

# Beshom Holdings Bhd

**TP: RM1.46 (+3.55%)**
*MLM Continues to Underperform*
*Last Traded: RM1.41*
**Hold (ESG: ★★★)**

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## Review

- Beshom Holdings Bhd's (Beshom) IQFY23 core earnings of RM7.0mn missed expectations, coming in at 17% of ours and 16% of consensus full-year estimates. The earnings miss was due to poorer-than-expected performance in the multi-level marketing (MLM) division.
- Revenue for IQFY23 slid 1.8% YoY to RM48.3mn mainly due to poorer sales in the MLM division. Gross margin dropped by 0.6%-pts YoY driven by higher product and logistic costs and the weakening of Ringgit.
- **MLM.** Revenue in IQFY23 was adversely impacted by weak members' sentiment and rising inflationary pressure, which affected members' recruitment and renewal. Segmental profit plunged 56.4% YoY in IQFY23 on the back of 28.6% YoY decline in the revenue. Sequentially, quarterly revenue dropped 1.5% QoQ while operating profit slumped 23.0% from preceding quarter due to higher marketing.
- **Wholesale.** The division's revenue soared 57.3% YoY in IQFY23 from depressed base a year earlier when business activities were restricted due to MCO. The division's sales were also lifted by increased purchase by customers before price hike and higher sales in duty free shop after the reopening of international borders. Operating profit for the quarter quadrupled YoY on the back of revenue growth.
- **Retail.** IQFY23 revenue surged 19.4% YoY due to low base effect a year earlier. Revenue growth and higher contribution from house brand products which carry higher margins led to a 39.4% YoY growth in the segmental EBIT.

## Impact

- We cut our earnings forecast for FY23/FY24/FY25 by 18.7%/11.0%/9.9% respectively, forecasting a lower distributor force of 65,000/70,000/73,500 as the MLM segment's distributor plunged from 98,000 members in FY21 to 50,000 in FY22.

## Outlook

- **MLM.** The division continues to face difficulty in recruiting and retaining new members. With the resumption of overseas incentive trip and step up in physical event, we believe the division should contribute more to the earnings in the coming quarters from increase in distributors and average revenue per distributor.
- **Wholesale.** As part of the increase in revenue was contributed by boost in sales prior to price hike, we reckon that the QoQ sales growth would normalise in the coming quarter. The group intends to roll out more FMCG products in the Wholesale division to diversify its product portfolio, which should contribute positively to growth within the segment.
- **Retail.** The division is developing new house brands to increase its product mix and improve margin. Management expects positive results in the next

## Share Information

Bloomberg Code	BESHOM MK
Stock Code	7668
Listing	Main Market
Share Cap (mn)	300.1
Market Cap (RMmn)	423.1
52-wk Hi/Lo (RM)	2.03/1.39
12-mth Avg Daily Vol ('000 shrs)	46.1
Estimated Free Float (%)	56.5
Beta	0.7
<b>Major Shareholders (%)</b>	
Tan family	- 25.8%
Akintan Sdn Bhd	- 8.2%
Excellent Communication Sdn Bhd	- 5.4%

## Forecast Revision

	FY23	FY24
Forecast Revision (%)	(18.7)	(11.0)
Net profit (RMm)	34.2	40.8
Consensus	44.0	50.5
TA's / Consensus (%)	77.8	80.8
Previous Rating	Buy (Downgraded)	
Consensus Target Price (RM)	1.85	

## Financial Indicators

	FY23	FY24
Net debt/ equity (%)	Net Cash	Net Cash
ROE (%)	10.7	12.5
ROA (%)	9.2	10.7
NTA/Share (RM)	1.1	1.1
Price/ NTA (x)	1.3	1.2

## Scorecard

	% of FY23	
vs TA	17	Below
vs Consensus	16	Below

## Share Performance (%)

Price Change	BESHOM	FBM KLCI
1 mth	(5.4)	(6.9)
3 mth	(5.4)	(3.7)
6 mth	(10.8)	(11.7)
12 mth	(28.1)	(9.7)

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

quarter from its half yearly members' sales campaign. We believe bulk of the sales should most likely materialise in 3Q or 4Q boosted by Chinese New Year sales.

### Valuation

- We downgrade Beshom to Hold while lowering our target price to RM1.46/share (previously RM1.85/share) based on 11x CY23 EPS (previously 12x). We lower the PE valuation due to significant challenges in the MLM division, which usually is the main earnings contributor.

**Table 1: Earnings Summary**

FYE Apr (RM mn)	2021	2022	2023E	2024F	2025F
Revenue	271.4	209.6	232.5	256.9	279.4
EBITDA	58.2	46.2	51.4	59.9	64.2
EBIT	51.9	40.0	45.5	54.0	58.3
PBT	52.3	40.3	46.1	54.9	59.3
Net profit	38.8	28.2	34.2	40.8	44.0
Core net profit	38.8	28.2	34.2	40.8	44.0
Core EPS (sen)	13.4	9.7	11.8	14.1	15.2
Core PER (x)	10.5	14.5	11.9	10.0	9.3
DPS (sen)	9.0	8.0	10.0	12.0	13.0
Div. yield (%)	6.4	5.7	7.1	8.5	9.2

**Table 2: IQFY23 Results Analysis**

FYE 30 Apr	IQFY22	4QFY22	IQFY23	QoQ (%)	YoY (%)
Revenue	49.1	45.3	48.3	6.6	(1.8)
Cost of sales	(28.4)	(25.6)	(28.1)	10.1	(0.8)
Gross profit	20.8	19.7	20.1	2.1	(3.1)
EBIT	9.3	9.4	9.4	0.5	1.4
Adj. EBIT	9.3	9.4	9.4	0.5	1.4
Net interest	0.1	0.1	0.1	25.6	(5.5)
Extraordinary Items	0.0	0.0	0.0	nm	nm
PBT	9.4	9.4	9.5	1.0	1.0
Adj. PBT	9.4	9.4	9.5	1.0	1.0
Taxation	(2.3)	(3.3)	(2.4)	(26.8)	1.8
Minority Interest	(0.0)	(0.1)	(0.1)	(25.3)	60.9
Net Profit	7.0	6.0	7.0	16.4	0.4
Adj. Net Profit	7.0	6.0	7.0	16.4	0.4
Basic EPS (sen)	2.4	2.0	2.3	15.3	(3.3)
DPS (sen)	0.0	5.0	0.0	(100.0)	nm
				<b>%-points</b>	<b>%-points</b>
EBIT Margin (%)	18.9	20.7	19.5	(1.2)	0.6
PBT Margin (%)	19.1	20.8	19.7	(1.1)	0.5
Net Margin (%)	14.2	13.3	14.6	1.2	0.3
Adj. Net Margin (%)	14.2	13.3	14.6	1.2	0.3
Tax Rate (%)	25.0	34.7	25.2	(9.5)	0.2

**Table 3: Segmental Analysis**

FYE 30 Apr	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Revenue	49.1	45.3	48.3	6.6	(1.8)
Multi-Level Marketing	30.1	21.8	21.5	(1.5)	(28.6)
Wholesale	10.8	13.7	17.0	23.9	57.3
Retail	7.3	8.7	8.7	(0.5)	19.4
Others	1.0	1.0	1.1	8.0	12.3
Segment EBIT	9.3	9.4	9.4	0.5	1.4
Multi-Level Marketing	6.2	3.5	2.7	(23.0)	(56.4)
Wholesale	1.4	4.7	5.7	19.3	>100
Retail	0.4	0.4	0.5	25.8	39.4
Others	1.3	0.7	0.5	(24.7)	(60.8)
				%-points	%-points
Segment EBIT Margin	18.9	20.7	19.5	(1.2)	0.6
Multi-Level Marketing	20.6	16.1	12.6	(3.5)	(8.0)
Wholesale	12.9	34.6	33.3	(1.3)	20.4
Retail	5.3	4.9	6.2	1.3	0.9

### 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
<b>Scoring</b>	★★★	★★★	★★★	★★★
<b>Remark</b>	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 Friday, September 30, 2022, 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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