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Amway braces for more challenges

BY CECILIA KOK

New ideas: The group will have sufficient time to identify a suitable successor to steer the company through the volatile environment.

Internal candidate tipped to be new MD to help steer the company through tough times

THE impending management change at Amway (M) Holdings Bhd, which will likely bring fresh ideas to the direct-marketing company, will be beneficial to the group, that is currently facing an increasingly tough business environment.

"New management will allow new ideas to maneuver the company through tough times," TA Research analyst Ahmad Faris says.

"This will benefit the company in the long run," he tells *StarBizWeek* in an email.

A source notes that with the retirement of Amway managing director Paul Yee Kee Bing taking effect early next year, the group will have sufficient time to identify a suitable successor to steer the company through the volatile environment.

On that note, he says the successor will likely be an internal candidate who knows the company and its employees well.

"The group has a well-structured succession planning in place so any management change will not affect its day-to-day operations," the source says.

"While it has yet to finalise its decision, the potential successor will likely be an internal candidate because Amway is unlike any other business model ... it is a 'people's business', so it cannot just parachute an outsider who may not know the company and its employees and distributors well," he tells *StarBizWeek*.

The retirement of Yee, 56, was announced over the week, on the same day the group reported a 39.6% decline in its net profit for the second quarter ended June 30. It may have come as a surprise to some punters, considering that the change is happening in less than a year of Yee officially assuming the MD position.

But the source notes that the Yee's retirement has long been pre-planned. His retirement will take effect from Jan 1, 2017.

Before assuming the MD role in February this year, Yee had been the group's executive director since July 2004. In total, he has been with the company for 32 years, and he has been credited for the growth of the group's revenue to reach the RM1bil mark.

Outgoing: Yee at a company's event. His successor is likely to be an internal candidate who knows the company and its employees well.

"Yee's departure is not expected to have any negative impact on Amway simply because as with most multinational corporations (MNCs), the group has a standard management style that is governed by its parent company," Ahmad Faris says.

"If we take a closer look at MNCs in Malaysia, changes in senior management personnel would not cause a big stir to the company's fundamental and share price," he adds.

Amway's shares have been under pressures since mid-2015, as sentiment has been weighed down by the group's poor results.

The counter yesterday closed two sen higher at RM8.80. This represented a year-to-date loss of about 6.1%.

Subdued outlook

Amid the weak consumer sentiment and still-volatile business environment, Amway could potentially be looking at a third consecutive annual profit decline for the year ending Dec 31, 2016.

The company, which has been hit by higher sales incentive provisions as well as higher import costs because of the weaker ringgit against the US dollar, has already pre-empted that its second-half performance will be softer than the first six months of this year.

Such poor prospects could spell lower dividend payout and yield, which have always been Amway's major appeal to investors.

"Certainly a weaker performance by the company will translate into lower payouts for investors but then again it is unreasonable to expect outperformance by the company in this kind of challenging business environment," a market observer notes.

"Our expectation is that the downcycle faced by the company will not last too long; we expect to see improved performance by the company next year," he says.

The observer notes that his optimism is premised on the company's strong market presence that is backed by a huge pool of agents, commonly called the Amway Business Owners (ABO).

Amway currently boasts a pool of 240,000 ABOs in Malaysia.

Over the week, the company reported that is net profit for the second quarter ended June 30, 2016, had plunged 39.6% to RM6.18mil, or 3.76 sen per share, from RM10.23mil, or 6.22 sen per share, in the corresponding quarter last year.

This was due primarily to higher import costs arising from the weaker ringgit against the US dollar, increased in sales incentive provisions as well as higher operating expenditure.

The 43% growth in its revenue had failed to offset the headwinds.

During the quarter in review, Amway saw its revenue increase to RM268.87mil from RM187.99mil in the previous corresponding quarter, driven by strong ABO momentum and higher ABOs qualifiers in response to the group's 40th anniversary sales and marketing programmes, activities and promotions.

It has announced a second interim dividend of five sen per share, bring the total to-date to 10 sen per share. This is half of the dividend of 20 sen declared for the first half of 2015.

According to TA Research, which has a "sell" recommendation on Amway with a target price of RM8.57, an eventual rebound in the company's performance is unlikely to take place this year.

"We do expect a rebound in Amway's business performance, but it will definitely not be in 2016," Ahmad Faris says, noting that cost pressure is expected to continue to weigh on the company's earnings in the second half of this year.

Despite the anticipated challenging environment in the second half, Amway says it will continue to invest in sales and marketing programmes and ABO experience related infrastructure.

According to Kenanga Research, the associated costs of Amway's continued investment in incentive and marketing programmes to exert a heavy toll on the group's near-term profitability, although these efforts could bring positive results in the long run.

The brokerage has recently downgraded its rating on Amway to "underperform" from market perform, with a lower target price of RM8.04, compared with RM9.84 previously.

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