

26 March 2019

Hai-O Enterprise Bhd

9M19 Below Expectations

By Wan Mustaqim Bin Wan Ab Aziz | wanmustaqim@kenanga.com.my

UNDERPERFORM ↔

Price: **RM2.70**
Target Price: **RM2.10** ↓

9M19 CNP of RM37.4m (-36%) came in below our/consensus expectations at 68%/62% of full-year estimates, dragged down by lower-than-expected MLM sales. We cut both our FY19E/FY20E CNPs by 9% each on the expectation of lower MLM average sales. Subsequently, we cut our Target Price to RM2.10 from RM2.20 based on revised 12x FY20E EPS. Reiterate UNDERPERFORM.

9M19 below expectations. 9M19 CNP of RM37.4m (-36%) came in below our/consensus expectations at 68%/62% of full-year estimates, dragged down by lower-than-expected MLM sales. No dividend was declared for the quarter as expected. HAIO typically pays its dividends in 2Q and 4Q.

YoY, 9M19 CNP plunged 36% dragged by: (i) lower overall revenue (-26%) from lower MLM division (-35%), netted off by stronger CNY sales from Retail division (+11%), (ii) contraction in EBIT margin by 2.4ppt to 18.9% from 21.3% in 9M18 from unfavourable merchandise mix skewed towards small ticket items as well as heavy discounting activities to attract distributors, and (iii) higher effective tax rate of 24.8% (9M18: 23.1%). It was unable to match last year grand sales due to weaker MLM sales attributed to cautious distributors spending, and tepid purchasing power that led to stagnant distributors' growth.

QoQ, 3Q19 CNP decreased by 6% mainly due to lower revenue (-7%) from weaker MLM sales (-11%) and Wholesale segment (-5%), but netted off by stronger CNY sales from Retail division (+16%) which typically falls in 4Q. Furthermore, EBIT margin contracted by 0.2ppt to 19.3% from 19.5% in 2Q19 with merchandise mix skewed towards small-ticket items, while the effective tax rate was slightly higher at 24.4% (vs. 24.1% in 2Q19).

Outlook. We expect to see additional cost pressure coming from the new SST implementation as well as from weakening MYR against RMB and further pressure from minimal distributors' growth (currently at 140k, plunging from the highest level in FY18 at 160k distributors). Note that, HAIO absorbed the SST of 6%, while maintaining its sales price, pending further talks with suppliers. HAIO expects its Indonesian MLM market to break even this year, but is withholding its Vietnam expansion plans due to the weak market condition. The group's wholesale division will continue promoting premium Chinese medicated tonics and non-alcoholic products while expanding its neighbourhood medical halls network in particular. The half yearly members' sales campaign had been carried out for the Retail division during the CNY festive season.

Cut both FY19-20E CNPs by 9% each. We cut both our FY19E/FY20E CNP by 9% each on the expectation of lower MLM average sales.

As such, we also cut our target price to RM2.10, from RM2.20, based on revised 12x FY20E EPS (roll over from 12x FY19E EPS) at its -0.5SD of 5-year forward historical mean. Reiterate **UNDERPERFORM.**

Risks to our call include: (i) higher-than-expected sales, and (ii) lower-than-expected cost of sales.

Share Price Performance



KLCI	1,649.15
YTD KLCI change	-2.5%
YTD stock price change	1.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	784.0
Shares Outstanding	290.4
52-week range (H)	5.39
52-week range (L)	2.48
3-mth avg daily vol:	130,210
Free Float	77%
Beta	0.7

Major Shareholders

Tan Kai Hee	10.1%
Akintan Sdn Bhd	8.0%
Excellant Communication	5.4%

Summary Earnings Table

FY Apr (RM'm)	2018A	2019E	2020E
Turnover	461.7	368.1	376.5
EBIT	94.9	66.2	67.4
PBT	96.5	67.7	69.1
Net Profit (NP)	72.3	50.1	51.1
Consensus (NP)	-	60.3	69.3
Earnings Revision	-	-8.7%	-8.7%
EPS (sen)	24.9	17.3	17.6
EPS growth (%)	21.6	-30.7	2.1
NDPS (sen)	20.0	10.0	10.0
BV/Share (RM)	1.10	1.17	1.25
PER	10.9	15.6	15.3
Price/BV (x)	2.5	2.3	2.2
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	7.4	3.7	3.7

26 March 2019

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	86.2	92.2	-6.5%	103.1	-16.4%	258.4	351.1	-26.4%
EBIT	16.7	18.0	-7.5%	24.6	-32.2%	48.8	74.8	-34.8%
PBT	16.9	18.3	-7.3%	25.0	-32.4%	49.6	76.0	-34.7%
Taxation	-4.1	-4.4	-6.4%	-5.8	-28.9%	-12.3	-17.5	-29.8%
Net Profit (NP)	12.8	13.6	-6.0%	19.3	-33.6%	37.4	58.6	-36.1%
EPS (sen)	4.4	4.7	-6.0%	6.7	-33.6%	12.9	20.2	-36.1%
EBIT margin	19.3%	19.5%		23.8%		18.9%	21.3%	
PBT margin	19.6%	19.8%		24.3%		19.2%	21.6%	
NP margin	14.8%	14.8%		18.7%		14.5%	16.7%	
Effective tax rate	24.4%	24.1%		23.2%		24.8%	23.1%	

Source: Bursa Announcement, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
- Multi-Level-Marketing	56.3	63.2	-10.9%	75.5	-25.5%	177.5	273.4	-35.1%
- Wholesale	16.2	17.1	-5.3%	17.1	-5.2%	46.9	46.6	0.6%
- Retail	12.5	10.8	15.9%	9.3	34.7%	31.0	27.8	11.4%
- Others	1.1	1.0	7.1%	1.1	2.8%	3.0	3.2	-6.3%
Group Revenue	86.2	92.2	-6.5%	103.1	-16.4%	258.4	351.1	-26.4%
- Multi-Level-Marketing	11.9	14.0	-15.3%	14.1	-16.0%	36.3	52.5	-30.9%
- Wholesale	3.1	3.1	0.8%	9.1	-66.1%	8.9	18.7	-52.7%
- Retail	0.4	0.6	-27.5%	0.1	231.3%	0.4	0.1	413.1%
- Others	1.4	1.0	41.5%	1.5	-4.2%	3.2	3.9	-16.5%
- Elimination	-0.2	-0.6	-72.6%	-0.3	-32.6%	0.0	-0.3	-109.6%
Group EBIT	16.6	18.0	-7.8%	24.6	-32.3%	48.8	74.8	-34.8%
- Multi-Level-Marketing	21.1%	22.2%		18.7%		20.4%	19.2%	
- Wholesale	19.0%	17.8%		53.1%		18.9%	40.1%	
- Retail	3.5%	5.5%		1.4%		1.4%	0.3%	
- Others	n.m.	n.m.		n.m.		n.m.	n.m.	
Group EBIT Margin	19.3%	19.6%		23.8%		18.9%	21.3%	

Source: Bursa Announcement, Kenanga Research

26 March 2019

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	1.46	1,648.2	N	12/2018	12.4%	4.9%	13.6%	5.5%	35.1	30.9	29.3	24.3	23.6	77.5%	2.7%	1.30	UP
AEON CO (M) BHD	1.51	2,120.0	Y	12/2018	6.5%	3.1%	17.3%	9.2%	20.0	17.0	15.6	1.1	1.0	5.3%	2.6%	2.00	OP
AMWAY MALAYSIA HOLDINGS BHD	6.00	986.3	Y	12/2018	2.2%	2.0%	5.5%	6.3%	18.1	17.2	16.1	4.2	4.0	23.8%	4.6%	6.80	OP
DUTCH LADY MILK INDUSTRIES BHD	63.68	4,075.5	Y	12/2018	1.0%	3.0%	16.8%	2.8%	32.9	28.1	27.3	38.6	37.2	134.8%	3.5%	67.94	OP
FRASER & NEAVE HOLDINGS BHD	34.40	12,617.2	Y	09/2019	3.9%	3.6%	4.2%	3.6%	31.8	30.5	29.4	5.5	5.1	17.2%	1.9%	33.85	MP
HAI-O ENTERPRISE BHD	2.70	784.0	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	10.9	15.6	15.3	2.5	2.3	15.2%	3.7%	2.10	UP
MYNEWS HOLDINGS BHD	1.37	934.6	N	10/2018	27.3%	14.2%	21.0%	20.7%	35.3	29.1	24.1	3.4	3.1	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	144.70	33,932.2	Y	12/2019	2.6%	3.8%	16.1%	2.5%	52.2	45.0	43.9	51.9	50.2	116.0%	2.2%	138.50	MP
PADINI HOLDINGS BHD	3.58	2,355.3	Y	06/2019	10.5%	5.1%	1.2%	10.8%	13.2	13.1	11.8	3.6	3.1	25.6%	3.2%	4.25	OP
PARKSON HOLDINGS BHD	0.26	272.1	Y	06/2019	4.3%	0.2%	185.3%	13.6%	N.A.	16.8	14.8	0.1	0.1	0.5%	0.0%	0.25	MP
POWER ROOT BHD	1.28	506.1	Y	03/2019	-15.8%	18.3%	31.6%	30.4%	21.5	16.8	13.3	2.4	2.3	15.1%	5.9%	1.65	OP
QL RESOURCES BHD	7.00	11,357.1	Y	03/2019	7.2%	11.1%	3.1%	8.7%	55.1	53.4	49.1	6.0	5.6	11.4%	0.6%	5.70	UP
SPRITZER BHD	2.19	459.8	Y	12/2019	4.0%	5.0%	3.1%	12.6%	19.0	18.4	16.3	1.2	1.1	6.3%	1.8%	1.90	UP
Simple Average					3.5%	5.9%	22.2%	9.9%	28.7	25.5	23.6	11.1	10.7	35.4%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	35.28	10,073.5	N	12/2019	1.5%	4.0%	-0.5%	3.4%	21.5	21.6	20.9	23.9	22.6	107.6%	4.4%	32.65	UP
CARLSBERG BREWERY MALAYSIA BHD	26.50	8,152.0	N	12/2019	9.7%	4.1%	6.4%	4.7%	29.7	28.0	26.7	47.9	52.9	173.3%	3.8%	18.00	UP
HEINEKEN MALAYSIA BHD	22.78	6,881.8	N	12/2019	6.0%	5.0%	1.8%	5.8%	25.5	25.2	24.5	19.1	19.0	77.4%	4.2%	21.90	MP
Simple Average					5.7%	4.4%	2.6%	4.7%	25.6	24.9	24.0	30.3	31.5	119.4%	4.1%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.62	586.1	N	04/2019	8.4%	9.9%	2255.0%	14.4%	498.8	21.2	18.5	1.6	1.5	7.1%	3.0%	2.12	BUY
BONIA CORPORATION BHD	0.25	197.4	Y	06/2019	-6.8%	3.1%	-46.3%	50.8%	10.0	18.6	12.3	0.5	0.4	2.5%	2.4%	0.22	SELL
COCOALAND BHD	1.99	455.3	Y	12/2019	8.9%	4.9%	7.4%	10.0%	14.7	13.7	12.5	1.9	1.8	13.1%	5.2%	2.45	NEUTRAL
LAY HONG BHD	0.43	280.6	Y	03/2019	8.2%	11.7%	-29.1%	46.2%	7.6	10.8	7.4	0.9	0.9	N/A	1.2%	1.13	BUY
KAWAN FOOD BHD	1.67	600.4	Y	12/2019	16.7%	20.3%	50.8%	23.4%	25.6	17.0	13.8	1.9	1.7	10.4%	2.3%	2.16	BUY
MAGNI-TECH INDUSTRIES BHD	4.74	771.0	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.4	7.3	6.5	1.5	N/A	21.0%	N/A	6.45	BUY

Source: Bloomberg, Kenanga Research

26 March 2019

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research