

Results were ahead of expectations

### Share price performance



	1M	3M	12M
Absolute (%)	10.5	31.8	7.9
Rel KLCI (%)	7.3	20.2	4.4

	BUY	HOLD	SELL
Consensus	-	2	-

Source: Bloomberg

### Stock Data

Sector	Consumer
Issued shares (m)	289.7
Mkt cap (RMm)/(US\$m)	672.1/166.5
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.12-2.44
Est free float	56.4%
Stock Beta	1.01
Net cash / (debt) (RMm)	68.7
ROE (2021E)	13.1%
Derivatives	No
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 (maintain)

Up/Downside: -4.3%

### Price Target: RM2.22

Previous Target (Rating): RM2.02 (HOLD)

### MLM division expected to remain healthy

- Hai-O's 6MFY21 revenue and core net profit improved by 2.2% and 28% to RM137.4m and RM19.3m respectively
- 6MFY21 EBIT margin improved 4.3ppt to 18.7% due to better MLM sales mix and cost optimisation initiatives
- We raise our 2021-23E earnings by 2.1-20% but maintain HOLD with a higher TP of RM2.22. This results note marks a transfer of analyst coverage

### 6MFY21 core net profit at RM19.3m, improved 28% yoy

Hai-O's 6MFY21 revenue improved 2.2% yoy to RM137.4m, attributable to stronger contribution from its MLM division (+10.5% yoy) boosted by its attractive marketing campaigns during the period to attract new members as well as encouraging sales from its newly launch lady wear products. Nevertheless, higher revenue was partially offset by lower contribution from wholesale (-13.5% yoy due to lower sales of premium patented medicine and lower duty-free sales as a result of travel restriction) and retail (-9.6% yoy due to softer sales of premium health supplements). Excluding one offs (including disposal of vintage tea amounting to RM0.8m), core net profit improved 28% yoy to RM19.3m aided by favourable sales mix and cost optimisation initiatives – above our expectations. Variance to ours was due to higher than expected margin. Hai-O has announced a DPS of 4 sen for 6MFY21 (vs 3 sen in 6MFY20).

### Weaker on a sequential basis

On a sequential basis, revenue and core net profit declined -7.2% qoq and -4.6% qoq to RM66.1m and RM9.4m respectively. In particular, MLM revenue declined by -10.5% as member recruitment and renewals normalized in 2QFY21 following aggressive marketing in 1QFY21 whereas a third wave of Covid-19 outbreak affected business activities and deliveries during the quarter. Sequential softness in MLM was, however, slightly cushioned by the wholesale segment which saw higher inter-segment sales.

### Maintain HOLD with a higher TP of RM2.22

Going into 3QFY21, the group is expected to step-up member recruitment, run monthly flash sales as well as launching new product assortment which should provide support to its top-line sales. Meanwhile, the wholesale and retail division should benefit from a seasonally stronger festive season in 3QFY21. In view of the stronger than expected results, we raise 2021-23E earnings by 2.1 - 20% on expectations of continued sturdy contribution from MLM and cost optimisation efforts. Post revision, our TP is raised to RM2.22, based on an unchanged 16x PER on FY22 EPS. Maintain HOLD.

### Earnings & Valuation Summary

FYE 30Apr	2019	2020	2021E	2022E	2023E
Revenue (RMm)	328.4	255.2	274.7	294.0	313.2
EBITDA (RMm)	66.9	40.9	54.4	55.0	59.8
Pretax profit (RMm)	63.4	41.5	51.2	51.7	55.9
Net profit (RMm)	47.7	32.6	39.8	40.2	43.5
EPS (sen)	16.5	11.2	13.8	13.9	15.0
PER (x)	14.1	20.6	16.9	16.7	15.5
Core net profit (RMm)	47.7	32.6	39.8	40.2	43.5
Core EPS (sen)	16.5	11.2	13.8	13.9	15.0
Core EPS growth (%)	(33.9)	(31.8)	22.3	0.9	8.2
Core PER (x)	14.1	20.6	16.9	16.7	15.5
Net DPS (sen)	13.0	10.0	11.0	11.1	12.0
Dividend Yield (%)	5.6	4.3	4.7	4.8	5.2
EV/EBITDA	8.6	14.1	10.4	10.2	9.3

Chg in EPS (%)	+20.0	+9.4	+2.1
Affin/Consensus (x)	1.1	1.0	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; (iii) disruptions in the supply chain and (iv) higher/lower cost savings.

**Fig 1: Results Comparison**

FYE Apr (RMm)	2QFY20	1QFY21	2QFY21	QoQ % chg	YoY % chg	6MFY20	6MFY21	YoY % chg	Comments
Revenue	68.4	71.2	66.1	(7.2)	(3.3)	134.5	137.4	2.2	6MFY21: Increase due to higher contribution from its MLM segment (+10.5% yoy) but offset by lower contribution from wholesale (-13.5% yoy) and Retail (-9.6% yoy).
Op costs	(57.5)	(56.5)	(52.0)	(7.9)	(9.5)	(112.0)	(108.5)	(3.1)	
EBITDA	10.9	14.8	14.1	(4.2)	29.3	22.5	28.9	28.5	
EBITDA margin (%)	16.0	20.7	21.4	0.7ppt	5.4ppt	16.7	21.0	4.3ppt	
Depn and amort	(1.6)	(1.6)	(1.6)	0.5	3.5	(3.1)	(3.2)	3.1	
EBIT	9.4	13.2	12.5	(4.8)	33.6	19.4	25.7	32.5	
EBIT margin (%)	13.7	18.5	19.0	0.5ppt	5.2ppt	14.4	18.7	4.3ppt	6MFY21: Better margin as a result of effective cost optimisation initiatives and favourable change of sales mix
Int expense	(0.1)	(0.1)	(0.1)	2.9	(9.0)	(0.1)	(0.1)	(4.1)	
Int and other inc	0.3	0.2	0.2	(11.9)	(37.3)	0.5	0.3	(32.4)	
Associates	(0.0)	(0.0)	(0.0)	(12.5)	16.7	0.0	(0.0)	n.m.	
Exceptional items	(0.0)	0.4	0.9	>100	n.m.	(0.0)	1.3	n.m.	
<b>Pretax</b>	<b>9.5</b>	<b>13.7</b>	<b>13.5</b>	<b>(0.8)</b>	<b>41.9</b>	<b>19.7</b>	<b>27.2</b>	<b>37.8</b>	
Tax	(2.3)	(3.4)	(3.3)	(2.6)	46.9	(4.9)	(6.8)	36.9	
Tax rate (%)	23.8	25.1	24.6	-0.5 ppt	0.8ppt	25.0	24.8	-0.2ppt	
MI	0.0	0.0	0.1	>100	>100	0.3	0.2	(31.6)	
<b>Net profit</b>	<b>7.3</b>	<b>10.3</b>	<b>10.4</b>	<b>0.9</b>	<b>41.5</b>	<b>15.1</b>	<b>20.6</b>	<b>36.9</b>	
EPS (sen)	2.5	3.5	3.6	0.9	41.5	5.2	7.1	37.0	
<b>Core net profit</b>	<b>7.3</b>	<b>9.9</b>	<b>9.4</b>	<b>(4.6)</b>	<b>28.5</b>	<b>15.1</b>	<b>19.3</b>	<b>28.0</b>	Above our expectations

Source: Affin Hwang, Company

**Fig 2: Segmental breakdown**

FYE Apr (RMm)	2QFY20	1QFY21	2QFY21	QoQ Chg %	YoY Chg %	6MFY20	6MFY21	YoY Chg %
<b>Segmental Revenue</b>								
MLM	42.6	49.3	44.2	(10.5)	3.8	84.6	93.5	10.5
Wholesale	15.1	13.2	12.7	(3.2)	(15.8)	29.9	25.9	(13.5)
Retailing	9.6	7.9	8.2	4.2	(15.0)	17.8	16.1	(9.6)
Others	1.0	0.9	1.0	16.9	(1.9)	2.1	1.9	(10.0)
<b>Total Revenue</b>	<b>68.4</b>	<b>71.2</b>	<b>66.1</b>	<b>(7.2)</b>	<b>(3.3)</b>	<b>134.5</b>	<b>137.4</b>	<b>2.2</b>
<b>Segmental Profit</b>								
MLM	7.4	10.0	8.3	(17.1)	11.9	14.6	18.3	26.0
Wholesale	1.4	2.9	3.2	9.8	121.7	2.8	6.1	119.4
Retailing	0.2	0.1	(0.0)	n.m.	n.m.	(0.0)	0.1	n.m.
Others	0.8	1.1	0.7	(30.7)	(10.1)	2.3	1.8	(21.5)
<b>Total</b>	<b>9.4</b>	<b>13.5</b>	<b>13.5</b>	<b>(0.6)</b>	<b>43.6</b>	<b>19.62</b>	<b>26.34</b>	<b>34.3</b>

Source: Affin Hwang, Company

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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

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