

Company Result

27 September 2018

Hai-O Enterprise Berhad

BUY

Hoping for recovery

Maintained

Share Price	RM4.04
Target Price	RM4.76

Result

Company Description

Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.

Stock Data

Bursa / Bloomberg code	7668 / HAI0 MK
Board / Sector	Industrial/Food & Drug Retailers
Syariah Compliant status	No
Issued shares (m)	290.66
Par Value (RM)	0.50
Market cap. (RMm)	1,174.26
52-week price Range	RM4.00 – 5.60
Beta (against KLCI)	0.65
3-m Average Daily Volume	0.22m
3-m Average Daily Value [^]	RM0.96m

Share Performance

	1m	3m	12m
Absolute (%)	-8.0	-17.6	-20.5
Relative (%-pts)	-7.5	-22.4	-21.9

Major Shareholders

	%
Kai Hee Tan	10.13
Akintan Sdn Bhd	7.85
Excellent Communications	5.35

Historical Chart



Source: Bloomberg

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- **Hai-O reported a net profit of RM11.0m for its 1QFY19.** The quarterly net profit dropped by -32.4% QoQ and -38.4% YoY. Likewise, the Group recorded quarterly revenue of RM80.1m, which decreased by -27.6% QoQ and -35.7% YoY.
- **A disappointing start for the year with result below expectations.** 1QFY19 net profit was below our and market expectation, accounting for 10.1%/11.5% of our/consensus full year net earnings forecast respectively. We deem the result below our expectation although 1Q is seasonally weaker (1Q net profit traditionally accounts for c.15% of actual full year net earnings).

Comment

- **Lower earnings QoQ due to lower revenue achieved from MLM division.....** The Group recorded a lower revenue no thanks to slowdown in business activities of MLM members during Ramadan fasting month and Hari Raya festive season, along with lower member recruitment rate post GE14.
- **.....and weaker bottomline.** A lower PBT/PBT margin (-37.8%/-1.8ppts) was recorded mainly due to higher marketing and branding costs incurred for the newly launched fashion and lifestyle products.
- **Disappointing YoY earnings as a result of weaker topline.** The better revenue recorded from the wholesale division was offset by the lower revenue from MLM and retailer divisions. Moreover, the lower PBT of -37.5%, as a result of lower revenue registered in MLM and Retail divisions, coupled with higher marketing costs incurred.
- **MLM division – Continuous expansion.** The Group will continue to embark on several marketing programs, in the likes of creating brand awareness through social media platforms and a series of advertising campaigns for its new beauty brands and lifestyle related range of products.
- **Wholesale division – Penetrating into the younger consumer segment.** The Group will promote its premium Chinese medicated tonics and expand into non-alcoholic products. Besides, the Group will expand its neighborhood medical halls network.
- **Retail division – Banking on sales promotion.** The Group is banking on its half-yearly sales campaign which will be carried out in the next quarter to boost its sales.
- **Anticipating better 2QFY19.** Despite a slow start for the year, we remain positive on Hai-O and believe that the

Group is able to achieve better revenue for its 2QFY19 due to resumption of sales from MLM division (especially after the Ramadan fasting month and lower member recruitment rate post GE14), along with higher sales from the Retail division driven by its sales campaign during 2QFY19. Besides, we expect the Group to record a higher gross profit margin QoQ and YoY mainly attributable to enhancement of operational efficiency pursuant to digital marketing and distribution.

- **Risks include:** 1) Higher marketing and advertising of new products under the MLM division, and 2) Lower revenue due to weak consumer sentiment post implementation of SST.

Earnings Outlook/Revision

- **We reduce our earnings forecasts for FY19F by 26% and FY20F by 4.5%** as we foresee the Group requires longer time to build its brand awareness and generate revenue from its beauty brand “infinence” and lifestyle related range of products. Also, it takes longer time to penetrate medicated tonic and non-alcoholic products to younger generation.

Valuation & Recommendation

- **Maintain BUY with a lower target price of RM4.76** (previous target price: RM6.41) after our earnings cut but applying higher PE multiple. Our revised target price is now pegged at 17.5x FY19F EPS (from 14.3x), which is at its mean trailing PE.
- **We continue to favour Hai-O for its:** 1) stable profit margin with effective cost rationalization, 2) strong brand name among Malaysian household, 3) strong balance sheet with net cash, 4) lower risk due less exposure to foreign market and foreign currency risk, and 5) Better margin as compared to peers (Amway) coupled with better growth prospects.

Figure 1: Quarterly Figures

Year ended 30 April	1QFY19	4QFY18	1QFY18	QoQ	YoY
	RM'm	RM'm	RM'm	%	%
Revenue	80.1	110.6	124.5	-27.6%	-35.7%
Gross profit	32.2	39.0	41.1	-17.4%	-21.7%
Operating profit	14.2	22.8	22.8	-37.8%	-38.0%
PBT	14.4	23.1	23.1	-37.4%	-37.5%
PAT	10.7	16.7	17.6	-36.1%	-39.4%
Net profit	11.0	16.3	17.9	-32.4%	-38.4%
Margin (%)				ppts	ppts
Gross profit margin	40.2%	35.2%	33.0%	5.0	7.2
EBIT margin	17.7%	20.6%	18.3%	-2.9	-0.6
PBT margin	18.0%	20.8%	18.6%	-2.8	-0.5
PAT margin	13.3%	15.1%	14.1%	-1.8	-0.8
Net profit margin	13.7%	14.7%	14.3%	-1.0	-0.6

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	1QFY19 RM'000	4QFY18 RM'm	1QFY18 RM'000	QoQ %	YoY %
MLM division	58.0	79.1	102.4	-26.7%	-43.4%
Wholesale division	13.6	17.6	13.0	-22.7%	4.6%
Retail division	7.6	13.7	8.1	-44.5%	-6.2%
Total Revenue	79.2	110.4	123.5	-28.3%	-35.9%
MLM division	10.3	16.8	18.8	-38.7%	-45.2%
Wholesale division	3.7	3.6	3.1	2.8%	19.4%
Retail division	(0.6)	1.4	(0.5)	N/A	N/A
Total PBT	13.4	21.8	21.4	-38.5%	-37.4%
PBT margin (%)				ppts	ppts
MLM division	17.8%	21.2%	18.4%	-3.5	-0.6
Wholesale division	27.2%	20.5%	23.8%	6.8	3.4
Retail division	-7.9%	10.2%	-6.2%	-18.1	-1.7

Source: Company, JF Apex

Figure 3: Peer Comparison

Company	Price RM	Recom	T.price RM	P/E		P/B	P/S	PBT margin %	Div Yield %
				19'	20'				
Hai-O	4.0	BUY	6.14	12.4	11.4	3.9	2.5	20.9	2.7
Amway	6.7	-	-	23.1	24.4	5.7	1.1	7.2	3.0

Source: Company, JF Apex

Figure 4: Financial Summary

Year ended 30 April	FY15	FY16	FY17	FY18	FY19F	FY20F
	RMm	RMm	RMm	RMm	RMm	RMm
Revenue	239.9	297.6	404.0	461.8	582.3	679.7
Gross profit	85.6	101.4	132.9	162.2	192.3	229.7
Operating profit	42.2	48.3	77.3	97.6	112.1	147.5
PBT	43.0	49.1	78.1	99.0	113.0	148.6
PAT	30.8	36.6	59.2	75.1	82.0	113.6
Net profit	30.1	36.3	59.3	75.4	81.8	113.4
Margin (%)						
Gross profit margin	35.7%	34.1%	32.9%	35.1%	33.0%	33.8%
Operating profit	17.6%	16.2%	19.1%	21.1%	19.2%	21.7%
PBT margin	17.9%	16.5%	19.3%	21.4%	19.4%	21.9%
PAT margin	12.8%	12.3%	14.7%	16.3%	14.1%	16.7%
Net profit margin	12.5%	12.2%	14.7%	16.3%	14.0%	16.7%
Growth (%)						
Revenue growth	-5.4%	24.1%	35.7%	14.3%	26.1%	16.7%
Gross Profit growth	-8.5%	18.5%	31.0%	22.1%	18.6%	19.4%
PBT growth	-19.7%	14.0%	59.2%	26.8%	14.1%	31.5%
PAT growth	-25.6%	18.9%	61.9%	26.9%	9.1%	38.6%
Net profit growth	-25.4%	20.8%	63.1%	27.2%	8.5%	38.6%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROA	9.8%	11.3%	16.3%	19.1%	17.8%	23.1%
ROE	11.3%	13.5%	20.0%	23.7%	21.9%	28.7%
EPS (sen)	10.0	12.1	19.7	25.1	27.2	37.8
P/E	15.4	15.4	15.4	15.4	17.5	17.5
DPS (sen)	10.0	10.0	16.0	16.0	16.0	16.0
Dividend Payout	98.2%	81.6%	80.6%	53.5%	43.5%	43.5%
Dividend yield (%)	2.2%	2.2%	3.4%	3.4%	3.4%	3.4%

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

BUY : The stock's total returns* are expected to exceed 10% within the next 12 months.

HOLD : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL : The stock's total returns* are expected to be below -10% within the next 12 months.

TRADING BUY : The stock's total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.

MARKETWEIGHT : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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