largely to reflect the improved sales volume and better margins after their cost consolidation.

**Upgrade to OUTPERFORM.** We upgrade AMWAY to OUTPERFORM from MARKET PERFORM as we increase our TP by 8.6% from RM5.20 to RM5.65 based on an unchanged 15x FY23F PER, in line with the stocks historical forward PER during times of MYR/USD weakness (vs. 25x during the high cycle of MYR/USD exchange rate). AMWAY's earnings and hence valuations are highly sensitive to the forex movements (see chart on Page 2). There is no adjustment to our TP based ESG given a 3-star rating as appraised by us (see Page 4).

**OUTPERFORM** ↑

Price : **RM4.83**  
Target Price : **RM5.65** ↑

### Share Price Performance



KLCI	1,448.38
YTD KLCI chg	-7.6%
YTD stock price chg	-9.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AMW MK Equity
Market Cap (RM m)	794.0
Shares Outstanding	164.4
52-week range (H)	5.56
52-week range (L)	4.83
3-mth avg daily vol	7,797
Free Float	11%
Beta	0.5

### Major Shareholders

GdaBv	51.7%
AmanahSahamNasional	18.1%
Kumpulan Wang Persaraan	9.1%

### Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	1,486	1,412	1,383
EBIT	71	105	95
PBT	50	92	81
<b>Net Profit</b>	<b>36.9</b>	<b>69.9</b>	<b>61.7</b>
<b>Core Net Profit</b>	<b>36.9</b>	<b>69.9</b>	<b>61.7</b>
Consensus (NP)		59.6	60.4
Earnings Revision	-	+16.5%	+8.1%
Core EPS (sen)	22.4	42.5	37.5
Core EPS growth (%)	-21.4	89.6	-11.7
NDPS (sen)	24.0	35.0	35.0
BVPS (RM)	1.35	1.42	1.45
PER (x)	21.5	11.4	12.9
PBV (x)	3.6	3.4	3.3
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	5.0	7.2	7.2

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We like AMWAY for: (i) it being part of a well-established and highly successful international multi-level marketing (MLM) franchise; (ii) its unique product offering of supplements, personal care products and home appliances such as humidifiers and water purifiers; and (iii) its efforts to mitigate elevated procurement cost (largely denominated in USD) via optimisation of sales incentives to Amway Business Owners (ABOs) and a better product mix skewed towards the high-margin supplement bundles and personal care products.

**Risks to our call include:** (i) weaker MYR/USD exchange rate resulting in higher procurement expenses, (ii) weaker sales volume on the back of sustained high inflation and (iii) increased competition from other MLM franchises eating into the customer base.

## Results Highlights

Y/E : Dec (RM m)	3Q22	2Q22	QoQChg	3Q21	YoY Chg	9M22	9M21	YoY Chg
<b>Turnover</b>	<b>371.8</b>	<b>354.6</b>	<b>4.8%</b>	<b>383.9</b>	<b>-3.2%</b>	<b>1,117.6</b>	<b>1,093.5</b>	<b>2.2%</b>
<b>Gross Profit</b>	<b>88.8</b>	<b>68.7</b>	<b>29.2%</b>	<b>66.0</b>	<b>34.5%</b>	<b>230.7</b>	<b>204.8</b>	<b>12.7%</b>
Operating Expenses	(61.5)	(47.6)	29.2%	(52.3)	17.6%	(152.2)	(142.5)	6.8%
<b>EBITDA</b>	<b>28.7</b>	<b>22.2</b>	<b>29.1%</b>	<b>14.7</b>	<b>94.7%</b>	<b>82.1</b>	<b>64.9</b>	<b>26.4%</b>
<b>EBIT</b>	<b>24.6</b>	<b>20.2</b>	<b>22.1%</b>	<b>10.7</b>	<b>130.5%</b>	<b>71.6</b>	<b>48.4</b>	<b>48.0%</b>
<b>PBT/(LBT)</b>	<b>24.5</b>	<b>20.0</b>	<b>22.3%</b>	<b>10.5</b>	<b>132.3%</b>	<b>71.2</b>	<b>48.0</b>	<b>48.4%</b>
Taxation	(5.7)	(5.0)	13.7%	(2.6)	122.1%	(17.3)	(12.0)	43.6%
Net Profit	18.8	15.0	25.2%	8.0	135.6%	53.9	35.9	50.0%
<b>Core Net Profit</b>	<b>18.9</b>	<b>15.1</b>	<b>25.3%</b>	<b>8.0</b>	<b>137.3%</b>	<b>54.2</b>	<b>35.9</b>	<b>50.7%</b>
Core EPS (sen)	11.5	9.2	25.3%	4.8	137.3%	32.9	21.9	50.7%
DPS (sen)	5.0	5.0	0.0%	5.0	0.0%	15.0	15.0	0.0%
Gross Margin	23.9%	19.4%		17.2%		20.6%	18.7%	
Opex Margin	16.5%	13.4%		13.6%		13.6%	13.0%	
EBIT Margin	6.6%	5.7%		2.8%		6.4%	4.4%	
PBT Margin	6.6%	5.6%		2.7%		6.4%	4.4%	
Core Net Profit Margin	5.1%	4.2%		2.1%		4.8%	3.3%	
ETR	23.4%	25.2%		24.5%		24.3%	25.1%	

Source: Company, Kenanga Research

## AMWAY's Share Price (LHS) vs. USD:MYR Exchange Rate (RHS)



Source: Bloomberg, Kenanga Research

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## Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
<b>CONSUMER</b>																	
AEON CO. (M) BHD	OP	1.38	1.95	41.30%	1,937.5	Y	12/2022	10.0	10.2	64.4%	2.5%	13.8	13.5	1.1	8.1%	4.1	3.0%
AMWAY (MALAYSIA) HOLDINGS BHD	OP	4.83	5.65	16.98%	794.0	Y	12/2022	42.5	37.5	89.4%	-11.7%	11.4	12.9	3.4	30.6%	35.0	7.2%
DUTCH LADY MILK INDUSTRIES BHD	MP	31.20	32.60	4.49%	1,996.8	Y	12/2022	119.8	148.1	-69.1%	23.6%	26.0	21.1	4.7	18.9%	50.0	1.6%
FRASER & NEAVE HOLDINGS BHD	OP	21.40	26.11	22.01%	7,849.1	Y	09/2023	118.6	129.1	13.5%	8.8%	18.0	16.6	2.5	14.1%	62.5	2.9%
MR D.I.Y.	MP	2.06	2.00	-2.91%	19,422.7	Y	12/2022	4.9	7.1	6.8%	44.6%	42.1	29.2	14.0	36.4%	2.6	1.3%
MYNEWS HOLDINGS BHD	OP	0.570	0.700	22.81%	388.8	N	10/2022	(3.1)	3.2	-50.6%	-202.3%	N.A.	17.8	1.7	-9.0%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	130.20	115.65	-11.18%	30,531.9	Y	12/2022	270.1	295.2	11.1%	9.3%	48.2	44.1	57.0	113.2%	290.0	2.2%
PADINI HOLDINGS BHD	OP	3.24	4.10	26.54%	2,131.6	Y	06/2023	22.6	28.6	-3.4%	26.4%	14.3	11.3	2.2	16.0%	10.0	3.1%
POWER ROOT BHD	OP	2.23	2.35	5.38%	931.9	Y	03/2023	6.7	6.3	7.3%	-6.8%	33.2	35.6	3.0	17.0%	10.0	4.5%
QL RESOURCES BHD	OP	5.50	6.00	9.09%	13,385.1	Y	03/2023	12.6	16.1	41.6%	27.1%	43.5	34.2	4.3	10.8%	6.0	1.1%
<b>Simple Average</b>								<b>60.5</b>	<b>68.1</b>	<b>11.1%</b>	<b>-7.8%</b>	<b>27.8</b>	<b>23.6</b>	<b>9.4</b>	<b>25.6%</b>		<b>2.7%</b>
<b>TOBACCO PRODUCTS &amp; BREWERIES</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.24	11.40	11.33%	2,923.8	N	12/2022	94.9	97.5	-4.9%	2.8%	10.8	10.5	7.4	69.5%	90.0	8.8%
CARLSBERG BREWERY MALAYSIA BHD	MP	23.22	23.05	-0.73%	7,099.5	N	12/2022	105.2	114.6	56.0%	8.9%	22.1	20.3	33.2	147.9%	106.0	4.6%
HEINEKEN MALAYSIA BHD	MP	24.80	25.80	4.03%	7,492.0	N	12/2022	129.7	129.3	59.5%	-0.3%	19.1	19.2	19.0	99.2%	129.7	5.2%
<b>Simple Average</b>								<b>109.9</b>	<b>113.8</b>	<b>36.9%</b>	<b>3.8%</b>	<b>17.3</b>	<b>16.6</b>	<b>19.8</b>	<b>105.5%</b>		<b>6.2%</b>

Source: Bloomberg, Kenanga Research

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### Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Employee Training	★	★	☆		
	Energy Efficiency	★	★	☆		
	Occupational Health & Safety	★	★	★	☆	
	Product Quality & Safety	★	★	★		
	Supply Chain Auditing	★	★	★		
	Waste Disposal/Pollution Control	★	★	☆		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

### 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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