

27 September 2018

Hai-O Enterprise Bhd

1Q19 Below Expectations

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OUTPERFORM ↔

Price: RM4.04
Target Price: RM5.15 ↓

1Q19 Net Profit of RM11.0m (-38% YoY, -32% QoQ) came in below our/consensus expectations at 11%/12% of full-year estimates due to the lower-than-expected sales. Although 1Q is generally the weakest quarter, the impact from the 14th general election uncertainty was greater than expected; thus, we cut our FY19E/FY20E NP by 14%/15%. Subsequently, we cut our TP to RM5.15 from RM6.00. Nevertheless, we believe distributors will be pushing sales for the forthcoming quarter with the various marketing strategies in place. Maintain OP.

1Q19 below expectations. 1Q19 Net Profit of RM11m (-38% YoY, -32% QoQ) came in below our/consensus expectations at 11%/12% of full-year estimates due to lower-than-expected sales. Although 1Q is generally the weakest quarter (comprising 16% to 18% of profit), the impact of the 14th general election uncertainty was greater than expected. No dividend was declared for the quarter, as expected.

Results Highlights, 1Q19 net profit plunged 38% YoY and 32% QoQ mainly due to lower revenue (-36% YoY, -28% QoQ) from the weak contribution by MLM division (-43% YoY, -27% QoQ), attributed to: (i) cautious distributors spending with the uncertainties in new government regulation, which led to stagnant distributors' growth for the quarter, and (ii) slowdown in business activities during the fasting month and Hari Raya festive season holiday. Furthermore, Retail division (-6% YoY, -44% QoQ) was also affected by such uncertainty, but was cushioned by better Wholesale division (+4% YoY, -20% QoQ) sales in patented medicine. Subsequently, the 1Q19 NP margin contracted to 13.7%, lowered by 0.6ppt from 14.3% in 1Q18 and by 1.0ppt from 14.7% in 4Q18 owing to pre-zero-rated GST 6% rebate promotion on sales carried out in May 2018.

Outlook. Management noted that they foresee higher sales in the next quarter arising from the various marketing strategies in place. The group expects its Indonesian MLM market to break even this year, but is withholding its Vietnam expansion due to weak market condition. The newly introduced "Infinence" brand beauty and lifestyle-related range of products are the new market segments being penetrated by the MLM division. For the Wholesale division, the group will continue to promote its premium Chinese medicated tonics and expand into non-alcoholic products to further penetrate the younger consumers market as well as to continue expanding its neighbourhood medical halls network. The half yearly members' sales campaign will be carried out for the Retail division. Additionally, on the implementation of the new SST, the group has yet to determine the impact of this new tax regime and is currently negotiating with its suppliers about absorbing some of the new SST.

Cut FY19-20E NP by 14-15%. We cut our FY19E and FY20E Net Profit by 14% and 15% to reflect the lower-than-expected sales.

As such, we cut our target price to RM5.15, from RM6.00 previously, based on an unchanged 17x FY19E EPS implying +1.0SD above 5-year forward historical mean. Nevertheless, we believe that distributors will be pushing sales in the forthcoming quarter with the various marketing strategies in place. Maintain **OUTPERFORM**.

We like HAIO for its; (i) strong earnings support over the next two years boosted by double-digit margin from high-margin products under its MLM network and leading Chinese medicine retail shops (under its other business), (ii) continuous growth in distributors base (currently at c.160k), and (iii) distributors expansion to regional market for larger sales volume. Risks to our call include: (i) lower-than-expected sales, and (ii) higher-than-expected operating expenses.

Share Price Performance



KLCI	1,798.72
YTD KLCI change	0.1%
YTD stock price change	-24.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	1,174.3
Shares Outstanding	290.7
52-week range (H)	5.60
52-week range (L)	4.00
3-mth avg daily vol:	218,379
Free Float	77%
Beta	0.6

Major Shareholders

Kai Hee Tan	10.1%
Akintan Sdn Bhd	7.9%
Excellant Communication	5.4%

Summary Earnings Table

FY Apr (RM'm)	2018A	2019E	2020E
Turnover	461.7	483.7	505.7
EBIT	94.9	113.9	118.3
PBT	96.5	115.3	119.9
Net Profit (NP)	72.3	87.7	91.1
Consensus (NP)	-	95.4	104.5
Earnings Revision	-	-13.7%	-14.6%
EPS (sen)	24.9	30.1	31.3
EPS growth (%)	21.6%	21.1%	4.0%
NDPS (sen)	20.0	22.0	22.0
BV/Share (RM)	1.10	1.18	1.27
PER	16.3	13.4	12.9
Price/BV (x)	4.5	3.4	3.2
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	5.0%	5.4%	5.4%

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Results Highlights

	1Q FY19	4Q FY18	QoQ Chg	1Q FY18	YoY Chg
FY Apr (RM'm)					
Turnover	80.1	110.6	-27.6%	124.5	-35.7%
EBIT	14.2	22.8	-37.8%	22.8	-38.0%
PBT	14.4	23.1	-37.4%	23.1	-37.5%
Taxation	-3.8	-6.4	-40.7%	-5.5	-31.4%
Net Profit (NP)	11.0	16.3	-32.4%	17.9	-38.4%
EPS (sen)	3.8	5.6	-32.4%	6.2	-38.4%
EBIT margin	17.7%	20.6%		18.3%	
PBT margin	18.0%	20.8%		18.6%	
NP margin	13.7%	14.7%		14.3%	
Effective tax rate	26.2%	27.7%		23.9%	

Source: Bursa Announcement, Kenanga Research

Segmental Breakdown

	1Q FY19	4Q FY18	QoQ Chg	1Q FY18	YoY Chg
FY Apr (RM'm)					
- Multi-Level-Marketing	58.0	79.1	-26.6%	102.4	-43.3%
- Wholesale	13.6	17.0	-20.4%	13.0	3.9%
- Retail	7.6	13.7	-44.3%	8.1	-6.2%
- Others	0.9	0.9	2.9%	1.0	-11.7%
Group Revenue	80.1	110.6	-27.6%	124.5	-35.7%
- Multi-Level-Marketing	10.4	16.6	-37.5%	18.8	-44.9%
- Wholesale	2.7	3.5	-21.1%	3.0	-7.9%
- Retail	-0.6	1.4	-143.4%	-0.5	14.2%
- Others	0.8	1.2	-31.2%	1.2	-29.0%
- Elimination	0.8	0.2	433.3%	0.4	96.8%
Group EBIT	14.2	22.8	-37.8%	22.8	-38.0%
- Multi-Level-Marketing	17.9%	21.0%		18.4%	
- Wholesale	20.1%	20.3%		22.7%	
- Retail	-7.9%	10.2%		-6.5%	
- Others	95.0%	142.2%		118.2%	
Group EBIT Margin	17.7%	20.6%		18.3%	

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.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.47	1,659.5	N	12/2018	8.2%	5.2%	3.2%	13.0%	36.2	35.1	31.0	24.5	21.1	64.6%	2.0%	1.55	MP
AEON CO (M) BHD	1.81	2,541.2	Y	12/2018	6.6%	4.1%	13.4%	14.1%	24.2	21.3	18.7	1.3	1.3	6.0%	2.2%	2.60	OP
AMWAY MALAYSIA HOLDINGS BHD	6.70	1,101.4	Y	12/2018	0.0%	3.0%	-25.9%	41.3%	20.9	28.2	20.0	5.1	5.0	17.9%	3.0%	6.50	UP
DUTCH LADY MILK INDUSTRIES BHD	63.90	4,089.6	Y	12/2018	3.0%	4.0%	14.7%	13.9%	32.8	28.6	25.1	39.3	38.6	136.0%	3.4%	71.20	MP
FRASER & NEAVE HOLDINGS BHD	37.78	13,847.9	Y	09/2018	1.1%	5.4%	-7.4%	14.1%	34.7	37.5	32.9	6.5	6.1	16.0%	1.6%	32.15	UP
HAI-O ENTERPRISE BHD	4.04	1,174.3	N	04/2019	4.8%	4.5%	21.3%	4.0%	19.2	13.9	11.5	4.1	3.8	25.0%	5.4%	5.15	OP
MYNEWS HOLDINGS BHD	1.41	961.8	N	10/2018	14.8%	2.9%	16.7%	16.8%	40.1	34.4	29.4	4.0	3.7	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	146.80	34,424.6	Y	12/2018	3.5%	3.3%	11.4%	16.8%	53.3	47.9	41.0	53.8	50.7	109.1%	2.0%	132.55	UP
PADINI HOLDINGS BHD	5.80	3,815.9	Y	06/2018	19.1%	5.4%	14.2%	13.3%	21.4	18.7	16.5	6.9	5.8	33.7%	2.0%	5.60	UP
PARKSON HOLDINGS BHD	0.41	432.2	Y	06/2018	2.0%	2.0%	45.4%	-1.0%	N.A.	11.2	11.3	0.2	0.2	1.7%	0.0%	0.81	OP
POWER ROOT BHD	1.59	628.4	Y	3/2019	6.3%	9.5%	43.0%	30.7%	26.7	19.2	15.2	3.0	2.8	16.4%	5.0%	1.90	OP
QL RESOURCES BHD	6.50	10,545.8	Y	3/2019	10.3%	10.0%	5.4%	6.6%	51.1	48.5	45.5	5.6	5.2	11.6%	0.7%	4.70	UP
SPRITZER BHD	2.28	478.7	Y	12/2018	7.4%	4.8%	20.6%	10.2%	17.5	16.7	15.1	1.1	1.2	7.4%	2.6%	2.40	MP
Simple Average					6.7%	4.9%	13.5%	14.9%	31.5	27.8	24.1	12.0	11.2	35.1%	2.4%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	32.00	9,137.0	N	12/2018	-2.7%	-0.3%	-13.3%	-1.0%	17.5	20.2	20.4	23.9	22.6	115.1%	4.7%	28.25	UP
CARLSBERG BREWERY MALAYSIA BHD	19.18	5,900.2	N	12/2018	0.0%	8.5%	-22.6%	12.4%	26.5	23.6	21.3	18.9	18.8	74.1%	4.3%	17.10	UP
HEINEKEN MALAYSIA BHD	20.00	6,042.0	N	12/2018	0.0%	5.0%	-12.3%	10.6%	22.4	20.2	19.6	16.8	16.6	74.6%	4.9%	20.40	MP
Simple Average					6.0%	5.1%	11.9%	11.2%	22.1	21.3	20.4	19.9	19.3	42.9%	4.6%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.42	534.2	N	04/2019	10.0%	8.6%	2056.9%	18.2%	454.6	21.1	17.8	1.4	1.3	6.4%	3.0%	1.77	BUY
BONIA CORPORATION BHD	0.39	310.2	Y	06/2019	10.6%	3.6%	50.5%	6.2%	15.7	10.4	9.8	0.7	0.7	6.5%	2.6%	0.53	NEUTRAL
COCOALAND BHD	2.10	480.5	Y	12/2018	6.2%	5.9%	4.5%	11.4%	14.3	13.7	12.3	2.1	1.8	14.4%	5.2%	2.69	BUY
LAY HONG BHD	0.68	448.5	Y	03/2019	-2.6%	6.4%	-11.1%	28.5%	12.2	13.8	10.7	1.4	1.4	8.9%	0.7%	0.81	BUY
KAWAN FOOD BHD	2.29	823.3	Y	12/2018	14.1%	16.8%	3.6%	40.1%	28.3	27.3	19.5	2.7	2.2	9.4%	2.0%	2.68	NEUTRAL
MAGNI-TECH INDUSTRIES BHD	4.83	786.0	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.6	7.4	6.7	1.7	N/A	21.0%	N/A	6.45	BUY

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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