

**Company Result**

28 March 2022

**Beshom Holdings Berhad**

3QFY22: Still in slumber

**HOLD**

**Maintained**

<b>Share Price</b>	<b>RM1.59</b>
<b>Target Price</b>	<b>RM1.72</b>

**Company Description**

Beshom Holdings Berhad operates as a holding company. The Company, through its subsidiaries, focuses on wholesaling and retailing of herbal medicines, healthcare products, and beauty products.

**Stock Data**

Bursa / Bloomberg code	7668 / BESHOM MK
Board / Sector	Industrial/Food & Drug Retailers
Syariah Compliant status	No
FTSE4Good Index	No
ESG Rating	☆☆
Issued shares (m)	300.10
Market cap. (RMm)	480.17
52-week price Range	RM1.50 – 2.24
Beta (against KLCI)	0.74
3-m Average Daily Volume	0.05m
3-m Average Daily Value <sup>^</sup>	RM0.09m

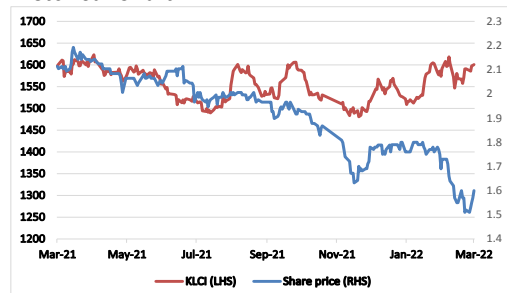
**Share Performance**

	1m	3m	12m
Absolute (%)	-7.5	-12.1	-25.6
Relative (%-pts)	-8.0	-16.3	-25.7

**Major Shareholders**

	%
Kai Hee Tan	21.53
Akintan Sdn Bhd	8.13
Tan Keng Kang	5.38

**Historical Chart**



Source: Bloomberg

**Team Coverage**

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**Result**

- **Beshom Holdings Berhad (investment holding company that assumed listing status of Hai-O Enterprise Bhd) registered a net profit of RM7.7m during 3QFY22 which depleted 1.3% qoq and 25.2% yoy. Meanwhile, revenue stood at RM59.4m, rising 6.6% qoq but declining 11.6% yoy.**
- **As for 9MFY22, the Group clinched a net profit of RM22.5m, which was down 27.4% yoy on the back of weakening revenue which slipped 19.7% yoy.** The disappointing performance was resulted from lower sales from both the Multi-Level Marketing (MLM) and Wholesale segments.
- **Below forecast.** 9MFY22 net profit of RM22.5m is below our in-house expectation, which only accounts for 64.7% of full year earnings forecast. The lower-than-anticipated result was eroded by the weaker spending power of members in the MLM segment.

**Comment**

- **Resuming economic activities coupled with aggressive CNY festive promotion campaign uplifted QoQ result.** Revenue and PBT improved 6.6% qoq and 3.8% qoq respectively during 3QFY22. The small scale increase was dragged by lower new member recruitments from the MLM (revenue: -21.3% qoq; PBT: -40.8% qoq) segment. Nevertheless, the Group saw its Wholesale (revenue: +50.9% qoq; PBT: +100% qoq) and Retail (revenue: +67.9% qoq; PBT: +250% qoq) divisions step up to cushion the downfall of its MLM segment. Higher revenue from Wholesale and Retail segments were attributed to elevated sales generated from Chinese New Year (CNY) festive season campaign and sales of premium house brand products with higher margin. The increase in PBT for Wholesale and Retail segments were in tandem of higher revenue and favourable change of sales mix.
- **Disappointing YoY despite turnaround in Retail segment earnings.** Revenue tumbled 11.6% yoy with poorer MLM sales (revenue down 29.1% yoy) as members' spending power was affected by rising inflation. The Group noticed that members have been less active since the unprecedented flood that ravaged certain parts of Malaysia in December 2021. Moreover, higher COVID-19 infection cases among members have further dampened the already weak sentiments. Despite sluggish MLM revenue, Wholesale and Retail revenues increased 4.2% yoy and 37.9% yoy

respectively, again thanks to higher sales generated from CNY festive promotion. In addition, aggressive on-line and off-line sales promotion campaign carried out during CNY festive season have significantly lifted the Retail segment revenue.

- **Discouraging 9MFY22.** Cumulatively, PBT depleted 24.7% qoq amid shrank in revenue (-19.7% yoy). Revenue for MLM segment was hit hard by a spate of COVID-19 cases among members while the Wholesale segment was dampened by disruptions in supply and logistic globally as well as various restrictions imposed during the first half of the financial year. In contrast, retail segment revenue rose 10.2% yoy attributed to consumers who become more health conscious during the pandemic and hence willing to spend on health supplements. Besides, PBT margin for MLM and Wholesale segment decreased -1.8ppts yoy and -4.5ppts yoy respectively due to depressed margin in the first half of the financial year, while Retail segment inched up by 8.6ppts yoy respectively arising from higher margin for house brand products and cost optimization measures.
- **Moderate outlook for FY22.** Moving forward, the Group is committed to further leverage on e-commerce platforms which contributed about 28% of the total revenue while keeping a close rein on costs optimization. The Group plans to intensify members' recruitment and retention in its MLM segment to strengthen its members' base. Meanwhile, Wholesale and Retail segments will undertake more sales promotions to capitalize on the improvement in consumer sentiments as well as to penetrate the younger consumer market. All in all, we expect the Group's margin likely to remain depressed resulting from recent geopolitical tension that is manifesting the supply constraints to logistic disruptions. As a result, we foresee the consumer sentiment to remain doldrums following higher inflationary pressure.

### Earnings Outlook/Revision

- **We trim our FY22F and FY23F full year earnings forecasts by 9.2% and 15.2% to RM 31.6m and RM 31.9m respectively to account for lower-than-expected sales and margin as well as higher-than-anticipated freight costs.**

### Valuation & Recommendation

- **Maintain HOLD with a lower target price of RM1.72 (RM1.86 previously).** Our target price is now based on P/E multiple of 16.2x FY23F EPS of 10.6 sen, slightly below its 5-year mean PE of 16.3x. We deem the stock is fairly valued and share price is well supported by its decent dividend yield of 5% for FY23F.
- **Risks include:** 1) Higher-than-expected cost of sales (i.e. higher freight cost), 2) Weaker domestic spending sentiment due to higher inflationary pressure, 3) Perpetual COVID-19 pandemic which weigh down overall business performance.

Figure 1: Quarterly Figures

Year ended 30 April	3QFY22	2QFY22	3QFY21	QoQ	YoY	9MFY22	9MFY21	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	59.4	55.7	67.2	6.6%	-11.6%	164.2	204.5	-19.7%
Gross profit	24.7	21.2	26.1	16.5%	-5.4%	66.7	78.3	-14.8%
Operating profit	10.8	10.4	13.6	3.8%	-20.6%	30.5	40.6	-24.9%
PBT	10.9	10.5	13.7	3.8%	-20.4%	30.8	40.9	-24.7%
PAT	8.1	7.9	10.4	2.5%	-22.1%	23.0	30.8	-25.3%
Net profit	7.7	7.8	10.3	-1.3%	-25.2%	22.5	31.0	-27.4%
<b>Margin (%)</b>				<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
Gross profit margin	41.6%	38.1%	38.8%	3.5	2.7	40.6%	38.3%	2.3
EBIT margin	18.2%	18.7%	20.2%	-0.5	-2.1	18.6%	19.9%	-1.3
PBT margin	18.4%	18.9%	20.4%	-0.5	-2.0	18.8%	20.0%	-1.2
PAT margin	13.6%	14.2%	15.5%	-0.5	-1.8	14.0%	15.1%	-1.1
Net profit margin	13.0%	14.0%	15.3%	-1.0	-2.4	13.7%	15.2%	-1.5

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	3QFY22	2QFY22	3QFY21	QoQ	YoY	9MFY22	9MFY21	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
<b>Revenue</b>								
MLM division	28.0	35.6	39.5	-21.3%	-29.1%	93.6	133.0	-29.6%
Wholesale division	17.2	11.4	16.5	50.9%	4.2%	39.4	42.5	-7.3%
Retail division	13.1	7.8	9.5	67.9%	37.9%	28.2	25.6	10.2%
<b>PBT</b>								
MLM division	4.2	7.1	8.9	-40.8%	-52.8%	17.5	27.3	-35.9%
Wholesale division	4.0	2.0	2.8	100.0%	42.9%	7.4	9.9	-25.3%
Retail division	2.1	0.6	0.5	250.0%	320.0%	3.1	0.6	416.7%
<b>PBT margin (%)</b>				<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
MLM division	15.0%	19.9%	22.5%	-4.9	-7.5	18.7%	20.5%	-1.8
Wholesale division	23.3%	17.5%	17.0%	5.7	6.3	18.8%	23.3%	-4.5
Retail division	16.0%	7.7%	5.3%	8.3	10.8	11.0%	2.3%	8.6

Source: Company, JF Apex

Figure 3: Financial Summary

Year ended 30 April	FY18	FY19	FY20	FY21	FY22F	FY23F
	RMm	RMm	RMm	RMm	RMm	RMm
Revenue	461.8	328.4	255.2	271.4	220.9	229.0
Gross profit	162.2	126.2	99.2	105.0	90.7	91.2
Operating profit	97.6	62.2	43.1	53.4	43.3	44.5
PBT	99.0	63.4	41.5	52.3	42.7	44.2
PAT	75.1	47.5	32.3	38.9	31.4	31.7
Net profit	75.4	47.7	32.6	39.2	31.6	31.9
<b>Margin (%)</b>						
Gross profit margin	35.1%	38.4%	38.9%	38.7%	41.1%	39.8%
Operating profit	21.1%	18.9%	16.9%	19.7%	19.6%	19.4%
PBT margin	21.4%	19.3%	16.3%	19.3%	19.3%	19.3%
PAT margin	16.3%	14.4%	12.7%	14.3%	14.2%	13.8%
Net profit margin	16.3%	14.5%	12.8%	14.4%	14.3%	13.9%
<b>Growth (%)</b>						
Revenue growth	14.3%	-28.9%	-22.3%	6.3%	-18.6%	3.6%
Gross Profit growth	22.1%	-22.2%	-21.4%	5.8%	-13.6%	0.5%
PBT growth	26.8%	-36.0%	-34.5%	26.0%	-18.4%	3.4%
PAT growth	26.9%	-36.8%	-31.9%	20.4%	-19.3%	0.8%
Net profit growth	27.2%	-36.7%	-31.7%	20.2%	-19.4%	0.8%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROA	19.0%	13.1%	9.0%	10.6%	10.0%	11.0%
ROE	23.6%	14.9%	10.5%	12.1%	12.5%	13.0%
EPS (sen)	25.1	15.9	10.9	13.1	10.5	10.6
P/E	0.06	0.10	0.15	0.12	0.15	0.15
DPS (sen)	0.20	0.13	0.10	0.09	0.07	0.08
Dividend Payout	0.8%	0.8%	0.9%	0.7%	0.7%	0.8%
Dividend yield (%)	12.6%	8.2%	6.3%	5.7%	4.4%	5.0%

Source: Company, JF Apex

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**JF APEX SECURITIES – RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

\*capital gain + dividend yield

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

**ESG RECOMMENDATIONS**

- ☆☆☆☆ : Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆☆ : Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆ : Top 51-75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆ : Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell

Source: Bursa Malaysia and FTSE Russell

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