

Malaysia
HOLD (no change)

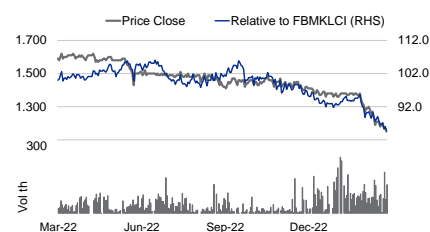
Consensus ratings*: Buy 0 Hold 1 Sell 1

Current price:	RM1.15
Target price:	RM1.10
Previous target:	RM1.36
Up/downside:	-4.3%
CGS-CIMB / Consensus:	na
Reuters:	BESH.KL
Bloomberg:	BESHOM MK
Market cap:	US\$78.05m
	RM345.1m
Average daily turnover:	US\$0.02m
	RM0.10m
Current shares o/s:	300.1m
Free float:	46.0%

*Source: Bloomberg

Key changes in this note

- ▶ FY23-25F EPS forecasts decreased by 22.6-34.0% on reduced revenue and operating margin assumptions.
- ▶ Reduced our FY23-25F DPS from 8 sen to 6 sen in accordance with our EPS cuts.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-14.2	-19	-27.7
Relative (%)	-10.1	-13.7	-14.8

Major shareholders	% held
The Estate of the late Tan Kai Hee	10.8
Akintan Sdn Bhd	8.5
Excellant Communication Sdn Bhd	5.4

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Beshom Holdings Bhd

MLM segment continues to underperform

- Beshom's 9MFY4/23 core net profit of RM12.0m (-47.3% yoy) was below our expectations (51.0% of FY23F) and Bloomberg consensus (45.8%).
- We expect continued weakness for the MLM segment in 4QFY23F due to sluggish member recruitment and weaker consumer discretionary spending.
- Maintain Hold with a lower TP of RM1.10 (14x CY24F P/E), supported by decent dividend yield of 5.2% (FY23-25F) and a healthy net cash position.

3QFY4/23 core net profit of RM2.7m (-64.9% yoy) below expectation

Beshom Holdings Bhd's (Beshom) 3QFY4/23 core net profit (CNP) plunged 64.9% yoy to RM2.7m, bringing 9MFY23 CNP to RM12.0m (-47.3% yoy), below expectations at 51.0% of our and 45.8% of Bloomberg consensus FY23F estimates. The earnings underperformance was mainly due to weaker-than-expected contributions from its multi-level marketing (MLM) segment, which more than offset the continued recovery of its retail and wholesale segment in 3QFY23. MLM segment's 3QFY23 sales fell to RM13.3m (-52.6% yoy) while operating margin dropped to 1.6% (-13.4% pts yoy) as a result of its lacklustre member recruitment, its members' weaker consumer discretionary spending power, unfavourable product mix and higher marketing costs. No dividend was declared during the quarter, which was within our expectations.

Sequentially lower 3QFY23 sales and CNP

Beshom's 3QFY23 revenue fell 2.7% qoq due to lower sales contribution from MLM (-35.5% qoq), though this was mitigated by higher sales from its wholesale (+20.2% qoq) and retail segments (+35.3% qoq), which were partly driven by seasonality from Chinese New Year (CNY) sales. 3QFY23 EBITDA margin also narrowed to 12.8% (-2.6% pts qoq), owing to an unfavourable product mix, lower economies of scale and higher marketing costs (aggressive recruitment activities and incentives), in our view. Thus, 3QFY23 CNP came in at RM2.7m (-30.2% qoq), its lowest level since 1QFY20.

We expect the MLM segment to remain weak in 4QFY23F

We expect Beshom to post weaker earnings yoy in 4QFY23F due to the tepid earnings outlook for its MLM segment on sluggish member recruitment (reflecting weakening demand for its MLM products) and its members' weak discretionary power amidst high inflationary pressures. Also, its wholesale and retail segment could record lower sales due to seasonality post CNY and a slow sales season during Ramadan (Mar-Apr 2023).

Maintain Hold with a lower TP of RM1.10

We cut our FY23-25F EPS by 22.6-34.0% to reflect lower revenue and margin assumptions due to rising marketing and input costs. In tandem with our EPS cuts, our TP drops to RM1.10 (14x CY24F P/E, its 5-year historical mean). We retain our Hold call on the stock due to its subdued earnings outlook as we expect its MLM segment to face a tough operating environment on inflationary pressures and lower consumer spending power. However, we believe its share price will be supported by decent dividend yields of 5.2% (FY23-25F) and a healthy net cash position of RM96.3m (RM0.32/share).

Financial Summary

	Apr-21A	Apr-22A	Apr-23F	Apr-24F	Apr-25F
Revenue (RMm)	271.4	209.6	176.8	190.2	200.3
Operating EBITDA (RMm)	58.30	44.59	25.78	32.71	37.44
Net Profit (RMm)	38.82	28.57	15.47	20.03	23.36
Core EPS (RM)	0.13	0.09	0.05	0.07	0.08
Core EPS Growth	13.3%	(29.0%)	(43.9%)	29.5%	16.6%
FD Core P/E (x)	8.88	12.51	22.31	17.23	14.78
DPS (RM)	0.090	0.080	0.060	0.060	0.060
Dividend Yield	7.83%	6.96%	5.22%	5.22%	5.22%
EV/EBITDA (x)	5.17	6.72	12.30	9.64	8.33
P/FCFE (x)	7.36	11.80	NA	13.60	11.78
Net Gearing	(16.8%)	(17.4%)	(8.9%)	(9.4%)	(10.6%)
P/BV (x)	1.10	1.09	1.10	1.09	1.07
ROE	12.7%	8.8%	4.9%	6.3%	7.3%
% Change In Core EPS Estimates			(34.0%)	(25.9%)	(22.6%)
CGS-CIMB/Consensus EPS (x)			0.59	0.61	0.65

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

MLM segment continues to underperform

Figure 1: Results Comparison

FYE Apr (RM m)	3QFY23	3QFY22	yoy % chg	qoq % chg	9MFY23 cum	9MFY22 cum	yoy % chg	Prev FY23F	Comments
Revenue	42.9	59.4	(27.8)	(2.7)	135.2	164.3	-17.7	214.1	Group revenue lower yoy due to lower MLM division revenue (-40.9% yoy), which partially mitigated by the increase in retail revenue (+10.1% yoy), wholesale (+14.5% yoy) and others (+13.6%) revenue in 9MFY23.
Operating costs	-37.4	-47.1	(20.6)	0.2	-113.8	-129.0	-11.8	-177.7	
EBITDA	5.5	12.3	(55.6)	(19.1)	21.4	35.3	-39.4	36.4	
<i>EBITDA margin (%)</i>	12.8	20.7	(8.0)	(2.6)	15.8	21.5	-5.7	17.0	Lower EBITDA margin due to lower economies of scale, unfavourable product mix and higher marketing costs
Depn & amort.	-1.4	-1.5	(10.6)	0.2	-4.1	-4.6	-11.2	-6.1	
EBIT	4.1	10.8	(61.9)	(23.9)	17.3	30.7	-43.7	30.3	
Interest expense	0.0	-0.1	(9.4)	6.7	-0.1	-0.2	-19.8	-0.1	
Interest & invt inc	0.2	0.2	3.8	1.2	0.5	0.5	1.5	1.0	
Associates' contrib	0.0	0.0	n.m.	533.3	-0.1	-0.1	20.0	0.0	
Exceptionals	-0.1	0.0	(990.9)	>100	1.6	-0.2	>100	0.0	Included one-off gain from disposal of vintage tea and provision for write off and net forex gain
Pretax profit	4.1	10.9	(62.4)	(25.9)	19.1	30.7	-37.9	31.3	
Tax	-1.2	-2.7	(57.2)	(22.1)	-5.1	-7.6	-33.9	-7.8	
Tax rate (%)	28.5	25.1	3.4	1.4	26.4	24.9	6.4	25.0	Higher tax rate due to certain expenses which were not deductible for tax purpose and losses of certain subsidiary companies which could not be off set against profits of certain subsidiaries
Minority interests	0.3	0.4	(23.8)	123.8	0.5	0.6	-5.8	0.0	
Net profit	2.6	7.7	(66.3)	(32.9)	13.5	22.5	-40.0	23.4	
Core net profit	2.7	7.7	(64.9)	(30.3)	12.0	22.7	-47.3	23.4	Below our and Bloomberg's consensus expectations at 51.0% and 45.8% of FY23F forecasts respectively
<i>Core net margin %</i>	6.3	13.0	(6.7)	(2.5)	13.0	14.3	-1.3	10.9	
EPS (sen)	0.9	2.6	(66.3)	(32.9)	8.6	14.3	-40.0	7.8	
Core EPS (sen)	0.9	2.6	(64.9)	(30.3)	7.6	14.4	-47.3	7.8	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings revision

RM m	FY22	FY23F			FY24F			FY25F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	209.6	214.1	176.8	-17.4%	231.1	190.2	-17.7%	245.4	200.3	-18.4%
EBITDA	44.6	36.4	25.8	-29.2%	41.9	32.7	-22.0%	46.4	37.4	-19.3%
Core pretax profit	38.8	31.3	20.6	-34.0%	36.0	26.7	-25.9%	40.3	31.1	-22.6%
Core net profit	27.6	23.4	15.5	-34.0%	27.0	20.0	-25.9%	30.2	23.4	-22.6%
Core EPS (sen)	9.5	7.8	5.2	-34.0%	9.0	6.7	-25.9%	10.1	7.8	-22.6%

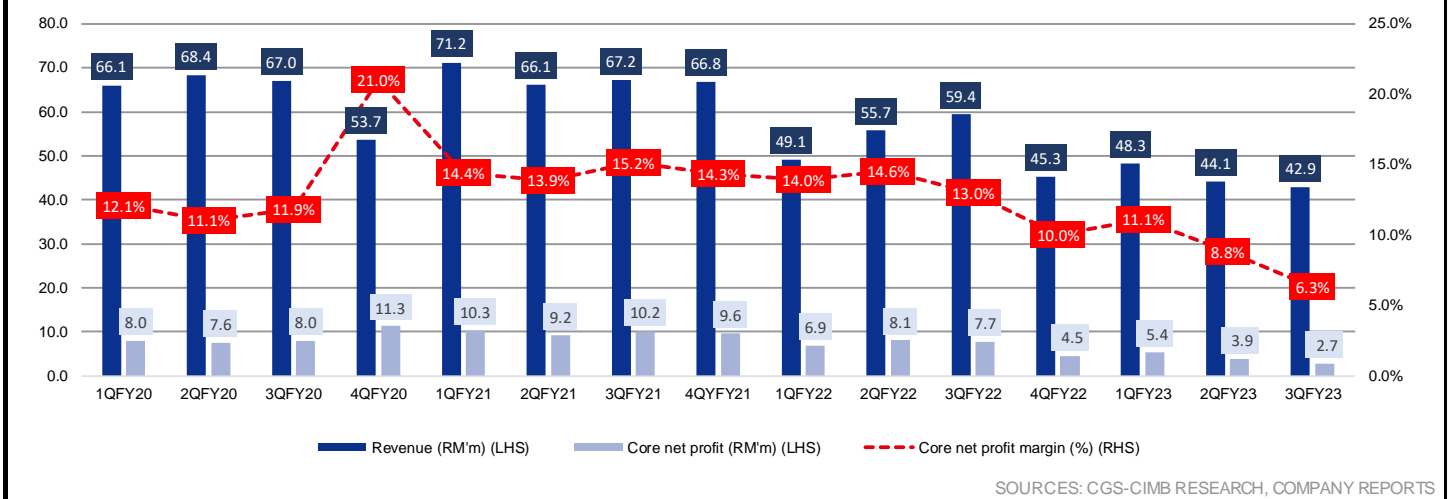
SOURCES: CGS-CIMB, COMPANY REPORTS

Figure 3: 3QFY23 segmental breakdown

Revenue (RM'm)	3QFY23	3QFY22	yoy % chg	2QFY23	qoq % chg	9MFY23	9MFY22	yoy % chg
Multi-Level Marketing	13.3	28.0	-52.6%	20.6	-35.5%	55.3	93.6	-40.9%
Wholesale	15.4	17.2	-10.6%	12.8	20.2%	45.1	39.4	14.5%
Retail	12.9	13.1	-1.8%	9.5	35.3%	31.1	28.3	10.1%
Others	1.3	1.2	8.0%	1.2	13.7%	3.6	3.2	13.6%
EBIT (RM'm)	3QFY23	3QFY22	yoy % chg	2QFY23	qoq % chg	9MFY23	9MFY22	yoy % chg
Multi-Level Marketing	0.2	4.2	-94.9%	2.4	-91.0%	5.3	17.5	-69.7%
Wholesale	1.9	4.0	-52.5%	1.9	1.7%	9.4	7.4	27.5%
Retail	1.5	2.1	-28.0%	0.8	81.7%	2.8	3.1	-8.2%
Others	1.0	0.6	61.8%	1.0	-1.9%	2.6	2.5	3.5%
Operating profit margin (%)	3QFY23	3QFY22	yoy % pts chg	2QFY23	qoq % pts chg	9MFY23	9MFY22	yoy % chg
Multi-Level Marketing	1.6%	15.0%	-13.4%	11.6%	-10.0%	9.6%	18.7%	-9.1%
Wholesale	12.3%	23.1%	-10.8%	14.5%	-2.2%	20.8%	18.7%	2.1%
Retail	11.5%	15.6%	-4.2%	8.5%	2.9%	9.1%	10.9%	-1.8%
Others	71.5%	47.7%	23.8%	82.9%	-11.4%	70.7%	77.7%	-6.9%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS


Figure 4: Beshom's quarterly results trend



Key de-rating catalysts and key upside risks ➤

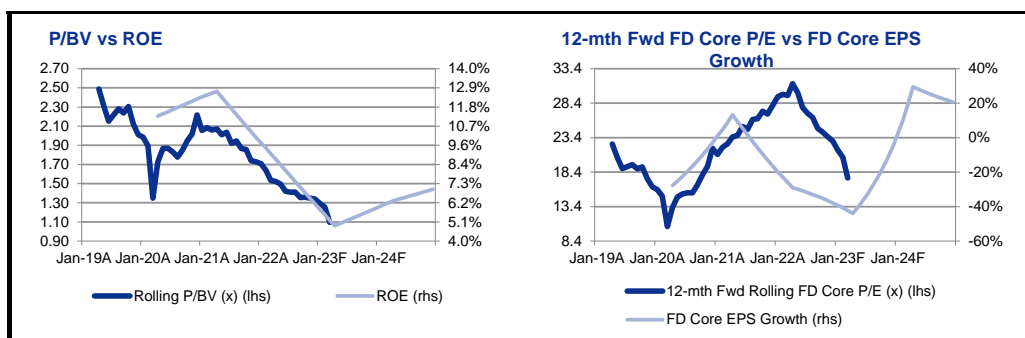
Key de-rating catalysts: lower-than-expected MLM sales as a result of lower consumer discretionary spending power and lower-than-expected GP margin due to higher input costs and operating expenses that could lead to greater margin compression.

Key upside risks: Stronger-than-expected MLM sales, faster pace of recovery of its wholesale and retail segment, and higher-than-expected margin due to higher economies of scale and operating efficiency.

ESG in a nutshell		Refinitiv ESG Scores					
		B+ ESG Score	A+ ESG Controversies Score	B+ ESG Combined Score	C- ESG Environment Pillar Score	B+ ESG Social Pillar Score	A- ESG Government Pillar Score
<p>In 2009, Beshom launched Hai-O Foundation to enhance its corporate social responsibility, focusing on reaching out to local communities, especially underprivileged groups, by championing educational and cultural causes. The foundation has since 2010 organised fundraising campaigns in aid of selected schools. Beshom also established the Hai-O Arts and Culture Grants to encourage the participation of all races in support of Malaysia's arts and culture. Beshom also spearheaded programmes such as "21st Century Smart Classrooms Education", which provided contemporary education tools and equipment to selected schools, and "Clothes of Confidence", supplying school uniforms to underserved communities. In this respect, we believe Beshom has done relatively well in the social (S) pillar. We are also encouraged by its environmentally-friendly initiatives and corporate governance measures as highlighted below. That said, further improvements could be made to strengthen its environment (E) and governance (G) aspects, which could re-rate the stock from an ESG standpoint.</p>							
<p>Keep your eye on</p> <p>As disclosed in its FY22 annual report, only two out of nine (22%) Beshom directors are female. This is fewer than the Malaysian Code of Corporate Governance's (MCCG) recommendation of at least 30% women directors. However, we take comfort from the fact that it had a higher proportion of female representation in its management team (64%) and MLM distributorship (76%) as at end-FY21.</p>	<p>Implications</p> <p>We view the board composition negatively. However, Beshom aims to make the necessary efforts to appoint additional female directors in the near future to close the gap. Meanwhile, we are positive on the better gender diversity at its management level and in its MLM membership.</p>						
<p>ESG highlights</p> <p>As at end-FY22, Beshom had six independent directors out of its total nine board members (67%). This exceeded the Main Market Listing Requirement of at least one-third of the board comprising independent directors and the MCCG practice of having independent directors account for at least half the board.</p> <p>Note that Beshom has not been included in the FTSE4Good Bursa Malaysia Index nor has it been rated by ESG rating providers such as FTSE Russell and Refinitiv.</p>	<p>Implications</p> <p>We believe Beshom's overall ESG performance is decent, especially in its governance (G) and social (S) aspects, given its high composition of independent directors and its long-term track record of substantial contribution to community development/wellbeing since the establishment of its corporate social responsibility arm, Hai-O Foundation, in 2009 (e.g. organising charity campaigns to raise funds for selected schools since 2010).</p>						
<p>Trends</p> <p>Beshom has initiated various environmentally-friendly measures over the past years, such as launching its "Sweetality Flexi Pack" green packaging, which enables consumers to reuse their old bottles, in 2022; "LED lighting systems" project (since 2017) to replace the lighting at both its buildings and retail outlets to improve energy efficiency; and launch of "e-membership platform" in 2017 to reduce paper waste materials.</p>	<p>Implications</p> <p>We are positive on the company's efforts in environmental sustainability. As of FY22, the group recorded electricity savings of >50,000kWh from LED lighting systems, with 580 LED lights installed during the year. As of 30 Apr 2022, 10 out of the group's total 55 retail outlets were fully fitted with LED lighting systems. In FY22, 99.9% of its new members joined via its e-membership platform, resulting in 10% savings in the number of A4 paper reams ordered in FY22 vs. FY21. Nonetheless, we have not ascribed an ESG premium to Beshom's valuations at this juncture as we see room for further improvements in its packaging materials as consumer-packaged goods constitute a large portion of its sales.</p>						

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(RMm)	Apr-21A	Apr-22A	Apr-23F	Apr-24F	Apr-25F
Total Net Revenues	271.4	209.6	176.8	190.2	200.3
Gross Profit	105.2	86.3	65.1	71.3	75.1
Operating EBITDA	58.3	44.6	25.8	32.7	37.4
Depreciation And Amortisation	(6.3)	(6.0)	(6.1)	(6.5)	(6.8)
Operating EBIT	52.0	38.5	19.6	26.2	30.6
Financial Income/(Expense)	0.4	0.4	1.0	0.5	0.5
Pretax Income/(Loss) from Assoc.	(0.0)	(0.1)	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	52.4	38.8	20.6	26.7	31.1
Exceptional Items	(0.1)	1.3	0.0	0.0	0.0
Pre-tax Profit	52.3	40.1	20.6	26.7	31.1
Taxation	(13.4)	(10.9)	(5.2)	(6.7)	(7.8)
Exceptional Income - post-tax					
Profit After Tax	38.9	29.2	15.5	20.0	23.4
Minority Interests	(0.1)	(0.7)	(0.0)	0.0	0.0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	38.8	28.6	15.5	20.0	23.4
Recurring Net Profit	38.9	27.6	15.5	20.0	23.4
Fully Diluted Recurring Net Profit	38.9	27.6	15.5	20.0	23.4

Cash Flow

(RMm)	Apr-21A	Apr-22A	Apr-23F	Apr-24F	Apr-25F
EBITDA	58.30	44.59	25.78	32.71	37.44
Cash Flow from Invt. & Assoc.					
Change In Working Capital	2.48	-2.72	-22.22	0.88	-0.84
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	16.91	1.84	1.00	1.00	2.00
Other Operating Cashflow					
Net Interest (Paid)/Received	0.43	-0.22	0.98	0.46	0.49
Tax Paid	-9.22	-14.28	-5.16	-6.68	-7.79
Cashflow From Operations	68.89	29.21	0.39	28.37	31.31
Capex	-1.80	-1.14	-8.00	-3.00	-2.00
Disposals Of FAs/subsidiaries	1.19	2.91	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	-19.50	0.00	0.00	0.00	0.00
Other Investing Cashflow					
Cash Flow From Investing	-20.11	1.77	-8.00	-3.00	-2.00
Debt Raised/(repaid)	-1.87	-1.73	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased	-2.53	-0.19	0.00	0.00	0.00
Dividends Paid	-31.98	-24.21	-18.01	-18.01	-18.01
Preferred Dividends					
Other Financing Cashflow	-0.69	0.00	0.00	0.00	0.00
Cash Flow From Financing	-37.07	-26.12	-18.01	-18.01	-18.01
Total Cash Generated	11.71	4.86	-25.62	7.37	11.30
Free Cashflow To Equity	46.91	29.25	-7.61	25.37	29.31
Free Cashflow To Firm	49.04	31.19	-7.56	25.42	29.36

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Apr-21A	Apr-22A	Apr-23F	Apr-24F	Apr-25F
Total Cash And Equivalents	54.3	57.4	28.6	30.2	34.7
Total Debtors	21.7	21.8	13.6	14.1	14.3
Inventories	89.3	89.3	82.7	81.4	78.9
Total Other Current Assets	58.9	59.9	73.4	73.6	79.8
Total Current Assets	224.1	228.5	198.2	199.3	207.7
Fixed Assets	84.6	81.4	81.7	81.8	81.5
Total Investments	44.2	44.1	46.9	49.4	50.6
Intangible Assets	0.1	0.1	0.1	0.1	0.1
Total Other Non-Current Assets	17.4	16.8	22.6	22.6	21.1
Total Non-current Assets	146.2	142.3	151.3	153.9	153.3
Short-term Debt	0.0	0.0	0.5	0.5	0.5
Current Portion of Long-Term Debt					
Total Creditors	37.0	33.3	26.0	27.7	29.2
Other Current Liabilities	7.0	5.3	5.3	5.3	5.3
Total Current Liabilities	44.0	38.6	31.8	33.5	35.0
Total Long-term Debt	0.0	0.0	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.6	2.3	2.3	2.3	2.3
Total Non-current Liabilities	2.6	2.3	2.3	2.3	2.3
Total Provisions	0.3	0.4	0.4	0.4	0.4
Total Liabilities	46.9	41.3	34.5	36.2	37.6
Shareholders' Equity	313.1	317.5	315.0	317.0	322.4
Minority Interests	10.3	11.9	0.0	0.0	1.0
Total Equity	323.4	329.4	315.0	317.0	323.4

Key Ratios

	Apr-21A	Apr-22A	Apr-23F	Apr-24F	Apr-25F
Revenue Growth	6.4%	(22.8%)	(15.6%)	7.5%	5.3%
Operating EBITDA Growth	17.2%	(23.5%)	(42.2%)	26.9%	14.5%
Operating EBITDA Margin	21.5%	21.3%	14.6%	17.2%	18.7%
Net Cash Per Share (RM)	0.18	0.19	0.09	0.10	0.11
BVPS (RM)	1.04	1.06	1.05	1.06	1.07
Gross Interest Cover	196.9	179.3	392.8	524.9	613.0
Effective Tax Rate	25.5%	27.2%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	68%	88%	116%	90%	77%
Accounts Receivables Days	30.32	37.89	36.52	26.59	25.82
Inventory Days	200.5	264.6	280.9	252.6	233.7
Accounts Payables Days	89.1	104.2	96.9	82.7	82.8
ROIC (%)	24.6%	16.9%	8.5%	10.8%	12.7%
ROCE (%)	16.6%	12.0%	6.4%	8.4%	9.7%
Return On Average Assets	10.5%	7.4%	4.0%	5.6%	6.4%

Key Drivers

	Apr-21A	Apr-22A	Apr-23F	Apr-24F	Apr-25F
SG&A (% of revenue)	10.0%	12.0%	13.5%	13.0%	12.5%
MLM segment yoy revenue growth	0.1	(0.2)	(0.5)	0.1	0.1
MLM segment online sales growth	0.6	0.1	0.2	0.1	-
Whole segment yoy revenue growth	0.0	0.0	0.1	0.1	0.0
Retail segment yoy revenue growth	(0.0)	(0.0)	0.1	0.1	0.0
MLM member assumption ('000)	890.0	770.0	1,000.0	1,200.0	1,100.0
MLM member yoy growth	(0.2)	(0.1)	0.3	0.2	(0.6)
Revenue per member	1,937.6	1,791.7	689.8	632.3	758.8
Revenue per member yoy growth	0.4	(0.1)	(0.6)	(0.1)	0.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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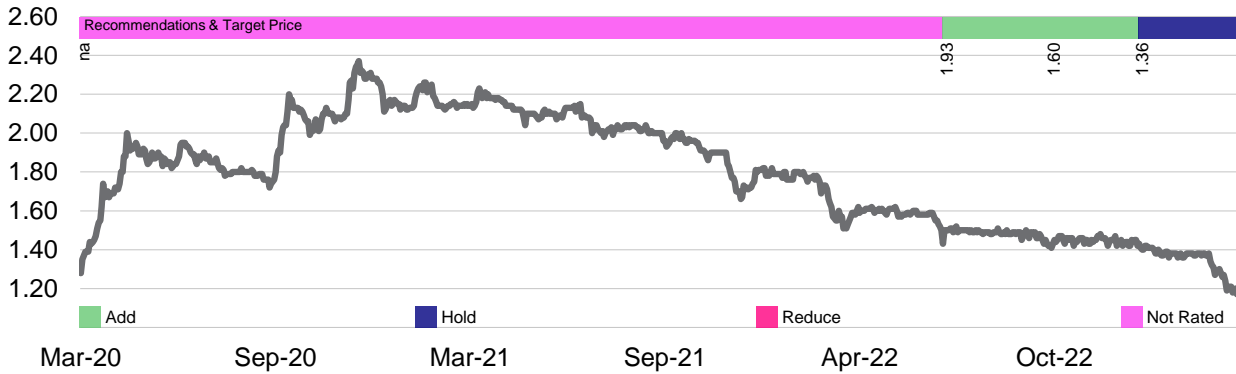
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	Rating Distribution (%)	Investment Banking clients (%)
Add	64.8%	1.1%
Hold	27.0%	0.3%
Reduce	8.2%	0.0%

Spitzer Chart for stock being researched (2 year data)

Beshom Holdings Bhd (BESHOMMK)

— Price Close



Recommendation Framework

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- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.