

30 September 2020

Hai-O Enterprise Bhd

1QFY21 Within Our Expectation

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Not Rated

Price: **RM1.80**
Target Price: **RM1.20** ↔

1QFY21 net profit of RM10.3m (+33% YoY, +7% QoQ) came in at 29%/39% of our/consensus full-year estimates. We deemed the results to be within our expectation as we expect slower sales ahead with the ending of Hari Raya sales campaign which we believe is the biggest campaign of the year. Due to the lack of investors' interest and low stock liquidity, we are ceasing active coverage on HAO for now. The stock is now assigned Not Rated (from UNDERPERFORM), with our last TP of RM1.20, based on 10x FY21 EPS (at its -1.0SD of 5-year forward historical mean).

1QFY21 within our expectation. 1QFY21 net profit of RM10.3m (+33% YoY, +7% QoQ) came in at 29%/39% of our/consensus full-year estimates. We deemed the results to be within our expectation as we expect slower sales ahead with the ending of Hari Raya sales campaign which we believe is the biggest campaign of the year. No dividend was declared for the quarter, as expected.

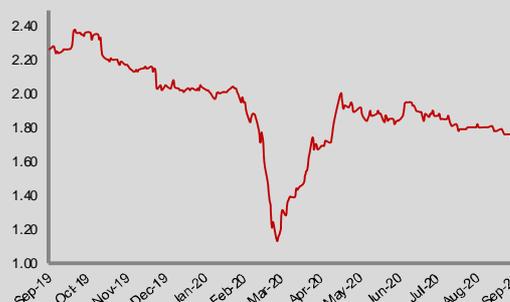
YoY, 1QFY21 net profit surged 33% mainly from: (i) expansion in EBIT margin by 3.9ppt to 19.0% from 15.1% in 1QFY20 with improved cost optimization measures especially toward digitalisation, (ii) higher revenue (+8%) thanks to the success of the "Duit Raya" sales campaign launched in June 2020 and the overwhelming response for one of its newly launched lady-wear items under MLM segment (+17%), and (iii) lower effective tax rate of 25.1% (1QFY20: 26.2%). All these more than offset the weaker sales from other segments namely: (i) Wholesale (-11%), reflecting constraints due to RMCO (Recovery Movement Control Order) restrictions where higher revenue generated from Chinese medicated tonic and premium cooking wine was offset by lower revenue from Western liquor and tea during the quarter, and (ii) Retail (-3%) members' sales campaign was less encouraging, as subdued consumer sentiment was aggravated by the extended physical distancing measures during the RMCO.

QoQ, 1QFY21 net profit increased 7%, slower than sales growth (+33%) mainly due to normalisation in effective tax rate to 25.1% (4QFY20: 14.7%) as the group recognised the reversal of tax overprovision in 4QFY20. Furthermore, the EBIT margin slightly contracted by 1.2ppt to 19.0% from 20.2% in 4QFY20 from the "Duit Raya" sales campaign costs vs none last quarter.

Outlook. We expect to see slower distributors' growth (averaging at 120k, plunging from the highest level in FY18 at 160k distributors) amidst the economic uncertainties. The MLM division will develop more "small ticket" items at affordable prices to cater for market needs and reinforce on-going digitalization initiatives. The Wholesale and Retail divisions will focus on its core products, and will continue to widen product portfolio. Moving forward, the group will continue to optimise costs, re-strategize business plans, and further strengthen existing digital infrastructure, enhancing presence in social media and digital advertising.

Ceasing coverage. Due to the lack of investors' interest and low stock liquidity, we are ceasing active coverage on HAO for now. Should its outlook improve, we may seek to resume coverage in the future. The stock is now assigned Not Rated (from UNDERPERFORM), with our last TP of RM1.20, based on 10x FY21 EPS (at its -1.0SD of 5-year forward historical mean).

Share Price Performance



KLCI	1,503.90
YTD KLCI change	-5.3%
YTD stock price change	-11.3%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK EQUITY
Market Cap (RM m)	521.9
Shares Outstanding	289.9
52-week range (H)	2.40
52-week range (L)	1.12
3-mth avg daily vol:	160,937
Free Float	57%
Beta	1.0

Major Shareholders

Tan Kai Hee	10.6%
Akintan Sdn Bhd	8.1%
Excellant Communication	5.4%

Summary Earnings Table

FY Apr (RM m)	2020A	2021E	2022E
Turnover	255.2	261.1	267.1
EBIT	41.0	44.9	47.7
PBT	41.6	46.0	48.8
Net Profit (NP)	32.2	35.4	37.7
Consensus (NP)	-	26.7	33.7
Earnings Revision	-	-	-
EPS (sen)	11.1	12.2	13.0
EPS growth (%)	-32.0	10.0	6.2
NDPS (sen)	10.0	10.0	10.0
BV/Share (RM)	1.07	1.09	1.12
PER (x)	16.2	14.7	13.9
Price/BV (x)	1.7	1.7	1.6
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	7.2	5.6	5.6

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FY Apr (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	71.2	53.7	32.7%	66.1	7.8%	71.2	66.1	7.8%
EBIT	13.5	10.8	25.2%	10.0	35.6%	13.5	10.0	35.6%
PBT	13.7	10.9	25.5%	10.2	33.9%	13.7	10.2	33.9%
Taxation	-3.4	-1.6	114.0%	-2.7	28.4%	-3.4	-2.7	28.4%
Net Profit (NP)	10.3	9.6	7.3%	7.7	32.5%	10.3	7.7	32.5%
EPS (sen)	3.5	3.3	7.3%	2.7	32.5%	3.5	2.7	32.5%
EBIT margin	19.0%	20.2%		15.1%		19.0%	15.1%	
PBT margin	19.2%	20.3%		15.4%		19.2%	15.4%	
NP margin	14.4%	17.8%		11.7%		14.4%	11.7%	
Effective tax rate	25.1%	14.7%		26.2%		25.1%	26.2%	

Source: Bursa Announcement, Kenanga Research

Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FY Apr (RM m)	FY21	FY20	Chg	FY20	Chg	FY21	FY20	Chg
- MLM	49.3	35.3	39.9%	42.1	17.3%	49.3	42.1	17.3%
- Wholesale	13.2	10.8	22.3%	14.8	-11.1%	13.2	14.8	-11.1%
- Retail	7.9	6.5	21.4%	8.1	-3.2%	7.9	8.1	-3.2%
- Others	0.9	1.2	-25.2%	1.1	-17.9%	0.9	1.1	-17.9%
Group Revenue	71.2	53.7	32.7%	66.1	7.8%	71.2	66.1	7.8%
- MLM	10.0	10.3	-2.3%	7.1	40.7%	10.0	7.1	40.7%
- Wholesale	2.9	-0.1	-3640.2%	1.3	117.0%	2.9	1.3	117.0%
- Retail	0.1	-0.8	-115.2%	-0.3	-144.6%	0.1	-0.3	-144.6%
- Others	1.1	0.7	46.8%	1.5	-27.9%	1.1	1.5	-27.9%
- Elimination	-0.6	0.7	-184.8%	0.3	-285.9%	-0.6	0.3	-285.9%
Group EBIT	13.5	10.8	25.1%	10.0	35.6%	13.5	10.0	35.6%
- MLM	20.3%	29.1%		16.9%		20.3%	16.9%	
- Wholesale	22.0%	-0.8%		9.0%		22.0%	9.0%	
- Retail	1.5%	-11.7%		-3.2%		1.5%	-3.2%	
EBIT Margin	19.0%	20.2%		15.1%		19.0%	15.1%	

Source: Bursa Announcement, Kenanga Research

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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.		
CONSUMER																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.33	1,520.0	N	12/2020	4.6%	3.4%	3.7%	7.0%	30.3	29.2	27.3	16.1	17.0	56.5%	3.8%	1.30	MP
AEON CO. (M) BHD	0.770	1,081.1	Y	12/2020	-5.8%	-0.6%	-43.1%	28.5%	9.9	17.4	13.5	0.6	0.6	3.7%	5.2%	1.00	OP
AMWAY (MALAYSIA) HOLDINGS BHD	4.95	813.7	Y	12/2019	-1.0%	2.0%	-12.5%	16.5%	15.9	18.2	15.6	3.7	3.7	20.1%	4.5%	5.10	MP
DUTCH LADY MILK INDUSTRIES BHD	39.00	2,496.0	Y	12/2020	-3.0%	5.0%	-14.2%	13.2%	24.2	28.2	24.9	17.3	13.7	54.2%	2.1%	37.55	MP
FRASER & NEAVE HOLDINGS BHD	32.90	12,067.0	Y	09/2020	0.6%	2.2%	-3.4%	9.1%	28.7	29.7	27.3	4.8	4.4	15.5%	1.8%	36.20	OP
HAI-O ENTERPRISE BHD	1.80	521.9	N	04/2021	2.3%	2.3%	9.9%	6.5%	16.2	14.8	13.9	1.7	1.7	11.3%	4.4%	1.20	CEASED
MYNEWS HOLDINGS BHD	0.620	422.9	N	10/2020	-14.7%	15.8%	-135.4%	91.6%	15.8	N.A.	23.2	1.5	1.5	-3.6%	0.0%	0.480	UP
NESTLE (MALAYSIA) BHD	140.40	32,923.8	Y	12/2020	-3.4%	3.9%	-18.1%	23.4%	50.5	61.7	50.0	49.1	48.6	79.3%	1.6%	129.30	UP
PADINI HOLDINGS BHD	2.34	1,539.5	Y	06/2021	4.8%	5.0%	58.1%	16.9%	20.5	12.9	11.1	2.0	1.9	15.2%	4.9%	2.90	OP
POWER ROOT BHD	2.12	893.2	Y	03/2021	-1.4%	14.1%	-5.8%	11.3%	16.2	17.1	15.4	3.4	3.1	19.2%	5.4%	2.75	OP
QL RESOURCES BHD	9.93	16,110.8	Y	03/2021	13.2%	7.4%	13.6%	9.1%	67.3	59.3	54.3	7.7	7.1	12.4%	0.6%	9.85	MP
Simple Average					-0.3%	5.5%	-13.4%	21.2%	26.9	28.9	25.1	9.8	9.4	25.8%	3.1%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	10.00	2,855.3	N	12/2020	-24.6%	-1.9%	-38.8%	-0.1%	7.9	12.9	12.9	6.6	6.5	51.0%	7.5%	10.05	MP
CARLSBERG BREWERY MALAYSIA BHD	20.56	6,286.2	N	12/2020	-28.3%	36.5%	-27.8%	35.8%	21.8	30.2	22.2	40.4	24.6	102.1%	1.7%	24.25	MP
HEINEKEN MALAYSIA BHD	20.64	6,235.3	N	12/2020	-33.4%	65.4%	-42.9%	76.3%	19.9	34.9	19.8	15.8	13.1	39.6%	1.5%	22.95	MP
Simple Average					-28.8%	33.3%	-36.5%	37.3%	16.5	26.0	18.3	21.0	14.7	64.2%	3.5%		

Source: Bloomberg, Kenanga Research

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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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