*"Results above expectations"*

## Share price performance


| | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | 0.0 | -3.2 | -20.4 |
| Rel KLCI (%) | 1.4 | -3.8 | -16.1 |

| | BUY | HOLD | SELL |
|---|---|---|---|
| Consensus | - | 1 | 2 |

*Source: Bloomberg*

## Stock Data

| | |
|---|---|
| Sector | Consumer |
| Issued shares (m) | 289.9 |
| Mkt cap (RMm)/(US$m) | 521.9/125.5 |
| Avg daily vol - 6mth (m) | 0.2 |
| 52-wk range (RM) | 1.12-2.4 |
| Est free float | 56.5% |
| Stock Beta | 0.96 |
| Net cash/(debt) (RMm) | 61.5 |
| ROE (CY20E) | 10.7% |
| Derivatives | Nil |
| Shariah Compliant | No |

## Key Shareholders

| | |
|---|---|
| Kai Hee Tan | 10.6% |
| Akintan Sdn Bhd | 8.1% |
| Excellent Communication | 5.4% |

*Source: Affin Hwang, Bloomberg*

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# Hai-O (HAIO MK)

**HOLD (upgrade)**
*Up/Downside: +7.5%*

**Price Target: RM1.93**
*Previous Target (Rating): RM1.65 (SELL)*

## Bright start to the year

- **Hai-O reported a solid set of results, with 1QFY21 core net profit at RM9.9m (+27.6% yoy) tracking ahead of our and street expectations.**
- **The earnings surprise was predominantly driven by a successful MLM sales campaign, on top of continual cost optimisation initiatives across the board.**
- **We lift our earnings estimates by 3-34% for FY21-23E and upgrade Hai-O to a HOLD with a higher TP of RM1.93.**

### Core net profit at RM9.9m; above expectations

Hai-O's 1QFY21 revenue rose 7.8% yoy to RM71.2m, underpinned by higher MLM sales of RM49.3m (+17%). This partly comes on the success of its "Duit Raya" sales campaign and strong sales from its newly launched lady-wear items during the period. On the flipside, the wholesale (-11%) and retail (-3%) divisions slightly negated the strong MLM performance, as both were affected by operational constraints during the CMCO/RMCO. Meanwhile, EBITDA margin expanded 3ppt yoy to 20.7%, benefitting from: i) effective cost optimisation; ii) favourable sales mix for MLM and wholesale; and iii) rental rebates for its retail outlets. Consequently, core net profit grew 27.6% to RM9.9m, tracking ahead of our (40%) and the street's (37%) full-year expectations. Variance against our estimates was due to higher-than-expected MLM sales and margins.

### Intensifying marketing events to support sales

Sequentially, revenue and core net profit grew +32.7% and 3.3% respectively – rebounding from preceding quarter's low base due to MCO. Moving forward, focus for the group will be on enhancing digital marketing strategies across all segments, to capture opportunities amid the new normal. In the coming quarters, more marketing events are on the cards for MLM, such as: i) local incentive trips to reward members; ii) monthly flash sales; and iii) free member fees campaign. The wholesale division will collaborate with key clients to offer sales promotions while the retail division will launch its half-yearly sales campaign and step up sales promotions through various e-commerce platforms.

### Upgrade to HOLD

In light of the better-than-expected results, we lift our earnings estimates by 3-34% for FY21-23E, largely to account for higher MLM sales and overall lower opex. After rolling forward our valuation base year to FY22E, we derive a higher 12-month TP of RM1.93, pegged to a lower FY22E 16x PER target (1SD below its 3-year mean, from 20x) to better reflect the prolonged challenges in the business environment amid the pandemic. Upgrade to HOLD in view of a potential upside of 7.5% to our new TP.

### Earnings & Valuation Summary

| FYE 30 Apr | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| Revenue (RMm) | 328.4 | 255.2 | 251.0 | 269.5 | 291.1 |
| EBITDA (RMm) | 66.9 | 40.9 | 44.4 | 49.0 | 55.9 |
| Pretax profit (RMm) | 63.4 | 41.5 | 41.2 | 45.7 | 56.7 |
| Net profit (RMm) | 47.7 | 32.6 | 32.1 | 35.6 | 44.1 |
| EPS (sen) | 16.4 | 11.2 | 11.0 | 12.2 | 15.2 |
| PER (x) | 10.9 | 16.1 | 16.3 | 14.7 | 11.9 |
| Core net profit (RMm) | 47.7 | 32.6 | 32.1 | 35.6 | 44.1 |
| Core EPS (sen) | 16.4 | 11.2 | 11.0 | 12.2 | 15.2 |
| Core EPS growth (%) | (33.9) | (31.8) | (1.5) | 10.9 | 24.0 |
| Core PER (x) | 10.9 | 16.1 | 16.3 | 14.7 | 11.9 |
| Net DPS (sen) | 13.0 | 10.0 | 8.8 | 9.8 | 12.1 |
| Dividend Yield (%) | 7.2 | 5.6 | 4.9 | 5.4 | 6.7 |
| EV/EBITDA | 6.4 | 10.4 | 9.4 | 8.4 | 7.2 |
| | | | | | |
| Chg in EPS (%) | | | +34.2 | +5.9 | +2.6 |
| Affin/Consensus (x) | | | 1.2 | 1.1 | 1.0 |

*Source: Company, Affin Hwang estimates*

### Key Risks

Up/downside risks: i) recovery/fall in MLM distributor base; ii) better-/worse-than-expected take-up rate for its new products; and (iii) higher/lower cost savings.

**Fig 1: Results Comparison**

| FYE Apr (RMm) | 1QFY20 | 4QFY20 | 1QFY21 | QoQ % chg | YoY % chg | Comments |
|---|---|---|---|---|---|---|
| Revenue | 66.1 | 53.7 | 71.2 | *32.7* | *7.8* | Yoy increase in MLM (+17% yoy) offset by wholesale (-11% yoy) and retail (-3% yoy). Qoq rebound in all segments. |
| Op costs | (54.5) | (41.0) | (56.5) | *37.9* | *3.6* | |
| EBITDA | 11.5 | 12.7 | 14.8 | *16.1* | *27.8* | |
| *EBITDA margin (%)* | *17.5* | *23.7* | *20.7* | *-3ppt* | *3.2ppt* | Higher yoy resulting from effective cost optimisation and favourable sales mix from MLM and wholesale divisions. |
| Depn and amort | (1.6) | (1.9) | (1.6) | *(15.6)* | *2.6* | |
| EBIT | 10.0 | 10.8 | 13.2 | *21.6* | *31.8* | |
| *EBIT margin (%)* | *15.1* | *20.2* | *18.5* | *-1.7ppt* | *3.4ppt* | |
| Int expense | (0.1) | (0.1) | (0.1) | *(52.1)* | *1.5* | |
| Int and other inc | 0.3 | 0.2 | 0.2 | *(9.8)* | *(27.5)* | |
| Associates | 0.0 | (0.0) | (0.0) | *n.m* | *n.m* | |
| Exceptional items | 0.0 | 0.0 | 0.4 | *n.m* | *n.m* | |
| **Pretax** | **10.2** | **10.9** | **13.7** | *25.5* | *33.9* | |
| Tax | (2.7) | (1.6) | (3.4) | *114.0* | *28.4* | |
| *Tax rate (%)* | *26.2* | *14.7* | *25.1* | *10.4ppt* | *-1.1ppt* | |
| MI | 0.2 | 0.3 | 0.0 | *(88.2)* | *(84.1)* | |
| **Net profit** | **7.7** | **9.6** | **10.3** | *7.3* | *32.5* | |
| EPS (sen) | 2.7 | 3.3 | 3.5 | *7.3* | *32.5* | |
| **Core net profit** | **7.7** | **9.6** | **9.9** | *3.3* | *27.6* | Above our and consensus expectations |

*Source: Affin Hwang, Company*

**Fig 2: Segmental Breakdown**

| | 1QFY20 | 4QFY20 | 1QFY21 | QoQ % chg | YoY % chg |
|---|---|---|---|---|---|
| **Segmental Revenue** | | | | | |
| MLM | 42.1 | 35.3 | 49.3 | *39.9* | *17.3* |
| Wholesale | 14.8 | 10.8 | 13.2 | *22.3* | *(11.1)* |
| Retail | 8.1 | 6.5 | 7.9 | *21.4* | *(3.2)* |
| Others | 1.1 | 1.2 | 0.9 | *(25.2)* | *(17.9)* |
| **Total revenue** | **66.1** | **53.7** | **71.2** | ***32.7*** | ***7.8*** |
| | | | | | |
| **Segmental Profit*** | | | | | |
| MLM | 7.1 | 10.3 | 10.0 | *(2.3)* | *40.7* |
| Wholesale | 1.3 | (0.1) | 2.9 | *n.m* | *117.0* |
| Retail | (0.3) | (0.8) | 0.1 | *n.m* | *n.m* |
| Others | 1.5 | 0.7 | 1.1 | *46.8* | *(27.9)* |
| | **10.0** | **10.8** | **13.5** | *25.2* | *35.6* |

*Source: Affin Hwang, Company*

Outthink. Outperform.

AFFIN HWANG CAPITAL

# Important Disclosures and Disclaimer

**Equity Rating Structure and Definitions**

| | |
|---|---|
| **BUY** | Total return is expected to exceed +10% over a 12-month period |
| **HOLD** | Total return is expected to be between -5% and +10% over a 12-month period |
| **SELL** | Total return is expected to be below -5% over a 12-month period |
| **NOT RATED** | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

| | |
|---|---|
| **OVERWEIGHT** | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| **NEUTRAL** | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| **UNDERWEIGHT** | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |



This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

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