

**Company Result**

26 March 2019

**Hai-O Enterprise Berhad**

**HOLD**

Slowdown of MLM division

**Maintained**

<b>Share Price</b>	<b>RM2.70</b>
<b>Target Price</b>	<b>RM2.44</b>

**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)	290.37
Par Value (RM)	0.50
Market cap. (RMm)	783.99
52-week price Range	RM2.48 – 5.39
Beta (against KLCI)	0.74
3-m Average Daily Volume	0.13m
3-m Average Daily Value <sup>A</sup>	RM0.37m

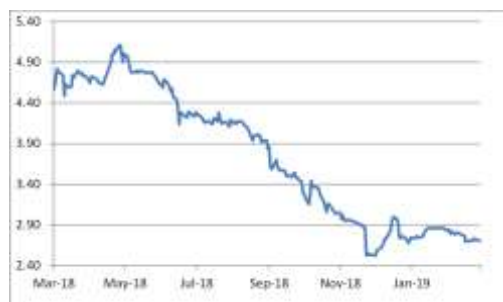
**Share Performance**

	1m	3m	12m
Absolute (%)	-4.6	1.5	-42.6
Relative (%-pts)	-0.2	7.7	-35.0

**Major Shareholders**

	%
Kai Hee Tan	10.14
Akintan Sdn Bhd	7.95
Excellent Communications	5.35

**Historical Chart**



Source: Bloomberg

**SIAU LI SHEN**

**03-87361118, ext. 753**

**lssiau@jfapex.com.my**

**Result**

- **Hai-O reported a net profit of RM12.8m for its 3QFY19**, declining by 6.0% qoq and 33.6% yoy. Meanwhile, the group recorded quarterly revenue of RM86.2m, down 6.5% qoq and 16.4% yoy.
- **For 9MFY19**, the Group attained a lower topline and bottomline, -26.4% and -36.1% respectively.
- **Disappointing 9MFY19 earnings.** The 9M result accounts for 54.1%/62.1% of our/consensus full year net earnings forecasts. We deem the result below expectations as 9M net profit traditionally accounts for c.70~80% of actual full year earnings. The lower-than-expected 3QFY19 results were mainly due to unfavourable revenue contribution from MLM division along with higher-than-expected marketing expenses.

**Comment**

- **Weaker qoq earnings.** The Group achieved lower revenue, -6.5% qoq mainly due to lower sales generated from MLM division (i.e. lower number of new member recruitment and long year-end holiday) which offset higher sales generated from retail division (i.e. CNY festive season). Besides, the Group recorded lower PBT (-7.3% qoq), affected by higher administrative expenses from overseas incentive trip sales campaign for its members.
- **Lackluster yoy earnings.** Again, Hai-O posted a lower revenue as a result of weaker sales from MLM division (i.e. slowdown in new member recruitment and business activities), which offset a higher revenue from retail division (i.e. CNY sale recognized in 3QFY19 vs. 4QFY18). Furthermore, the Group incurred higher branding and CSR expenses, as well as additional 6% discounts given to MLM members, resulting in lower PBT/PBT margin of 32.4%/-4.6ppts.
- **Unsatisfactory 9MFY19.** After factoring the impact of MFRS 9, MFRS15 and lower-than-expected revenue from MLM division, the Group's 9M revenue dropped by 26.4% yoy. However, better gross profit margin, +3.8 ppts yoy was recorded, underpinned by higher margin contribution from "small-ticket" items in MLM division. Having said that, the higher CSR cost (+RM1.4m yoy), branding cost (+RM1.2 yoy) and one-off 6% rebate incurred during the period further lowered its bottom line. As such, PBT/PBT margin decreased by 34.7% yoy/-2.2ppts.
- **Challenging business environment ahead for MLM division.** Lower new member recruitment and higher cost of living had affected the business activities of MLM division.

Therefore, the Group plans to develop more “small ticket” items with affordable pricings to cater prevailing market needs.

- **Continuous expansion for wholesale and retail divisions.** The Wholesale division will continue to develop more Chinese medicated products and other food products to widen its product base. Meanwhile, the Retail division will strengthen its business collaborations with various strategy partners.
- **Stable dividend yield.** Thus far, the group has declared an interim dividend of 4sen/share for FY19. We expect the group to propose a final dividend of 10sen/share in the next quarter. As such, this translates into a dividend yield of 5.2% based on current share price.
- **Unfavourable outlook ahead.** In our view, Hai-O’s performance will be further dragged down by MLM division on the back of lower new member recruitment coupled with high branding and marketing expenses. On the other hand, lower sales will be recorded for retail division in next quarter as higher sales from CNY festive season was recognized in this quarter.
- **Risks include:** 1) Higher than expected operating expenses (ie. higher marketing expenses) 2) lower than expected domestic spending due to higher cost of living.

#### Earnings Outlook/Revision

- **We slash our earnings forecasts for FY19F and FY20F by 26.6% and 38.1%** to RM50.7m and RM51.7m respectively after lowering our sales assumptions for MLM division to better reflect lower new member recruitment and lower PBT margin pursuant to higher marketing expenses.

#### Valuation & Recommendation

- **Maintain HOLD with a lower target price of RM2.44** (previous target price: RM3.00) following our earnings cut. We also rollover our valuation to FY20F. As such, our revised target price is now based P/E multiple of 13.5x FY20F EPS, which is at its 3-year historical mean P/E.
- **We remain neutral on Hai-O** as we believe current share price is supported by its stable dividend yield of 5.2% for FY19/20F amid prevailing headwind for its MLM segment.

**Figure 1: Quarterly Figures**

Year ended 30 April	3QFY19	2QFY19	3QFY18	QoQ	YoY	9MFY19	9MFY18	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	86.2	92.2	103.1	-6.5%	-16.4%	258.4	351.1	-26.4%
Gross profit	32.6	35.7	39.4	-8.6%	-17.2%	100.5	123.2	-18.5%
Operating profit	16.7	18.0	24.6	-7.5%	-32.2%	48.8	74.8	-34.8%
PBT	16.9	18.3	25.0	-7.3%	-32.4%	49.6	76.0	-34.7%
PAT	12.8	13.9	19.2	-7.6%	-33.4%	37.3	58.4	-36.2%
Net profit	12.8	13.6	19.3	-6.0%	-33.6%	37.4	58.6	-36.1%
<b>Margin (%)</b>				<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
Gross profit margin	37.9%	38.7%	38.2%	-0.8	-0.4	38.9%	35.1%	3.8
EBIT margin	19.3%	19.5%	23.8%	-0.2	-4.5	18.9%	21.3%	-2.4
PBT margin	19.6%	19.8%	24.3%	-0.2	-4.6	19.2%	21.6%	-2.4
PAT margin	14.9%	15.0%	18.6%	-0.2	-3.8	14.4%	16.6%	-2.2
Net profit margin	14.8%	14.8%	18.7%	0.1	-3.8	14.5%	16.7%	-2.2

Source: Company, JF Apex

**Figure 2: Revenue and PBT by division**

Year ended 30 April	3QFY19	2QFY19	3QFY18	QoQ	YoY
	RM'm	RM'm	RM'm	%	%
MLM division	56.3	63.2	75.5	-10.9%	-25.4%
Wholesale division	17.0	17.1	17.1	-0.6%	-0.6%
Retail division	12.6	10.8	9.3	16.7%	35.5%
<b>Total Revenue</b>	<b>85.9</b>	<b>91.1</b>	<b>101.9</b>	<b>-5.7%</b>	<b>-15.7%</b>
MLM division	12.1	14.3	14.5	-15.4%	-16.6%
Wholesale division	3.0	2.4	8.9	25.0%	-66.3%
Retail division	0.5	0.6	0.1	-16.7%	400.0%
<b>Total PBT</b>	<b>15.6</b>	<b>17.3</b>	<b>23.5</b>	<b>-9.8%</b>	<b>-33.6%</b>
<b>PBT margin (%)</b>				<b>ppts</b>	<b>ppts</b>
MLM division	21.5%	22.6%	19.2%	-1.1	2.3
Wholesale division	17.6%	14.0%	52.0%	3.6	-34.4
Retail division	4.0%	5.6%	1.1%	-1.6	2.9

Source: Company, JF Apex

**Figure 3: Peer Comparison**

Company	Price	Recom	T.price	P/E		P/B	P/S	PBT margin	Div Yield
	RM		RM	19'	20'				
Hai-O	2.70	HOLD	2.44	13.3	11.6	2.62	2.0	20.9	1.5
Amway	6.00	-	-	17.9	23.6	4.55	1.0	7.2	3.3

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	394.6	396.7
Gross profit	85.6	101.4	132.9	162.2	146.6	146.7
Operating profit	42.2	48.3	77.3	97.6	67.1	69.0
PBT	43.0	49.1	78.1	99.0	67.9	69.9
PAT	30.8	36.6	59.2	75.1	50.9	51.9
Net profit	30.1	36.3	59.3	75.4	50.7	51.7
<b>Margin (%)</b>						
Gross profit margin	35.7%	34.1%	32.9%	35.1%	37.2%	37.0%
Operating profit	17.6%	16.2%	19.1%	21.1%	17.0%	17.4%
PBT margin	17.9%	16.5%	19.3%	21.4%	17.2%	17.6%
PAT margin	12.8%	12.3%	14.7%	16.3%	12.9%	13.1%
Net profit margin	12.5%	12.2%	14.7%	16.3%	12.8%	13.0%
<b>Growth (%)</b>						
Revenue growth	-5.4%	24.1%	35.7%	14.3%	-14.5%	0.5%
Gross Profit growth	-8.5%	18.5%	31.0%	22.1%	-9.6%	0.1%
PBT growth	-19.7%	14.0%	59.2%	26.8%	-31.5%	3.0%
PAT growth	-25.6%	18.9%	61.9%	26.9%	-32.3%	2.1%
Net profit growth	-25.4%	20.8%	63.1%	27.2%	-32.8%	2.0%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROA	9.8%	11.3%	16.3%	19.1%	14.0%	13.9%
ROE	11.3%	13.5%	20.0%	23.7%	16.5%	16.2%
EPS (sen)	11.1	12.5	20.4	26.0	17.5	17.8
P/E	24.2	21.6	13.2	10.4	15.5	15.2
DPS (sen)	10.0	10.0	16.0	20.0	14.0	14.0
Dividend Payout	89.7%	79.9%	78.4%	77.0%	80.2%	78.6%
Dividend yield (%)	3.7%	3.7%	5.9%	7.4%	5.2%	5.2%

Source: Company, JF Apex

### JF APEX SECURITIES BERHAD – CONTACT LIST

#### JF APEX SECURITIES BHD

**Head Office:**  
6<sup>th</sup> Floor, Menara Apex  
Off Jalan Semenyih  
Bukit Mewah  
43000 Kajang  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 8736 1118  
Facsimile: (603) 8737 4532

**PJ Office:**

15<sup>th</sup> Floor, Menara Choy Fook On  
No. 1B, Jalan Yong Shook Lin  
46050 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 7620 1118  
Facsimile: (603) 7620 6388

#### DEALING TEAM

**Head Office:**  
Kong Ming Ming (ext 3237)  
Shirley Chang (ext 3211)  
Norisam Bojo (ext 3233)

**Institutional Dealing Team:**

Zairul Azman (ext 746)  
Fathul Rahman Buyong (ext 741)  
Ahmad Mansor (ext 744)

**PJ Office:**

Mervyn Wong (ext 363)  
Azfar Bin Abdul Aziz (Ext 822)  
Tan Heng Cheong (Ext 111)

#### RESEARCH TEAM

**Head Office:**  
Lee Chung Cheng (ext 758)  
Lee Cherng Wee (ext 759)  
Low Zy Jing, CFA (ext 754)  
Nursuhaiza binti Hashim (ext 752)  
Siau Li Shen (ext 753)

### 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

### JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:  
**JF Apex Securities Berhad** (47680-X)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)