



# 2017-18 GNAM Investment Competition

bestworld

Bean-stock with potential to reach the sky

**ALPHA-OMEGA INVESTMENTS**

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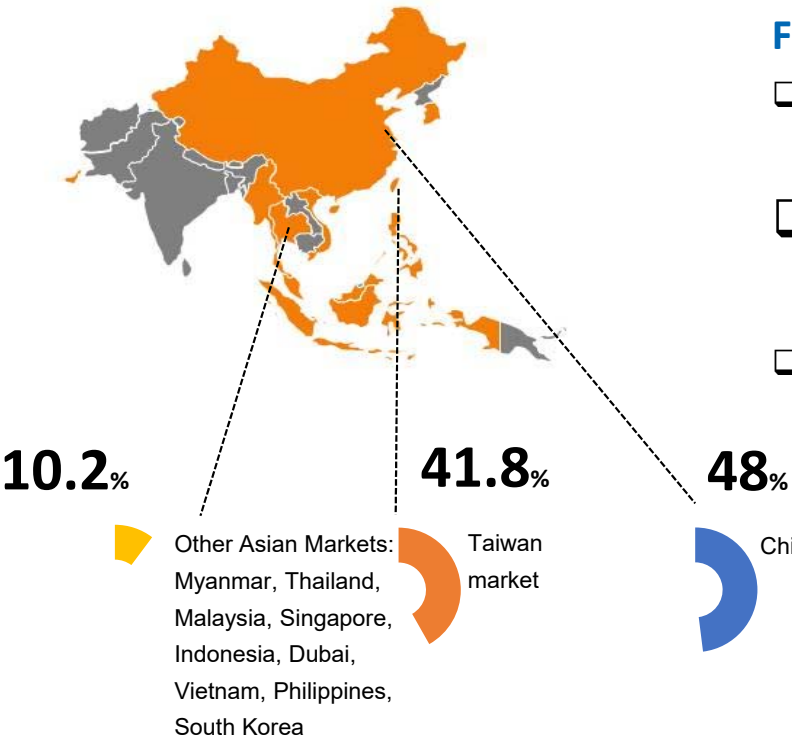
**12 NOV 2017**



**THE  
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ALPHA-OMEGA INVESTMENTS



### First direct selling company listed in Singapore Stock Exchange (SGX)

- Best World International Ltd. is a leading company to sources, formulate, brand, and distribute a range of health, skin care and lifestyle products to local and global markets
- 3** categories of product line-up, **6** brands managed in the Skin Care, Health Supplements and Weight Management segments
- Use scalable direct selling model to serve **11** Asian markets, including Myanmar, Thailand, Malaysia, Singapore, Indonesia, Dubai, Vietnam, Philippines, South Korea, Taiwan and China



Skin care

Health Supplements

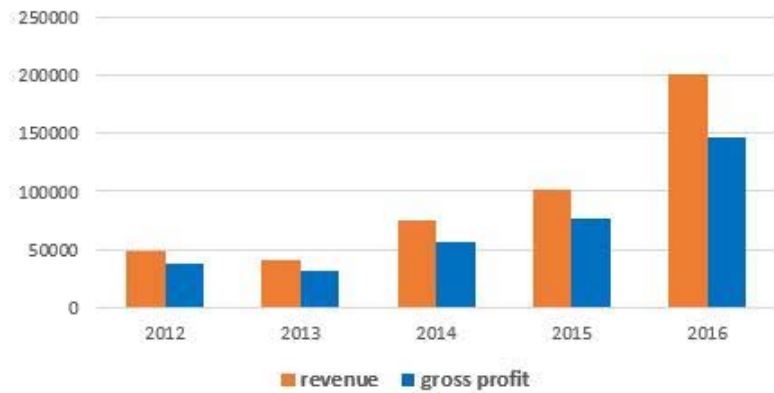
Weight Management

Source : BWI 2016 Annual Report



## Exponential Growth in Asia over the years

Revenue & Gross Profit Grow in Upward Trend



- ❑ YoY Revenue up by **97.5%** to SGD \$ 200.8M in 2016
- ❑ YoY Gross Profit up by to **91.2%**
- ❑ Net Profit Margin grows to **17.2%** in FY2016
- ❑ EBIT up from S\$ (0.3) Mil → S\$ **46 Mil** for FY 2013 to 2016



Source : BWI 2016 Annual Report



## Capitalising on the momentum in the Chinese Market

### From here to ubiquity

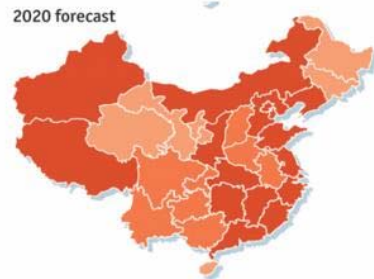
Middle-class urban households  
As % of total urban households

<30 30-40 40-50 50-60 >60

2015



2020 forecast

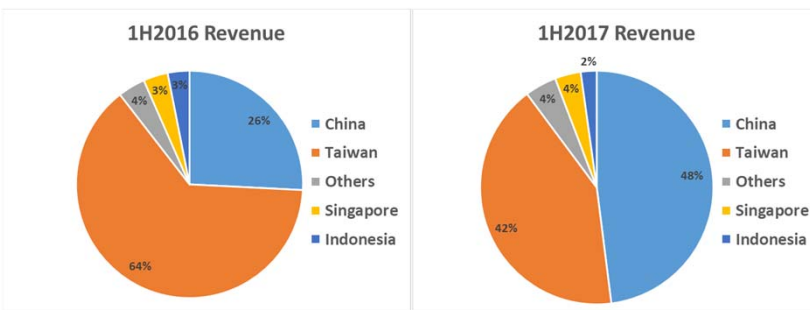


Source : Economist Intelligence Unit  
Economist.com

- ❑ **76%** of China's urban population will turn into middle class by 2022 compared to only 4% in 2000 (McKinsey)
- ❑ Premium skincare market becomes one of the fastest growing segment in China with a 5-Yr CAGR of **14%** (National Bureau of Statistics, China)
- ❑ China is the growth driver for Direct Sales market with 3-Yr CAGR of over **22.5%** (World Federation of Direct Selling Associations)

### New Era of growth in China as the next big catalyst for top-line growth

- ❑ BWL's Revenue in China increased by over **192%** in 2016
- ❑ Direct Sales License obtained, a important milestone to fuel the taking off
- ❑ China market, for the first time, overtake Taiwan as BWL's largest market, now responsible for about half of the revenue while Taiwanese market's share has fallen from 61.3% to 40%



Source : BWI 2016 Annual Report



## Global Direct Selling on consist growth with Asia leading the way

- ❑ **Global direct sales increased 7.7%, reaching US\$183.7 billion in 2016 – a new record**
  - Asia, boasts the largest sales and the biggest growth, with 46% of global direct sales and a three-year CAGR of 10.6%
  - China lead the growth with 3-Yr CAGR of 22.5% (World Federation of Direct Selling Associations)
  
- ❑ **An increasing trend towards entrepreneurialism and side-occupations in Asia**
- ❑ **Scalable business model with direct sales gaining greater control over pricing and distribution**
- ❑ **A ready customer base and stronger customer relationship , proven in Taiwan**



Source : World Federation of Direct Selling Associations

## Earning Forecast by DCF and Sensitivity Analysis

Based on estimation from DCF model, we arrived at a fair value of **SGD\$ 2.57**

SGD (in millions)	2016	2017E	2018E	2019E	2020E	2021E
EBIT	50.99	63.63	71.51	75.94	80.65	80.65
YoY growth		24.8%	12.4%	6.2%	6.2%	6.2%
EBIT (1-T)	42.32	52.81	59.35	63.03	66.94	66.94
Depreciation & Amortization	2.73	2.93	3.15	3.39	3.64	3.64
Capex	-11.75	-11.75	-11.75	-11.75	-11.75	-11.75
Change in working capital	-29.74	-18.64	-11.68	-7.32	-4.59	-4.59
<b>FCFF</b>	<b>3.56</b>	<b>25.36</b>	<b>39.15</b>	<b>47.43</b>	<b>54.32</b>	<b>54.32</b>

PGR	5.0%
Terminal value	1666.96
WACC	8.58%
<b>Enterprise value</b>	<b>1459.99</b>
Cash	48.801
Debt	8.103
Minority Interest	-2.91
<b>Equity value</b>	<b>1416.38</b>
No. of shares outstanding (mn)	550
<b>Price per share (SGD)</b>	<b>2.57</b>

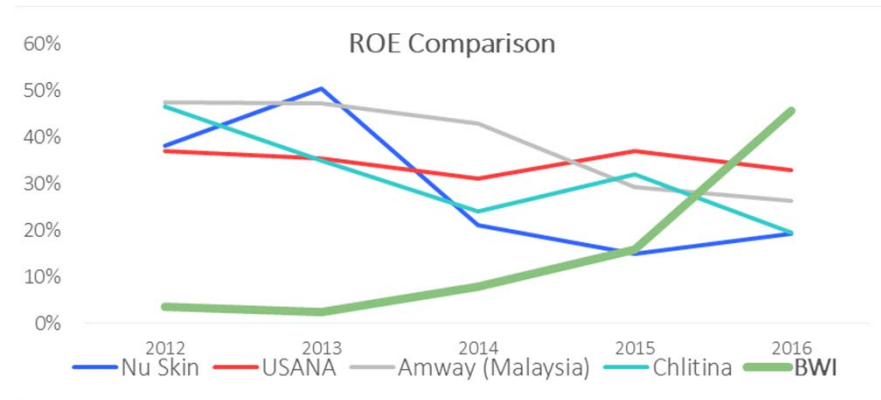
Debt to equity ratio	0.03
Required rate on Debt	5.69%
Beta	0.85
Risk free rate	3.90%
Risk premium	5.86%
Required return (equity)	8.88%
<b>WACC</b>	<b>8.58%</b>

		Sensitivity Analysis				
		WACC				
		7.6%	8.1%	8.6%	9.6%	10.6%
PGR	6.0%	5.84	4.43	3.55	2.53	1.94
	5.5%	4.47	3.59	2.99	2.22	1.75
	<b>5.0%</b>	3.62	3.01	<b>2.57</b>	1.98	1.60
	4.5%	3.04	2.60	2.26	1.79	1.47
	4.0%	2.62	2.29	2.02	1.63	1.36

→ Even worst scenario represents a 6% upside compared with current stock price

## Comparable Company Analysis

- ❑ Six comparable companies in the United States, Malaysia and Taiwan markets with direct selling business
- ❑ Trading at a lower PEG of 0.6 to the peer group average of 2.0



Name	Ticker	Currency	Share Price (LC) <sup>1</sup>	Market Cap (USD M)	P/E (x)			PEG (x)	EBITDA margin (%)	EV/EBITDA (x)		ROE (%)		Dividend Yield (%) LTM	
					FY17E	FY18E	FY19E	NTM		FY17E	FY18E	FY17E	FY18E		
<b>United States</b>															
Avon Products	AVP US	USD	1.9	836	633.3	9.9	6.4	2.9	10.6	6.0	5.4	7.4	-130.8	--	
Nu Skin	NUS US	USD	61.4	3232.7	19.1	17.7	15.2	2.1	13.4	9.6	9.0	25.0	28.9	2.3	
Usana Health	USNA US	USD	65.55	1572.7	16.7	15.1	13.2	1.1	15.1	8.7	8.5	29.8	32.9	--	
Herbalife	HLF US	USD	65.36	5699.2	14.4	12.4	11.5	--	17.1	9.5	8.5	1.7	1.8	--	
<b>Malaysia</b>															
Amway Malaysia	AMK MK	MYR	7.3	286.3	22.81	15.65	12.04	--	6.6	17.9	15.7	24.2	29.3	2.7	
<b>Taiwan</b>															
Chlitina HLD	4137 TT	TWD	114.5	301.4	15.38	12.78	--	--	32.9	5.9	6.4	16.2	17.7	5.7	
					<b>Mean</b>	<b>120.3</b>	<b>13.9</b>	<b>11.7</b>	<b>2.0</b>	<b>16.0</b>	<b>9.6</b>	<b>8.9</b>	<b>17.4</b>	<b>-3.4</b>	<b>3.6</b>
					<b>Median</b>	<b>17.9</b>	<b>13.9</b>	<b>12.0</b>	<b>2.1</b>	<b>14.3</b>	<b>9.1</b>	<b>8.5</b>	<b>20.2</b>	<b>23.3</b>	<b>2.7</b>
<b>Best World</b>	<b>BEST SP</b>	<b>SGD</b>	<b>1.28</b>	<b>517.4</b>	<b>16.4</b>	<b>13.5</b>	<b>11.3</b>	<b>0.6</b>	<b>24.3</b>	<b>10.2</b>	<b>8.6</b>	<b>41.4</b>	<b>39.8</b>	<b>2.3</b>	



## Risk Factors: Mainly from Regulation

### Changes in the regulation of product ingredients

- Discontinuation of products can arise because of restrictions of certain product ingredients imposed by the authorities

### Changes in the direct selling licensing

- Any changes in regulations could result in termination or restriction of activities at BWI's lifestyle centres. The impact of such an event is significant as direct selling contribute to over 50% of BWI's revenue

### Difficulty of governance of direct sales team and distributors

- Exaggerating the efficacy of the products may lead to regulatory intervention. Warnings or penalties might be issued to the company, causing great reputational damage or monetary losses, affecting the profitability and future growth

### Unfavourable foreign exchange movements

- revenue is generated in various currencies which may expose significant foreign currency fluctuation, especially the potential weakening of RMB



## Concluding Summary

**Buy Best World International with a TP of S\$ 2.57 representing a close to 100% upside from its current value. We believe that investing in BWI is bound to produce positive returns for the investors in the coming years for the following reasons:**

- Track record of phenomenal top-line and bottom-line growth
- Low 'current market-share' leaves a lot of room for growth
- Cheaper relative to the established competition
- Higher ROE compared to the competition
- Persistence of factors which led to exponential growth in the past 3 years
- Entry into niche product markets (Halal Products) with huge customer base
- Integration of new technologies to improve customer penetration and economies of scale, e.g. leveraging digital communication platforms and Industry 4.0

**BUY  
BEST SP**

Price: SGD \$ 1.28

**Price Target: SGD \$ 2.57**

Price Target Potential: 100.78%

Price Target Period: 1 Year