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Beshom Holdings Bhd

TP: RM1.11 (-3.5%)

Weak MLM Division Continues to Drag Profitability

Last Traded: RM1.15

Sell (ESG: ★★★)

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Review

- Beshom Holdings Bhd's (Beshom) 9MFY23 core earnings of RM12.0mn came in below expectations at 41% of our and 46% of consensus' full-year forecasts. The earnings disappointment was largely attributed to the weaker-than-expected result in the multi-level marketing (MLM) division.
- Revenue for 9MFY23 slid 17.7% YoY to RM135.2mn on the back of poorer sales and higher marketing costs in the MLM division. Consequently, adjusted PBT plunged 43.2% YoY to RM17.5mn.
- **MLM.** The higher marketing costs failed to revive spending as purchasing power continued to be weak driven by inflationary pressure. Consequently, 3QFY23 segmental revenue and EBIT tumbled 52.6% YoY and 94.9% YoY to RM13.3mn and RM0.2mn respectively. EBIT margin dropped 13.4%-pts YoY to 1.6% due to poorer sales and higher promotional costs.
- **Wholesale.** Quarterly revenue fell 10.6% YoY to RM15.4mn attributed to reduced contribution from premium patented medicine. Driven by lower revenue and higher advertising costs, the segment registered a 52.5% YoY decline in EBIT to RM1.9mn.
- **Retail.** 3QFY23 revenue decreased 1.8% YoY to RM12.9mn due to lower demand. As a result of higher marketing costs, higher rental expense and electricity tariff hike, EBIT margin was down 4.2%-pts YoY, leading to a 28.0% YoY drop in EBIT. However, on a QoQ basis, divisional revenue and EBIT improved 35.3% and 81.7% respectively supported by Chinese New Year (CNY) festive sales.

Impact

- We cut our earnings forecasts for FY23/FY24/FY25 by 40.0%/32.4%/24.7% respectively, forecasting a lower distributor force for the MLM division.

Outlook

- **MLM.** The division would continue facing the challenging outlook due to inflationary pressure and anticipated increase in borrowing costs. As Beshom continues to step up incentives for its distributors, we expect a gradual recovery in sales for the segment in coming quarters. Overall profitability would unlikely improve until significant recovery in MLM division as the segment usually contributes to more than half of its EBIT.
- **Wholesale.** We anticipate QoQ sales growth to continue in 4QFY23 as Beshom taps into wider customer base by entering the modern trade channels and pharmacy chain stores.
- **Retail.** Retail division's sales are expected to normalise in 4QFY23 following boost in sales in 3QFY23 supported by CNY sales. Additionally, we expect margin compression for the segment from increasing operating expenses (electricity tariff hike, maximum working hours).

Share Information

Bloomberg Code	BESHOM MK
Stock Code	7668
Listing	Main Market
Share Cap (mn)	300.1
Market Cap (RMmn)	345.1
52-wk Hi/Lo (RM)	1.63/1.14
12-mth Avg Daily Vol ('000 shrs)	44.6
Estimated Free Float (%)	56.3
Beta	0.5
Major Shareholders (%)	
Tan Kai Hee Family Holdings Sdn bhd	- 10.8%
Akintan Sdn Bhd	- 8.7%
Excellent Communication Sdn Bhd	- 5.4%

Forecast Revision

	FY23	FY24
Forecast Revision (%)	(40.0)	(32.4)
Net profit (RMm)	17.3	25.7
Consensus	26.1	32.5
TA's / Consensus (%)	66.1	79.0
Previous Rating	Sell (Maintained)	
Consensus Target Price (RM)	1.32	

Financial Indicators

	FY23	FY24
Net Debt / Equity (x)	Net Cash	Net Cash
ROE (%)	5.4	8.0
ROA (%)	4.6	6.9
NTA/Share (RM)	1.1	1.1
Price/NTA (x)	1.0	1.0

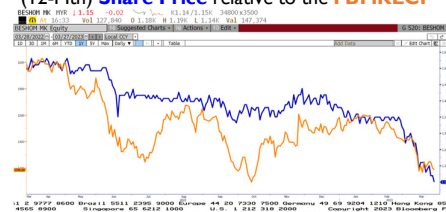
Scorecard

	% of FY23	
vs TA	41	Below
vs Consensus	46	Below

Share Performance (%)

Price Change	BESHOM	FBM KLCI
1 mth	(14.2)	(4.0)
3 mth	(19.0)	(5.3)
6 mth	(19.0)	(1.0)
12 mth	(27.7)	(12.9)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation

- We roll forward our base year. **Maintain Sell** with a lower target price of **RM1.11/share** (previously RM1.28/share) based on 11x CY24 EPS.

Table 1: Earnings Summary

FYE Apr (RM mn)	2021	2022	2023E	2024F	2025F
Revenue	271.4	209.6	178.8	213.9	244.9
EBITDA	58.2	46.2	28.8	39.8	48.9
EBIT	51.9	40.0	23.0	34.0	43.2
PBT	52.3	40.3	23.3	34.6	43.9
Net profit	38.8	28.2	17.3	25.7	32.6
Core net profit	38.8	28.4	17.3	25.7	32.6
Core EPS (sen)	13.4	9.4	5.8	8.6	10.9
Core PER (x)	8.6	12.2	20.0	13.4	10.6
DPS (sen)	9.0	8.0	5.0	8.0	9.0
Div. yield (%)	7.8	7.0	4.3	7.0	7.8

Table 2: 3QFY23 Results Analysis

FYE 30 Apr	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	59.4	44.1	42.9	(2.7)	(27.8)	164.3	135.2	(17.7)
Cost of sales	(34.7)	(26.1)	(25.0)	(4.1)	(27.9)	(97.7)	(79.3)	(18.8)
Gross profit	24.7	18.0	17.8	(0.8)	(27.7)	66.6	55.9	(16.1)
EBIT	10.8	5.4	4.0	(25.8)	(62.9)	30.5	18.8	(38.3)
Adj. EBIT	10.8	5.4	4.1	(23.9)	(61.9)	30.7	17.3	(43.7)
Net interest	0.1	0.1	0.1	(0.9)	10.6	0.3	0.3	14.0
Extraordinary Items	0.0	0.0	(0.1)	(>100)	(>100)	(0.2)	1.6	(>100)
PBT	10.9	5.5	4.1	(25.9)	(62.4)	30.7	19.1	(37.9)
Adj. PBT	10.8	5.5	4.2	(24.1)	(61.4)	30.9	17.5	(43.2)
Taxation	(2.7)	(1.5)	(1.2)	(22.1)	(57.2)	(7.6)	(5.1)	(33.9)
Minority Interest	(0.4)	(0.1)	(0.3)	>100	(23.8)	(0.6)	(0.5)	(5.8)
Net Profit	7.7	3.9	2.6	(32.9)	(66.3)	22.5	13.5	(40.0)
Adj. Net Profit	7.7	3.9	2.7	(30.3)	(64.9)	22.7	12.0	(47.3)
Basic EPS (sen)	2.6	1.3	0.9	(32.9)	(66.9)	7.6	4.5	(41.1)
DPS (sen)	-	3.0	-	(100.0)	nm	3.0	3.0	-
				%-points	%-points			%-points
EBIT Margin (%)	18.2	12.3	9.4	(2.9)	(8.8)	18.6	13.9	(4.6)
PBT Margin (%)	18.3	12.5	9.5	(3.0)	(8.7)	18.7	14.1	(4.6)
Net Margin (%)	13.0	8.8	6.1	(2.7)	(6.9)	13.7	10.0	(3.7)
Adj. Net Margin (%)	13.0	8.8	6.3	(2.5)	(6.7)	13.8	8.8	(5.0)
Tax Rate (%)	25.1	27.1	28.5	1.4	3.4	24.9	26.4	1.6

Table 3: 3QFY23 Segmental Analysis

FYE 30 Apr	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	59.4	44.1	42.9	(2.7)	(27.8)	164.3	135.2	(17.7)
Multi-Level Marketing	28.0	20.6	13.3	(35.5)	(52.6)	93.6	55.3	(40.9)
Wholesale	17.2	12.8	15.4	20.2	(10.6)	39.4	45.1	14.5
Retail	13.1	9.5	12.9	35.3	(1.8)	28.3	31.1	10.1
Others	1.1	1.2	1.3	13.7	26.2	3.0	3.6	20.4
Segment EBIT	10.8	5.4	4.0	(25.8)	(62.9)	30.5	18.8	(38.3)
Multi-Level Marketing	4.2	2.4	0.2	(91.0)	(94.9)	17.5	5.3	(69.7)
Wholesale	4.0	1.9	1.9	1.7	(52.5)	7.4	9.4	27.5
Retail	2.1	0.8	1.5	81.7	(28.0)	3.1	2.8	(8.2)
Others	0.6	0.4	0.4	23.1	(23.6)	2.6	1.3	(49.3)
				%-points	%-points			%-points
Segment EBIT Margin	18.2	12.3	9.4	(2.9)	(8.8)	18.6	13.9	(4.6)
Multi-Level Marketing	15.0	11.6	1.6	(10.0)	(13.4)	18.7	9.6	(9.1)
Wholesale	23.1	14.5	12.3	(2.2)	(10.8)	18.7	20.8	2.1
Retail	15.6	8.5	11.5	2.9	(4.2)	10.9	9.1	(1.8)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	It has established Code of Business Ethics for Suppliers and Business Associate to ensure sustainable supply. Meanwhile, Beshom is exploring way to adopt more environmentally friendly packaging. However, score remains muted owing to absence of quantifiable goal for near future.	Committed in promoting healthcare culture and improving human's well-being. The group also provide extensive leadership workshop to develop entrepreneurial spirit within distributors and community.	The board is well represented by independent directors yet may consider having more gender diversity in the board. Beshom has target of paying more than 50% of earnings as dividend.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Tuesday, March 28, 2023, the analyst, Ong Tze Hern, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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