Company Result — 27 June 2022

Beshom Holdings Berhad

4QFY22: Remain gloomy

HOLD
Maintained

Share Price	**RM1.50**
Target Price	**RM1.66**

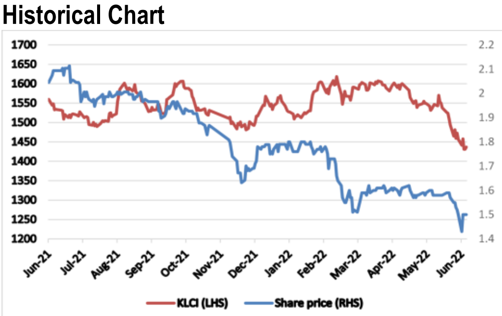
Company Description
Beshom Holdings Berhad operates as a holding company. The Company, through its subsidiaries, focuses on wholesaling and retailing of herbal medicines, healthcare products, and beauty products.

Stock Data	
Bursa / Bloomberg code	7668 / BESHOM MK
Board / Sector	Industrial/Food & Drug Retailers
Syariah Compliant status	No
FTSE4Good Index	No
ESG Rating	☆☆
Issued shares (m)	300.10
Market cap. (RMm)	450.15
52-week price Range	RM1.43 – 2.15
Beta (against KLCI)	0.83
3-m Average Daily Volume	0.04m
3-m Average Daily Value^	RM0.06m

Share Performance	1m	3m	12m
Absolute (%)	-6.3	-7.4	-27.9
Relative (%-pts)	0.9	5.3	-21.7

Major Shareholders	%
Kai Hee Tan	21.53
Akintan Sdn Bhd	8.35
Tan Keng Kang	5.38
Estimated Free Float	45.78

Historical Chart



Source: Bloomberg

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Result

- **Beshom Holdings Berhad (Beshom) registered a net profit of RM6m during 4QFY22 which depleted 21.6% qoq and 23.8% yoy. On the same note, revenue plunged by 23.8% qoq and 32.2% yoy to RM45.3m.**

- **As for 12MFY22, the Group clinched a net profit of RM28.6m, which was down 26.4% yoy on the back of weakening revenue which slipped 22.8% yoy.** The disappointing performance was resulted from lower sales from all three segments.

- **Below forecast.** 12MFY22 net profit of RM28.6m is below our in-house expectation, which only accounts for 90.5% of full year earnings forecast. The lower-than-anticipated result was eroded by higher inflationary pressures which led to weaker spending power of members in the MLM segment.

- **Dividend declared.** The Group has declared a single tier interim dividend of 5sen/share during 4QFY22. As such, total dividend payment for FY22 is 9.8sen/share which translates into 6.5% dividend yield.

Comment

- **Rising inflationary pressures weaken consumers' purchasing power.** Revenue and PBT plunged 23.8% qoq and 13.8% qoq respectively during 4QFY22. This was due to slow down in all three segments. MLM segment revenue and PBT down by 22.1% qoq and 16.7%qoq, respectively no thanks to slowing business activities during the Ramadan fasting month which affected members' recruitment and renewal. Besides, the Group saw its Wholesale (revenue: -20.2% qoq; PBT: +17.5% qoq) and Retail (revenue: -33.9% qoq; PBT: -81% qoq) segments further dampened the Group earnings as a result of rising inflationary pressure and weak purchasing power led to less encouraging response for its year end members' sales promotion.

- **Effective marketing strategies needed to rebuild momentum.** Revenue tumbled 32.2% yoy resulted from poorer sales from all segments (MLM: -44.8%, Wholesale: -14.8%, Retail: -14.3%). This was despite resuming of all business activities with less stringent SOPs imposed by the Malaysian Government. The Group noticed that members have been less active as they were concerned over the risk of contracting COVID-19, thus choosing not to participate in physical events. Moreover, the Wholesale segment saw its slump in revenue mainly attributed to lower sales generated from Chinese medicated tonic and cooking wine post CNY promotion while Retail segment recorded lower revenue no thanks to the less encouraging year-end members' sales promotion as consumers were more cautious amidst rising inflationary pressures and fragile market sentiment.

- **Disappointing 12MFY22.** Cumulatively, PBT depleted 23.2% qoq amid shrank in revenue (-22.8% yoy). The Group guided that MLM segment experienced a very challenging year as in 1HFY22, it was badly affected by stringent SOPs imposed by the Government to restrict physical activities while in the remaining quarters, rising inflationary pressures have affected members' willingness to spend especially on non-essential goods. Similar situation can be seen from the Wholesale segment where increase in sales in 2HFY22 was not able to offset the larger drop in the 1HFY22. On the flip side, its Retail segment rose by 3.2% yoy resulted from aggressive members' promotion campaign carried out at the outlets and e-commerce platforms. The implementations of effective sales incentive scheme across its outlets have also boosted its revenue.
- **Hoping for better FY23.** Moving forward, the Group is committed to realign its business strategies and take proactive measures to mitigate business risks including upgrading the existing digital infrastructure for all three main segments. The Group plans to launch promotion campaigns and organize more physical events for MLM segment to improve business momentum among its distributors. The Group said it will put priority on new members' recruitment and retention program to strengthen its distributor base. Meanwhile, Wholesale and Retail segments are working to develop new house-brand products to diversify its product portfolio. The Group also will undertake rationalization exercise to optimize its physical outlets with the view of closing or relocating non-performing outlet. We are aware that the upcoming 30th SHOM Anniversary mega event which is expected to recognize in 3QFY23 will lead to significant growth of its member base. Nevertheless, we remain cautious on consumer sentiment following rising inflationary pressure.

Earnings Outlook/Revision

- **We trim our FY23F full year earnings forecasts by 7.9% to RM29.1m as we anticipate rising inflationary pressures to continue to put pressure on the Group's MLM segment performance. Also, we introduce our FY24F net earnings forecast of RM32.2m (10.7% yoy growth).**

Valuation & Recommendation

- **Maintain HOLD with a lower target price of RM1.66 (RM1.72 previously) following our earnings downgrade.** Our revised target price is now based on P/E multiple of 17.3x FY23F EPS of 9.6sen which is slightly higher than its 5-year mean PE of 16.4x. We deem the stock is fairly valued and share price is well supported by its decent dividend yield of 5.3% for FY23F.

- **Risks include:** 1) Higher-than-expected cost of sales (i.e. higher freight cost), 2) Weaker domestic spending sentiment due to higher inflationary pressure, 3) Perpetual COVID-19 pandemic which weigh down overall business performance.

Figure 1: Quarterly Figures

Year ended 30 April	4QFY22	3QFY22	4QFY21	QoQ	YoY	12MFY22	12MFY21	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	45.3	59.4	66.8	-23.8%	-32.2%	209.6	271.4	-22.8%
Gross profit	19.7	24.7	26.8	-20.2%	-26.4%	86.3	105.2	-17.9%
Operating profit	9.4	10.8	11.3	-13.2%	-17.1%	39.9	51.9	-23.1%
PBT	9.4	10.9	11.4	-13.8%	-17.6%	40.1	52.3	-23.2%
PAT	6.1	8.1	8.1	-24.3%	-23.8%	29.2	38.9	-24.9%
Net profit	6.0	7.7	7.9	-21.6%	-23.8%	28.6	38.8	-26.4%
Margin (%)				*ppts*	*ppts*			*ppts*
Gross profit margin	43.6%	41.6%	40.1%	*2.0*	*3.4*	41.2%	38.8%	*2.5*
EBIT margin	20.7%	18.2%	16.9%	*2.5*	*3.8*	19.0%	19.1%	*-0.1*
PBT margin	20.8%	18.4%	17.1%	*2.4*	*3.7*	19.2%	19.3%	*-0.1*
PAT margin	13.6%	13.6%	12.1%	*-0.1*	*1.5*	14.0%	14.3%	*-0.4*
Net profit margin	13.3%	13.0%	11.9%	*0.4*	*1.5*	13.6%	14.3%	*-0.7*

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	4QFY22	3QFY22	4QFY21	QoQ	YoY	12MFY22	12MFY21	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue								
MLM division	21.8	28.0	39.4	-22.1%	-44.7%	115.4	172.4	-33.1%
Wholesale division	13.7	17.2	16.1	-20.2%	-14.7%	53.1	58.6	-9.3%
Retail division	8.7	13.1	10.2	-33.9%	-15.1%	36.9	35.8	3.0%
PBT								
MLM division	3.5	4.2	6.3	-16.7%	-44.4%	21.0	33.6	-37.5%
Wholesale division	4.7	4.0	2.7	17.5%	74.1%	12.1	12.6	-4.0%
Retail division	0.4	2.1	0.7	-81.0%	-42.9%	3.5	1.3	169.2%
PBT margin (%)				*ppts*	*ppts*			*ppts*
MLM division	16.1%	15.0%	16.0%	1.1	0.1	18.2%	19.5%	*-1.3*
Wholesale division	34.2%	23.3%	16.8%	11	17.5	22.8%	21.5%	*1.3*
Retail division	4.6%	16.0%	6.9%	-11.4	-2.2	9.5%	3.6%	*5.9*

Source: Company, JF Apex

Figure 3: Financial Summary

Year ended 30 April	FY19 RMm	FY20 RMm	FY21 RMm	FY22 RMm	FY23F RMm	FY24F RMm
Revenue	328.4	255.2	271.4	209.6	218.3	222.0
Gross profit	126.2	99.2	105.0	86.3	86.0	86.6
Operating profit	62.2	43.1	53.4	39.9	38.6	37.4
PBT	63.4	41.5	52.3	40.1	38.9	37.7
PAT	47.5	32.3	38.9	29.2	29.3	28.3
Net profit	47.7	32.6	39.2	28.6	29.1	32.2
Margin (%)						
Gross profit margin	38.4%	38.9%	38.7%	41.2%	39.4%	39.0%
Operating profit	18.9%	16.9%	19.7%	19.0%	17.7%	16.8%
PBT margin	19.3%	16.3%	19.3%	19.2%	17.8%	17.0%
PAT margin	14.4%	12.7%	14.3%	14.0%	13.4%	12.8%
Net profit margin	14.5%	12.8%	14.4%	13.6%	13.3%	14.5%
Growth (%)						
Revenue growth	-28.9%	-22.3%	6.3%	-22.8%	4.2%	1.7%
Gross Profit growth	-22.2%	-21.4%	5.8%	-17.8%	-0.4%	0.6%
PBT growth	-36.0%	-34.5%	26.0%	-23.3%	-3.0%	-3.2%
PAT growth	-36.8%	-31.9%	20.4%	-24.8%	0.1%	-3.2%
Net profit growth	-36.7%	-31.7%	20.2%	-27.1%	1.8%	10.7%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROA	13.1%	9.0%	10.6%	10.0%	11.0%	11.0%
ROE	14.9%	10.5%	12.1%	12.5%	13.0%	13.0%
EPS (sen)	15.9	10.9	13.1	9.5	9.6	10.7
P/E	0.09	0.14	0.11	0.16	0.16	0.14
DPS (sen)	0.13	0.10	0.09	0.10	0.08	0.08
Dividend Payout	0.8%	0.9%	0.7%	1.0%	0.8%	0.7%
Dividend yield (%)	8.7%	6.7%	6.0%	6.5%	5.3%	5.3%

Source: Company, JF Apex

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JF APEX SECURITIES – RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY : The stock's total returns* are expected to exceed 10% within the next 12 months.

HOLD : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL : The stock's total returns* are expected to be below -10% within the next 12 months.

TRADING BUY : The stock's total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL : The stock's total returns* are expected to be below -10% within the next 3 months.

*capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.

MARKETWEIGHT : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

ESG RECOMMENDATIONS

☆☆☆☆ : Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell

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

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

☆ : Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell

Source: Bursa Malaysia and FTSE Russell

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