

Malaysia
ADD (initiation)

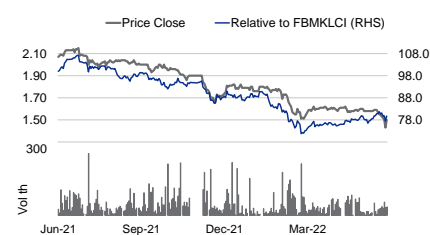
Consensus ratings*: Buy 1 Hold 1 Sell 0

Current price:	RM1.50
Target price:	RM1.93
Previous target:	RM
Up/downside:	28.5%
CGS-CIMB / Consensus:	8.0%
Reuters:	BESH.KL
Bloomberg:	BESHOM MK
Market cap:	US\$102.3m
	RM450.2m
Average daily turnover:	US\$0.01m
	RM0.05m
Current shares o/s:	300.1m
Free float:	46.0%

*Source: Bloomberg

Key changes in this note

➤ N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-5.7	-0.7	-27.5
Relative (%)	0.2	7.5	-20.2

Major shareholders	% held
Tan Kai Hee	10.7
Akintan Sdn Bhd	8.1
Excellant Communication Sdn Bhd	5.4

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Beshom Holdings Bhd

An overlooked growth and defensive play

- We initiate coverage on Beshom, one of Malaysia's largest and oldest MLM operators, with an Add rating given strong FY21-24F EPS CAGR of 12.1%.
- We see it as a potential beneficiary of downtrading and rising gig economy due to rising inflation, backed by its established brands and attractive payout.
- Beshom is in a net cash position with strong FCF generation; forecast dividends yields of 5-8% in FY22-24F vs. sector average of 2.5-3.0%.

Prominent "Hai-O" healthcare brand with over 47 years of history

Beshom Holdings Bhd (Beshom) (previously known as Hai-O Enterprise Bhd) is an established MLM operator in Malaysia. Beshom's competitive strengths lie in its: i) strong "Hai-O" brand equity with a solid track record as a purveyor of traditional healthcare products, ii) 30-year strong Bumiputera-centric multi-level marketing (MLM) agency force (Apr 22: 70k agents; 85% Malays) as its main retail channel, which gives it a demographic advantage (vs. peers), and iii) integrated supply chain with its MLM, retail and wholesale business models, backed by its manufacturing capability (own two plants).

Strong pricing power with an extensive product portfolio

Beshom has a loyal customer base due to its established own-brand products across a wide-range of halal and non-halal categories with over 50 exclusive brands (it currently carries c.2k SKUs), giving it strong pricing power (steady gross margins due to multiple price hikes despite higher input costs and Covid-19 waves in FY20-22F), in our view.

Growth strategies in place to drive 3-year EPS CAGR of 12.1%

We project Beshom to post 10.2% revenue and 12.1% core net profit CAGR over FY21-24F. This is driven by: i) MLM agent CAGR of 10.5% on resumption of aggressive recruitment via attractive incentives and direct selling as an alternative income source, ii) targeted sales strategies (easy payment plans, "buy now, pay later" options, and focusing on mid-priced products to benefit from potential downtrading), iii) growing sales of higher-margin in-house products and via online channels, and iv) better operating efficiency

Defensive play on strong FCF generation; attractive dividend yield

Given its minimal capital outlay, strong free cash flow generation and net cash position, Beshom maintained a generous dividend payout of 68-90% during FY19-21 (pandemic years). Going forward, we forecast Beshom's DPS at 8/12/13sen assuming dividend payout ratio at 81/78/71% in FY22F/23F/24F, translating into appealing dividend yields of 5-8%, making it a top dividend play in the consumer sector (average: 2.5-3.0%).

Initiate coverage with an Add rating; ripe for a potential re-rating

We initiate coverage on Beshom with an Add rating and a TP of RM1.93 (11.1x CY23F P/E, 1.5 s.d. below its 5-year mean forward P/E of 19.2x; a conservative approach in view of potential risks from weakening consumer sentiment due to rising inflationary pressures. A strong recovery in MLM membership is a re-rating catalyst. Downside risks: weaker-than-expected recovery in agent count and slowdown in direct sales.

Financial Summary	Apr-20A	Apr-21A	Apr-22F	Apr-23F	Apr-24F
Revenue (RMm)	255.2	271.4	237.2	326.1	363.6
Operating EBITDA (RMm)	49.72	58.36	42.29	64.49	76.99
Net Profit (RMm)	32.61	39.16	29.61	45.91	55.22
Core EPS (RM)	0.11	0.13	0.10	0.15	0.18
Core EPS Growth	(27.7%)	14.3%	(24.5%)	55.0%	20.3%
FD Core P/E (x)	13.12	11.48	15.20	9.80	8.15
DPS (RM)	0.10	0.09	0.08	0.12	0.13
Dividend Yield	6.67%	6.00%	5.33%	8.00%	8.67%
EV/EBITDA (x)	8.10	6.96	9.54	6.06	4.92
P/FCFE (x)	8.34	9.65	18.17	7.23	6.64
Net Gearing	(18.7%)	(16.8%)	(14.5%)	(17.9%)	(20.6%)
P/BV (x)	1.50	1.44	1.40	1.36	1.30
ROE	11.3%	12.8%	9.3%	14.1%	16.3%
% Change In Core EPS Estimates			0.90	1.22	1.15
CGS-CIMB/Consensus EPS (x)					

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

An overlooked growth and defensive play

INVESTMENT THESIS

A leading vertically integrated traditional healthcare and wellness player in Malaysia ►

Listed on the Main Market of Bursa Malaysia, Beshom Holdings Bhd (Beshom), previously known as Hai-O Enterprise Bhd, is an integrated traditional healthcare and wellness MLM company in Malaysia, offering extensive in-house and reputable international traditional complementary medicine brands, medicated tonics, beauty, wellness supplements and other healthcare products and services. Beshom's complementary business model that stretches from raw material sourcing and pharmaceutical manufacturing, to sales and distribution through its extensive wholesale and retail arm, as well as its scalable core multi-level marketing (MLM) network (Figs 1,2,3), clearly differentiates the company from most of its pure MLM peers as its integrated structure gives it a competitive advantage of having i) larger economies of scale, ii) increased market control, and iii) greater synergies between its different segments, in our view. Also, this could allow Beshom to enjoy better margins compared with some of its close competitors while being able to offer more competitive pricing.

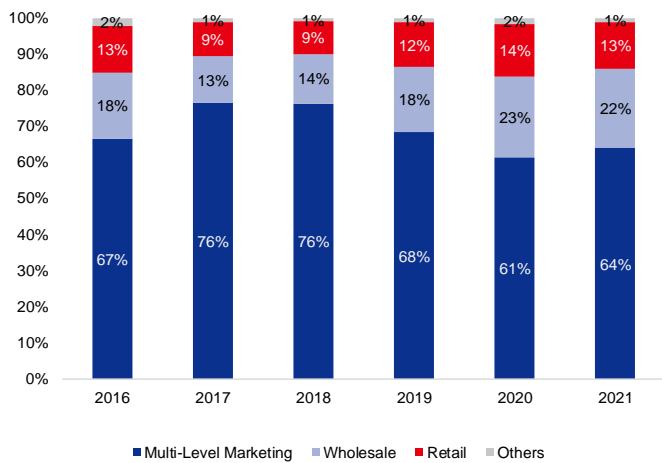
Beshom also has had a long-term track record of 47 years of growing the "Hai-O" brand into a household name for traditional Chinese medicine, herbal products, medicated tonics and other health food products in both the Chinese and Malay community, as well as a 30-year long experience in operating and scaling a MLM operation with an extensive in-house product portfolio across fast-growing key product categories.

Figure 1: Beshom's integrated structure of key business segments

Key Business Segments	Revenue Contribution (FY21)	Description
Multi level marketing (MLM)	64%	Carried out by its subsidiary company, Sahajidah Hai-O Marketing (SHOM) is a leading home-grown multi-level marketing (MLM) company. It also has one of the most attractive commission schemes in the direct selling industry, with has up to 67% payout ratio. It focuses primarily on marketing a wide array of products from wellness to beauty, halal food & beverage, household and personal care products with a strong distribution force (36 MLM branches, stockists and c.70k active distributors as at Apr 22). This division is the core business of Beshom's operation and would be the main earnings growth driver moving forward.
Wholesale	22%	This division provides a very stable and recurring income for the group with over 100 wholesalers and 2,000 retailers including Chinese medical halls, restaurants, pharmacies and modern trade channels. The group has long-standing relationships with key China suppliers, securing exclusive distribution rights for more than 200 products from China for importing and distributing in Malaysia. It carries out wholesale and retail trade in patented products, mainly comprising Traditional Complementary Medicine (TCM), teas, wines and consumer products. This division also helps to centralise purchasing support for the MLM and Retail segments.
Retail	13%	A leading herb & healthcare retailer with an established presence with c.53 Hai-O Chain Stores including seven franchises as of Apr 22, offers an extensive range of traditional to contemporary herbal products, wine, tea, food and beverages, hampers etc. Besides, there are professional herb masters and qualified TCM practitioners on site to provide Chinese physician consultation services.
Manufacturing & Others	1%	The group has two international-standard manufacturing facilities, one of which (in Jalan Kapar Klang) has obtained halal certification for most of the products. 80% of its production capacity is for in-house operations (mainly MLM and Retail segment) and 20% for other OEM customers, which provides pharmaceutical contract manufacturing services in herbal natural medicine, food supplements, and health food for domestic and international customers. Others include credit & leasing, insurance agent, investment and property holding. This includes its joint venture with world-renowned Chinese herbal store 'Peking Tongrentang' which operates three retail outlets offering Chinese medicine, healthcare products and clinical services.

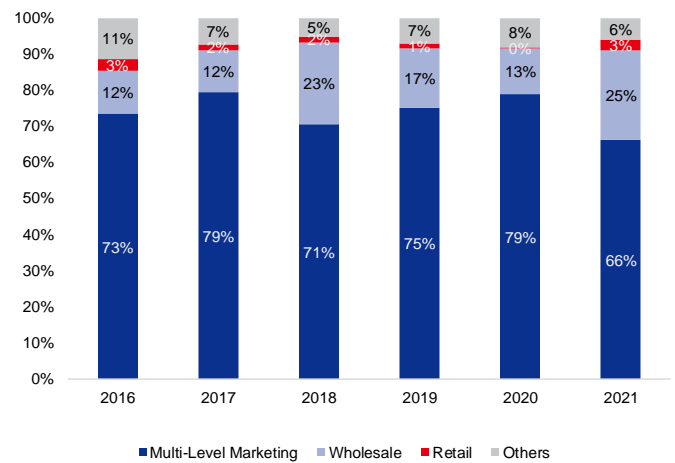
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Revenue contribution by segment (FY4/16-21)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Operating profit contribution segment (FY16-21)



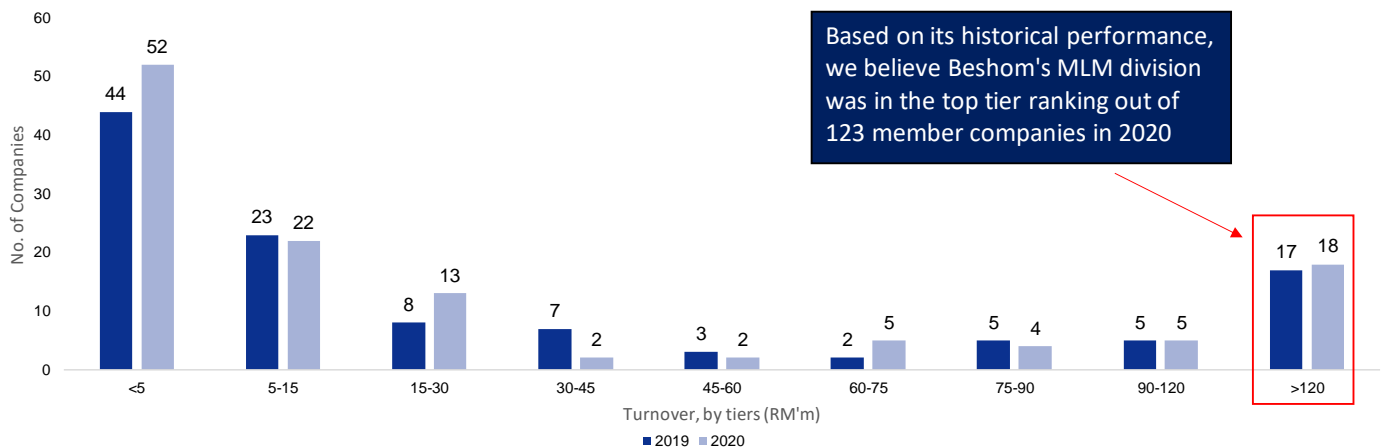
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

One of the largest MLM players in Malaysia with a unique positioning in the Bumiputera segment ➤

Beshom's main revenue and profit contributor, its MLM division, is its core business, accounting for 61-76% of revenue and 66-79% of operating profit for the group in FY16-21 (Figs 2, 3, 8). According to the data from Direct Selling Association of Malaysia (DSAM), only 18 out of its 123 member MLM companies (14.6%) each recorded more than RM120m in direct/MLM sales in 2020. Thus, we estimate that Beshom is among the largest MLM companies in Malaysia by sales, given that its MLM segment revenue has ranged between RM150m and RM350m per annum in FY16-21 (Figs 4, 5). We understand that the majority of the DSAM's member companies are already among the largest MLM players that represent the direct selling industry in the country.

The MLM division is being supported by a network of 13 MLM branches (six in East Malaysia), 21 stockists and two sales points across the country that offer efficient logistics and inventory management. While it also has presence in Indonesia, Brunei and Singapore, the overseas earnings contributions are small (<5%) and its focus remains Malaysia.

Figure 4: Direct sales turnover vs no. of companies



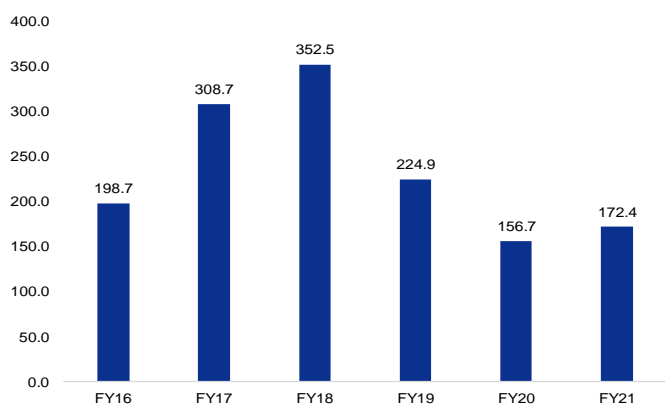
Based on its historical performance, we believe Beshom's MLM division was in the top tier ranking out of 123 member companies in 2020

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

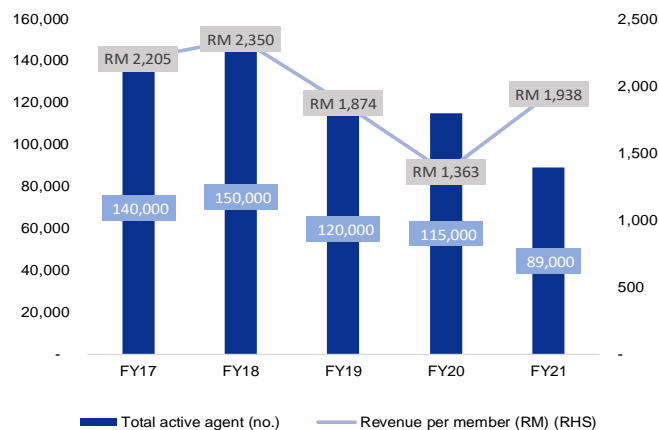
One of Beshom’s key strengths lies in its sizeable Bumiputera/ethnic Malay MLM members accounting for 85% of its MLM distributor force (Fig 7), enabling it to tap the fast-growing pool of middle-class Bumiputera consumers (c.70% of Malaysia’s population) with ease; we believe this will continue to be a key earnings growth driver for the group. Currently, more than 70% of Beshom’s customers are also Bumiputera despite its traditional Chinese health wellness image under the “Hai-O” brand – we consider this as unique in the industry.

We attribute this largely to i) the fact that all its health food and beverage products (including its traditional Chinese consumables) sold on its MLM platform (SHOM) are halal-certified, ii) its best-in-class commission payout ratio of up to 67% of product cost (above industry average), iii) its attractive incentive plans (overseas trips) and recognition reward campaigns, and iv) effective promotional activities and user-friendliness of its online membership platforms.

Going forward, Beshom aims to be more aggressive in its recruitment campaigns to grow its MLM agency network, riding Malaysia’s economic reopening after seeing a dwindling trend of its agent count due to fewer face-to-face marketing, recognition and appreciation events during the Covid-19 pandemic years (FY20-22). We believe we could see a solid recovery in total active agents given the resumption of overseas incentive trips, recognition awards and mega events (e.g. 30th SHOM Anniversary in FY23F), and its class-leading commission payout. A recovery in total active agents should bode well for its MLM division’s future earnings prospects. We note that its MLM annual sales per member recovered strongly, back to its pre-pandemic level, to RM1,938 in FY21, as compared to RM1,874 in FY19 (Fig 6) albeit with a lower agent count, indicating that it has a strong pool of loyal customers, in our view.

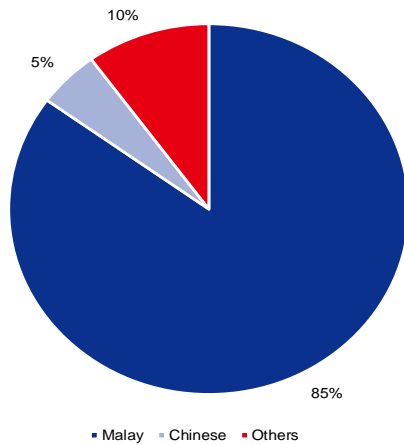
Figure 5: Beshom's historical MLM yearly turnover (RM'm)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 6: Historical MLM agent count and sales per member trend


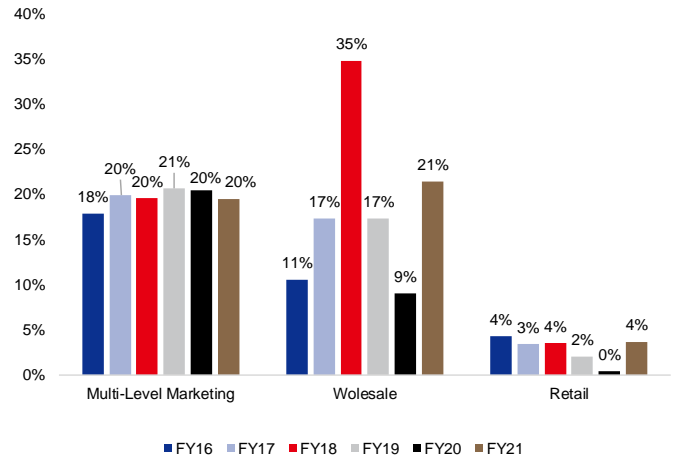
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: Beshom's MLM distributor force by ethnicity as at Apr'22



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: Operating profit margin (%) (FY16-21)

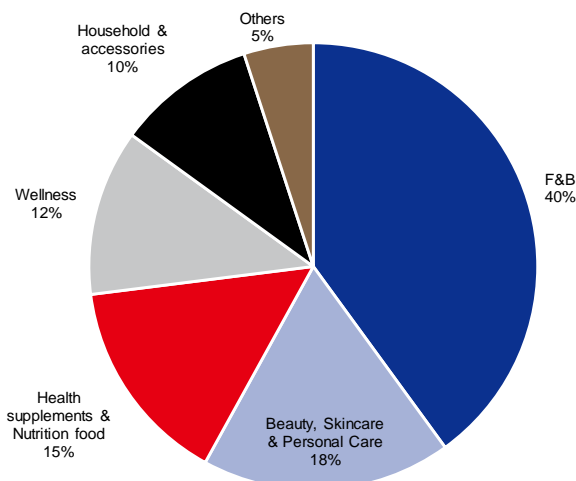


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Diversified product portfolio with exclusive TCM offerings to cater to consumers' growing healthcare and wellness needs ➤

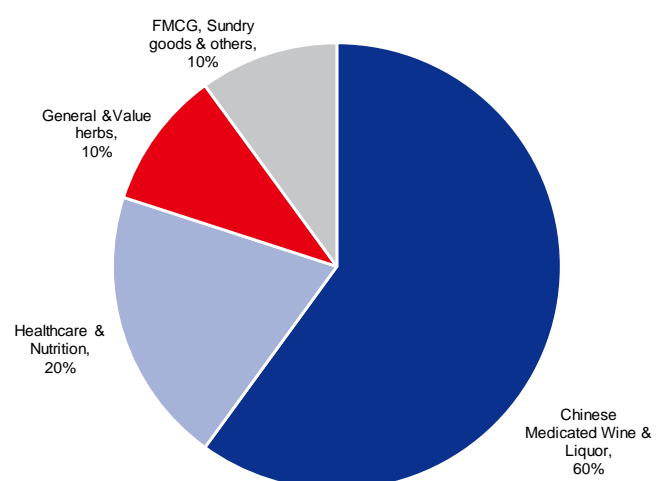
We believe another key competitive advantage for Beshom is its solid operating scale in manufacturing, marketing and distributing a wide range of products with more than 2,000 SKUs combined in all of its business segments (Figs 9, 10, 11). Beshom caters to two distinct markets, namely 1) the halal product segment, predominantly through its MLM division (more than 250 SKUs - mostly in-house brands), and 2) mostly non-halal offerings, via its wholesale and retail divisions. We understand that all its MLM products are own brands that are sold exclusively via its MLM division (established brands include Min Kaffe, Cozuma, Marine Essence, Thera, Infince, Sahajidah Garam Buluh and BB+Glo), while the products in its wholesale and retail divisions mainly comprise third-party branded and white-label products. We expect its halal health food and beverage (F&B) product segment (accounting for 40% of its MLM sales) would continue to be the main growth driver for its MLM division, given the rising demand for halal F&B products. According to the Halal Industry Master Plan 2030 (HIMP 2030) issued by Malaysia's Prime Minister Department, the country's halal market is expected to grow from US\$68.4bn in 2018 to US\$113.2bn in 2030, with the halal F&B segment accounting for c.75% of the total market size.

Figure 9: MLM segment product sales breakdown (Jan 22)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: Wholesale segment product sales breakdown (Jan 22)



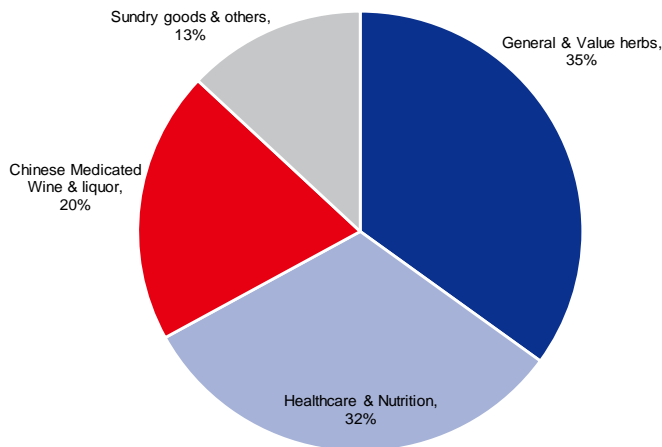
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Holds exclusive distribution rights for over 50 renowned brands

We are of the view that another key differentiating factor for Beshom’s product portfolio compared with its competitors is its long-standing exclusive distribution rights with major China suppliers to market and distribute over 50 renowned brands of Chinese medicine, health tonic, tea and healthcare products in Malaysia (Fig 12), mainly through its wholesale and retail segments. These exclusive rights are largely attributable to Beshom’s founder and ex-chairman, Mr Tan Kai Hee (deceased, 1937-2022), who played a key role in fostering better Malaysia-China bilateral relations over the past 40 years.

For example, Beshom is the sole distributor of “Tong Ren Tang” products, an internationally well-known traditional Chinese medicine brand by Peking Tong Ren Tang, a company listed on the Hong Kong and Shanghai stock exchanges with a long-term track record since its establishment in 1669. In our view, these exclusive tie-ups with China suppliers provide Beshom an unparalleled advantage in Malaysia’s traditional Chinese medicine (TCM) industry and creates a high barrier of entry for others into the space.

Figure 11: Retail segment product sales breakdown (Jan 22)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 12: Exclusive distribution rights for traditional Chinese medicine and health products (e.g. Baji Chiew, Yang Sheng Chiew, Ling Zhi, Shao Hsing Hua Tiao Chiew)



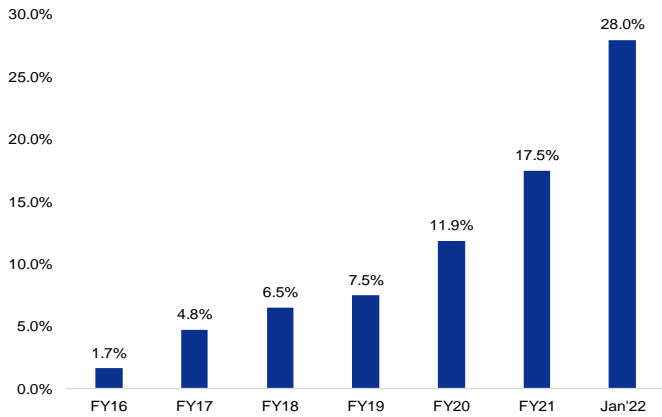
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Robust online sales traction, backed by its established digital platform and online presence ➤

Beshom’s earlier investments in establishing its own e-commerce infrastructure and integrating digital technologies across its business operations since 2016 are starting to bear fruit. In fact, one of the key reasons Beshom managed to record higher topline growth (+6.4% yoy) in FY4/21, despite the various Covid-19 movement restrictions that limited face-to-face marketing, was the surge in e-commerce sales, particularly for its MLM division, which was able to offset the loss of physical sales. This was thanks to its extensive online marketing initiatives (virtual product launches and monthly sales promotions) via social media platforms and on its own self-operated MLM website (shom.com.my).

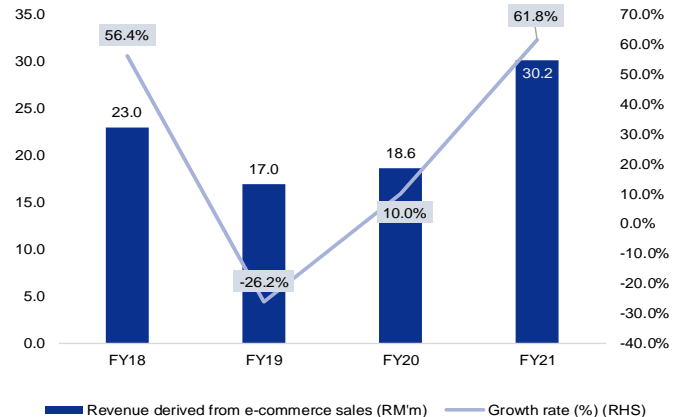
The MLM division managed to chalk up c.RM30.2m in e-commerce sales in FY4/21 (+61.8% yoy), making up 17.5% of its total FY21 MLM revenue vs. RM18.6m or 11.9% of total sales in FY20 (Figure 14). We gather from Beshom that in Jan 2022, sales via e-commerce channels accounted for more than a quarter of its total MLM segment sales at 28% (Fig 13). We also understand that the online sales at its retail division remains minimal at this juncture (<5%) as its Hai-O retail website and Hai-O flagship online stores at third-party e-commerce platforms (Lazada and Shopee) were just launched in 2020.

Figure 13: E-commerce sales contribution (%) to total MLM segment revenue from FY16 to as at Jan 22



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 14: MLM revenue derived from online sales channel and growth rate



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Rejuvenating its MLM distributor workforce through attractive commissions & reward scheme, effective recruitment campaigns & anniversary mega events ➤

Beshom aims to reinvigorate its MLM division’s agency force (increase the number of active distributors) with Malaysia’s economic reopening as the country transitions into the Covid-19 endemic phase from 1 Apr 2022 onwards, to capitalise on the potentially higher consumer spending and improved sentiment ahead. Besides, it has an attractive commission payout ratio scheme of up to 67%, compared with the market average of 50-60%, in our estimate. Beshom also has in place a number of recruitment strategies, including i) free membership renewal, ii) recruitment reward programme (Fig 18), iii) newly-designed business start-up kit for new member promotion, iv) resumption of its large-scale physical recognition event, and v) incentive trip 2022 in conjunction with its 30th SHOM Anniversary mega promotion in FY23F (SHOM anniversary typically falls in the month of Oct/Nov), for which it targets to replicate its successful 25th SHOM Anniversary promotion in FY18 which saw membership grow significantly to its highest ever level of c.150k members at the time.

Figure 15: SHOM’s essential business start-up kit new member promotion from 1 Apr 2022 to 30 Jun 2022 (Beshom’ corporate presentation slides as of Apr 2022)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 16: MLM membership e-Renewal Promotion from 1 Apr 2022 to 30 Jun 2022 (SHOM website)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 17: Incentive trip 2022 to Korea in conjunction with its upcoming 30th SHOM Anniversary mega event (Oct/Nov 2022) (Beshom' corporate presentation slides as of Apr 2022)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 18: Recruitment reward campaign in 2022, from Feb 2022 to May 2022, of 24K gold accessories (Beshom' corporate presentation slides as of Apr 2022)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Proactive product innovation and dynamic sales strategies to ride the tailwinds of key consumer trends ►

New products and promotional activities are vital to the success of Beshom's business lines. We understand that it targets to roll out 5-10 new SKUs annually (be they product enhancements, extensions, or new product line-ups) with attractive promotions across its MLM, wholesale and retail divisions in order to drive sales momentum and increase customer loyalty.

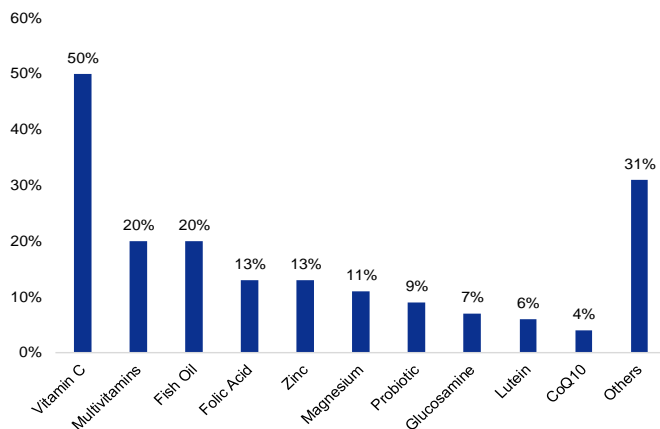
i) Product innovation strategy

Beshom launched its new Vitamin C-supplement product, NuRich Puri-C, in Mar 2022, in response to increased demand for health and wellness products arising from the Covid-19 pandemic. This also ties in with a recent market survey of the Malaysian supplements market by Vodus (a Malaysia-based market research firm) in Aug 2021 revealing that Vitamin C is the most widely consumed supplement among Malaysian consumers.

We understand that two of its popular products, Sahajidah Garam Buluh (salt formulated using traditional Korean recipe) and Min Kaffe (formulated with Robusta coffee powder and natural Korean bamboo salt), were relaunched with enhanced taste and added health benefits in FY21. We believe the upgrades came with price increases as well, supporting margin expansion. The Korean bamboo series has since expanded into its beauty and skincare product segment (e.g. Marine Essence Beauty Bar), which has been well-received by customers.

Beshom plans to widen its popular bamboo series to include premium hair care, premium body care and oral hygiene extensions, possibly along with product price increases. Its future product extensions include Halal Cozuma cosmetics, enhanced inner beauty wear attire, protein supplements for male consumers, as well as functional inner wear for younger female consumers. Thus, we expect these future product developments to drive sales and net profit momentum.

Figure 19: Supplements consumed by Malaysians in 2021



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 20: Newly-launched NuRich Puri-C in Mar 2022



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ii) Dynamic sales promotional strategy

We attribute Beshom’s resiliency amid the Covid-19 pandemic to its dynamic sales strategies to align with current consumer sentiment and trends, as has been demonstrated in a higher spending per MLM member (Fig 6) against a declining agent base. In response to weak consumer spending due to inflationary pressures, Beshom has implemented several sales strategies which include:

- 1) Focusing its promotional activities on low- to mid-priced products;
- 2) Increase its flash sales campaigns and festive bundled packaged promotions to appeal to members and clear slow-moving inventory;
- 3) Free delivery options with minimum purchases to encourage higher spending by members;
- 4) Launching of more affordable seven-day trial packages for its more premium new beauty products as well as implementing “Buy Now Pay Later” option or easy payment schemes for its big-ticket items (e.g. its air purifier priced at c.RM4.0k and water purifier at c.RM2.4k); and
- 5) Shifting its product packaging to smaller unit packs to cater to a wider consumer base.

We expect Beshom to continue to benefit from its dynamic sales strategies which could augur well for its near-to-medium term sales growth prospects while at the same time positioning itself to improve its product sales mix with higher sales contribution from its higher-margin product items.

Figure 21: Sample Hari Raya special bundled package sales promotion from 1 Apr 2022 to 31 May 2022 to capitalise on festive sales (Beshom' corporate presentation slides as of Apr 2022)

Share the Joy of Gifting
Send a Gift now!

Raya Gift Box at RM119
09100A DP (WM): RM 119 PV: 119
DP (EM): RM 133 BV: 42

FREE*
one set of
SHOM Exclusive Raya Packets
For every RM300 spent

What's inside the box

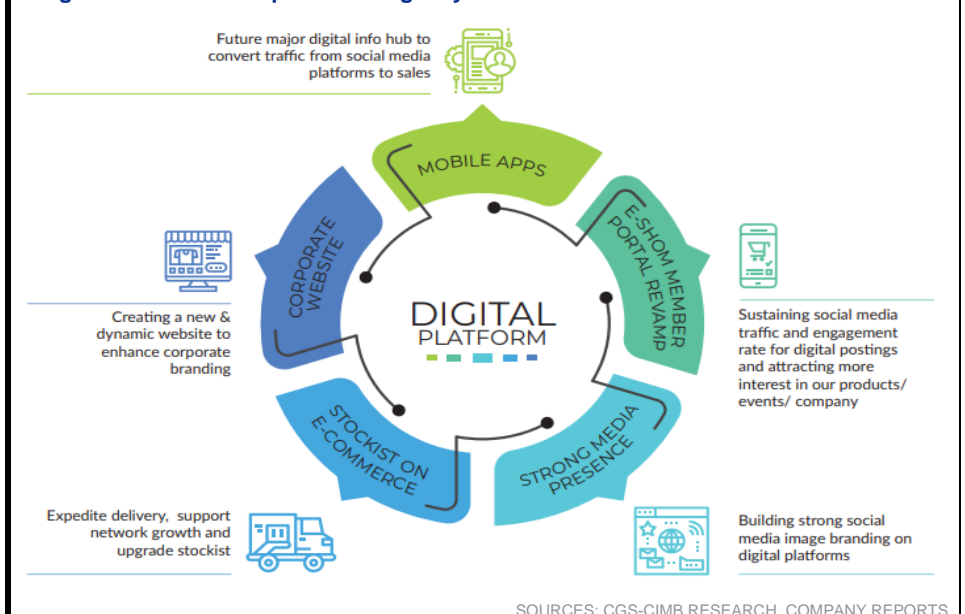
SHOM Raya Packet 2022 (6's)
While Stocks Last!

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Futureproofing itself via solidifying its digital platforms and omnichannel distribution network ➤

With MLM sales coming strongly from digital channels at 28% as of Jan 2022, Beshom is confident of continuing to grow its e-commerce sales from its various digital platforms via several initiatives. These include i) continuous enhancement of its e-Renewal-for-Distributors portal, MLM member and customers' e-commerce platforms to make them more user-friendly for both its agents and customers, ii) launching of e-SHOM Academy to educate and train its MLM members on digital marketing skills, iii) more promotional activities through its own online sales platform (its MLM's SHOM website and Hai-O retail website), as well as growing its Hai-O online flagship stores on third-party e-commerce platforms (e.g. Shopee and Lazada), and iv) active engagement with external service providers to continuously refine its e-commerce solutions, as well as product display on its e-commerce platforms (e.g. enhancing its Hai-O retail website which was launched in 2021).

Figure 22: Beshom's key digital initiatives to boost its digital presence and to further integrate its business operations digitally as of FY21



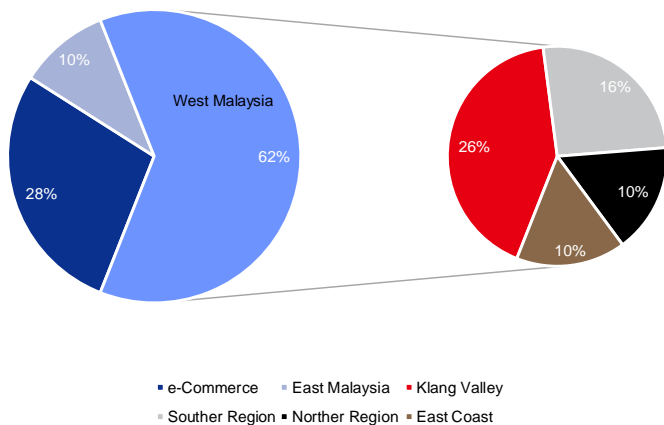
Customised online e-SHOM platform a key driver of e-commerce sales

One of the key levers for its growing online sales is the introduction of its e-SHOM preferred customer programme (PCP) in 2020 which we believe helped to scale its MLM members' online sales through digital channels. This PCP allows its MLM agents to have customised individualised e-shops (a personal online platform via its MLM website) and access to their own dedicated e-SHOM link that can be shared on various digital channels (Facebook, Instagram, YouTube and WhatsApp) with ease to target the growing pool of online shoppers, which in turn, drive traffic to the SHOM website. Distributors through the e-SHOM PCP or its MLM platform do not only earn a retailing profit for each product sold but are also able to accumulate points through the sale of products which can then be converted into monetary rewards.

Digital mobile app to further streamline its physical and backend operation

Beshom aims to roll out its SHOM digital mobile application (app) within the next three years to enhance its MLM members' experience in carrying out business operations in a seamless manner and improve customers' shopping experience. We understand that the SHOM mobile app would further integrate its business operations digitally from ordering, delivery tracking, and checking points to integration with various social media platforms, as well as product introduction and promotional activities, leading to better operational efficiency. We believe this app could be another potential key growth driver for its online sales. Thus, we are of the view that this omnichannel strategy would give Beshom an additional edge over its local MLM competitors that offer just traditional direct selling methods in this burgeoning digital era.

Figure 23: MLM segment's sales breakdown as of Jan 2022



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 24: e-SHOM Preferred Customer Programme to drive online sales through social media platforms



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Further growth drivers for its wholesale and retail segments in the next 3 years ➤

- i) **Wholesale division**
 - **Enhancing and expanding its product selection, particularly in the FMCG product segment to capture more market share:** Beshom's wholesale division is mainly driven by its exclusive Chinese medicated tonic, premium cooking wine and patented medicine, which together account for 60% of its wholesale revenue contribution. Beshom aims to expand its fast moving consumer goods (FMCG) product segment to account for c.10% of total wholesale division's revenue from less than 3% currently, as well as introduce more non-alcoholic products. The

current FMCG products include its own house brand “manuka honey” series, co-branded bird’s nest drink, new traditional Chinese medicine tea bags, herbal soup, energy booster drinks, etc. This will be supported by its own in-house pharmaceutical contract manufacturing, as well as health food and supplement manufacturing capabilities. In addition, Beshom also plans to introduce a series of Japanese food products to target the younger consumer market, given the demographic advantages of easier product acceptance, faster consumption cycles and higher volume. We believe this initiative could help to grow its sales volume which could lead to greater economies of scale moving forward.

Figure 25: Sample of in-house brand Manuka Honey and co-branded bird’s nest drink



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

- Securing more overseas distribution agencies and expanding its key customer accounts:** Beshom plans to secure an additional 10 new overseas distribution agencies over the next three years, particularly in China, Japan, Australia, Argentina, Chile, France, Taiwan and Korea to widen its supplier base and have a more diverse range of products to cater to its growing customers’ demands. Domestically, Beshom will continue to extend its customer base via key customer accounts in the modern trade channels (hypermarkets, supermarkets, and minimarkets) which currently account for c.30% of its wholesale division revenue, as well as via pharmacy and restaurant chain stores. Other initiatives include cost optimisation, leveraging its Hai-O retail network to expand its market, and new product introduction. We expect the above strategies to augur well for its sales momentum via a larger customer base, as well as strengthen its supplier base.
- Leveraging on third-party digital platforms:** We expect the wholesale division to gradually expand its digital sales channels by leveraging on established third-party digital platforms. Through its manufacturing arm, this division could continue to provide customised supplements and healthcare products exclusively for chain stores or online platforms (e.g. Caring Pharmacy and Beijing Tongrentang’s online overseas flagship store respectively), which could further increase its market penetration.

ii) Retail division

- Embarking on store enhancement and expansion plan -** With the economic reopening and recovery in retail footfall, Beshom plans to resume its flagship Hai-O retail store expansion with the opening of 8-10 new outlets in FY23-24F, and refurbishing its five main strategic outlets (mainly in Klang Valley and high traffic malls) with more appealing and modern store designs to increase its appeal to younger consumers, as

well as upgrade its in-store customer information system to boost demand. Also, its store expansion and in-store design upgrades could further bolster its retail presence and Hai-O branding moving forward. Therefore, we forecast the number of Hai-O retail stores to increase from the current 53 to about 61 outlets by end-FY24F, with the average revenue per outlet staying stable at RM660k-670k p.a.

Figure 26: Retail segment operational statistics and forecasts (CGS-CIMB Research estimates)

	2019	2020	2021	2022F	2023F	2024F
Revenue per outlet (RM'm)	0.71	0.66	0.65	0.66	0.66	0.67
Revenue per outlet growth (%)	-3.9%	-7.9%	-0.7%	1.0%	1.0%	1.0%
Number of Hai-O outlets (end of year)	57	56	55	53	57	61
Net addition/(closure) of outlets	1	-1	-1	-2	4	4

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 27: Hai-O Retail Flagship Store Designs



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

- Further improve its product sales mix via higher-margin in-house brand products and online sales** – Beshom plans to further increase its house brand product retail sales contribution from the current c.50% to 60-70% over the next three years; we believe this could help to further expand the margins at its retail division. Beshom shared that it will roll out 5-10 new SKUs annually for its retail division with more focus on in-house products while it continues to grow its existing premium house brand products through extensive sales promotions, especially for its “Loyalty Friendship” members (retail division’s membership programme). In 9MFY22, the pretax profit of its retail division increased more than fivefold to RM3.0m, mainly driven by a larger sales contribution from higher-margin house brand products and cost efficiency exercises undertaken during the period. Also, we expect the robust recovery in retail footfall to further aid the sales recovery at its 53 retail outlets including seven franchised stores. With its retail division’s Hai-O eStore just launched in 2021, Beshom aims to double its e-commerce sales (currently less than 5%) at its retail division in the coming years.

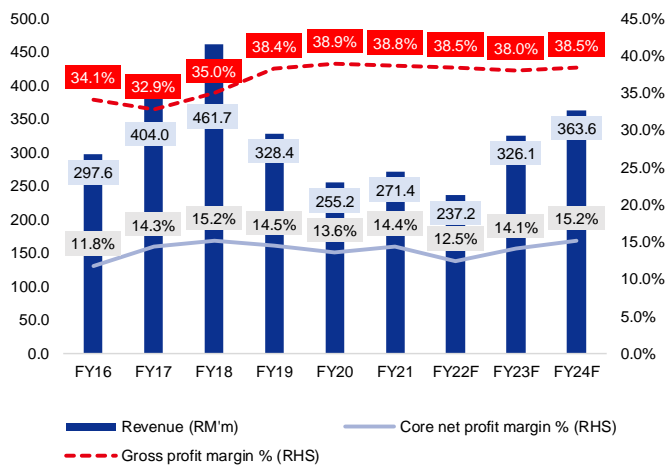
Forecasting a 3-year core net profit CAGR of 12.1% over FY21-24F, mainly driven by the MLM segment and steady growth from wholesale and retail ➤

We forecast a 3-year core net profit CAGR of 12.1% over FY21-24F, underpinned by a revenue CAGR of 10.2% and MLM agent CAGR of 10.5% (Fig 94) over the same period. We expect the core net profit growth to be driven by a robust 13.8% revenue CAGR in its MLM division (riding on continuous effective recruitment campaigns and product sales strategies), steady revenue CAGR across its wholesale (+3%), retail (+4.5%) and other (+2.0%) segments, continuous improvement in operating efficiency, as well as a solid 12.7% CAGR in MLM's e-commerce sales over FY21-24F. We expect strong net profit growth of 55%/20% on strong agent count growth of 30%/20% in FY23/24F, in which FY23F could be boosted by its MLM's 30th anniversary large-scale sales bonanza celebration (albeit earnings still 36% below its pre-pandemic FY18 level whereby it celebrated its 25th anniversary).

Potential re-rating catalysts: i) stronger-than-expected growth in its MLM agent count, ii) stronger-than-expected growth in e-commerce sales, iii) expansion of operating profit margins from a more profitable sales mix, and iv) stronger-than-expected revenue growth across its wholesale, retail and other business divisions

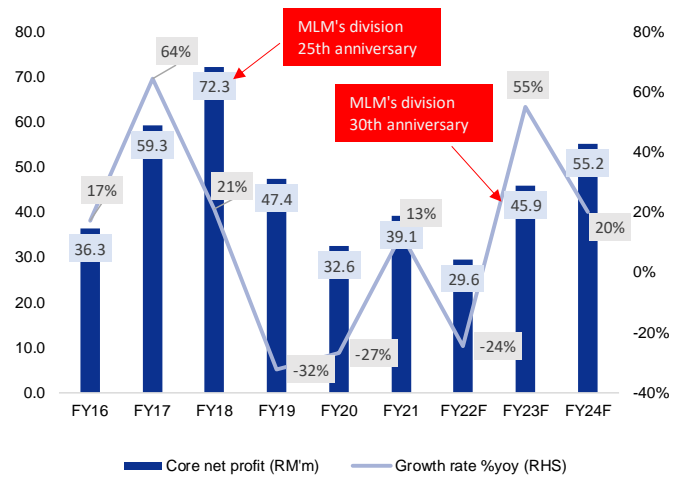
Downside risks to our Add call include: i) weaker-than-expected consumer spending on healthcare and wellness products, ii) lower-than-expected growth in its MLM agent count, iii) slower-than-expected e-commerce sales growth, and iv) higher-than-expected operational costs.

Figure 28: Revenue and profit margin trend (FY16-24F) (CGS-CIMB Research estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 29: Core net profit trend and growth rate yoy % (CGS-CIMB Research estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 30: Revenue assumptions (CGS-CIMB in-house estimates)

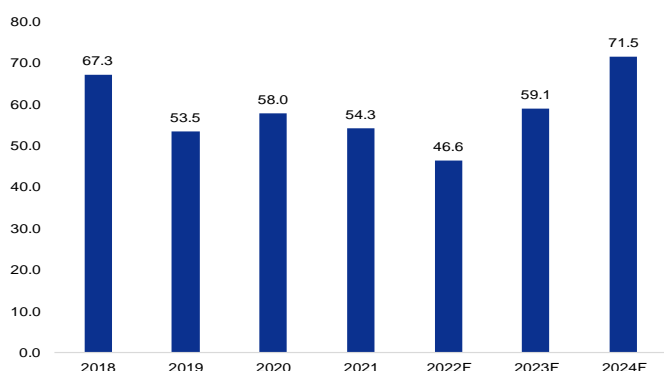
	FY19	FY20	FY21	FY22F	FY23F	FY24F
Total Revenue (RM m)	328.4	255.2	271.4	237.2	326.1	363.6
Growth %	-28.9%	-22.3%	6.4%	-12.6%	37.5%	11.5%
Segmental Revenue (RM'm)						
MLM	224.9	156.7	172.4	138.0	220.7	253.8
Wolesale	58.9	57.4	58.6	59.7	62.7	64.0
Retail	40.6	36.7	35.8	34.8	37.9	40.9
Others	4.0	4.3	4.6	4.7	4.8	4.9
Segmental growth yoy (%)						
MLM	-36.2%	-30.3%	10.0%	-20.0%	60.0%	15.0%
Wolesale	-7.5%	-2.5%	1.9%	2.0%	5.0%	2.0%
Retail	-2.2%	-9.5%	-2.5%	-2.7%	8.6%	8.1%
Others	-2.6%	7.7%	6.6%	2.0%	2.0%	2.0%
MLM online sales (RM'm)						
Contribution to total MLM revenue %	7.5%	11.9%	17.5%	24.0%	18.0%	17.0%
Online sales	17.0	18.6	30.2	33.1	39.7	43.2
Growth %	-26.2%	10.0%	61.8%	9.7%	20.0%	8.6%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Solid balance sheet with net cash position and strong FCF generation for FY22-24F ➤

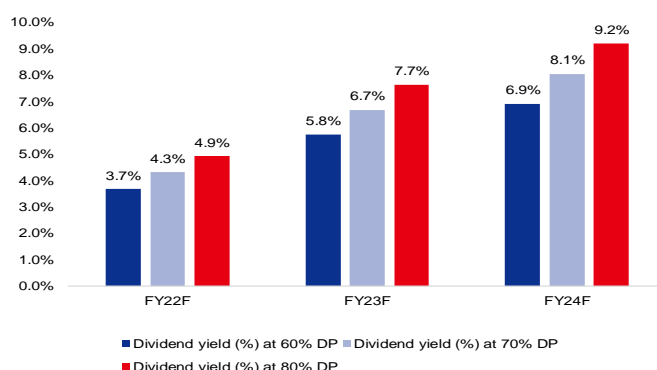
Beshom has a strong balance sheet as indicated by its long-term track record of being in a solid net cash position and having minimal debt throughout the reported historical financial years. While Beshom's net cash balance could dip in FY22F to RM46.6m due to lacklustre cash from operations (as a result of lower sales from movement restrictions and weaker consumer spending during lockdowns), we estimate that its net cash pile would increase healthily to RM59.1m in FY23F and RM71.5m in FY24F, mainly driven by its strong operating cash flow. We also expect Beshom's free cash flow generation to remain robust in the range of RM16.8m-51.4m over FY22-FY24F, underpinned by its low capital outlay requirements and prudent working capital management. We project a capital expenditure outlay of RM3.0m-8.0m annually over FY22-24F, based on its maintenance capex for its property, plant and equipment, store upgrading/expansion plans and investments for IT. We also gather from Beshom that RM2.0m-3.0m annual maintenance capex is expected under the normal course of its business, while the estimated RM8.0m in FY23F is owing to the sum of RM5.0m-6.0m earmarked for its cornerstone investment in Orgabio Holdings Bhd which is slated to occur in FY23F.

Figure 31: Beshom's strong net cash balance (RM m) with an estimated RM46.6m-RM71.5m p.a. in FY22-24F (CGS-CIMB Research estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 32: Potential dividend yields for FY22-24F (CGS-CIMB Research estimates)

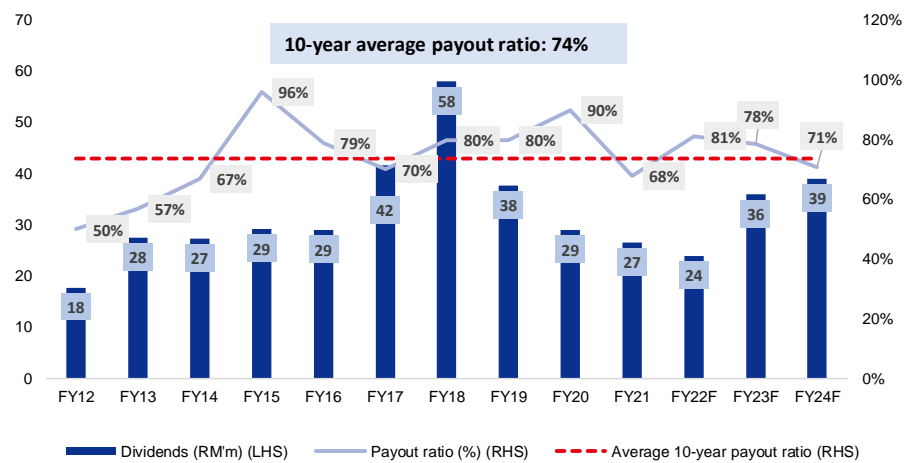


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

An attractive dividend-paying stock with potential dividend yield of 5-8% for FY22-24F, with minimum dividend payout ratio of 50% ➤

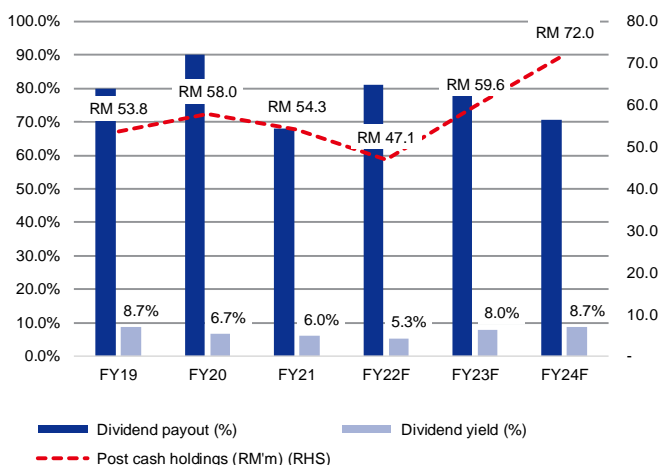
Beshom has a dividend policy of paying out at least 50% of its net profit as dividend to shareholders. Based on its long-term track record, Beshom has been consistent in its dividend payout and it has increased that over the years with a 10-year average payout ratio of 74%. We have assumed a 71-81% dividend payout, with potentially attractive dividend yields of 5-8% for FY22-24F. This is premised on our forecast of Beshom’s strong operating cash flow and healthy balance sheet with a considerable cash balance over the same period. We also do not discount the possibility that Beshom has the potential to pay more dividends in view of its earnings growth momentum going forward. We have summarised our forecasts in Fig 36.

Figure 33: Annual trend of Beshom's cash dividends, payout ratio and average 10-year payout ratio (CGS-CIMB Research estimates)



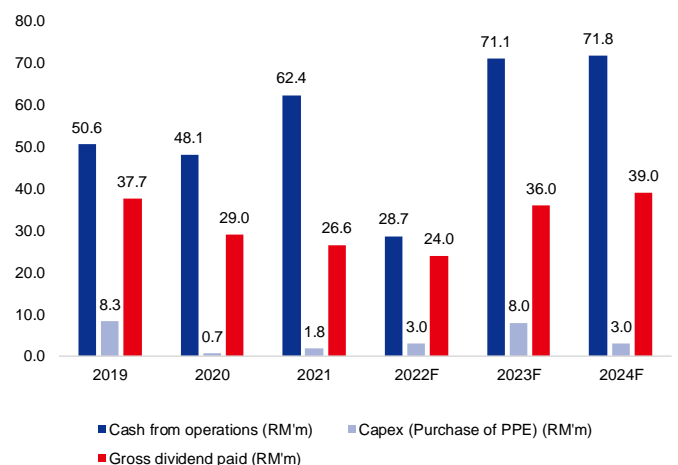
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 34: We expect dividend payout (DP) of 71-81% in FY22-24F (DY based on Beshom's 17 June 22 closing price)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 35: Strong operating cash flow generation to support expected capex outlay and dividend payments (76% average payout ratio) over FY22-24F (CGS-CIMB estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 36: Sensitivity analysis at 60%/70%/80% dividend payouts (CGS-CIMB Research estimates)

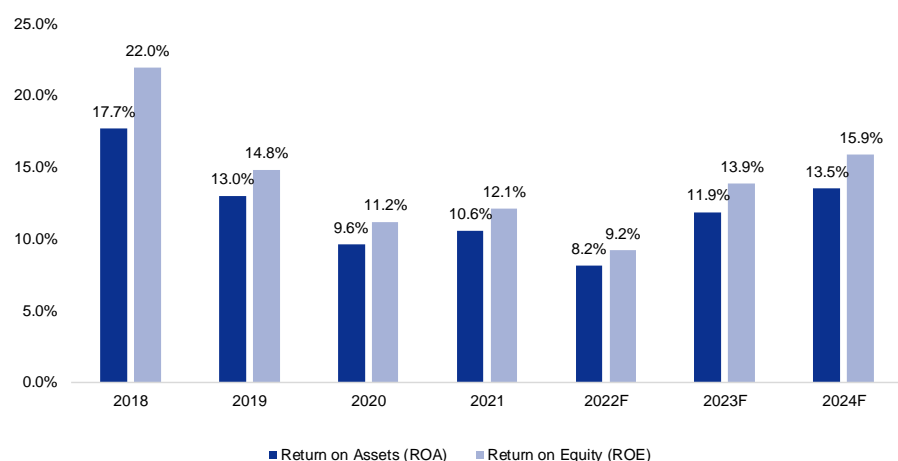
	FY19	FY20	FY21	FY22F	FY23F	FY24F
Scenario 1 - 60% dividend payout for FY22-24F						
- Dividend payout (%)	80.0%	90.0%	68.0%	60.0%	60.0%	60.0%
- Post cash holdings (RM'm)	53.8	58.0	54.3	52.3	72.6	90.0
- Dividend yield (%)	8.1%	6.3%	5.6%	3.7%	5.8%	6.9%
Scenario 2 - 70% dividend payout for FY22-24F						
- Dividend payout (%)	80.0%	90.0%	68.0%	70.0%	70.0%	70.0%
- Post cash holdings (RM'm)	53.8	58.0	54.3	49.4	65.0	76.8
- Dividend yield (%)	8.1%	6.3%	5.6%	4.3%	6.7%	8.1%
Scenario 3 - 80% dividend payout for FY22-24F						
- Dividend payout (%)	80.0%	90.0%	68.0%	80.0%	80.0%	80.0%
- Post cash holdings (RM'm)	53.8	58.0	54.3	46.4	57.4	63.5
- Dividend yield (%)	8.1%	6.3%	5.6%	4.9%	7.7%	9.2%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Initiate coverage with an Add rating and RM1.93 TP ➤

We initiate coverage on Beshom with an Add rating and TP of RM1.93. This is based on 11.1x CY23F P/E, representing 1.5 s.d. below its 5-year mean forward P/E of 19.2x and c.28% discount to the 5-year historical mean P/E of the MLM sector of 15.4x (Fig 108). While Beshom is one of the leading integrated MLM companies listed on Bursa Malaysia with strong historical and projected ROA and ROE profile over FY18-24F (Fig 37), we input a discount rate to account for: i) the competitive landscape of Malaysia's MLM market, ii) the low barriers to entry, iii) heavy reliance on a few principal products, iv) volatility in earnings and v) weakening consumer sentiment amid rising inflationary pressures.

Figure 37: Strong ROA and ROE profile - we are expecting Beshom to return to its double-digit ROA and ROE in FY23F and FY24F after estimated decline in net profit in FY22F due to Covid-19 induced lockdown measures



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

We employ P/E as our primary valuation methodology in view of its long-term track record of being profitable. We believe an earnings multiple is the most practical way to value MLM-based stocks as well.

Our Add rating is premised on the strong recovery momentum in domestic consumer spending and footfall, the rejuvenation of its MLM agent workforce through resumption of face-to-face marketing, incentive schemes and mega recognition awards, as well as its e-commerce sales remaining robust post the reopening of borders and removal of movement restriction measures. A consistent and attractive dividend yield is another key factor. Downside risks

include: i) slowdown in direct selling sales due to weaker consumer spending amidst an inflationary environment, ii) intensifying competition in attracting MLM agents, iii) key house brand products losing their lustre due to new competitors' products and product innovation failing to appeal to consumers, and iv) supply chain disruptions.

Figure 38: Our target price for Beshom is RM1.93

FYE 30 Apr (RM'm)	Value	Remarks
CY23F core net profit (RM'm)	52.1	
CY23F P/E Multiple (x)	11.1	1.5 s.d. below its 5-year mean forward P/E of 19.2x
Equity Value (RM'm)	578	
No. of shares (m)	300	
Target price (RM)	1.93	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 39: Sector Comparisons (CGS-CIMB's Malaysia consumer sector coverage)

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY22F	CY23F		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Consumer Staples																
Nestle (Malaysia)	NESZ MK	Hold	134.50	135.00	7,168	53.3	43.1	11.1%	53.6	52.9	101.2%	123.5%	28.0	26.0	1.9%	2.3%
Fraser & Neave Holdings	FNH MK	Add	19.74	25.60	1,646	17.0	15.6	3.4%	2.3	2.2	14.3%	14.3%	9.8	9.0	3.4%	3.6%
QL Resources	QLG MK	Add	5.10	5.60	2,821	45.7	34.8	N/A	4.8	4.4	11.0%	13.2%	19.4	16.3	0.9%	1.1%
Power Root Bhd	PWRT MK	Hold	1.67	1.65	150	23.9	20.3	N/A	2.6	2.6	11.4%	13.0%	13.9	12.3	4.1%	4.7%
Kawan Food	KFB MK	Add	1.67	2.50	136	16.2	13.3	17.0%	1.5	1.4	9.8%	11.0%	8.3	6.9	2.1%	2.4%
MSM Malaysia Holdings	MSM MK	Reduce	0.89	0.62	142	na	294.5	-55.9%	0.4	0.4	-3.2%	0.1%	41.1	10.7	0.0%	0.2%
CCK Consolidated Holdings	CCK MK	Add	0.56	0.81	79	10.5	9.1	14.1%	1.0	1.0	10.6%	10.9%	4.2	3.7	3.1%	3.4%
Weighted Subsector Average						44.9	39.6	6.6%	33.1	32.6	64.5%	78.3%	23.1	20.8	1.9%	2.2%
Consumer Discretionary																
7-Eleven Malaysia Holdings	SEM MK	Add	1.42	1.83	363	18.0	17.1	16.4%	13.4	10.2	89.8%	67.9%	5.1	4.7	3.4%	3.5%
Berjaya Food Berhad	BFD MK	Add	4.19	5.50	343	14.4	13.6	17.7%	3.7	3.5	27.4%	26.5%	4.4	3.9	4.9%	5.1%
Bonia Corporation	BON MK	Add	2.21	3.00	101	11.6	10.8	23.7%	1.1	1.0	9.9%	10.0%	4.7	4.4	3.5%	3.7%
DKSH Holdings (Malaysia)	DKSH MK	Add	4.32	6.20	155	7.3	7.0	7.3%	0.8	0.8	12.4%	11.4%	4.3	3.9	2.4%	2.3%
Lee Swee Kiat Group	LSKG MK	Add	0.72	1.63	26	8.5	5.7	27.2%	1.6	1.3	19.6%	25.0%	3.7	2.3	4.6%	6.9%
Mynews Holdings Berhad	MNHB MK	Reduce	0.57	0.50	88	na	33.7	25.9%	1.8	1.7	-6.5%	5.1%	9.5	5.4	0.1%	0.7%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Hold	26.72	28.40	369	20.7	14.1	N/A	2.0	1.9	9.8%	14.0%	9.2	6.6	4.6%	5.9%
InNature Bhd	NATURE MK	Hold	0.50	0.62	80	16.0	14.6	18.0%	2.4	2.3	15.9%	16.1%	7.3	6.7	4.5%	4.8%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	2.98	4.00	4,256	35.5	29.1	15.3%	12.9	10.3	41.6%	39.3%	18.7	15.8	1.2%	1.5%
Beshom Holdings Bhd	Beshom MK	Add	1.50	1.93	102	11.1	8.6	22.9%	1.4	1.3	12.7%	15.6%	6.8	5.3	7.2%	8.4%
Weighted Subsector Average						30.3	25.5	15.1%	10.8	8.7	39.5%	36.8%	15.5	13.0	2.0%	2.4%
Weighted Average						32.9	28.7	7.7%	21.2	20.4	46.2%	53.2%	16.9	15.0	1.6%	1.9%
Simple Average						22.2	34.7	11.4%	7.8	7.3	25.1%	27.5%	12.3	9.1	3.0%	3.5%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

DATA AS AT 21 JUN 2022

COMPANY BACKGROUND

A leading vertically integrated multi-level marketing company in the traditional healthcare and wellness space in Malaysia ▶

Beshom Holdings Berhad (Beshom), formerly known as Hai-O Enterprise Berhad, is an investment holding company of the Hai-O group of companies. The “Hai-O” brand name is a household name in Malaysia as one of the major suppliers of exclusive Chinese herbal products and medicated tonics to many traditional Chinese medical halls, modern trade channels and duty-free shops since its establishment in 1975. Over the past four decades, Beshom has successfully expanded its business operations vertically into four key divisions – multi-level marketing (MLM), wholesale, retail and others (i.e. pharmaceutical manufacturing, property investment, leasing of machinery and equipment and TCM clinical services). Its MLM division has become its core business segment and has subsequently grown to be one of the largest MLM operators in Malaysia by sales, based on our estimates. On a combined basis, as of FY21, Beshom carried more than 2,000 SKUs and its operations were supported by a total of 93 business setups units nationwide, comprising 36 MLM branches, stockists and sales points with over 89,000 independent MLM agents, 55 retail chain stores and franchises, and two international-standard manufacturing facilities in Klang.

Figure 40: Beshom’s nationwide presence in Malaysia with 93 business setups units as of FY21

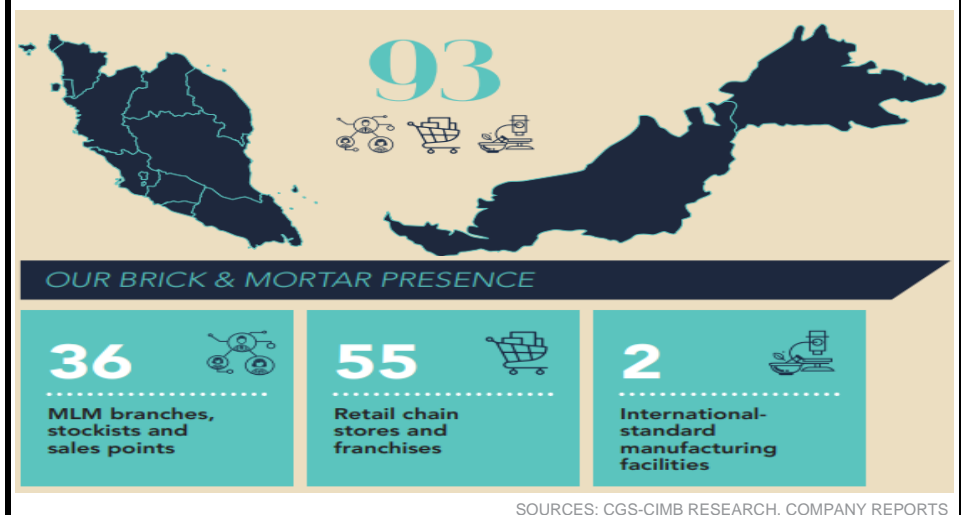


Figure 41: Revenue contribution by segment (FY21)

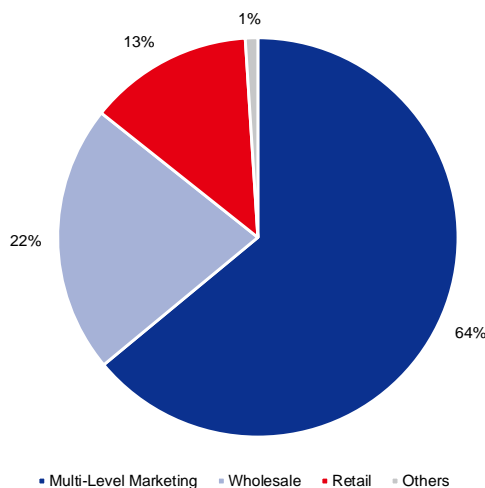
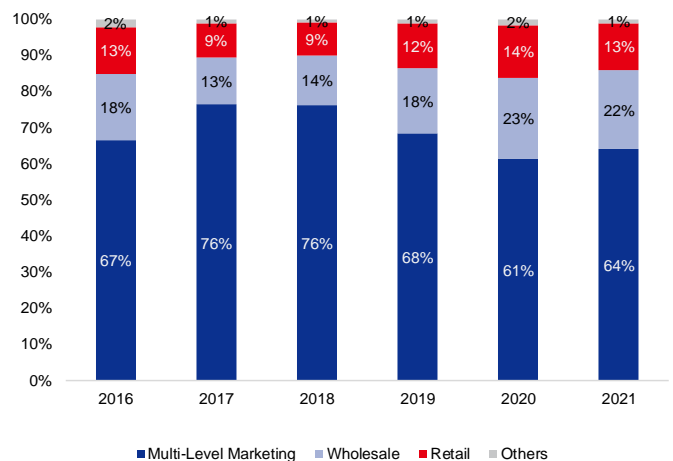


Figure 42: Revenue contribution by segment (FY16-21)



Streamlining its organisational structure through internal restructuring exercise ➤

Beshom was the first local integrated traditional healthcare and wellness company to be listed on Bursa Malaysia's 2nd Board (now known as the ACE Market) in 1996 under the name "Hai-O Enterprise Berhad" (Hai-O) which was then carried out both the group's investment holding function and operating business (Fig 44). It successfully transferred to the Main Board of Bursa Malaysia on 8 Oct 2007. Since Jan 2019, Beshom had been undergoing an internal restructuring exercise to separate its investment holding function and transfer of listing status to Beshom Holdings Berhad, while Hai-O continued to operate the existing businesses (i.e. wholesale and retail of herbal medicines). The restructuring was completed on 29 Nov 2021 (Fig 43). We understand that Beshom stands for "The Best Starts From Home", in which at the same time "shom" is the acronym for its MLM division's company – Sahajidah Hai-O Marketing (SHOM).

Post the restructuring exercise, Beshom now clearly caters to two distinct markets, namely non-halal products through its wholesale and retail divisions under Hai-O Enterprise, and halal products via its MLM division in Malaysia. The rationale is to streamline Beshom to have separate identifiable business streams to achieve greater operational efficiency and further generate potential synergies between the various business divisions. Its overseas contributions from Indonesia, Brunei and Singapore, remain minimal at this juncture.



Major shareholders ▶

As of 3 Sep 2021, Beshom's largest shareholder was Mr Tan Kai Hee (deceased, 1937-2022), who held a 10.66% stake and was one of the founders of the group. He was instrumental in growing Beshom into a leading integrated traditional healthcare and wellness MLM player in Malaysia. In Feb 2016, Mr Tan Kai Hee became the Group Executive Chairman when he passed the Group Managing Director position to his son – Mr Tan Keng Kang. Collectively, an aggregate of about 24% is owned by the founding Tan family, taking into account Mr Tan Kai Hee's private investment holding vehicle's (Akintan Sdn Bhd) 8.13% stake.

Another substantial shareholder is Excellant Communication Sdn Bhd, a private investment vehicle owned by extended Perak Royal family (not related to Tan family). It is primarily for investment purposes as it does not participate in the day-to-day management and operations of Beshom.

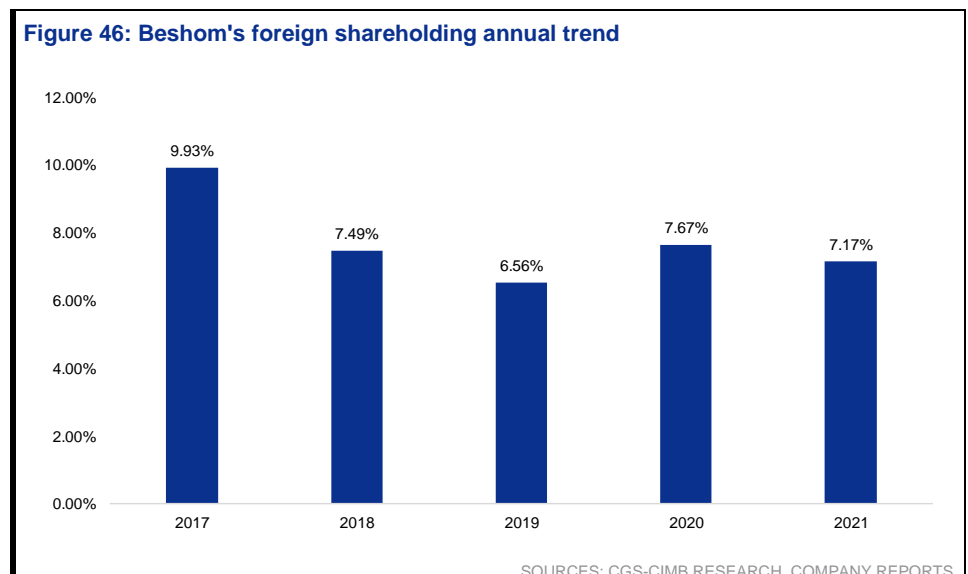
From its annual report 2021, Beshom's top 30 largest shareholders account for c.52.5% stake in the company as of 3 Sep 2021. The general public float is about 46%, according to the latest Bloomberg data. The foreign shareholding annual trend of Beshom is displayed in Fig 46.

Figure 45: Shareholding structure as of 3 Sept 2021

Substantial shareholders/directors	Direct stake	Description
Tan Kai Hee	10.66%	Mr. Tan Kai Hee was one of the founders of Beshom and a prominent figure in the Chinese community. He held the position of Group Executive Chairman since 1 Feb 2016 up till his demise on 22 Feb 2022.
Akintan Sdn Bhd	8.13%	Investment holding company owned by Mr. Tan Kai Hee
Excellant Communication Sdn Bhd	5.38%	Investment holding company not owned by the Tan Family
Tan Keng Kang	4.29%	Mr. Tan Keng Kang is the son of Mr. Tan Kai Hee. He is currently the Group Managing Director since 1 Feb 2016 and is currently responsible for the overall business direction and operations of the group's businesses.
Tan Keng Song	0.64%	Madam Tan Keng Song is the daughter of Mr. Tan Kai Hee
Phan Van Denh	0.29%	Madam Phan Van Denh is the wife of Mr. Tan Keng Kang
Hew Von Kin	0.14%	Mr. Hew Von Kin is the Group Chief Financial Officer of Beshom for more than 25 years. He is currently one of the key senior management personnel who is involved in the strategic planning and financial management of the Group.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 46: Beshom's foreign shareholding annual trend

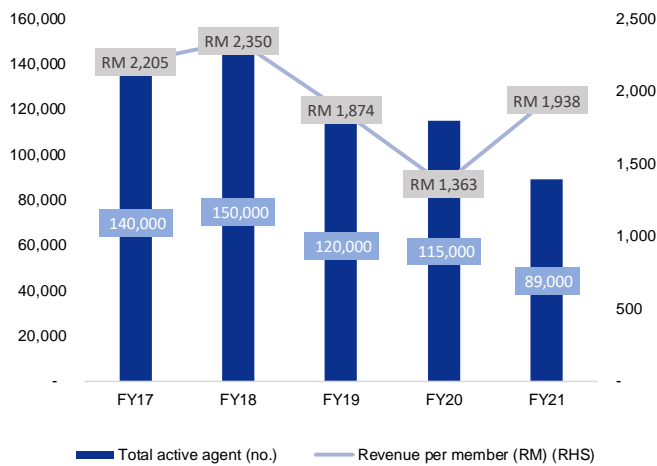


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Multi-level marketing division as its core segment, targeting the large and growing Bumiputera market segment

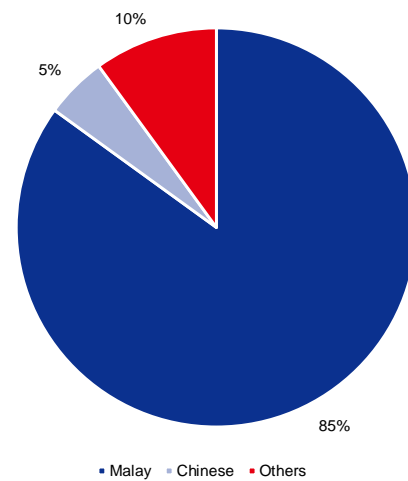
Beshom's MLM division is its largest revenue and operating profit contributor, accounting for 61-76% of its total revenue and 65-79% of operating profit over FY16-21. Meanwhile, e-commerce sales derived from this division accounted for 6.5-28% of total MLM sales from FY18 to Jan 22 (Fig 53). The MLM segment is housed under Sahajidah Hai-O Marketing Sdn Bhd (SHOM) as a brand name that is synonymous with the large and growing Malay ethnic group in Malaysia (c.70% of total Malaysia population or 20.9m as of 3QCY21, estimated by the Department of Statistics Malaysia) which accounted for 85% of its MLM distributor force as at Jan 2022 (Fig 48). More details in terms of age, gender and historical agent count can be found in Figs 50, 49 and 47.

Figure 47: Historical MLM agent count and annual MLM sales per member trend



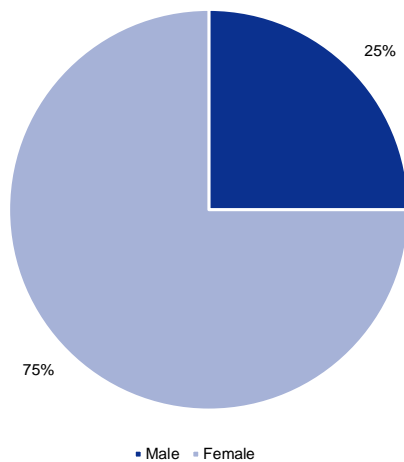
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 48: Beshom's MLM distributor force by ethnicity as at Apr 2022



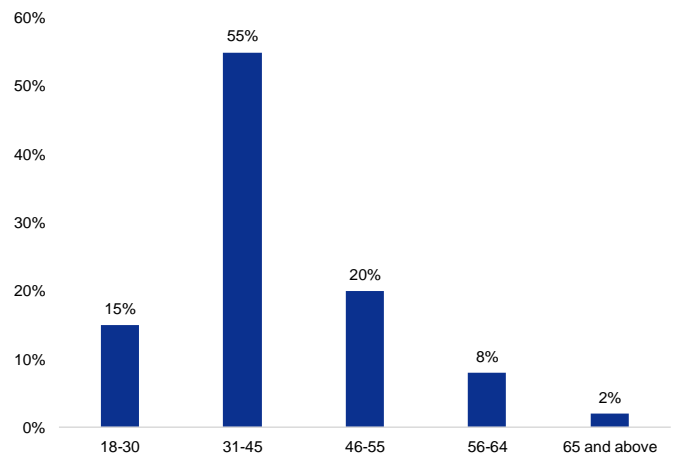
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 49: Beshom's MLM distributor force by gender category as at Apr 2022



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 50: Beshom's MLM distributor force by age as at Apr 2022



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Incentive programmes to drive sales growth – Recruit, Retain, Reward

As MLM distributors are the main driver of its direct selling division, Beshom has in place various short- and long-term incentive plans for its agent force to drive sales growth. To become a SHOM member, only a minimal capital investment (RM221 for one-year membership as of 1 Apr 2022) is required. Its members can also access their own individualised e-SHOM e-commerce and membership portal to start selling products and recruit downline offline and online.

Apart from its industry-leading payout ratio of up to 67%, Beshom offers incentive overseas trips (one of its flagship incentive plans), recruitment awards and gifts, membership recognition award and promotion events, and lucky draws. In conjunction with its annual SHOM Anniversary gala event, it organises annual grand sales bonanzas which have proven to be popular amongst its MLM agent force. Historically, its MLM division registered strong sales momentum and more recruits in the duration of its grand sales bonanza, as shown in FY18 when it held its Bonanza 25 grand sales in conjunction with its 25th SHOM Anniversary (Figs 29 and 47).

MLM members are evaluated annually to ascertain if they are eligible for promotion through the ranks from Sales Manager to Crown Diamond Manager (highest status recognition) in ascending order (Fig 51) at recognition events. Promotion is based on performance metrics such as their level of sales volume achieved, and ability to garner and lead new recruits to attain higher sales targets. Members who achieve higher ranking could see their payout and rewards increase in tandem with their respective ranks. In addition, Beshom has its own e-SHOM Academy to train its MLM members in digital marketing skills and to keep pace with the latest consumer trends via regular interactive workshops, product and sales training programmes, and get together sessions.

Figure 51: MLM members' incentive framework starting from registration as an MLM member and working through the ranks from sales manager to crown diamond manager (highest status recognition)



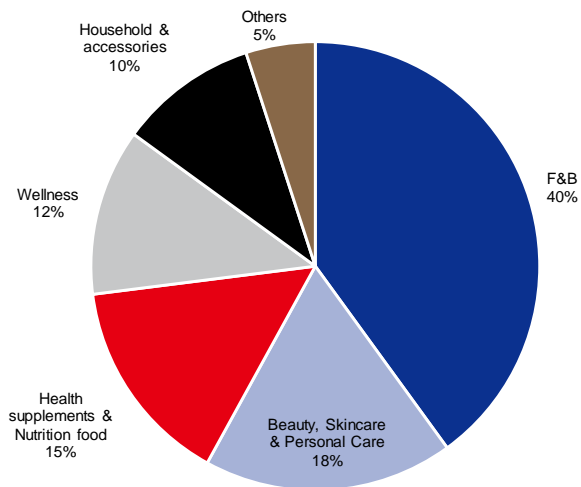
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

A wide array of halal product categories to cater to consumers' needs

To keep up with consumers' interests and minimise product obsolescence, the MLM division carries more than 250 SKUs of consumable and non-consumable halal products including F&B, wellness supplements, skincare, beauty & cosmetic, personal care and household products with potentially 5-10 new SKU launches annually. Beshom's MLM products are distributed nationwide (Fig 40) through 13 branches (six in East Malaysia), complemented by 21 stockists and two sales points across Malaysia which offer extensive logistics network and efficient inventory management.

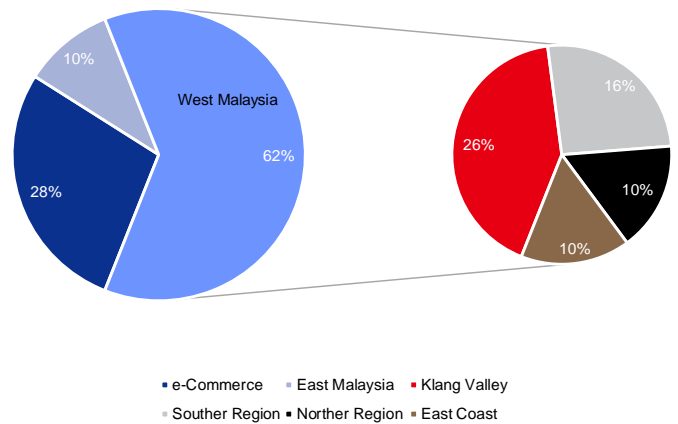
Beshom has a wide range of quality products with affordable to premium pricing to cater to consumers' preferences and needs (Figs 54 and 55). Most products sold through its MLM platforms are in-house brands, which translate to better margins vs. its other divisions. The bulk of its MLM revenue is derived from F&B healthcare products (e.g. Sahajidah Garam Buluh and Min Kaffe), inner beauty wear (e.g. 360 Thera functional shaping attires), skincare and cosmetics (e.g. BB+Glo Collagen, Marine Essence Beauty Bar and halal Cozuma cosmetics) to its bigger ticket items, air purifier (i.e. AiryVentz) and water purifier (i.e. Bio-Evolve).

Figure 52: MLM segment product sales breakdown as at Jan 2022



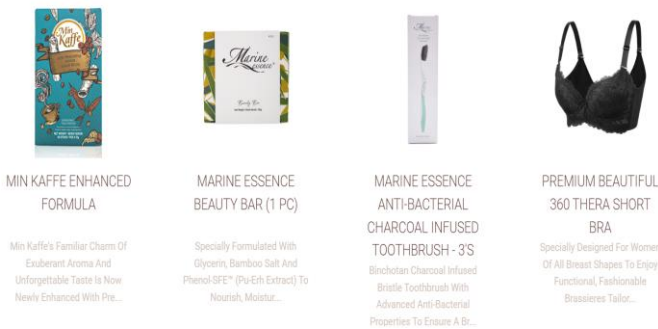
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 53: MLM segment's sales breakdown as at Jan 2022



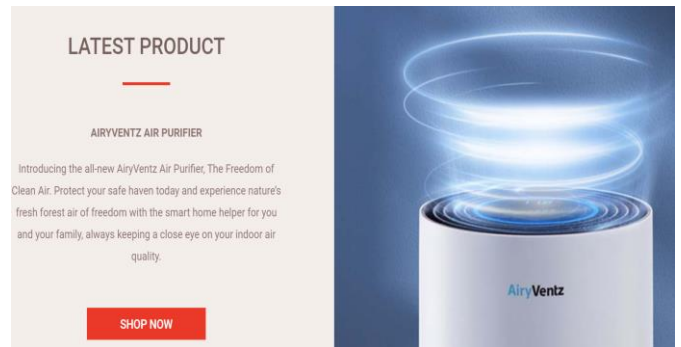
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 54: Featured MLM latest products which are popular with its customers (small-to-mid ticket size – RM31 to RM587)



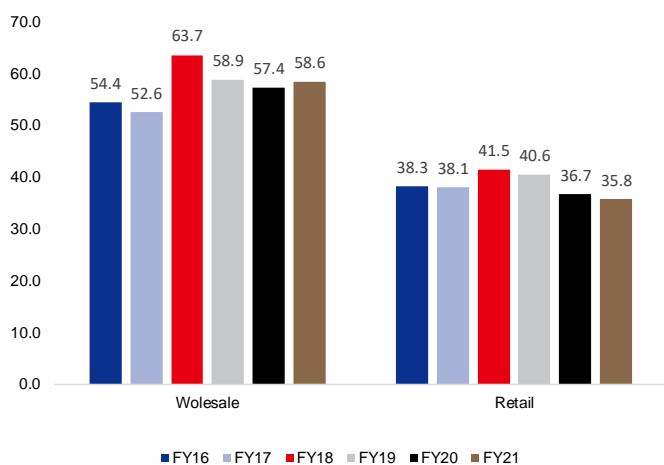
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 55: Beshom's latest enhanced house brand air purifier - AiryVentz (big ticket size item – RM3,990/item)



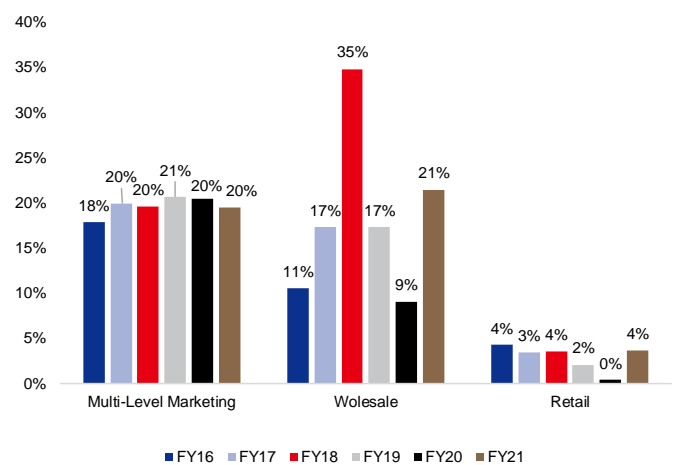
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 56: Recurring revenue stream from its wholesale and retail divisions over FY16-21 (RM m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 57: Operating profit margin (%) (FY16-21)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Recurring revenue stream from its wholesale and retail divisions despite Covid-19 pandemic

Beshom’s business model diversifies its business risks through a steady stream of revenue from its wholesale and retail divisions even during the pandemic (2020-21) as depicted in Fig 56. Beshom aims to position its wholesale and retail divisions to achieve higher revenue and greater profitability through various strategies.

i) Wholesale division: anchored by its exclusive distribution rights for premium brand products

Under its wholesale division, Beshom has exclusive long-term distribution rights for over 50 renowned brands of Chinese medicines, health tonic, tea and healthcare products in Malaysia which are popular amongst the Chinese community (Fig 58). Through its multi-distribution channel approach, it then distributes to about 100 wholesalers and 2,000 retailers including Chinese medical halls, restaurants, pharmacies and modern trade channels (i.e. hypermarkets, supermarkets, and convenience stores). Beshom is principally involved in wholesaling which provides the group with a stable and recurring revenue stream, with growth driven predominantly by its MLM and retail divisions given that the wholesale division acts as a centralised purchasing support for both MLM and retail.

Improving its product sales mix and selection

To enhance its profitability, Beshom aims to improve its product sales mix by increasing sales contribution of its Chinese medicated tonic, premium cooking wine and patented medicine sales (accounted for 60% of its wholesale division revenue as at Jan 2022– Fig 60) which can fetch higher margins while implementing its active cost optimisation measures. It also plans to introduce more FMCG and Japanese food products targeting the younger consumer market, and widen its supplier base by sourcing products from at least 10 additional overseas distribution agencies over the next three years to expand and strengthen its product offerings in Malaysia. Since FY21, this division has also started to provide customised supplements and healthcare products exclusively for chain stores or online platforms (e.g. Caring Pharmacy and Beijing Tongrentang’s online overseas flagship store), supported by its in-house manufacturing capabilities.

Figure 58: Cooking wine, health tonic, tea & wine form the core products of its wholesale division



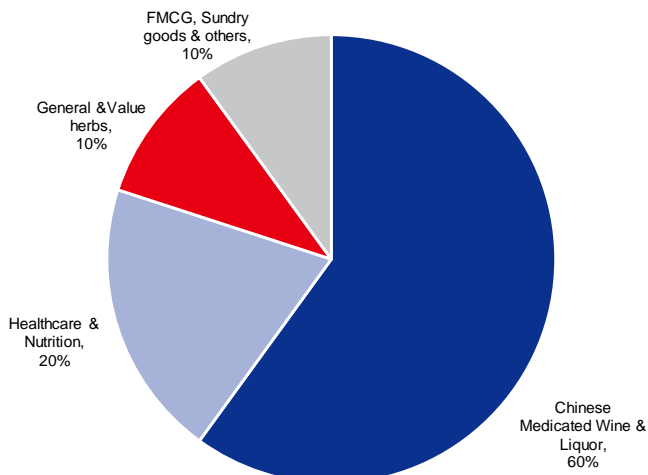
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 59: Growing segment - Non-alcoholic products and fast moving consumer goods (FMCG)



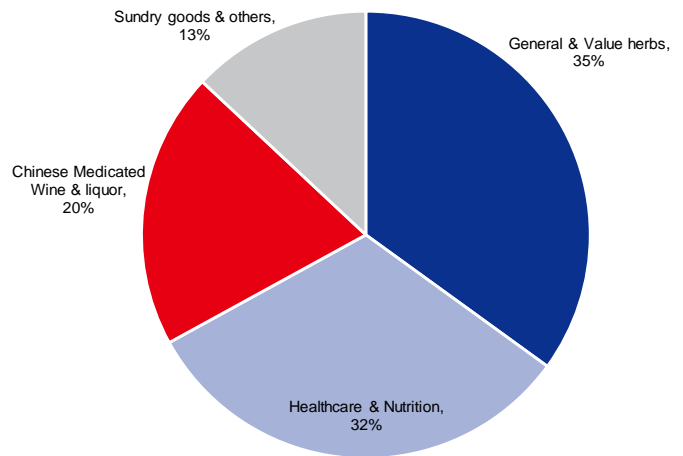
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 60: Wholesale segment product sales breakdown – as at Jan 2022



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 61: Retail segment product sales breakdown – as at Jan 2022



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ii) Retail division – A leading household name in the traditional Chinese medicine space

Beshom also operates one of the largest localised herbs and healthcare products retail chain stores in Malaysia with 53 outlets nationwide including seven franchised shops as at end-Apr 2022, housed under Hai-O Raya Berhad. This division carries an extensive range of Traditional Chinese Medicine (TCM), teas, health tonic, wines, gift packs or hampers, and other healthcare products and has relatively well-balanced product sales across four main categories (Fig 61). In-house brand products accounted for about 50% of its sales as at end-Apr 2022. Beshom aims to increase its own-brand product sales contribution to 60-70% over the next three years to enhance its product sales mix with higher margins. As part of its value-added services, selected Hai-O retail outlets offer TCM consultation and advice provided by qualified Chinese physicians.

Figure 62: Standalone flagship Hai-O store



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 63: Retail mall-based store in Plaza Metro Kajang



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

There are two key sales retail formats for Beshom under this division – **standalone shop-front stores** and **retail mall-based stores** (Figs 62 and 63). Beshom has established a strong retail presence nationwide, except in Perlis and Terengganu, with most of its retail outlets operating as standalone shop-front stores in commercial areas and population-dense neighbourhoods. Some Hai-O retail shops can be found in shopping malls and supermarkets with strong footfall such as One Utama Shopping Complex, Aeon in Bukit tinggi and Taman Maluri, Plaza Metro Kajang, etc. In 2020, in response to the movement restrictions following the outbreak of the Covid-19 pandemic, Beshom launched

its own e-commerce platform for its retail division (Fig 65). Beshom aims to open 8-10 new outlets over the two years while refurbishing its five main strategic outlets to increase its appeal to younger consumers via more attractive in-store designs.

Figure 64: Retail segment's sample products (value & general herbs, health and food supplements)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 65: Retail division's e-commerce platform launched in 2020 in response to the Covid-19 pandemic



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Two international-standard manufacturing facilities form the backbone of its integrated structure ➤

Beshom operates two GMP plants in Klang, Selangor, that are ISO 9001 certified, HACCP certified, US Food and Drugs Administration (FDA) registered. The plants produce both halal and non-halal products. This manufacturing arm mainly supports the operations of Beshom's multi-distribution channels by supplying quality traditional pharmaceutical products and food supplements across its MLM, wholesale and retail divisions as well as external OEM customers with its full suite of pharmaceutical manufacturing services (Fig 66). We gather from Beshom that approximately 8% of its product portfolio are manufactured in-house (accounting for 75% of its total manufacturing capacity), 60% are locally sourced and the rest of 32% are imported. The manufacturing division also undertakes research and development activities on new product innovation from time to time such as upgrading its bird's nest processing manufacturing capability to produce its house brand 'Sarangyan' bird nest products for both the domestic and export markets.

Figure 66: Pharmaceutical manufacturing services



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Joint venture with its world-renowned China supplier to establish TCM clinics in Malaysia ➤

In 2002, Beshom established a joint venture with Peking Tong Ren Tang (TRT) (listed in Hong Kong and Shanghai) to operate three TRT outlets in Malaysia (Fig 67) which provide integrated clinical services, medical consultations by qualified medical practitioners from China, dispense prescribed herbs and drugs as well as sell exclusive and famous TRT products (Fig 68). Beshom is also the sole distributor of TRT products in Malaysia, distributing them across its multi-distribution channels.

Peking TRT was established since the Qing Dynasty in 1669 and is famous for its premium and quality traditional Chinese pharmaceutical products globally. Beshom can also tap into the highly-trained Chinese TRT physicians to enhance its Chinese medicine clinical services in Malaysia. While contribution from this segment is minimal, this JV serves to develop greater TCM brand recognition and widen the customer base for the group.

Figure 67: Traditional Chinese medicine clinic in Kuala Lumpur – JV between Beshom and Peking Tong Ren Tang



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 68: Exclusive distribution rights for this specially formulated 'Bai Feng Wan' product by Beijing Tong Ren Tang



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

INDUSTRY OUTLOOK

Beshom operates in the direct selling sector with a focus on traditional healthcare and wellness consumer products ➤

Beshom mainly operates in the direct selling sector, i.e. the multi-level marketing (MLM) sector, with a focus on distributing traditional healthcare and wellness consumer products including health food & beverages, food supplements, beauty and cosmetics goods, and household, skin and personal care products. According to the Direct Selling Association of Malaysia (DSAM), a distributor (MLM member) performs the multiple roles of a wholesaler, retailer, promoter of the MLM products in exchange for monetary incentives and recognition through the direct distribution method. In Beshom's case, it is a pharmaceutical manufacturer with a direct selling arm supported by a strong network of distributors as well as wholesale and retail networks to reach end-consumers. To keep up with the latest consumer trends and technology, a direct selling company like Beshom also sells its products through online platforms (e.g. third-party marketplaces, self-operated online stores and social media platforms).

Figure 69: Beshom is principally operating in the direct selling sector, acting as a manufacturer, multi-level marketing (MLM or direct sales) company as well as a distributor via its wholesale and retail division



Total direct selling industry sales in Malaysia estimated at RM23.1bn in 2021 with large room for growth ➤

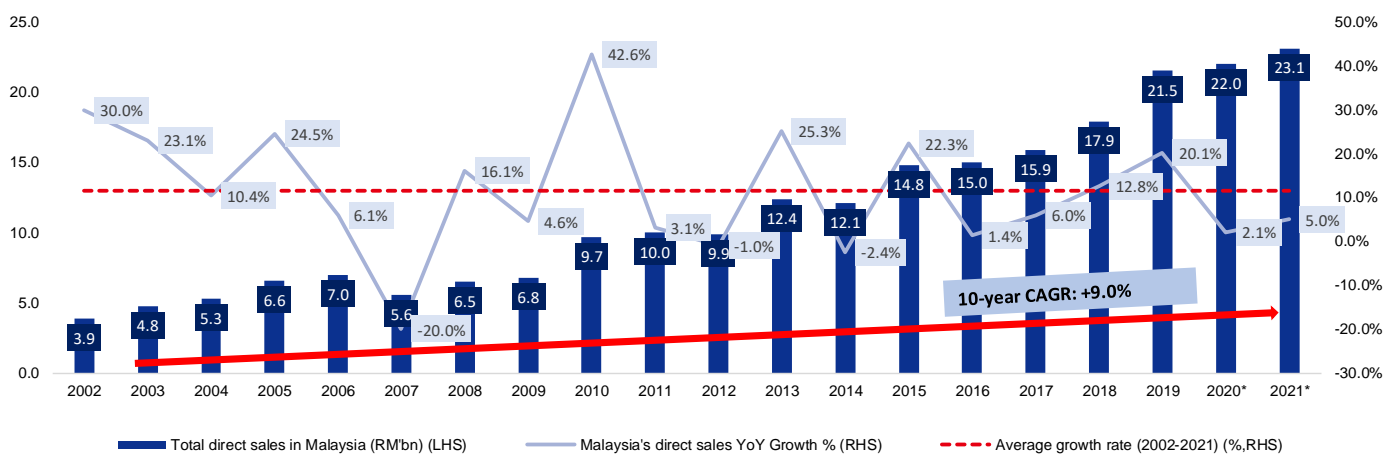
According to the data and projections from the Ministry of Domestic Trade and Consumer Affairs (MDTCA), the direct selling industry sales in Malaysia have been on a consistent upward trajectory over the years with an estimated RM23.1bn in 2021, a 29% increase from its 2018 level despite the Covid-19 pandemic. Based on the latest data, the sector is estimated to have a 10-year CAGR (2011-21) of about 9% and an average growth rate of c.12% in 2002-21 (Fig 70), according to data from the Malaysia's Ministry of Domestic Trade and Consumer Affairs. This highlights the sector's resiliency and how it is an indirect beneficiary of the Covid-19 pandemic, in our view.

Considering that the sector is predominantly focused on the health and wellness segment, we believe Malaysia's relatively lower health expenditure as a percentage of GDP (3.8%) vs. its global peers (5.4-16.8%) in 2019, according to latest data from The World Bank, indicates strong market potential for Malaysia's MLM sector (Figs 72, 73 and 83). Key industry growth drivers include rising disposable income and affluence in Malaysia, continuous product innovation and increasing demand for healthcare and wellness products, and the adoption of an omnichannel sales distribution approach.

Expansionary domestic measures to support consumer spending

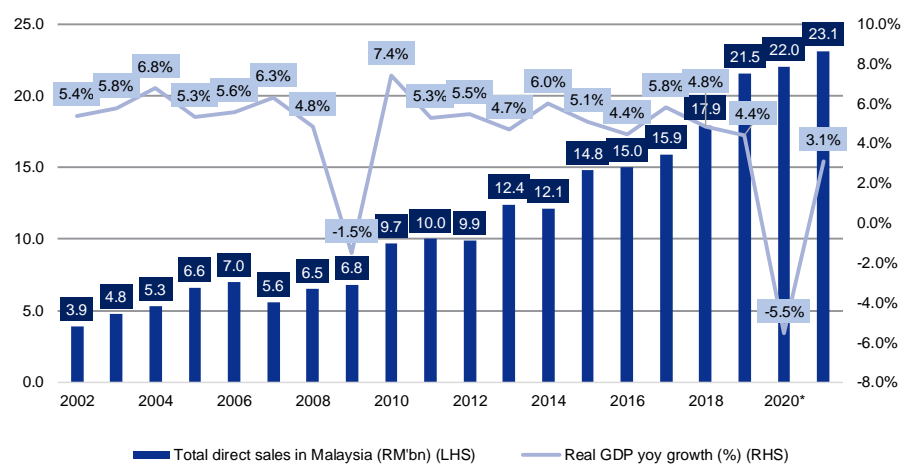
We believe supportive domestic measures that would continue to underpin Malaysia's consumer spending in 2022F (Beshom's FY22/23) include: i) 'Bantuan Keluarga Malaysia's direct cash assistance worth RM8.2bn to benefit 9.6m individuals throughout 2022 as announced under Budget 2022, ii) extension of a lower minimum Employee Provident Fund (EPF) contribution rate of 9% (vs. the usual 11%) until end-Jun 2022, iii) EPF's one-off 2022 Special Withdrawal of RM10,000 for EPF members aged below 55, iv) RM11.4bn allocation for Bumiputera empowerment under Budget 2022 which could benefit Beshom's MLM recruitment drive of agents, v) JaminKerja initiatives to potentially generate 600,000 job opportunities, and vi) minimum wage hike from RM1,200 to RM1,500 effective 1 May 2022.

Figure 70: Malaysia's direct selling industry sales annual trend (RM'bn) and yoy-growth trend (%)



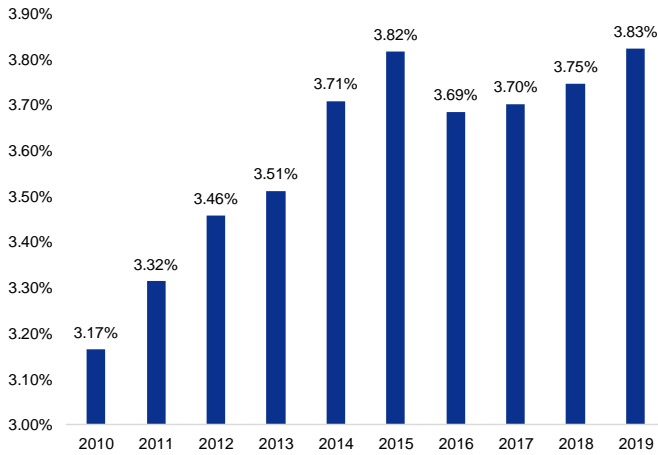
SOURCES: CGS-CIMB RESEARCH, MINISTRY OF DOMESTIC TRADE AND CONSUMER AFFAIRS, COMPANY REPORTS
*ESTIMATION

Figure 71: Relationship between Malaysia's total direct sales and real GDP yoy growth



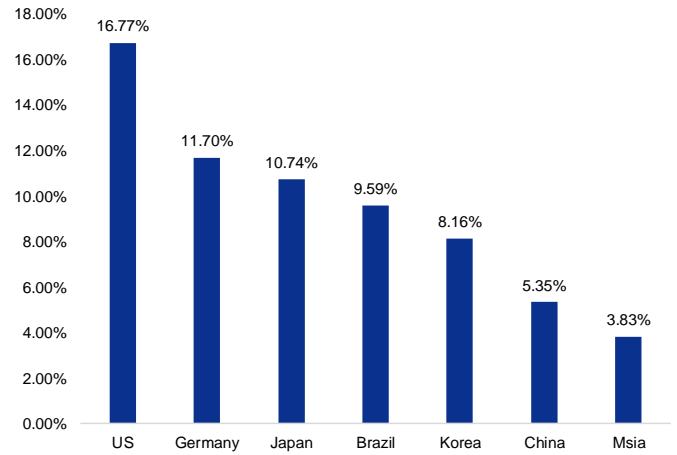
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
*2020 sharp decline in GDP growth due to Covid-19 pandemic-induced lockdown measures

Figure 72: Current health expenditure (% of GDP) – Malaysia



SOURCES: CGS-CIMB RESEARCH, WORLD BANK

Figure 73: Selected countries' health expenditure (% of GDP) in 2019

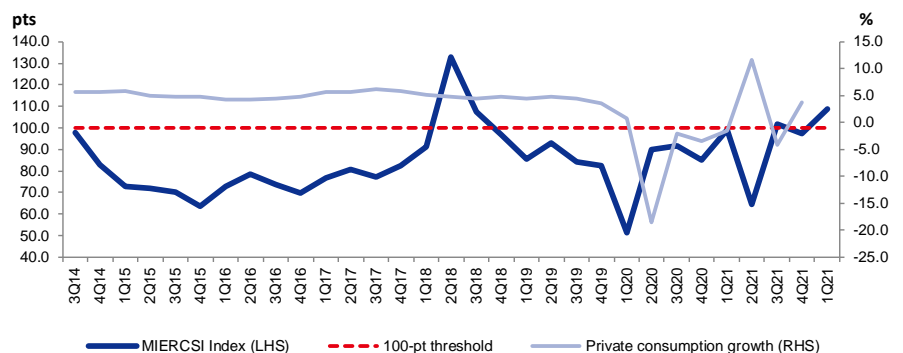


SOURCES: CGS-CIMB RESEARCH, WORLD BANK

Covid-19 pandemic boosted health-related and wellness product sales, and adoption of online platforms ▶

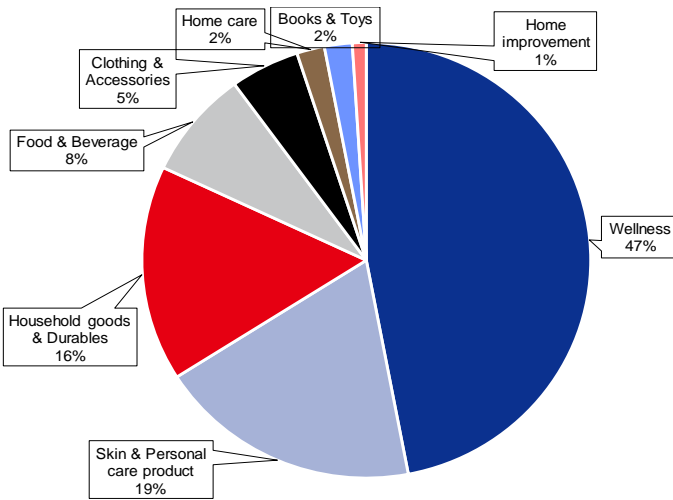
We believe the MLM sector in Malaysia is set to continue its growth trajectory beyond 2021, mainly driven by i) the strong demand for health and wellness-related products on increasing health awareness due to the Covid-19 pandemic; ii) potential increase in number of direct sellers seeking an additional income stream due to reduced primary income or to increase earning potential amid an inflationary environment; and iii) the accelerated adoption of digital channels in marketing products (Figs 77, 78) which enables distributors to reach end-consumers more easily. Throughout 2016-20, the wellness product segment has consistently been the largest contributor of direct sales, accounting for 45-53% of Malaysia's total direct sales (Fig 76) according to the Direct Selling Association of Malaysia. Online sales channels and online ordering methods for the sector have also seen robust traction since the Covid-19 pandemic hit in 2020, as experienced by Beshom in FY21 as well, due to work-from-home arrangements and shift in customers' purchasing behaviour towards non-physical sales channels.

Figure 74: MIER Consumer Sentiment Index (CSI) rose 11.7 pts qoq to 108.9 into positive territory in 1Q22, signalling greater positive consumer sentiment



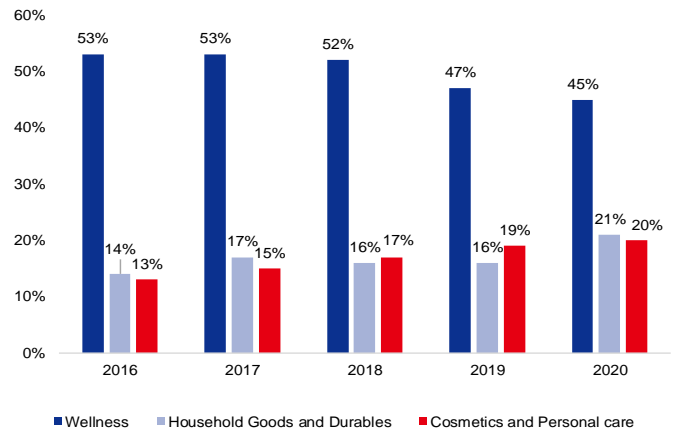
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 75: Malaysia's direct selling industry sales by category (2020)



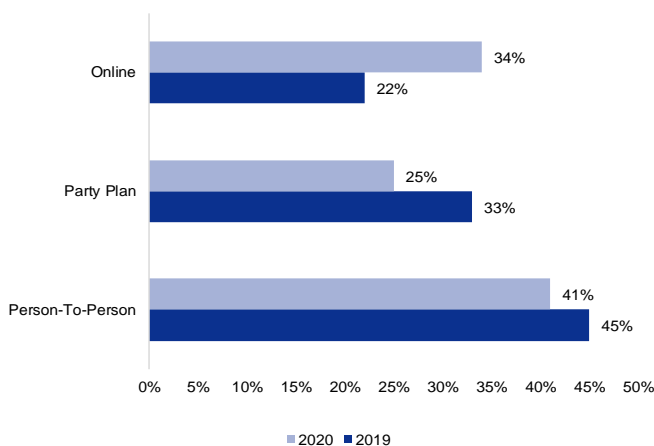
SOURCES: CGS-CIMB RESEARCH, DSAM

Figure 76: Share of major direct selling product category by percentage in Malaysia (2016-20)



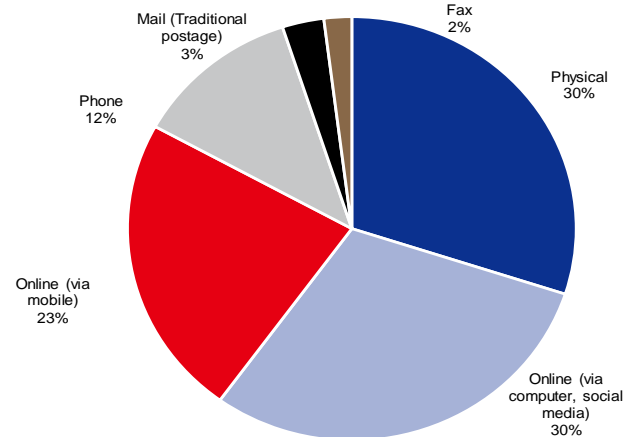
SOURCES: CGS-CIMB RESEARCH, DSAM

Figure 77: Malaysia's direct sales by sales method (2019-20)



SOURCES: CGS-CIMB RESEARCH, DSAM

Figure 78: Malaysia's direct sales by ordering method (2020)



SOURCES: CGS-CIMB RESEARCH, DSAM

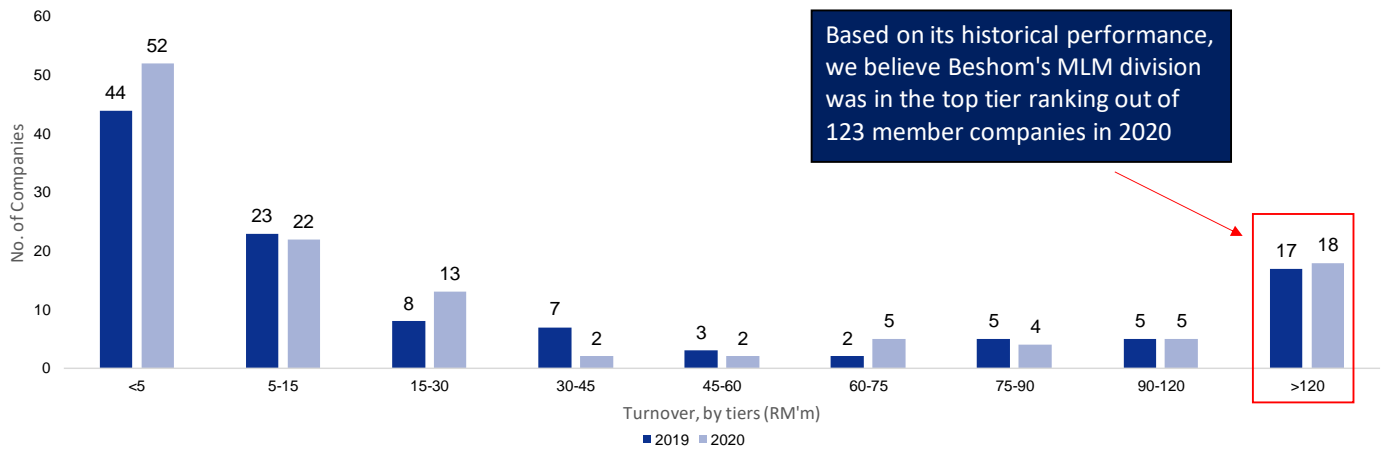
Malaysia’s MLM sector highly fragmented; Beshom in the top tier ranking of MLM companies ➤

The MLM sector in Malaysia is highly competitive in nature, in our view, as barriers to entry are generally low. There are about 300 licensed direct selling companies in Malaysia in 2021, according to the Direct Selling Association of Malaysia (DSAM), whose members are among the largest MLM companies in Malaysia. Products are easily sourced and upfront cost to set up an MLM operation can be low if the entrant starts with a small range of products. Out of 123 DSAM members, only 18 (14.6%) had direct sales turnover exceeding RM120m (Fig 76) in 2020. Based on Beshom’s MLM division revenue in CY20 (RM167.2m), we estimate Beshom to belong in the highest tier in 2020 despite only accounting for 0.7-2.0% of Malaysia’s total direct sales in 2017-21.

In comparison, Amway (Malaysia) Holdings Bhd, arguably the largest MLM company listed on Bursa Malaysia in terms of revenue, had a market share of 4.5-6.5% in the same period (in 2017-21), in our estimate, illustrating the highly fragmented nature of the direct selling industry in Malaysia.

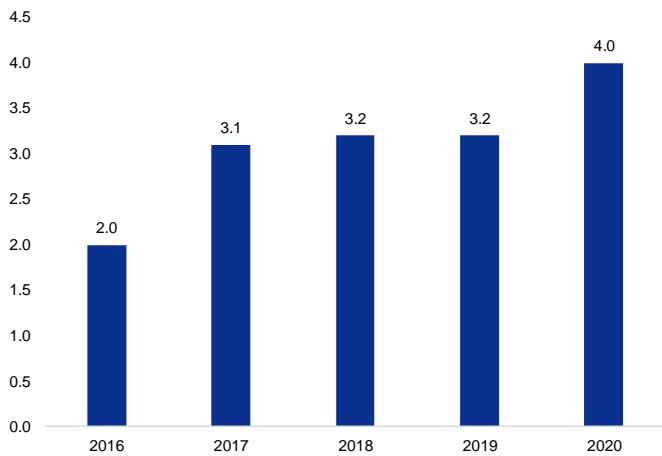
Nonetheless, we believe Beshom’s diversified product portfolio with exclusive TCM offerings, and steady earnings from its wholesale and retail divisions, coupled with its integrated manufacturing facilities, give the group a competitive edge (i.e. better pricing power and cost advantage) over its peers.

Figure 79: Direct sales turnover vs no. of companies



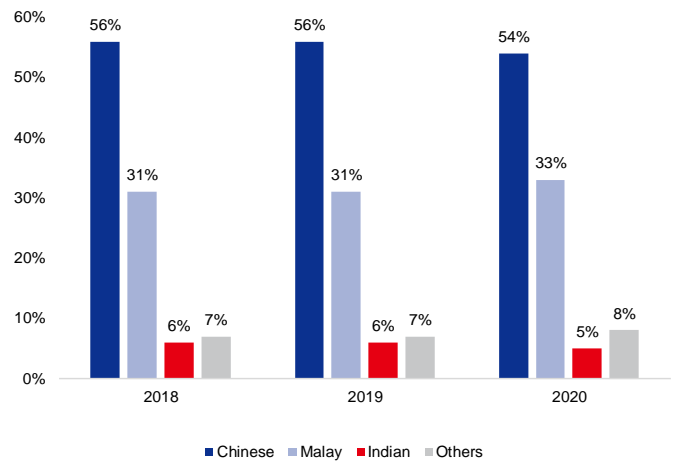
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 80: Malaysia's active distributor count (2016-20) (No.)



SOURCES: CGS-CIMB RESEARCH, DSAM

Figure 81: Malaysia's active distributors by ethnicity (2018-20)



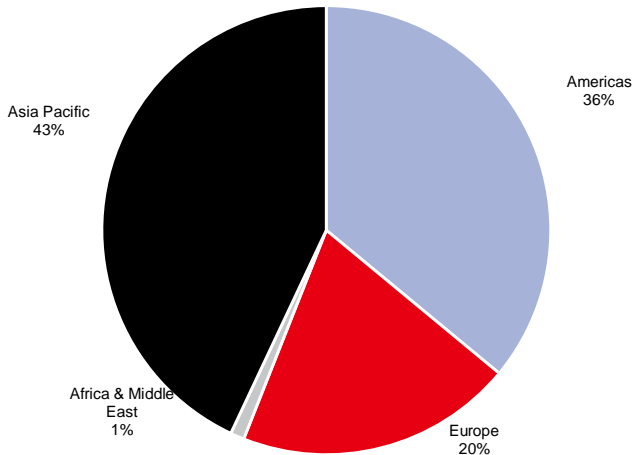
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Malaysia in top 10 global position of direct sales and a clear leader in Southeast Asia ➤

According to the World Federation of Direct Selling Association (WFDSA), global direct sales (excluding China) in 2020 were 5.8% higher yoy, while Malaysia's were 15.8% higher yoy. We attribute the stronger growth to Malaysia's conducive environment for direct selling companies given the rising disposal income and affluence of the population and their higher propensity to spend on health and wellness-related products, in our view.

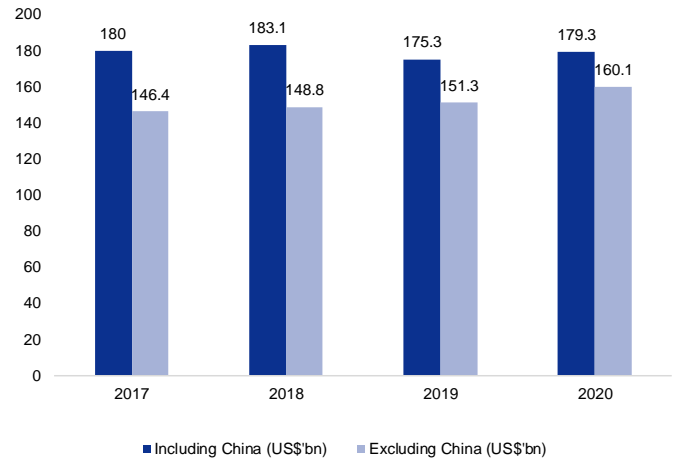
According to WFDSA, Malaysia accounted for 4% of direct sales globally in 2020 and at 7th position (Fig 85) and its clear leadership position in Southeast Asia (Figs 86, 87), according to the data from WFDSA. The c.11.4% 3-year direct sales CAGR (2017-20) of Malaysia also outpaced Southeast Asia's c.7.3%. The Ministry of Domestic Trade and Consumer affairs (MDTCA) is in the midst of refining the direct selling blueprint 2.0 in Malaysia to extend the licence duration for direct selling companies from 1-2 years to 3-5 years which could help to build industry confidence and possibly secure more stable financing for the industry.

Figure 82: Global share of direct sales in 2020 (including China)



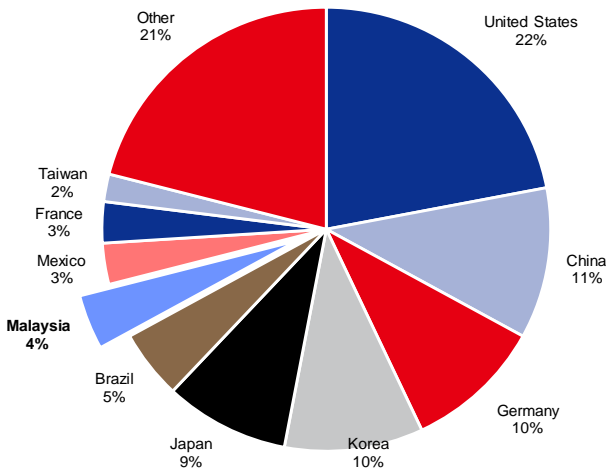
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 83: Global direct sales annual trend in 2017-20



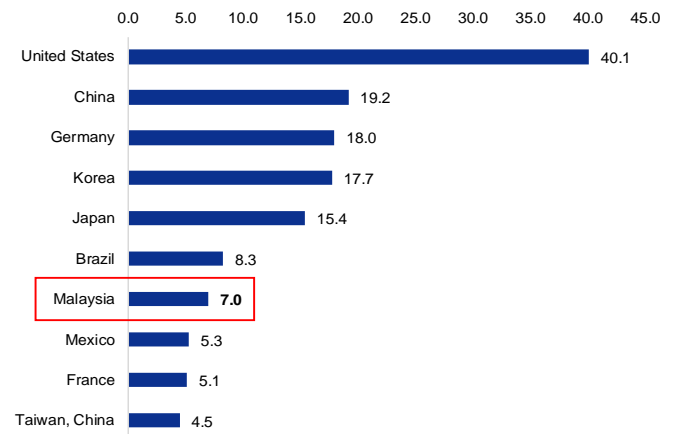
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 84: Share of total global direct sales in 2020 (US\$179.3bn)



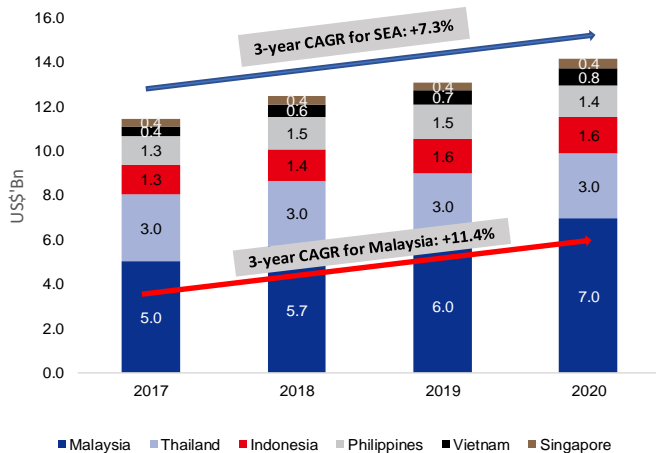
SOURCES: CGS-CIMB RESEARCH, WFD SA

Figure 85: Global Top 10 in terms of direct sales (US\$ bn) – Malaysia ranked 7th in 2020



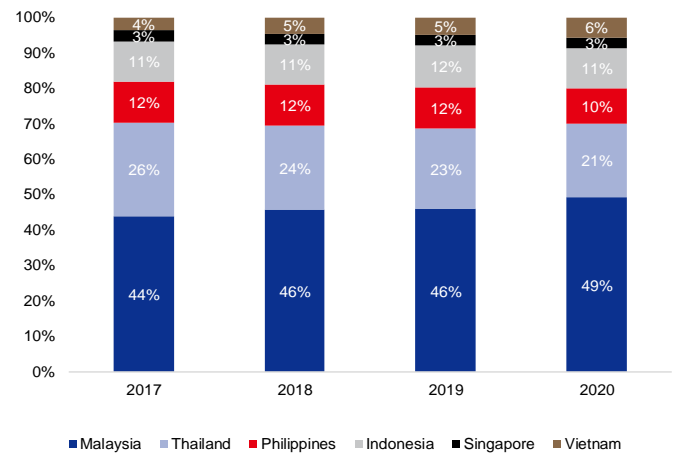
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 86: Southeast Asia's direct selling industry sales and sales growth (2017-20)



SOURCES: CGS-CIMB RESEARCH, WFD SA

Figure 87: Share of direct sales by contribution in Southeast Asia



SOURCES: CGS-CIMB RESEARCH, WFD SA

SWOT ANALYSIS

Figure 88: Strengths

Strengths	Opportunities
1. Established and leading MLM operator in Malaysia	1. Overseas expansion into regional countries
2. Strong network of MLM distributors comprising the large and growing Bumiputera population segment	2. New product innovation and product segment to further drive sales
3. Diversified and extensive product portfolio with strong pricing power	3. Secure more exclusive distribution rights of product offerings from reputable brand principals in the healthcare and wellness segment
4. Vertically-integrated business model	4. Store expansion to boost its retail market share
5. Exclusive offerings for quality and prominent traditional Chinese medicine healthcare and wellness products	5. Growing direct selling sales via digital platforms
6. Over 47 years of experience in traditional healthcare and wellness industry and c.30 years in managing an MLM operation	6. Shorter lifecycle of healthcare and wellness products
7. Strong retail network presence nationwide in Malaysia with 53 outlets, including 7 franchises	7. Increasing demand for direct selling as an additional source of income
8. Two international-standard manufacturing facilities to support its business operations across divisions	
Weaknesses	Threats
1. Highly dependent on mega events and heavy promotions to grow sales and to retain its MLM agent force	1. Weak consumer spending amidst economic slowdown
2. Reliance on only a few core products across product segments to drive sales	2. Product obsolescence amongst end consumers
3. Dependent on suppliers, especially for its wholesale division which makes it susceptible to supply chain disruptions	3. New competitive MLM entrants vying for market share; low barriers of entry
	4. A depreciating ringgit could negatively affect earnings as Beshom imports 35-40% of its total products

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

KEY RISKS

Lacklustre recruitment or loss of MLM distributors pose a key earnings risk ►

As Beshom's MLM division is its main revenue and operating profit contributor (over 60-70%), we believe there is a risk that lacklustre recruitment or loss of its MLM agents would pose downside risks to our earnings forecasts for FY22-24F. While we forecast a 13.5% reduction in agent count in FY22F due to the lack of recruitment activities and recognition events amid movement restrictions, we estimate agent headcount will increase 30% in FY23F and 20% in FY24F premised on its resumption of aggressive MLM recruitment activities (incentive trip to Korea, physical recognition events and its 30th SHOM grand anniversary event (falls in FY23F).

Intensifying competition in the MLM sector ►

In our view, the MLM sector in Malaysia has low barriers to entry as 1) start-up costs to establish a direct selling company are low, and 2) most of the healthcare and wellness products sold by existing MLM companies are easily substituted. As such, we deem the MLM sector as competitive in nature and highly fragmented, without much room for significant differentiation. Thus, aggressive expansion by new entrants and/or existing players via price wars (in terms of commission payout/product pricing) could lead to margin erosion and loss of market share for Beshom.

Subdued consumer sentiment and purchasing power ►

As some of Beshom's product categories are discretionary in nature or big ticket items (air purifier, water purifier, inner beauty wear, health supplements), demand could be negatively affected by weak consumer sentiment and low spending power during an economic slowdown or in an inflationary environment as consumers tend to delay or cancel purchases of non-critical products.

Supply chain disruption and supplier risks ▶

Given that Beshom currently imports 35-40% of its total purchases from its international suppliers, any systemic disruptions such as the resurgence of Covid-19 cases could lead to border closures which could disrupt supply chains, leading to inventory shortages, resulting in the loss of business and customers. However, Beshom owns two manufacturing facilities which could minimise disruption risks. Any unfavourable changes to the commercial terms of its exclusive distribution rights for over 50 renowned brands of products or cessation of supply with/from its over 200 overseas suppliers could also result in adverse implications for its sales and margin.

Counterfeit products may tarnish brand reputation ▶

As Beshom carries more than 2,000 SKUs across popular healthcare and lifestyle product segments, it is vulnerable to counterfeits which could tarnish its brand and dampen sales. Beshom relies heavily on the value and public perception of its product quality to attract customers, especially in the healthcare and wellness space. It also relies on suppliers to ensure that products are safe and not subject to counterfeiting. Any adverse events/incidents that are beyond Beshom's control, such as negative customer reviews on product review sites or social media could impact its reputation as well.

Heavy reliance on a few core products ▶

Established MLM operators typically have niche products that are popular and synonymous with their respective brands; these products tend to form the bulk of their revenue and differentiate them from the competition. For Beshom, its MLM division sells a series of unique halal products such as its bamboo salt-based products ("Min Kaffe" – bamboo salt coffee, "Sahajidah Garam Buluh" – salt formulated with Korean recipe, "Marine Essence Beauty Bar" – bamboo salt soap), its "Thera" inner beauty wear product series, halal "Cozuma" cosmetics product series, "Bio-Evolve" water purifier, and "AiryVentz" air purifier.

Beshom's wholesale and retail divisions are overly dependent on its non-halal traditional Chinese medicine, medicated tonic, herbs, and healthcare products. Consequently, any negative perception/news that jeopardises the demand for any or a few of its principal products might pose earnings risks to the group.

Currency fluctuation risks ▶

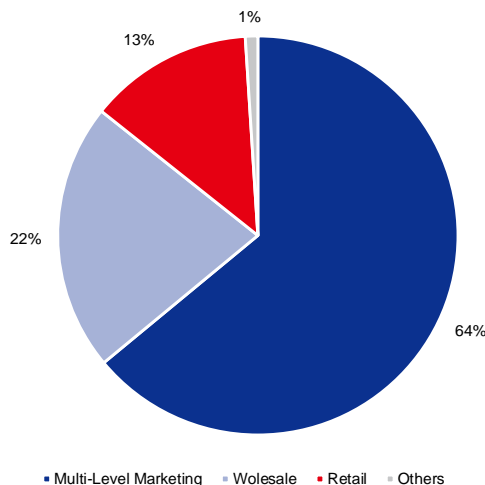
With 35-40% of its products imported, mainly from China, Beshom is exposed to forex fluctuations, particularly the ringgit weakening against the Chinese Renminbi. Passing on this additional cost might pose a risk to sales given the competitive nature of healthcare and wellness products.

FINANCIAL HIGHLIGHTS AND FORECASTS

Diversified revenue base ➤

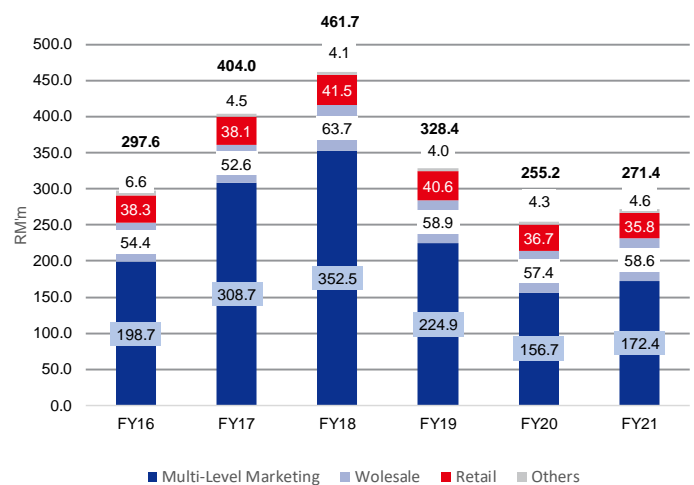
Based on Beshom’s revenue breakdown in FY21, we understand that its MLM division was its largest contributor in FY21 at 64%, followed by wholesale (22%), retail (13%) and others (1%). While Beshom is predominantly a direct selling operator, we like its diversified exposure to complementary divisions (wholesale and retail) which have provided the group with recurring revenue streams over the past six years (FY16-21). Its MLM revenue is more volatile in nature given the reliance on the growth of its MLM membership base, various marketing and promotional events, and product innovation. The MLM division accounted for 61-76% of the group’s total revenue in FY16-21. We see Beshom as a strong recovery play as the nation recovers from the ravages of the Covid-19 pandemic as we expect higher sales growth across all its divisions as they benefit from higher consumer spending and footfall.

Figure 89: Revenue contribution by segment (FY21)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 90: Annual revenue trend by segment (FY16-21)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

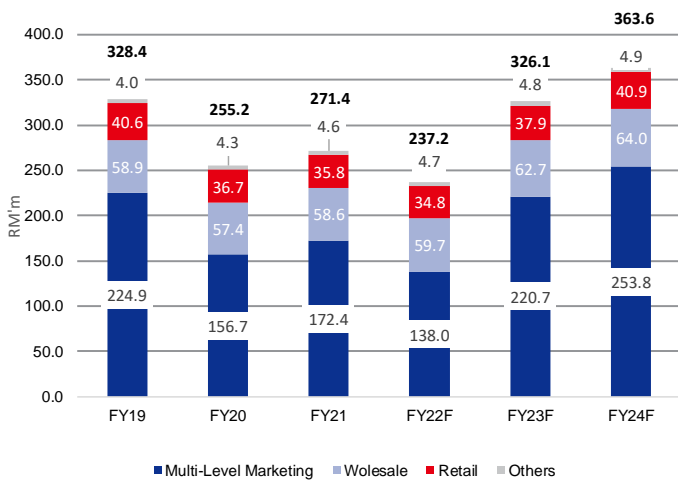
MLM division drives revenue growth ➤

Over FY4/16-21, Beshom’s revenue was volatile due to fluctuations in MLM revenue as its MLM sales were driven by a series of mega in-house events, marketing and promotional activities, incentive schemes and recognition award events. As some of Beshom’s core products are discretionary in nature, its MLM sales are also easily impacted by external factors that affect consumer demand and sentiment, such as 1) domestic political changes, 2) alteration in economic policies, and 3) geopolitical tensions.

- **FY16/17:** Strong growth in MLM sales volume due to its new product strategy focusing on “small ticket” consumer items since 2014. However, the wholesale and retail segments were affected by subdued consumer sentiment following the implementation of the Goods and Services Tax (GST) in 2015.
- **FY18:** Achieved record revenue in the group’s history due to its MLM division’s Bonanza 25 grand sales promotion in conjunction with its 25th year SHOM anniversary. The “Buy & Win” Lucky Draw Contest with attractive prizes (a luxury German sedan car worth RM250,000 and other prizes) contributed to a record number of MLM distributors, at 150,000 (+7.1% yoy), boosting MLM product sales.
- **FY19:** The change in tax regime from GST to Sales and Service Tax (SST) post Malaysia’s 14th General Election had an adverse impact on sales across all its divisions as customers deferred purchases.

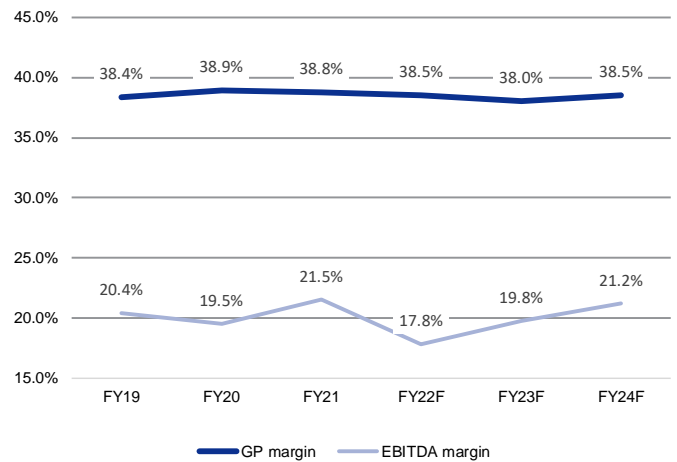
- FY20/21:** 4QFY20 was hit by the Covid-19 pandemic in Malaysia with the first implementation of Movement Control Order (MCO) on 18 Mar 2020. Beshom raised its product prices in 2020 and 2021 to pass on the increase in its raw material costs due to supply chain disruptions. Active cost management and better product sales mix also helped to preserve its margins. The group's EBITDA margin was higher in FY21 than in FY19-20 due to lower opex as a percentage of revenue of 17.2% in FY21 vs. 17.9% in FY19 and 19.5% in FY20, and a more favourable sales mix. FY21 sales growth was also partially driven by the strong growth in its MLM's e-commerce sales (+61.8% yoy).

Figure 91: We forecast a revenue CAGR of 10.2% over FY21-24F (based on our CGS-CIMB estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 92: Steady GP margin and EBITDA margin (based on our CGS-CIMB estimates)



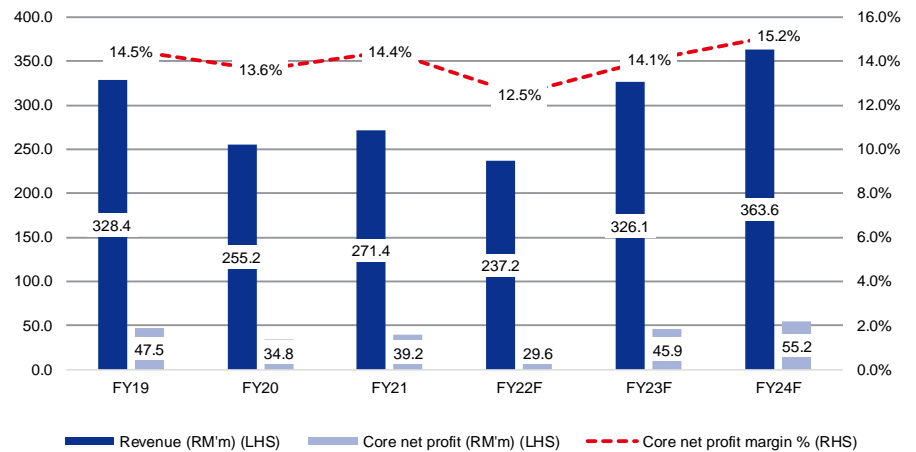
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Forecast 12.1% FY21-24F core net profit CAGR on the back of 10.2% FY21-24F revenue CAGR ➤

We forecast a revenue CAGR of 10.2% over FY21-24F, primarily driven by:

- Growth in MLM distributors** (10.5% CAGR in MLM membership over FY21-24F) from the reopening of the Malaysian economy on 1 Apr 2022 given the resumption of aggressive recruitment drive, incentive trip schemes, large-scale physical recognition award events, as well as potential grand sales promotion in conjunction with **SHOM 30th Anniversary mega event** in Oct/Nov 2022 (in Beshom's FY23F). Hence, we forecast a strong 13.8% revenue CAGR for its MLM division over FY21-24F.
- MLM's e-commerce sales** CAGR of 12.7% over FY21-24F on the back of Beshom's focus on growing its online presence across established social media platforms, online promotions, and marketing initiatives through its own SHOM website driven by its e-SHOM PCP.
- Steady FY21-24F revenue CAGR of 3.0% and 4.5% at its wholesale and retail divisions, respectively, as Malaysia's economic reopening could help drive higher consumer spending and retail footfall.
- Improving product sales mix via higher sales contribution from exclusive premium products at its wholesale segment. Growing in-house brands' sales with higher margin and expansion of retail outlets at its retail division.
- We expect strong earnings growth of 55%/20% in FY23/24F, in which FY23F could be boosted by its MLM's 30th anniversary large-scale sales bonanza celebration (albeit earnings still 36% below its pre-pandemic FY18 level when it celebrated its 25th anniversary).

Figure 93: We forecast a net profit CAGR of 12.1% over FY22-24F



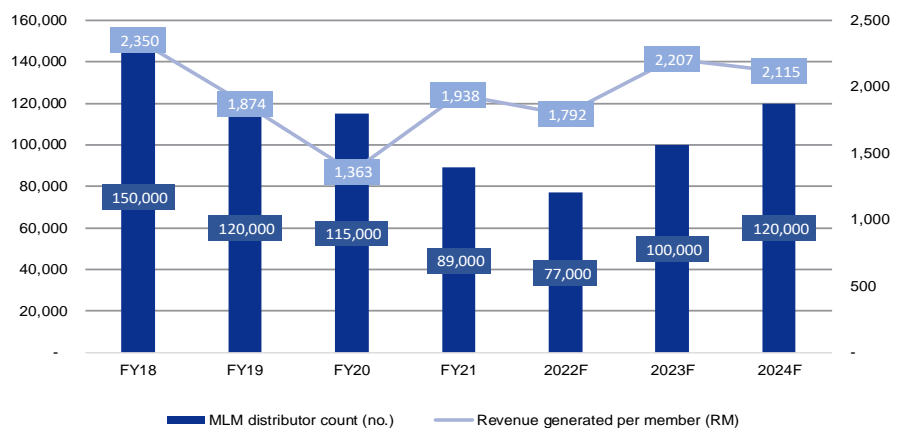
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 94: Revenue assumptions (CGS-CIMB in-house estimates)

	FY19	FY20	FY21	FY22F	FY23F	FY24F
Total Revenue (RM m)	328.4	255.2	271.4	237.2	326.1	363.6
Growth %	-28.9%	-22.3%	6.4%	-12.6%	37.5%	11.5%
Segmental Revenue (RM'm)						
MLM	224.9	156.7	172.4	138.0	220.7	253.8
Wolesale	58.9	57.4	58.6	59.7	62.7	64.0
Retail	40.6	36.7	35.8	34.8	37.9	40.9
Others	4.0	4.3	4.6	4.7	4.8	4.9
Segmental growth yoy (%)						
MLM	-36.2%	-30.3%	10.0%	-20.0%	60.0%	15.0%
Wolesale	-7.5%	-2.5%	1.9%	2.0%	5.0%	2.0%
Retail	-2.2%	-9.5%	-2.5%	-2.7%	8.6%	8.1%
Others	-2.6%	7.7%	6.6%	2.0%	2.0%	2.0%
MLM online sales (RM'm)						
Contribution to total MLM revenue %	7.5%	11.9%	17.5%	24.0%	18.0%	17.0%
Online sales	17.0	18.6	30.2	33.1	39.7	43.2
Growth %	-26.2%	10.0%	61.8%	9.7%	20.0%	8.6%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 95: CGS-CIMB forecasts of Beshom's MLM distributor count and revenue generated per member (RM) over FY18-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 96: Retail segment operational statistics and forecasts (CGS-CIMB estimates)

	2019	2020	2021	2022F	2023F	2024F
Revenue per outlet (RM'm)	0.71	0.66	0.65	0.66	0.66	0.67
Revenue per outlet growth (%)	-3.9%	-7.9%	-0.7%	1.0%	1.0%	1.0%
Number of Hai-O outlets (end of year)	57	56	55	53	57	61
Net addition/(closure) of outlets	1	-1	-1	-2	4	4

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Margin in an uptrend over FY22-24F

We expect Beshom's overall gross margin to remain steady at c.38% over FY22-24F, premised on a better sales mix offsetting possibly higher raw material prices. Note that the group raised product prices in 2020 and 2021 and does not discount the possibility of further price hikes should raw material prices continue to rise. We also expect key operating cost items, such as its administrative expenses, and selling and distribution expenses, to grow in tandem with its revenue growth in FY23-24F. Beshom's FY22F revenue is set to decline given that 9MFY22 revenue fell 19.7% yoy (Fig 100) due to the various strict movement restrictions and possibly higher Covid-19-related expenses.

Nonetheless, we believe Beshom's operating and net profit margins should be in an uptrend in FY22-24F due to 1) active cost management, 2) better product mix, 3) upward price adjustments on selected products within its wholesale division, and 4) greater economies of scale (Figs 92, 93). Hence, we forecast 12.1% core net profit CAGR over FY21-24F.

Figure 97: Breakdown of Beshom's key cost items (CGS-CIMB Research estimates)

	FY19	FY20	FY21	2022F	2023F	2024F
Cost of sales (RM'm)	(202.41)	(155.80)	(166.22)	(145.88)	(202.16)	(223.61)
% of revenue	61.6%	61.1%	61.2%	61.5%	62.0%	61.5%
Administrative expenses (RM'm)	(24.43)	(23.89)	(22.66)	(23.72)	(26.09)	(25.45)
% of revenue	7.4%	9.4%	8.3%	10.0%	8.0%	7.0%
Selling and distribution expenses (RM'm)	(40.77)	(30.21)	(26.83)	(28.46)	(37.50)	(41.81)
% of revenue	12.4%	11.8%	9.9%	12.0%	11.5%	11.5%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Strong balance sheet with minimal capex outlay and improving working capital ratio ►

We expect Beshom's balance sheet to stay steady and healthy over FY22-24F, underpinned by its solid net cash position – we estimate RM46.6m to RM71.5m for the period. We also expect its free cash flow generation (FCF) to remain strong at RM16.8m-51.4m in FY22-24F given its minimal capital outlay requirements of c.RM2.0m-3.0m p.a., in our estimate. We forecast higher RM8.0m capex expenditure in FY23F, with a substantial portion earmarked for its cornerstone investment in its supplier, Orgabio Holdings Bhd, which is slated to be listed on the ACE market of Bursa Malaysia within the next 12 months. In addition, we also expect Beshom's working capital ratios to remain healthy, with improvements over FY23-24F as its inventory days normalise with the pick-up in sales now that the economy has reopened.

Figure 98: Projecting improving working capital key ratios over FY21-24F

Days	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F
Inventory days	111	177	219	196	220	160	150
Trade & other receivable days	26	26	33	29	30	28	27
Trade & other payable days	81	74	103	81	85	85	85
Cash conversation cycle (days)	56	129	149	144	165	103	92

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 99: We expect Beshom to remain in a net cash position over FY22-24F (CGS-CIMB Research estimates)

	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F
Quick ratio (x)	2.1	2.8	2.5	3.1	3.2	2.7	2.6
Current ratio (x)	3.3	5.0	4.5	5.1	5.5	4.4	4.3
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net gearing ratio (x)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

9MFY22 results comparison; Beshom remains profitable despite various lockdowns and movement restrictions ➤

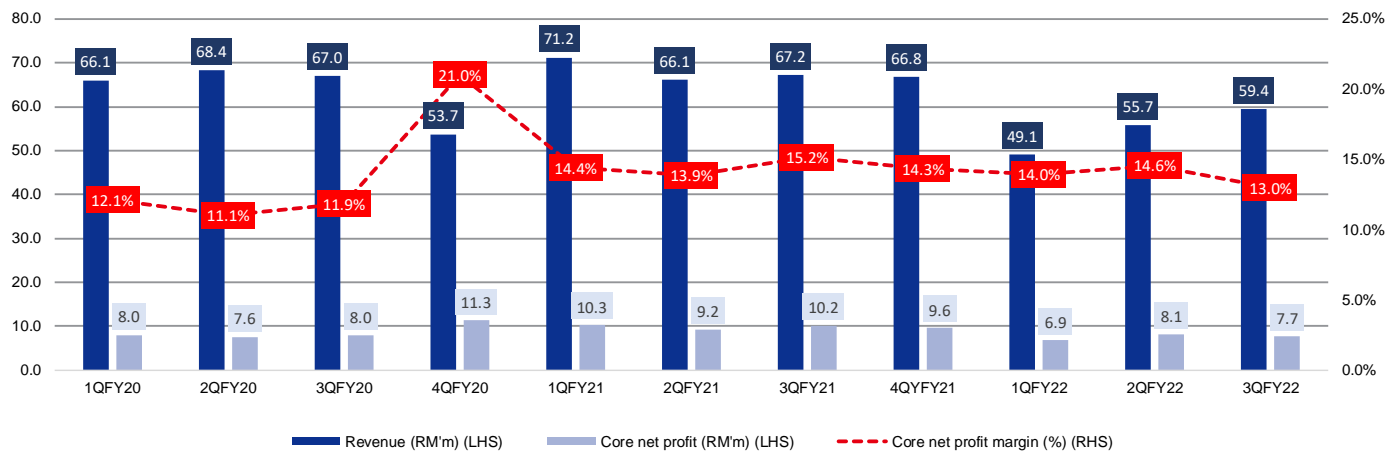
We take comfort that despite the implementation of various Covid-19 movement restrictions in 1HFY22 and the flooding in many states in 3QFY22 negatively affecting 9MFY22 revenue (-19.7% yoy), Beshom had stayed profitable. This was thanks to its quick shift towards small-ticket items sold on its own MLM e-commerce platform which experienced strong online sales growth during the period (MLM's e-commerce sales contributed c.28% to its 9MFY22 total MLM revenue). Beshom's 9MFY22 EBITDA margin held up well at c.19.9% (+0.6% pt yoy) on a better sales mix and price hikes at its wholesale division, and higher sales contribution from its higher-margin in-house brand products at its retail division.

Figure 100: 9MFY22 Results comparison

FYE Apr (RM m)	3QFY22	3QFY21	yoy % chg	qoq % chg	3QFY22 cum	3QFY21 cum	yoy % chg	Prev FY22F	Comments
Revenue	59.4	67.2	(11.6)	6.6	164.3	204.6	-19.7	N/A	Group revenue affected by re-imposition of MCOs in the first half of FY22. The increase in retail revenue (+10.2% yoy) was unable to offset the drop in MLM (-29.6% yoy) and wholesale (-7.1% yoy) revenue in 9MFY22.
Operating costs	-47.4	-53.2	(10.8)	5.8	-131.7	-164.2	-19.8	N/A -	
EBITDA	12.0	14.0	(14.6)	9.7	32.6	40.4	-19.2	N/A -	
<i>EBITDA margin (%)</i>	20.1	20.8	(3.4)	3.0	19.9	19.7	0.6	N/A	Improvement in margin thanks to a favourable change of sales mix and price adjustments on selected Wholesale products and higher margin contribution from house brand products in retail division
Depn & amort.	-1.5	-1.6	(3.2)	(2.2)	-4.6	-4.8	-3.1	N/A -	
EBIT	10.4	12.4	(16.1)	11.7	28.0	35.6	-21.4	N/A -	
Interest expense	-0.1	-0.1	(28.4)	(11.7)	-0.2	-0.2	-19.6	N/A -	
Interest & invt inc	0.2	0.2	(15.1)	12.1	0.5	0.5	-12.8	N/A -	
Associates' contrib	0.0	0.0	370.0	487.5	-0.1	0.0	160	N/A -	
Other income	0.3	1.1	(67.0)	(74.7)	2.7	3.7	-28.6	N/A -	
Exceptionals	0.0	0.1	(88.2)	(103.5)	-0.2	1.3	-112.4	N/A -	
Pretax profit	10.9	13.7	(20.7)	3.5	30.7	40.9	-24.8	N/A -	
Tax	-2.7	-3.3	(16.3)	6.2	-7.6	-10.0	-23.7	N/A -	
Tax rate (%)	25.1	23.8	5.5	2.5	24.9	24.5	1.5	N/A -	
Minority interests	0.4	0.2	165.8	303.8	0.6	0.0	-3,900.0	N/A -	
Net profit	7.7	10.3	(25.0)	(1.3)	22.5	30.9	-27.1	N/A -	
Core net profit	7.7	10.2	(24.4)	(5.2)	22.7	29.6	-23.5	N/A -	
<i>Core net margin %</i>	13.0%	15.2%	(14.4)	(11.0)	13.8%	14.5%	-4.7	N/A -	
EPS (sen)	2.6	3.4	(25.0)	(1.3)	14.3	19.6	-27.1	N/A -	
Core EPS (sen)	2.6	3.4	(24.4)	(5.2)	14.4	18.8	-23.5	N/A -	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 101: Beshom's quarterly results trend. Remained profitable every quarter since the start of the Covid-19 pandemic in 4QFY20 (Feb, Mar, Apr 2020) in Malaysia when the first movement control order (MCO) was implemented. This was mainly due to a quick strategy shift to focus on small-ticket item sales through its own MLM e-commerce platform and cost optimisation initiatives, as well as higher A&P subsidy from suppliers.



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 102: 3QFY22 Segmental breakdown

Revenue (RM'm)	3QFY22	3QFY21	yoy % chg	2QFY22	qoq % chg	9MFY22	9MFY21	yoy % chg
Multi-Level Marketing	28.0	39.5	-29.0%	35.5	-0.2	93.6	133.0	-29.6%
Wolesale	17.2	16.5	3.9%	11.4	0.5	39.4	42.5	-7.1%
Retail	13.1	9.6	37.2%	7.9	0.7	28.3	25.6	10.2%
Others	1.1	1.6	-34.6%	1.0	0.1	3.0	3.5	-13.9%

EBIT (RM'm)	3QFY22	3QFY21	yoy % chg	2QFY22	qoq % chg	9MFY22	9MFY21	yoy % chg
Multi-Level Marketing	4.2	8.9	-52.6%	7.1	-0.4	17.5	27.2	-35.8%
Wolesale	3.9	3.8	4.1%	2.0	1.0	7.3	9.9	-25.7%
Retail	2.1	0.5	285.4%	0.6	2.2	3.1	0.6	387.7%
Others	0.6	0.7	-10.7%	0.8	-0.2	2.5	2.5	0.8%

Operating profit margin (%)	3QFY22	3QFY21	yoy % pts chg	2QFY22	qoq % pts chg	9MFY22	9MFY21	yoy % pts chg
Multi-Level Marketing	15.0%	22.5%	-7.5%	20.0%	-4.9%	18.7%	20.5%	-1.8%
Wolesale	22.8%	22.8%	0.0%	17.5%	5.3%	18.6%	23.2%	-4.6%
Retail	15.6%	5.6%	10.1%	8.2%	7.4%	10.9%	2.5%	8.5%
Others	55.8%	40.8%	15.0%	81.1%	-25.3%	82.3%	70.2%	12.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Peer comparison

Beshom is the second-largest MLM operator listed on Bursa Malaysia ➤

In our peer analysis, we compare Beshom with two of the largest listed MLM operators on Bursa Malaysia: Amway (Malaysia) Holdings Bhd (Amway; Non rated – FYE Dec), and Zhulian Corporation Bhd (Zhulian; Non rated – FYE Nov) as proxy to the MLM sector valuation in Malaysia.

Beshom's profitability fares relatively well

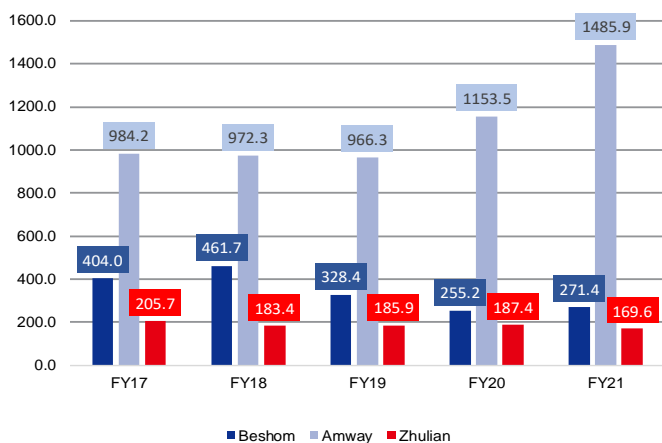
Amway is the largest MLM player by revenue followed by Beshom and Zhulian (Fig 103). While Beshom had the lowest MLM agent count at end-FY4/21 (FYE Apr) among the three, its annual revenue per member was the second-highest, at RM1,937 vs. Zhulian's RM556 and Amway's RM5,020, according to their respective FY21 annual reports. In terms of profitability, Beshom managed to garner relatively decent gross and net profit margins (Figs 105, 106) despite its higher commission payout to agents in Malaysia (up to 67%), which we believe is among the highest in Malaysia (vs. competitors c.50-60%). This suggests Beshom has relatively higher pricing power to a certain extent and higher

economies of scale (aided by its wholesale, retail segment and two manufacturing plants) to anchor its profitability, in our view. Although Zhulian has the highest net profit profile, we are cognisant that it derives most of its revenue from the Thai market (accounted for 64% of total Zhulian's FY21 revenue) whereas Beshom and Amway derive almost all their revenues from Malaysia. Based on our channel checks and annual report, we gather that the product portfolio revenue breakdown by category is relatively similar as well.

Beshom's valuation currently below its peers ➤

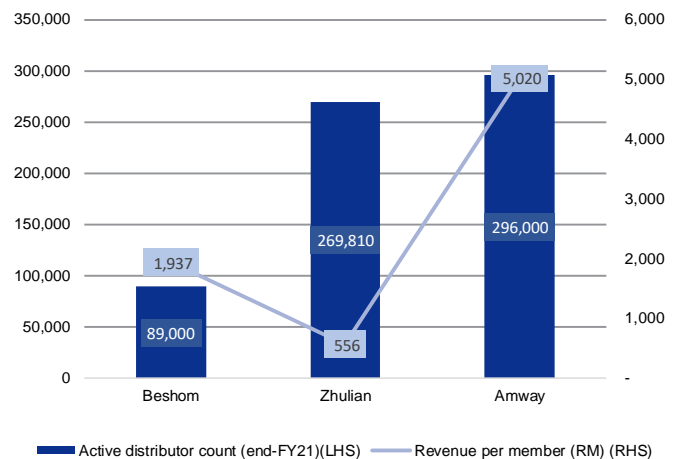
Beshom has the second-highest 5-year historical mean P/E of 16.3x compared with Amway's 17.8x and Zhulian's 12.1x (Fig 108). Nonetheless, Beshom was currently trading at the most attractive valuation of 13.5x (as at 20 June 2022 – according to Bloomberg), below the MLM sector's 5-year mean P/E of 15.4x. Meanwhile, Amway was trading at 23.2x and Zhulian at 16.7x P/E as at 20 June 2022. We believe Beshom's future net profit growth and its strengths are underappreciated by the market and that it is ripe for a re-rating given its 1) potential strong earnings growth (net profit CAGR of 12.1% over FY21-24F), and 2) pandemic and recession-proof business model that is likely to be defensive amidst inflationary pressures. Beshom's historical dividend yield based on share prices on 20 June 2022 is relatively decent as well compared to peers (Fig 107).

Figure 103: Annual revenue trend (RM m) (FY17-21)



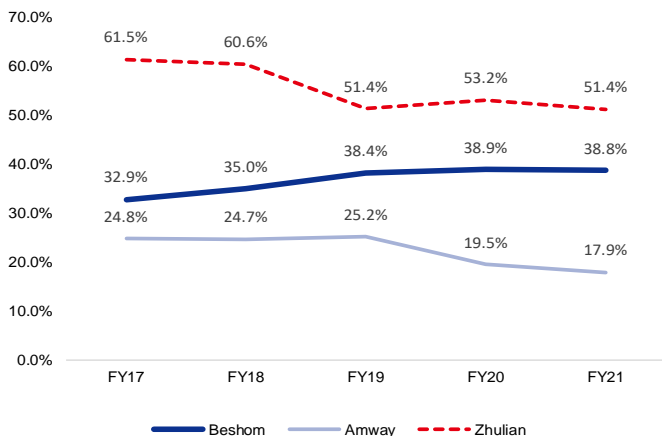
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 104: Based on MLM revenue and and member count as of respective FY21



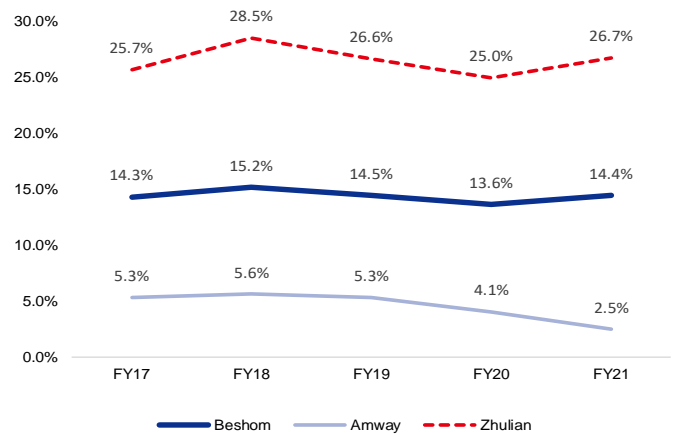
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 105: Gross profit margin (%) trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 106: Net profit margin (%) trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 107: Dividend yield (%) based on respective share prices as of 20 June 2022

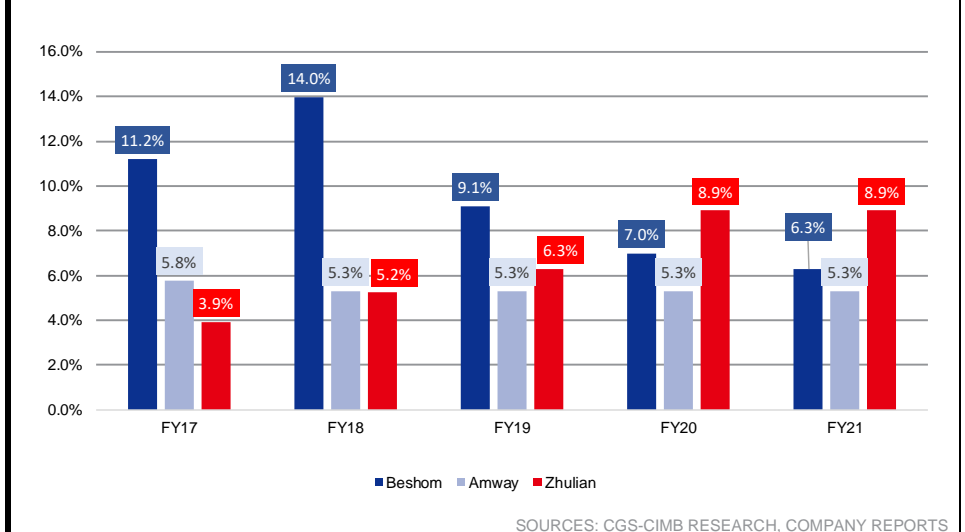
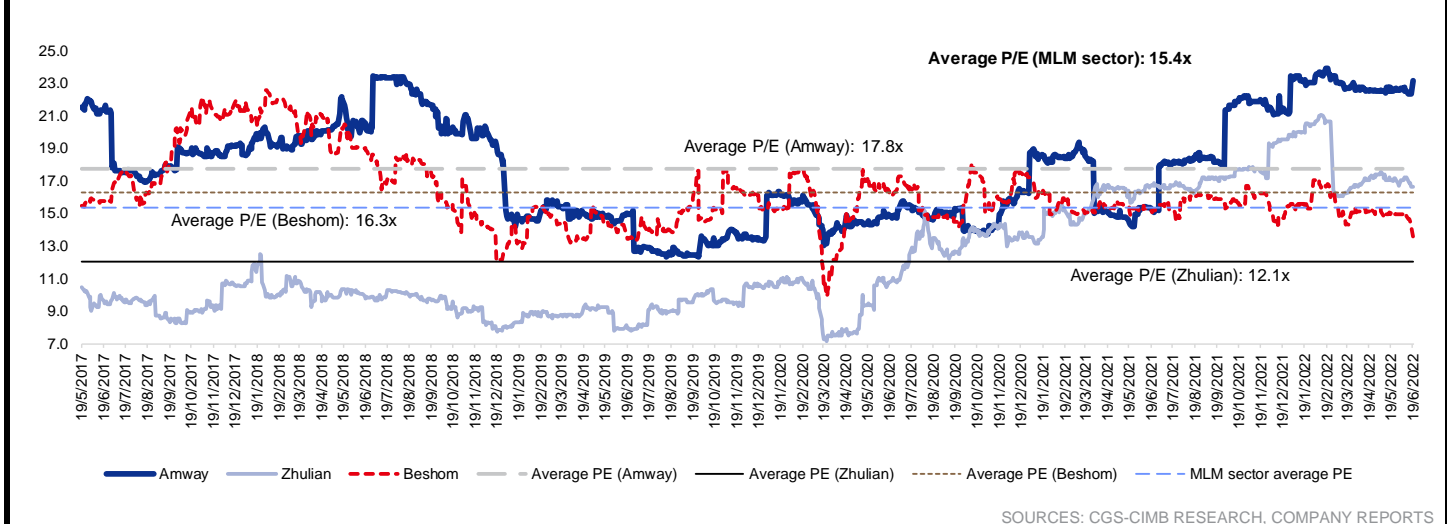


Figure 108: Historical 5-year average PE of selected listed MLM operators in Malaysia



VALUATION

Initiate coverage with an Add call and a TP of RM1.93 ►

We initiate coverage of Beshom with an Add rating and a TP of RM1.93. We employ P/E as our primary valuation methodology in view of its long-term track record of being profitable. We believe an earnings multiple is the most practical way to value MLM-based stocks.

Our TP of RM1.90 is based on 11.1x CY23F P/E, representing 1.5 s.d. below its 5-year mean forward P/E of 19.2x and c.28% discount to the 5-year historical mean P/E of the MLM sector of 15.4x (Fig 108). While Beshom is one of the leading integrated MLM companies listed on Bursa Malaysia with strong historical and projected ROA and ROE profile over FY18-24F (Fig 37), we input a discount rate to account for: i) the competitive landscape of Malaysia's MLM market, ii) the low barriers to entry, iii) heavy reliance on a few principal products, iv) volatility in earnings and v) weakening consumer sentiment amid rising inflationary pressures.

Figure 109: Our target price for Beshom is RM1.93

FYE 30 Apr (RM'm)	Value	Remarks
CY23F core net profit (RM'm)	52.1	
CY23F P/E Multiple (x)	11.1	1.5 s.d. below its 5-year mean forward P/E of 19.2x
Equity Value (RM'm)	578	
No. of shares (m)	300	
Target price (RM)	1.93	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Our Add rating is premised on the strong recovery momentum in domestic consumer spending and footfall, the rejuvenation of its MLM agent workforce, and its e-commerce sales remaining robust post the reopening of borders and removal of movement restriction measures. A consistent and attractive dividend yield is another key factor.

Downside risks include: i) slowdown in direct selling sales due to weaker consumer spending amidst an inflationary environment, ii) intensifying competition in attracting MLM agents, iii) key house-brand products losing their lustre due to new competitors' products and product innovation failing to appeal to consumers, and iv) supply chain disruptions.

Figure 110: Consumer discretionary sector 5-year mean P/E valuation (ex-MDGM) (12M rolling forward PE)

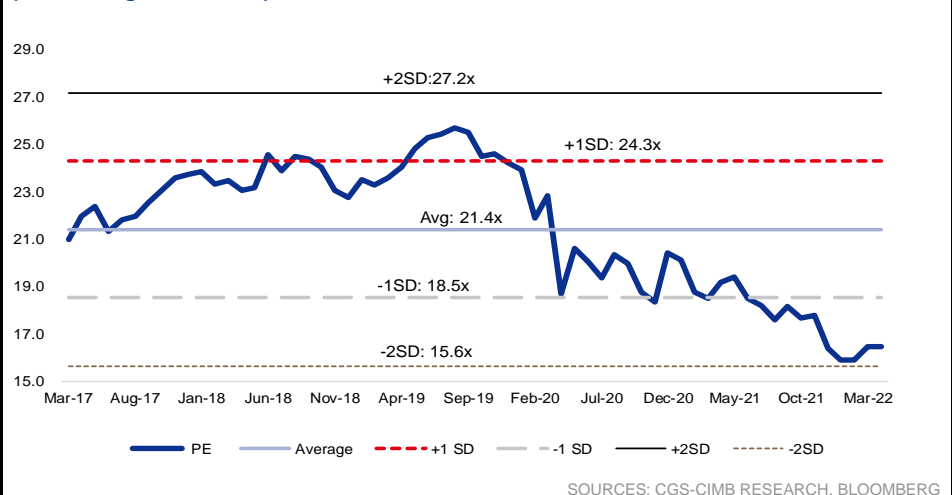


Figure 111: Beshom's 10-year valuation (12M rolling forward P/E)

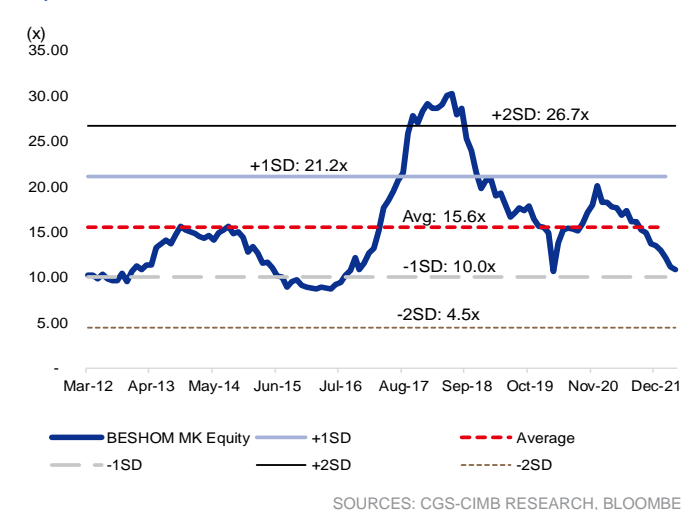


Figure 112: Beshom's 5-year valuation (12M rolling forward P/E)





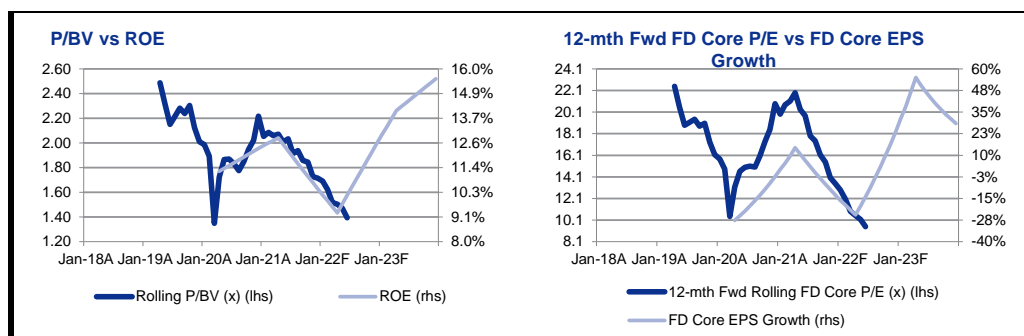
ESG in a nutshell

In 2009, Beshom launched its 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" and "Clothes of Confidence" that provided contemporary education tools and equipment, and school uniforms to the 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>Keep your eye on</p> <p>As disclosed in its FY21 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 with the fact that it has 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 effort of appointing 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-FY21, Beshom has 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 initiated various environmentally-friendly measures over the past years such as launching its "Sweetality Flexi Pack" green packaging, which enable consumers to reuse their old bottles, in 2021; "LED lighting systems" project (since 2017) to replace the lightning at both its buildings and retail outlets to improve energy efficiency; and launch of "e-membership platform" in 2017 to reduce its paper waste materials.</p>	<p>Implications</p> <p>We are positive on the company's efforts on environmental sustainability. As of FY21, the group has recorded an electricity savings of 49,285kWh from LED lighting systems with 580 LED Lights installed during the year. As of 30 Apr 2021, 10 out of the group's total 55 retail outlets were fully fitted with LED lighting systems. In FY21, 99.8% of its new members joined via its e-membership platform, resulting in a 10% savings in the number of A4 paper reams ordered in FY21 vs. FY20. 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

BY THE NUMBERS



Profit & Loss

(RMm)	Apr-20A	Apr-21A	Apr-22F	Apr-23F	Apr-24F
Total Net Revenues	255.2	271.4	237.2	326.1	363.6
Gross Profit	99.4	105.2	91.3	123.9	140.0
Operating EBITDA	49.7	58.4	42.3	64.5	77.0
Depreciation And Amortisation	(6.6)	(6.3)	(3.8)	(4.1)	(4.4)
Operating EBIT	43.1	52.0	38.5	60.4	72.6
Financial Income/(Expense)	0.6	0.4	1.0	0.8	1.0
Pretax Income/(Loss) from Assoc.	0.0	0.0	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)	43.7	52.5	39.5	61.2	73.6
Exceptional Items	(2.2)	(0.1)	0.0	0.0	0.0
Pre-tax Profit	41.5	52.4	39.5	61.2	73.6
Taxation	(9.2)	(13.1)	(9.9)	(15.3)	(18.4)
Exceptional Income - post-tax					
Profit After Tax	32.3	39.3	29.6	45.9	55.2
Minority Interests	0.3	(0.1)	0.0	0.0	0.0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	32.6	39.2	29.6	45.9	55.2
Recurring Net Profit	34.3	39.2	29.6	45.9	55.2
Fully Diluted Recurring Net Profit	34.3	39.2	29.6	45.9	55.2

Cash Flow

(RMm)	Apr-20A	Apr-21A	Apr-22F	Apr-23F	Apr-24F
EBITDA	49.72	58.36	42.29	64.49	76.99
Cash Flow from Invt. & Assoc.					
Change In Working Capital	0.09	2.48	-6.59	19.31	10.15
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	12.06	16.59	1.00	1.00	1.00
Other Operating Cashflow					
Net Interest (Paid)/Received	0.62	0.42	0.95	0.80	1.02
Tax Paid	-11.47	-9.22	-9.87	-15.30	-18.41
Cashflow From Operations	51.02	68.62	27.78	70.30	70.75
Capex	-0.72	-1.80	-3.00	-8.00	-3.00
Disposals Of FAs/subsidiaries	15.39	1.19	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	-9.92	-19.50	0.00	0.00	0.00
Other Investing Cashflow					
Cash Flow From Investing	4.76	-20.11	-3.00	-8.00	-3.00
Debt Raised/(repaid)	-1.81	-1.87	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased	-0.11	-2.53	0.00	0.00	0.00
Dividends Paid	-35.06	-31.98	-24.01	-36.01	-39.01
Preferred Dividends					
Other Financing Cashflow	-0.89	-0.69	0.00	0.00	0.00
Cash Flow From Financing	-37.86	-37.07	-24.01	-36.01	-39.01
Total Cash Generated	17.92	11.45	0.77	26.28	28.74
Free Cashflow To Equity	53.97	46.65	24.78	62.30	67.75
Free Cashflow To Firm	56.14	48.78	24.80	62.35	67.80

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Apr-20A	Apr-21A	Apr-22F	Apr-23F	Apr-24F
Total Cash And Equivalents	58.0	54.3	47.1	59.6	72.0
Total Debtors	23.4	21.7	19.5	25.0	26.9
Inventories	93.3	89.3	87.9	88.6	91.9
Total Other Current Assets	37.9	58.9	55.5	52.0	48.7
Total Current Assets	212.6	224.1	210.0	225.3	239.5
Fixed Assets	86.5	84.6	92.1	99.3	106.1
Total Investments	45.1	44.2	44.6	45.1	45.3
Intangible Assets	0.1	0.1	0.1	0.1	0.1
Total Other Non-Current Assets	17.4	17.4	16.5	16.5	16.5
Total Non-current Assets	149.1	146.2	153.3	161.0	168.0
Short-term Debt	0.0	0.0	0.5	0.5	0.5
Current Portion of Long-Term Debt					
Total Creditors	44.1	37.0	34.0	47.1	52.1
Other Current Liabilities	3.6	7.0	3.6	3.6	3.6
Total Current Liabilities	47.7	44.0	38.0	51.1	56.1
Total Long-term Debt	0.0	0.0	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3.4	2.6	3.4	3.4	3.4
Total Non-current Liabilities	3.4	2.6	3.4	3.4	3.4
Total Provisions	0.4	0.3	0.4	0.4	0.4
Total Liabilities	51.5	46.9	41.9	55.0	60.0
Shareholders' Equity	299.6	313.1	321.4	331.3	347.5
Minority Interests	10.6	10.3	0.0	0.0	0.0
Total Equity	310.2	323.4	321.4	331.3	347.5

Key Ratios

	Apr-20A	Apr-21A	Apr-22F	Apr-23F	Apr-24F
Revenue Growth	(22.3%)	6.4%	(12.6%)	37.5%	11.5%
Operating EBITDA Growth	(25.9%)	17.4%	(27.5%)	52.5%	19.4%
Operating EBITDA Margin	19.5%	21.5%	17.8%	19.8%	21.2%
Net Cash Per Share (RM)	0.19	0.18	0.16	0.20	0.24
BVPS (RM)	1.00	1.04	1.07	1.10	1.16
Gross Interest Cover	119	192	1,541	1,208	1,452
Effective Tax Rate	22.1%	25.0%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	83.4%	67.7%	81.1%	78.4%	70.7%
Accounts Receivables Days	33.72	30.32	31.68	24.91	26.13
Inventory Days	225.0	200.5	221.7	159.4	147.7
Accounts Payables Days	100.1	89.1	88.8	73.2	81.1
ROIC (%)	19.4%	24.7%	16.9%	25.8%	31.4%
ROCE (%)	13.9%	16.6%	12.2%	18.7%	21.6%
Return On Average Assets	9.3%	10.6%	7.8%	12.0%	13.7%

Key Drivers

	Apr-20A	Apr-21A	Apr-22F	Apr-23F	Apr-24F
SG&A (% of revenue)	11.8%	9.9%	12.0%	11.5%	11.5%
MLM segment yoy revenue growth	(0.3)	0.1	(0.2)	0.6	0.2
MLM segment online sales growth	0.1	0.6	0.1	0.2	0.1
Whole segment yoy revenue growth	(0.0)	0.0	0.0	0.1	0.0
Retail segment yoy revenue growth	(0.1)	(0.0)	(0.0)	0.1	0.1
MLM member assumption ('000)	1,150.0	890.0	770.0	1,000.0	1,200.0
MLM member yoy growth	(0.0)	(0.2)	(0.1)	0.3	0.2
Revenue per member	1,362.8	1,937.6	1,791.7	2,207.3	2,115.4
Revenue per member yoy growth	(0.3)	0.4	(0.1)	0.2	(0.0)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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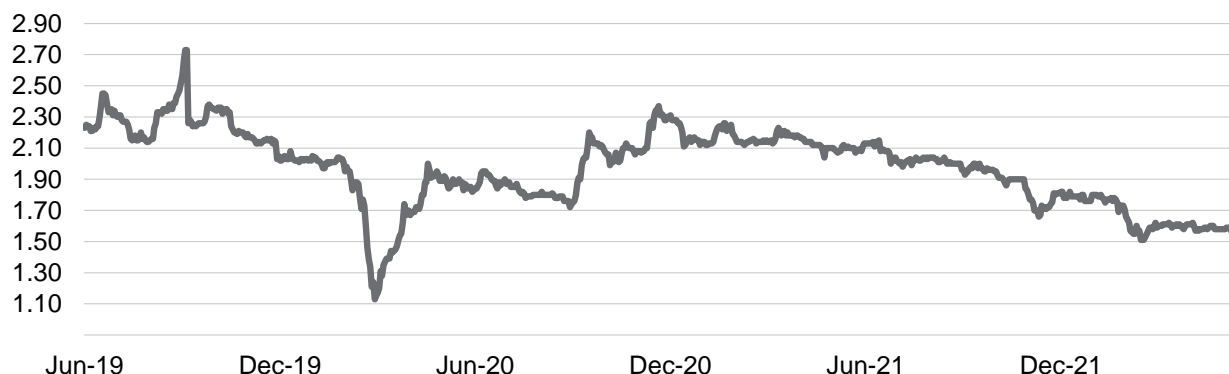
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched (2 year data)

Beshom Holdings Bhd (BESHOM MK)

— Price Close



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
Sector Ratings	Definition:
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.