

# Beshom Holdings Bhd

**TP: RM1.28** (-10.5%)

*Disappointing MLM Division Performance*

Last Traded: RM1.43

**Sell (ESG: ★★★)**

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## Review

- Beshom Holdings Bhd's (Beshom) 1HFY23 core earnings of RM9.2mn missed expectations, coming in at 27% of our and 25% of consensus' full-year estimates. The underperformance was due to poorer-than-expected result in the multi-level marketing (MLM) division. For this quarter, the company declared a first interim dividend of 3sen/share.
- Revenue for 1HFY23 slid 12.0% YoY to RM92.3mn, mainly due to poorer sales in the MLM division. In tandem with the lower revenue and higher marketing costs for MLM division, adjusted PBT plunged 33.4% YoY to RM13.4mn.
- **MLM.** Members' ability to spend was adversely impacted by rising cost of living while recruitment and renewal of members were also less encouraging. Consequently, segmental revenue in 2QFY23 plunged 42.0% YoY to RM20.6mn. Additionally, higher marketing expense to instill confidence among distributors led to EBIT margin compression (11.6% in 2QFY23 vs 20.0% in 2QFY22). Correspondingly, segmental EBIT slipped 66.3% YoY to RM2.4mn.
- **Wholesale.** The quarterly revenue advanced 11.7% YoY attributed to higher sales of Chinese medicated tonic as well as sales to duty free shop following the resumption of tourism activities. However, EBIT for 2QFY23 slid 7.6% YoY and we attribute this to rise in cost of sales. QoQ, revenue fell 24.8% as sales in 1QFY23 was buoyed by pre-price increase "last-buy" sales promotion. As a result, division's EBIT plunged 67.2% QoQ.
- **Retail.** 2QFY23 revenue surged 21.5% YoY due to low base effect a year earlier from National Recovery Plan, leading to a 26.2% YoY growth in EBIT. Compared with 1QFY23, revenue for 2QFY23 increased 10.1% QoQ driven by half yearly members' grand sales promotion. Segmental EBIT soared 50.5% QoQ as a result of the revenue growth.

## Impact

We trim our earnings forecast for FY23/FY24/FY25 by 15.9%/6.9%/1.7% respectively, forecasting a lower distributor force and higher marketing costs.

## Outlook

- **MLM.** The division continues to disappoint due to weak purchasing power amidst high inflation. Following the resumption of overseas incentive trip and step up in physical event, we expect the division to register a gradual increase in number of distributors and average revenue per distributor.
- **Wholesale.** As expected, sales growth normalised QoQ in 2QFY23 after the boost in sales prior to price hike last quarter. We expect the division to register better sales growth QoQ in 3QFY23 driven by Chinese New Year (CNY) promotional campaign.
- **Retail.** Similar as the Wholesale division, we expect Retail division's sales to be boosted in 3QFY23 by CNY Sales.

## Share Information

Bloomberg Code	BESHOM MK
Stock Code	7668
Listing	Main Market
Share Cap (mn)	300.1
Market Cap (RMmn)	429.1
52-wk Hi/Lo (RM)	1.85/1.39
12-mth Avg Daily Vol ('000 shrs)	37.2
Estimated Free Float (%)	56.5
Beta	0.4

## Major Shareholders (%)

Tan Kai Hee	- 10.8%
Akintan Sdn Bhd	- 8.5%
Excellent Communication Sdn Bhd	- 5.4%

## Forecast Revision

	FY23	FY24
Forecast Revision (%)	(15.9)	(6.9)
Net profit (RMm)	28.8	38.0
Consensus	36.4	43.2
TA's / Consensus (%)	79.1	88.0
Previous Rating	Hold (Downgraded)	
Consensus Target Price (RM)	1.53	

## Financial Indicators

	FY23	FY24
Net Debt / Equity (x)	Net Cash	Net Cash
ROE (%)	9.0	11.7
ROA (%)	7.9	10.4
NTA/Share (RM)	1.1	1.1
Price/NTA (x)	1.3	1.3

## Scorecard

	% of FY23	
vs TA	27	Below
vs Consensus	25	Below

## Share Performance (%)

Price Change	BESHOM	FBM KLCI
1 mth	(1.4)	1.0
3 mth	(1.4)	1.1
6 mth	(4.7)	0.3
12 mth	(16.9)	(2.0)

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



### Valuation

- **Downgrade to Sell** with a revised target price of RM1.28/share (from RM1.46/share previously) based on 11x CY23 EPS.

**Table 1: Earnings Summary**

FYE Apr (RM mn)	2021	2022	2023E	2024F	2025F
Revenue	271.4	209.6	214.2	262.0	295.7
EBITDA	58.2	46.2	44.3	56.5	63.5
EBIT	51.9	40.0	38.4	50.7	57.7
PBT	52.3	40.3	38.8	51.1	58.3
Net profit	38.8	28.2	28.8	38.0	43.3
Core net profit	38.8	28.4	28.8	38.0	43.3
Core EPS (sen)	13.4	9.5	9.6	12.7	14.4
Core PER (x)	10.7	15.1	14.9	11.3	9.9
DPS (sen)	9.0	8.0	8.0	11.0	12.0
Div. yield (%)	6.3	5.6	5.6	7.7	8.4

**Table 2: 2QFY23 Results Analysis**

FYE 30 Apr	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	55.7	48.3	44.1	(8.7)	(20.9)	104.9	92.3	(12.0)
Cost of sales	(34.6)	(28.1)	(26.1)	(7.2)	(24.4)	(62.9)	(54.2)	(13.8)
Gross profit	21.2	20.1	18.0	(10.7)	(15.2)	42.0	38.1	(9.2)
EBIT	10.4	9.4	5.4	(42.6)	(48.1)	19.7	14.8	(24.8)
Adj. EBIT	10.7	7.8	5.4	(30.5)	(49.6)	19.9	13.2	(33.7)
Net interest	0.1	0.1	0.1	12.6	45.0	0.2	0.2	15.9
Extraordinary Items	(0.3)	1.7	0.0	(99.8)	(>100)	(0.2)	1.7	(>100)
PBT	10.5	9.5	5.5	(41.9)	(47.4)	19.9	15.0	(24.5)
Adj. PBT	10.8	7.8	5.5	(29.7)	(48.9)	20.0	13.4	(33.4)
Taxation	(2.6)	(2.4)	(1.5)	(37.4)	(41.8)	(4.9)	(3.9)	(21.0)
Minority Interest	(0.1)	(0.1)	(0.1)	93.2	37.5	(0.2)	(0.2)	44.7
Net Profit	7.8	7.0	3.9	(44.8)	(50.4)	14.8	10.9	(26.4)
Adj. Net Profit	8.1	5.4	3.9	(27.9)	(52.3)	15.0	9.2	(38.3)
Basic EPS (sen)	2.7	2.3	1.3	(44.8)	(51.7)	5.1	3.6	(28.4)
DPS (sen)	3.0	-	3.0	nm	-	3.0	3.0	-
				<b>%-points</b>	<b>%-points</b>			<b>%-points</b>
EBIT Margin (%)	18.7	19.5	12.3	(7.3)	(6.4)	18.8	16.1	(2.7)
PBT Margin (%)	18.8	19.7	12.5	(7.1)	(6.3)	19.0	16.3	(2.7)
Net Margin (%)	14.0	14.6	8.8	(5.8)	(5.2)	14.1	11.8	(2.3)
Adj. Net Margin (%)	14.6	11.1	8.8	(2.3)	(5.8)	14.3	10.0	(4.3)
Tax Rate (%)	24.5	25.2	27.1	1.9	2.6	24.7	25.9	1.2

**Table 3: Segmental Analysis**

FYE 30 Apr	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
<b>Revenue</b>	<b>55.7</b>	<b>48.3</b>	<b>44.1</b>	<b>(8.7)</b>	<b>(20.9)</b>	<b>104.9</b>	<b>92.3</b>	<b>(12.0)</b>
Multi-Level Marketing	35.5	21.5	20.6	(4.2)	(42.0)	65.6	42.1	(35.8)
Wholesale	11.4	17.0	12.8	(24.8)	11.7	22.2	29.8	33.8
Retail	7.9	8.7	9.5	10.1	21.5	15.1	18.2	20.5
Others	1.0	1.1	1.2	5.5	22.2	2.0	2.3	17.2
<b>Segment EBIT</b>	<b>10.4</b>	<b>9.4</b>	<b>5.4</b>	<b>(42.6)</b>	<b>(48.1)</b>	<b>19.7</b>	<b>14.8</b>	<b>(24.8)</b>
Multi-Level Marketing	7.1	2.7	2.4	(11.6)	(66.3)	13.3	5.1	(61.7)
Wholesale	2.0	5.7	1.9	(67.2)	(7.6)	3.4	7.5	>100
Retail	0.6	0.5	0.8	50.5	26.2	1.0	1.4	31.2
Others	0.7	0.5	0.4	(32.4)	(48.2)	2.0	0.9	(56.5)
				<b>%-points</b>	<b>%-points</b>			<b>%-points</b>
<b>Segment EBIT Margin</b>	<b>18.7</b>	<b>19.5</b>	<b>12.3</b>	<b>(7.3)</b>	<b>(6.4)</b>	<b>18.8</b>	<b>16.1</b>	<b>(2.7)</b>
Multi-Level Marketing	20.0	12.6	11.6	(1.0)	(8.4)	20.3	12.1	(8.2)
Wholesale	17.5	33.3	14.5	(18.8)	(3.0)	15.3	25.2	10.0
Retail	8.2	6.2	8.5	2.3	0.3	6.8	7.4	0.6

### Stock Recommendation Guideline

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

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

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

### ESG Scoring & Guideline

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

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

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As of Thursday, December 22, 2022, the analyst, Ong Tze Hern, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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