

26 March 2020

Hai-O Enterprise Bhd

9MFY20 Below Expectations

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9MFY20 net profit of RM22.7m (-39%) came in below expectations at 64%/70% of our/consensus full-year estimate due to lower-than-expected MLM sales. As such, we cut both FY20E and FY21E net profit by 22% each, and our TP to RM0.850 (from RM1.50 previously), based on the revised 8x FY21E EPS (at its -1.0SD of 5-year forward historical mean) from 12x FY20E EPS (at -0.5SD of its 5-year forward historical mean) amidst the current Covid-19 outbreak uncertainties.

9MFY20 below expectations. 9MFY20 net profit of RM22.7m (-39%) came in below expectations at 64%/70% of our/consensus full-year estimate due to lower-than-expected MLM sales. A 2nd Interim DPS of 3.0 sen elevated 9MFY20 to 6.0 sen (9MFY19: 4.0 sen) within expectation.

YoY, 9MFY20 net profit plunged 39% dragged by: (i) lower revenue (-22%) due to weaker MLM division (-32%), Wholesale (-1%) as well as Retail division (-3%), and (ii) contraction in EBIT margin by 3.9ppt to 15.0% from 18.9% in 9MFY19 from unfavourable merchandise mix skewed towards small ticket items as well as higher rebates on promotional items to attract distributors. MLM division's dismal performance continued to persist in view of weak market sentiment with distributors continuing to cut back spending and slowed down marketing activities, which also affected members' recruitment and renewal. On the other hand, its Retail division's buying momentum remained subdued but cushioned by better merchandise mix toward high margin house-brand products as well as cost optimization initiatives, while Wholesale division's higher sales generated from Puer tea and the export of bird nest products were offset by the drop in Chinese medicated tonic and patented medicine sales.

QoQ, 3QFY20 net profit increased by 4% mainly from expansion in EBIT margin by 2.4ppt to 16.1% from 13.7% in 2QFY20 from favourable merchandise mix and lower rebates, which more than offset: (i) lower revenue (-2%) in weaker MLM division (-14%), mitigated by stronger Wholesale (+10%) as well as Retail division (+29%), and (ii) higher effective tax rate of 28.0% (2QFY20: 23.8%). There was no MLM sales incentive campaign in the current quarter, while consumer sentiment remained weak and the high cost of living continued to affect members' ability and willingness to spend. Wholesale and Retail division was boosted by additional seasonal sales from hampers and Chinese medicated tonic during the Chinese New Year (CNY) festive season campaign.

Outlook. We expect to see further pressure from stagnant distributors' growth (averaging at 140k, plunging from the highest level in FY18 at 160k distributors) as well as from weakening MYR against RMB. The MLM division will develop more "small ticket" items with affordable prices to cater for market needs in view of lower spending power of its members and reinforce ongoing digitalization initiatives. The Wholesale division will focus on its core products, which include Chinese medicated tonic and other health and wellness products, and will continue to widen its product portfolio. The Retail division will continue to develop more affordable house-brand products to widen its product portfolio as well as improve its sales incentive scheme.

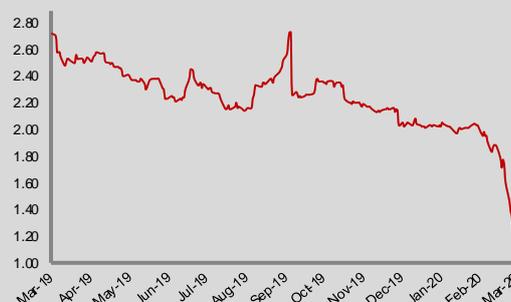
Cut both FY20E and FY21E net profit by 22% each to account for the lower-than-expected MLM sales.

Reiterate UNDERPERFORM with a lower TP of RM0.850 (from RM1.50, previously) based on the revised 8x FY21E EPS (at its -1.0SD of 5-year forward historical mean) from 12x FY20E EPS (at its -0.5SD of 5-year forward historical mean) amidst the current Covid-19 outbreak uncertainties. **Risks to our call include:** (i) better-than-expected sales, and (ii) lower-than-expected cost of sales.

UNDERPERFORM ↔

Price: RM1.17
Target Price: RM0.850 ↓

Share Price Performance



KLCI	1,324.50
YTD KLCI change	-16.6%
YTD stock price change	-42.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	339.7
Shares Outstanding	290.3
52-week range (H)	2.77
52-week range (L)	1.12
3-mth avg daily vol:	160,292
Free Float	56%
Beta	1.0

Major Shareholders

Tan Kai Hee	10.3%
Akintan Sdn Bhd	8.1%
Excellant Communication	5.4%

Summary Earnings Table

FY Apr (RM m)	2019A	2020E	2021E
Turnover	328.4	236.2	241.8
EBIT	62.4	36.5	39.6
PBT	63.5	37.7	41.0
Net Profit (NP)	47.4	27.9	30.3
Consensus (NP)	-	32.6	38.3
Earnings Revision	-	-21.6%	-21.5%
EPS (sen)	16.3	9.6	10.4
EPS growth (%)	-34.4	-41.1	8.7
NDPS (sen)	13.0	8.0	9.0
BV/Share (RM)	1.07	1.08	1.10
PER (x)	7.2	12.2	11.2
Price/BV (x)	1.1	1.1	1.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	11.1	6.8	7.7

26 March 2020

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	67.0	68.4	-2.0%	86.2	-22.2%	201.5	258.4	-22.0%
EBIT	10.8	9.4	15.3%	16.7	-35.1%	30.2	48.8	-38.2%
PBT	11.0	9.5	15.0%	16.9	-35.1%	30.7	49.6	-38.1%
Taxation	-3.1	-2.3	35.5%	-4.1	-25.5%	-8.0	-12.3	-34.9%
Net Profit (NP)	7.6	7.3	3.8%	12.8	-40.6%	22.7	37.4	-39.4%
EPS (sen)	2.6	2.5	3.8%	4.4	-40.6%	7.8	12.9	-39.4%
EBIT margin	16.1%	13.7%		19.3%		15.0%	18.9%	
PBT margin	16.4%	14.0%		19.6%		15.3%	19.2%	
NP margin	11.3%	10.7%		14.8%		11.2%	14.5%	
Effective tax rate	28.0%	23.8%		24.4%		26.1%	24.8%	

Source: Bursa Announcement, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
- MLM	36.8	42.6	-13.5%	56.3	-34.6%	121.4	177.5	-31.6%
- Wholesale	16.7	15.1	10.4%	16.2	3.0%	46.7	46.9	-0.5%
- Retail	12.5	9.6	29.0%	12.5	-0.8%	30.2	31.0	-2.5%
- Others	1.0	1.0	0.1%	1.1	-7.1%	3.1	3.0	3.1%
Group Revenue	67.0	68.4	-2.0%	86.2	-22.2%	201.5	258.4	-22.0%
- MLM	7.2	7.4	-2.9%	11.9	-39.2%	21.8	36.3	-40.0%
- Wholesale	2.5	1.4	74.4%	3.1	-18.6%	5.3	8.9	-40.4%
- Retail	0.9	0.2	273.4%	0.4	109.9%	0.9	0.4	108.1%
- Others	0.2	0.8	-70.7%	1.4	-82.8%	2.5	3.2	-21.3%
- Elimination	-0.1	-0.6	-86.7%	-0.2	-57.4%	-0.3	0.0	-1210.0%
Group EBIT	10.8	9.4	15.3%	16.6	-35.0%	30.2	48.8	-38.2%
- MLM	19.6%	17.5%		21.1%		17.9%	20.4%	
- Wholesale	15.0%	9.5%		19.0%		11.3%	18.9%	
- Retail	7.3%	2.5%		3.5%		3.0%	1.4%	
EBIT Margin	16.1%	13.7%		19.3%		15.0%	18.9%	

Source: Bursa Announcement, Kenanga Research

26 March 2020

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.34	1,652.2	N	12/2020	7.9%	4.8%	13.5%	3.1%	30.5	26.9	26.1	16.2	16.2	60.2%	3.7%	1.35	MP
AEON CO. (M) BHD	1.04	1,460.2	Y	12/2020	1.3%	1.3%	1.5%	2.3%	13.4	13.2	12.9	0.9	0.8	6.4%	3.8%	1.65	OP
AMWAY (MALAYSIA) HOLDINGS BHD	4.75	780.9	Y	12/2019	-1.0%	2.0%	1.4%	3.7%	15.3	15.0	14.5	3.5	3.4	23.0%	5.8%	5.10	MP
DUTCH LADY MILK INDUSTRIES BHD	40.04	2,562.6	Y	12/2020	1.7%	1.7%	2.5%	2.3%	24.3	23.7	23.2	17.7	14.1	66.2%	2.7%	43.85	MP
FRASER & NEAVE HOLDINGS BHD	29.70	10,891.0	Y	09/2020	2.4%	3.0%	2.5%	6.0%	25.9	25.3	23.9	4.3	4.0	16.4%	2.2%	35.20	OP
HAI-O ENTERPRISE BHD	1.17	339.8	N	04/2020	-18.8%	2.4%	-41.1%	8.6%	7.2	12.2	11.2	1.1	1.1	8.9%	6.8%	0.850	UP
MYNEWS HOLDINGS BHD	0.605	412.7	N	10/2020	15.7%	11.3%	-19.0%	18.0%	15.4	19.0	16.1	1.4	1.3	7.0%	1.7%	0.550	UP
NESTLE (MALAYSIA) BHD	135.50	31,774.8	Y	12/2020	4.1%	1.9%	6.6%	3.7%	48.7	45.7	44.1	47.4	46.4	102.5%	2.1%	124.50	UP
PADINI HOLDINGS BHD	1.92	1,263.2	Y	06/2020	0.5%	4.8%	3.2%	5.6%	8.1	7.8	7.4	1.7	1.5	20.6%	6.0%	3.70	OP
POWER ROOT BHD	1.80	709.4	Y	03/2020	13.3%	10.5%	53.9%	12.3%	21.2	14.3	13.1	3.2	2.9	21.8%	5.0%	2.75	OP
QL RESOURCES BHD	7.15	11,600.2	Y	03/2020	10.9%	11.6%	13.1%	9.6%	53.5	47.3	43.2	5.7	5.3	12.1%	0.8%	8.30	MP
SPRITZER BHD	1.95	409.5	Y	12/2020	1.4%	3.1%	3.2%	3.4%	13.1	12.7	12.3	1.0	0.9	7.6%	2.6%	2.45	OP
Simple Average					3.3%	4.9%	3.4%	6.6%	23.1	21.9	20.7	8.7	8.2	29.4%	3.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	9.88	2,820.7	N	12/2020	-11.0%	-3.0%	-5.6%	-4.3%	7.8	8.3	8.6	6.6	6.4	78.2%	11.6%	16.70	OP
CARLSBERG BREWERY MALAYSIA BHD	23.50	7,240.4	N	12/2020	13.8%	9.2%	12.0%	9.5%	24.9	22.2	20.3	43.5	42.3	200.4%	4.5%	29.00	UP
HEINEKEN MALAYSIA BHD	21.70	6,555.6	N	12/2020	13.0%	4.0%	16.1%	5.6%	20.9	18.0	17.1	18.3	16.8	97.3%	5.1%	28.90	MP
Simple Average					5.3%	3.4%	7.5%	3.6%	17.9	16.2	15.3	22.8	21.9	125.3%	7.1%		

Source: Bloomberg, Kenanga Research

26 March 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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