

Best World International (BEST SP)

Tapping into technology and huge market potential

NDR note: Digitalisation, ambitious China expansion

We hosted BEST for an NDR in Singapore. Key takeaways: 1) it has set an ambitious goal to reach 5% market share or c.CNY10b of China's CNY193b skincare market, from less than 1% in FY17E. It will continue to drive sales via expansion into more cities and focus on its 3P winning strategies (product, people, plan); 2) it is tapping into digitalisation and social media, such as WeChat and Facebook to enhance its sales; and 3) it is expanding into new markets and restoring its Taiwan market. Maintain BUY and TP of SGD1.88, based on 19x FY18E EPS (PEG of 0.7x using FY16-19E EPS CAGR of 27%); We ascribed a c.30% discount to the PEG of 1.0x for regulatory risks and competition.

Aim for 5% market share of China's skincare market

To achieve this ambitious goal, which requires sales growth of around 80% for FY18-20E, BEST will expand into more cities across China. The application for a direct selling license beyond Hangzhou City has already started and should include at least 7 provinces by end-2018. Cities in Hunan province are expected to be approved first, followed by other provinces. Also, it will continue to focus on its key strategies, especially in promoting good skincare products with unique selling propositions.

Digitalisation and social media to enhance selling

BEST demonstrated how its distributors adopt social media, such as WeChat and Facebook, as well as video to share and promote its skincare products. Also, the number of followers for its WeChat and Facebook account have more than tripled since Feb 2017 to more than 24,000. It also demonstrated the application of its newly-developed mobile app, launched in Taiwan, which makes ordering of goods easier. The app will be launched in more markets soon.

Expansion into new markets; Restoring Taiwan sales

BEST is exploring to growth in Indonesia and ventures into new markets, such as Japan and India in the future. For its second-largest market, Taiwan, it halted promotions to prevent discounted sales by distributors. We should see a gradual recovery from 2018 onwards due to the low base and after weeding out discounted goods.

FYE Dec (SGD m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	102	201	202	245	291
EBITDA	20	53	68	83	95
Core net profit	10	30	44	54	62
Core EPS (cts)	1.8	5.4	8.1	9.9	11.3
Core EPS growth (%)	149.3	195.8	48.3	22.8	14.6
Net DPS (cts)	1.6	4.6	3.0	4.0	4.5
Core P/E (x)	68.6	23.2	15.6	12.7	11.1
P/BV (x)	10.9	7.7	5.5	4.1	3.1
Net dividend yield (%)	1.3	3.7	2.4	3.1	3.6
ROAE (%)	16.8	44.8	40.8	36.7	32.0
ROAA (%)	11.3	23.5	25.0	25.1	23.4
EV/EBITDA (x)	1.3	6.0	8.9	6.9	5.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	44	53	64
MKE vs. Consensus (%)	-	-	0.8	3.3	(2.4)

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BUY

Share Price	SGD 1.26
12m Price Target	SGD 1.88 (+49%)
Previous Price Target	SGD 1.88

Company Description

Best World is a direct selling company that sells premium skincare, health supplement & wellness products. It has >400k members in 12 countries.

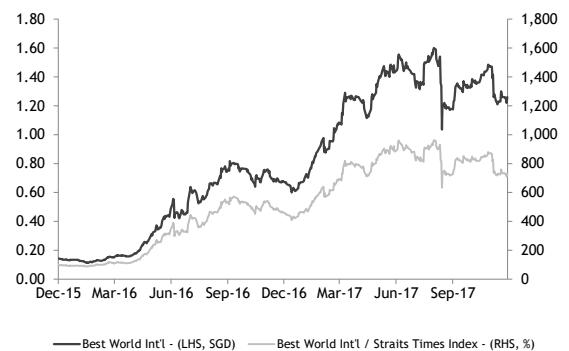
Statistics

52w high/low (SGD)	1.60/0.60
3m avg turnover (USDm)	3.8
Free float (%)	45.2
Issued shares (m)	554
Market capitalisation	SGD698.5M USD519M

Major shareholders:

D2 Investment Pte Ltd	34.8%
Dora Hoan Beng Mui	5.7%
Doreen Tan Nee Moi	5.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(15)	7	86
Relative to index (%)	(16)	1	58

Source: FactSet

Fig 1: Peer comparisons*

BEST is trading at a lower PEG compared to the peer group average

	Curr	Share price (LC)	Mkt cap (USD m)	P/E (x)			3Y EPS CAGR (%)	PEG (x)	EV/ EBITDA (x)	EBITDA margin (%)	P/BV (x)	ROE (%)		Div yield (%)
				FY17E	FY18E	FY19E						FY17E	FY18E	
BEST	SGD	1.22	502	15	12	10	28	0.4	9	27	5.3	41	37	2.4
Herbalife	USD	69.81	6,087	15	13	12	6	2.8	10	15	n/a	n/a	n/a	-
Tupperware	USD	62.64	3,188	13	12	11	8	1.6	9	19	11.2	99	96	4.3
Nu Skin	USD	67.96	3,578	21	20	17	10	2.0	11	15	5.3	25	29	2.1
Usana Health	USD	72.10	1,730	18	17	15	4	4.3	10	15	n/a	n/a	33	n/a
Grape King Bio	TWD	194.00	878	19	16	15	8	2.2	11	26	4.4	32	32	3.8
Amway Malaysia	MYR	7.05	283	21	18	17	7	2.9	12	8	5.4	26	28	4.3
Average excluding BEST				18	16	15	7	2.6	10	16	6.6	45	44	2.9

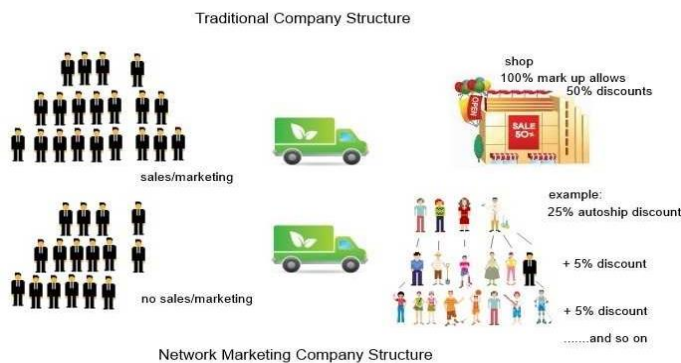
*Share prices as of 30 Nov 2017. All stocks mentioned other than BEST are Not Rated.

Source: Bloomberg, Maybank Kim Eng

Value Proposition

- Multi-channel distributor of healthcare/wellness products, with a top 15 market position in Taiwan based on revenue. Revenue split in FY16: Taiwan 61%, China 29%, Singapore 4%, Indonesia 3%, and others 3%.
- Direct-selling model highly scalable with low upfront expansion costs. Commissions only paid on successful sales.
- Recovering from an earnings trough in 2011 caused by regulatory changes in Indonesia. Regaining strength by penetrating new markets.
- Aims to turn China into its largest market; secured a direct marketing licence there in Nov 2016.
- ROIC at 16% > WACC of 9%. Continued earnings growth via asset-light-model should lead to ROIC expansion.

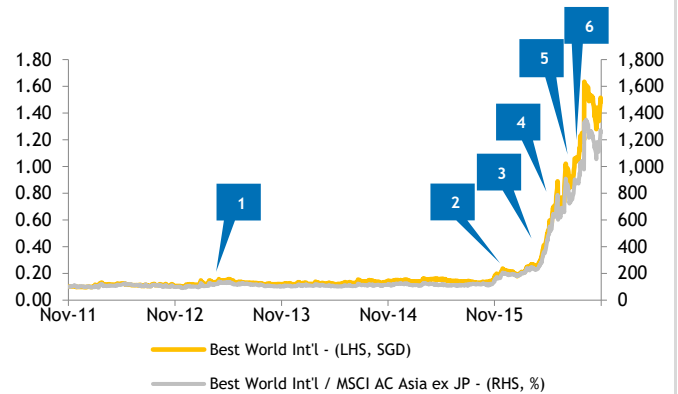
Traditional retail sales vs direct selling channel



Source: Adult-Stemcell-Tech

Price Drivers

Historical share price trend



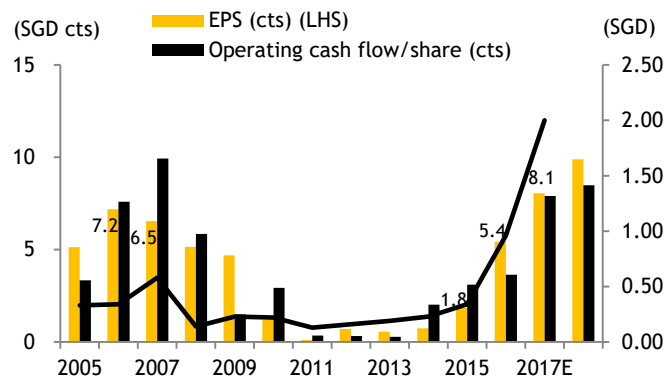
Source: Bloomberg, Maybank Kim Eng

- Generated earnings in 4Q13, a turnaround from losses of SGD0.5m in 3Q13.
- 3Q15 earnings jumped 259% YoY and 92% QoQ.
- FY15 earnings up 149% YoY.
- 1Q16 earnings up 2,300% YoY and 61% QoQ.
- 9 Jun 2016: Share price plunged by c.40% from a high of SGD1.45 to a low of SGD0.90 after BEST answered a long query from SGX regarding the share price spike.
- 1 Jul 2016: Share price spiked after BEST was awarded China direct selling license.

Financial Metrics

- EPS and operating cash flow have the largest impact on BEST's share price. Expect strong earnings momentum to continue.
- Revenue and earnings move in tandem with market penetration, team structure and brand strength.
- ROE closely tied to earnings growth due to its asset-light and high-variable-costs business. ROE improved to 45% in FY16 on earnings growth of 196%.
- Net cash of SGD48m at FY16. Dividend payout ratio of at least 40% from FY18-19E (37% in FY17E).

Direct correlation between EPS, cash flow & share price



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Shares re-rate as investor recognition increases. A 2-yr scenario to 19x FY19E EPS suggests 76% upside to SGD2.15 based on a PEG of 0.7x FY16-19E EPS CAGR of 27% (c.30% discount on regulatory risks and competition).
- Robust growth in China after the approval of direct selling licence.
- Successful expansion in Taiwan, Indonesia and Philippines.
- Expansion into new markets, such as the Middle East.

Downside

- Regulatory changes detrimental to direct selling in its markets, similar to Indonesia's restriction on healthcare imports in 2009.
- Reputational risks caused by fraud or fake-product scandals for other direct-selling players or BEST's members.
- Failure to scale up in China would result in up to 10% downside to the share price valuation.

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FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	5.2	7.5	15.6	12.7	11.1
Core P/E (x)	68.6	23.2	15.6	12.7	11.1
P/BV (x)	10.9	7.7	5.5	4.1	3.1
P/NTA (x)	12.2	8.2	5.8	4.2	3.2
Net dividend yield (%)	1.3	3.7	2.4	3.1	3.6
FCF yield (%)	2.1	1.2	6.3	6.7	8.0
EV/EBITDA (x)	1.3	6.0	8.9	6.9	5.5
EV/EBIT (x)	1.5	6.3	9.2	7.0	5.7
INCOME STATEMENT (SGD m)					
Revenue	101.7	200.8	202.0	245.0	291.3
Gross profit	76.9	147.0	139.4	164.2	192.2
EBITDA	19.5	53.4	68.1	83.3	95.4
Depreciation	(1.7)	(1.8)	(1.7)	(1.9)	(2.0)
Amortisation	(1.0)	(1.0)	(0.2)	(0.2)	(0.2)
EBIT	16.7	50.7	66.2	81.3	93.2
Net interest income / (exp)	0.3	0.3	0.4	0.5	0.6
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	17.0	50.9	66.6	81.8	93.8
Income tax	(7.7)	(16.5)	(22.6)	(27.8)	(31.9)
Minorities	0.8	0.2	0.4	0.5	0.5
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	10.1	34.6	44.3	54.5	62.4
Core net profit	10.1	29.9	44.3	54.5	62.4
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	47.2	54.9	89.9	125.5	168.6
Accounts receivable	10.6	23.4	23.2	28.2	33.5
Inventory	11.5	43.0	36.4	39.2	43.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	6.8	16.8	23.3	24.5	25.4
Intangible assets	7.0	6.2	6.2	6.2	6.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	11.2	15.9	15.9	15.9	15.9
Total assets	94.4	160.2	194.9	239.4	293.4
ST interest bearing debt	0.0	2.6	2.6	2.6	2.6
Accounts payable	24.5	43.9	42.9	44.3	48.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	4.7	4.7	4.7	4.7
Other liabilities	8.0	20.0	20.0	20.0	20.0
Total Liabilities	32.4	71.5	70.5	71.9	76.5
Shareholders Equity	63.7	90.6	126.7	170.3	220.2
Minority Interest	(1.7)	(1.9)	(2.3)	(2.8)	(3.3)
Total shareholder equity	62.0	88.7	124.4	167.5	216.9
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	94.4	160.2	194.9	239.4	293.4
CASH FLOW (SGD m)					
Pretax profit	17.0	50.9	66.6	81.8	93.8
Depreciation & amortisation	2.8	2.7	1.9	2.0	2.2
Adj net interest (income)/exp	(0.3)	(0.3)	(0.4)	(0.6)	(0.8)
Change in working capital	0.3	(29.7)	5.8	(6.4)	(5.3)
Cash taxes paid	(1.4)	(4.2)	(22.6)	(27.8)	(31.9)
Other operating cash flow	(1.3)	0.6	0.0	0.0	0.0
Cash flow from operations	17.1	20.1	51.2	49.0	58.0
Capex	(2.9)	(11.8)	(8.0)	(3.0)	(3.0)
Free cash flow	14.6	8.7	43.6	46.6	55.8
Dividends paid	(2.2)	(7.7)	(8.2)	(10.9)	(12.5)
Equity raised / (purchased)	0.0	(0.0)	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(5.8)	(3.2)	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(7.5)	(0.7)	(7.6)	(2.4)	(2.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1.6	8.4	35.4	35.8	43.3

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	35.1	97.5	0.6	21.3	18.9
EBITDA growth	139.7	173.8	27.5	22.4	14.5
EBIT growth	200.7	202.7	30.6	22.8	14.7
Pretax growth	200.6	199.7	30.7	22.8	14.7
Reported net profit growth	149.2	242.1	28.3	22.8	14.6
Core net profit growth	149.2	195.9	48.3	22.8	14.6
Profitability ratios (%)					
EBITDA margin	19.2	26.6	33.7	34.0	32.8
EBIT margin	16.5	25.2	32.8	33.2	32.0
Pretax profit margin	16.7	25.4	33.0	33.4	32.2
Payout ratio	87.2	73.2	37.0	40.0	40.0
DuPont analysis					
Net profit margin (%)	9.9	17.2	22.0	22.2	21.4
Revenue/Assets (x)	1.1	1.3	1.0	1.0	1.0
Assets/Equity (x)	1.5	1.8	1.5	1.4	1.3
ROAE (%)	16.8	44.8	40.8	36.7	32.0
ROAA (%)	11.3	23.5	25.0	25.1	23.4
Liquidity & Efficiency					
Cash conversion cycle	(140.6)	(16.1)	20.1	11.9	19.5
Days receivable outstanding	35.3	30.5	41.6	37.8	38.1
Days inventory outstanding	139.8	182.2	228.0	168.2	150.7
Days payables outstanding	315.7	228.8	249.4	194.1	169.3
Dividend cover (x)	1.1	1.4	2.7	2.5	2.5
Current ratio (x)	2.5	2.1	2.6	3.2	3.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.9	2.2	2.8	3.3	3.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.1	0.1	0.1	0.1
Capex/revenue (%)	2.8	5.9	4.0	1.2	1.0
Net debt/ (net cash)	(47.2)	(47.6)	(82.5)	(118.1)	(161.3)

Source: Company; Maybank

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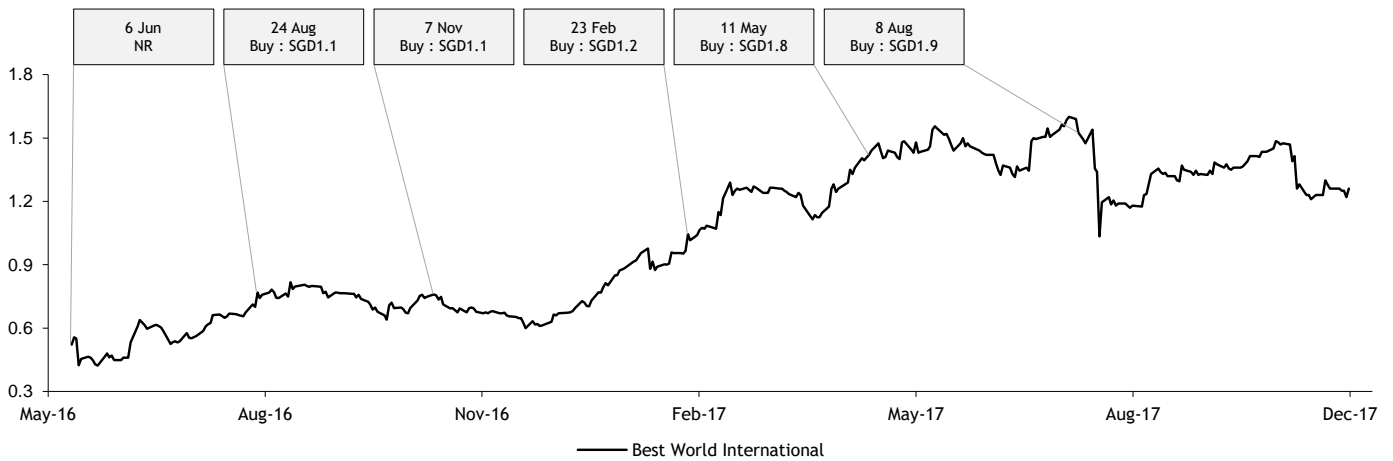
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