

22 August 2019

# Amway (M) Holdings Bhd

## 1H19 Within Expectations

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**1H19 NP of RM29.1m (+89% YoY) came in within both our and consensus expectations, making up 51% each of full-year estimates. Given the prolonged weakness in USD/MYR forex rate, we believe Amway was on the unfavorable side during the 2Q hedging rate negotiations effective for inventory bought in 3Q. However, this will be cushioned by new stock-up activities in 2H19. Maintain MP with a TP of RM5.90.**

**1H19 within expectations.** 1H19 NP of RM29.1m (+89% YoY) came in within both our and consensus expectations, making up 51% each of full-year estimates. A 2<sup>nd</sup> interim DPS of 5.0 sen (2Q18: 5.0 sen), was declared for the quarter, bringing 1H19 DPS to 10.0 sen (1H18:10.0 sen), as expected.

**YoY,** 1H19 NP surged 89% boosted by: (i) stronger sales (+3%) 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 and mid-April 2019 (on average 2% for all products range), (ii) lower effective tax rate of 25.0% (1H18: 27.4%), and (ii) expansion in PBT margin by 3.5ppt to 8.1% from 4.6% in 1H18 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,** 2Q19 NP rose 74%, despite softer revenue (-7%), mainly from: (i) expansion in PBT margin by 4.8ppt to 10.6% from 5.8% in 1Q19 due to lower bonus and sales incentives in line with lower sales and ABO qualification tracking, as well as (ii) lower effective tax rate of 24.5% (1Q19: 25.9%). The lower sales were affected by the timing of buy-up activities in 1Q19 ahead of pricing hike in mid-March/April.

**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 earlier in April/May. Noted that, Amway uses the Bloomberg 1-year forward rate as a hedge rate base, which we believe was at RM4.17/USD, and will be effective for 3Q inventory. Nevertheless, 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.

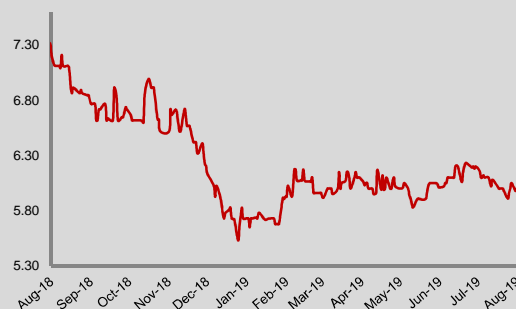
**Maintain MARKET PERFORM with unchanged TP of RM5.90** based on 16x FY20E EPS (-2.0 SD of its 5-year historical mean PER).

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

## MARKET PERFORM ↔

**Price: RM6.00**  
**Target Price: RM5.90 ↔**

### Share Price Performance



KLCI 1,594.59  
YTD KLCI chg -5.7%  
YTD stock price chg 1.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	AMW MK Equity
Market Cap (RM m)	986.3
Shares Outstanding	164.4
52-week range (H)	7.31
52-week range (L)	5.53
3-mth avg daily vol:	6,757
Free Float	26%
Beta	0.6

### 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	76.9	83.5	87.2
PBT	70.2	77.9	81.4
<b>Net Profit</b>	<b>54.5</b>	<b>57.5</b>	<b>61.1</b>
Consensus (NP)	-	56.9	60.1
Earnings Revision	-	-	-
Core EPS (sen)	33.2	35.0	37.1
Core EPS growth (%)	3.5%	5.4%	6.2%
NDPS (sen)	27.5	27.5	27.5
BVPS (RM)	1.32	1.39	1.49
PER (x)	18.1	17.2	16.2
PBV (x)	4.6	4.3	4.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	4.6	4.6	4.6

22 August 2019

## Result Highlight

	2Q	1Q	QoQ	2Q	YoY	6m	6m	YoY
FY Dec (RM 'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	230.8	247.5	-6.8%	227.8	1.3%	478.3	463.1	3.3%
Gross Profit	63.7	58.9	8.0%	52.4	21.6%	122.6	103.4	18.6%
Operating Expenses	-40.7	-46.0	-11.5%	-43.4	-6.1%	-86.8	-85.1	1.9%
PBT	24.5	14.3	71.0%	10.3	137.6%	38.8	21.3	82.4%
<b>Taxation</b>	-6.0	-3.7	61.7%	-2.8	110.7%	-9.7	-5.8	66.2%
<b>Net Profit (NP)</b>	<b>18.5</b>	<b>10.6</b>	74.2%	<b>7.5</b>	147.8%	<b>29.1</b>	<b>15.4</b>	88.5%
EPS (sen)	11.3	6.5	74.1%	4.5	147.8%	17.7	9.4	88.6%
Gross margin	27.6%	23.8%		23.0%		25.6%	22.3%	
PBT margin	10.6%	5.8%		4.5%		8.1%	4.6%	
NP margin	8.0%	4.3%		3.3%		6.1%	3.3%	
Effective tax rate	24.5%	25.9%		27.6%		25.0%	27.4%	

Source: Company, Kenanga Research

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22 August 2019

## 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.				
<b>F&amp;B AND RETAIL</b>																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.50	1,757.2	N	12/2019	12.4%	4.9%	13.6%	5.5%	36.1	31.7	30.1	25.0	24.2	77.5%	2.7%	1.35	UP		
AEON CO (M) BHD	1.72	2,414.9	Y	12/2019	3.1%	3.0%	9.2%	3.6%	19.4	17.8	17.2	1.2	1.1	6.6%	2.3%	2.10	OP		
AMWAY MALAYSIA HOLDINGS BHD	6.00	986.3	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.1	17.2	16.1	4.2	4.0	23.8%	4.6%	5.90	MP		
DUTCH LADY MILK INDUSTRIES BHD	64.28	4,113.9	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	33.2	33.9	31.7	39.0	39.1	115.2%	3.0%	62.90	MP		
FRASER & NEAVE HOLDINGS BHD	35.04	12,851.9	Y	09/2019	5.9%	7.0%	9.4%	2.9%	32.4	29.6	28.7	5.6	5.1	18.0%	1.9%	36.60	MP		
HAI-O ENTERPRISE BHD	2.14	621.4	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.1	13.1	12.9	1.9	2.0	15.1%	6.1%	1.95	UP		
MYNEWS HOLDINGS BHD	1.41	961.8	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.3	30.0	24.8	3.1	3.0	10.2%	0.7%	1.55	OP		
NESTLE (MALAYSIA) BHD	148.40	34,799.8	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.6	47.5	45.6	53.2	53.2	114.7%	2.2%	137.00	MP		
PADINI HOLDINGS BHD	3.29	2,164.5	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	12.1	14.0	11.5	3.3	3.0	22.3%	3.5%	3.75	MP		
PARKSON HOLDINGS BHD	0.21	218.8	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	26.4	0.1	0.1	-1.7%	0.0%	0.24	UP		
POWER ROOT BHD	1.95	772.3	Y	03/2020	12.3%	9.7%	26.6%	16.0%	23.3	19.0	16.9	3.5	3.2	18.1%	4.6%	2.30	OP		
QL RESOURCES BHD	6.72	10,902.8	Y	03/2020	10.9%	4.5%	13.0%	4.2%	50.3	44.5	42.7	5.4	5.0	12.1%	0.8%	6.05	UP		
SPRITZER BHD	2.26	474.5	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.6	17.1	15.1	1.2	1.2	7.0%	1.8%	2.40	MP		
<b>Simple Average</b>					<b>6.7%</b>	<b>4.4%</b>	<b>4.6%</b>	<b>63.5%</b>	<b>29.0</b>	<b>26.3</b>	<b>24.6</b>	<b>11.3</b>	<b>11.1</b>	<b>33.8%</b>	<b>2.6%</b>				
<b>SIN</b>																			
BRITISH AMERICAN TOBACCO (M) BHD	22.02	6,287.4	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	13.4	15.2	14.9	14.9	14.3	84.5%	5.5%	24.40	UP		
CARLSBERG BREWERY MALAYSIA BHD	24.64	7,579.8	N	12/2019	11.4%	4.6%	6.9%	4.8%	27.7	25.9	24.7	44.5	48.7	186.7%	4.1%	25.95	OP		
HEINEKEN MALAYSIA BHD	23.88	7,214.1	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.5	24.8	23.6	19.4	19.3	77.9%	4.0%	23.25	MP		
<b>Simple Average</b>					<b>1.6%</b>	<b>3.4%</b>	<b>-4.2%</b>	<b>3.5%</b>	<b>22.2</b>	<b>22.0</b>	<b>21.1</b>	<b>26.3</b>	<b>27.4</b>	<b>116.4%</b>	<b>4.5%</b>				
<b>CONSENSUS ESTIMATES</b>																			
BERJAYA FOOD BHD	1.56	559.5	N	06/2019	9.8%	8.6%	20.0%	10.8%	21.3	17.7	16.0	1.5	1.5	7.7%	3.3%	1.94	BUY		
BONIA CORPORATION BHD	0.27	213.1	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	10.8	15.3	13.0	0.6	0.6	3.2%	2.6%	0.30	SELL		
COCOALAND BHD	1.96	448.4	Y	12/2019	5.7%	7.1%	2.9%	7.0%	14.5	14.1	13.2	1.8	1.8	13.1%	3.9%	2.29	NEUTRAL		
LAY HONG BHD	1.25	449.4	Y	12/2019	10.5%	14.5%	-41.0%	61.1%	19.7	33.4	20.7	1.4	1.4	4.1%	2.0%	1.14	SELL		
KAWAN FOOD	5.08	826.3	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.1	7.1	6.8	1.6	n/a	20.3%	n/a	6.60	BUY		
MAGNI-TECH INDUSTRIES BHD	1.56	559.5	N	06/2019	9.8%	8.6%	20.0%	10.8%	21.3	17.7	16.0	1.5	1.5	7.7%	3.3%	1.94	BUY		

Source: Bloomberg, Kenanga Research

22 August 2019

**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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