

Outthink. Outperform.

## Another lackluster quarter

Hai-O posted another weak set of results. 6MFY20 net profit declined 38.8% largely on the back of continued weakness in the group's MLM business, while its wholesale and retail segments underperformed against the backdrop of softer consumer spending. We cut our FY20-22E earnings by 5-15% in view of the more lacklustre outlook going forward. As such, we lower our TP to RM1.50 (from RM1.60 previously) and maintain our SELL rating.

### Weakness in MLM weighs; below expectations

Hai-O's 6MFY20 revenue declined 21.9% yoy to RM134.5m on the back of declines seen in the group's three main segments: Multi-level marketing ("MLM") (-30.2% yoy), Wholesale (-2.4% yoy) and Retail division (-3.6% yoy). MLM in particular continued to suffer from overall weakness in consumption spending while members' recruitment and renewal were also affected. The EBITDA margin contracted 3.3ppt as a result of unfavourable sales mix coupled with higher import purchase cost. All in, the group posted net profit of RM15.1m (-38.8%) for 6MFY20. This was below our and consensus expectations, accounting for 42% of respective forecasts. The variance to our forecast was mainly due to the lower-than-expected contributions across all segments.

### Better sales sequentially but margin narrowed

Sequentially, top-line sales were marginally better at RM68.4m (+3.5% qoq). The MLM division saw higher sales of big-ticket items (above RM500) whereas the wholesale segment saw better sales from Chinese medicated tonic and bird-nest products. The retail division sales received a boost from its half-yearly grand sales campaign during the quarter. Nevertheless, a lower margin due partly to an unfavourable sales mix and higher branding costs led to a profit decline qoq to RM7.3m (-5.5%).

### Maintain SELL

We cut our FY20-22E EPS estimates by 5-15% respectively, mainly to factor in the overall weaker consumption spending, particularly on discretionary items. In tandem with our earnings cut, our TP is now revised lower to RM1.50 (from RM1.60) based on an unchanged target of 12x PER. While we expect some uptick in sales next quarter (riding on the Lunar New Year festive spending), especially from the Wholesale and Retail divisions, longer-term prospects remain challenging for the MLM business. All in, given the potential downside to current share price, we maintain our SELL rating. *This note marks a transfer of analyst coverage.*

### Earnings & Valuation Summary

FYE 30 Apr	2018	2019	2020E	2021E	2022E
Revenue (RMm)	461.7	328.4	270.3	273.1	275.9
EBITDA (RMm)	99.0	66.9	44.6	52.2	54.4
Pretax profit (RMm)	96.5	63.4	40.8	48.4	50.6
Net profit (RMm)	72.3	47.7	30.8	36.5	38.2
EPS (sen)	24.9	16.4	10.6	12.6	13.1
PER (x)	8.6	13.1	20.3	17.1	16.4
Core net profit (RMm)	72.3	47.7	30.8	36.5	38.2
Core EPS (sen)	24.9	16.4	10.6	12.6	13.1
Core EPS growth (%)	21.7	-33.9	-35.5	18.6	4.6
Core PER (x)	8.6	13.1	20.3	17.1	16.4
Net DPS (sen)	20.0	13.0	8.5	10.1	10.5
Dividend Yield (%)	9.3	6.0	3.9	4.7	4.9
EV/EBITDA (x)	5.0	7.9	11.7	9.8	9.2
Chg in EPS (%)			(14.8)	(5.2)	(6.8)
Affin/Consensus (x)			0.8	0.80	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

### Key risks

## Results Note

# Hai-O

HAIO MK  
Sector: Consumer

RM2.15 @ 18 December 2019

## SELL (maintain)

Downside: 30%

## Price Target: RM1.50

Previous Target: RM1.60



## Price Performance

	1M	3M	12M
Absolute	-2.3%	-12.2%	-16.0%
Rel to KLCI	-2.0%	-12.2%	-14.1%

## Stock Data

Issued shares (m)	290.3
Mkt cap (RMm)/(US\$m)	624.2/150.8
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	2.11-3.08
Est free float	55.8%
BV per share (RM)	1.09
P/BV (x)	1.97
Net cash/ (debt) (RMm)	110.2
ROE (2020E)	10.0%
Derivatives	Nil
Shariah Compliant	No

## Key Shareholders

Kai Hee Tan	10.2%
Akintan Sdn Bhd	8.1%
Excellent Communication	5.4%

Source: Affin Hwang, Bloomberg

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Upside risks: i) recovery in MLM distributor base; ii) better-than-expected take-up rate for its new products; and (iii) higher cost savings.

Fig 1: Results Comparison

FYE Apr (RMm)	2Q FY19	1Q FY20	2Q FY20	QoQ % chg	YoY % chg	6M FY19	6M FY20	YoY % chg	Comments
Revenue	92.2	66.1	68.4	3.5	(25.8)	172.3	134.5	(21.9)	6MFY20 decline in MLM (-30.2% yoy), Wholesale (-2.4% yoy) and Retail (-3.6% yoy) segment sales
Op costs	(72.9)	(54.5)	(57.5)	5.4	(21.2)	(137.7)	(112.0)	(18.7)	
EBITDA	19.2	11.5	10.9	(5.4)	(43.2)	34.5	22.5	(34.9)	
<i>EBITDA margin (%)</i>	<i>20.9</i>	<i>17.5</i>	<i>16.0</i>	<i>-1.5 ppt</i>	<i>-4.9 ppt</i>	<i>20.0</i>	<i>16.7</i>	<i>-3.3 ppt</i>	Unfavorable sales mix and higher import purchase cost
Depn and amort	(1.2)	(1.6)	(1.6)	(0.4)	26.4	(2.4)	(3.1)	31.5	
EBIT	18.0	10.0	9.4	(6.2)	(47.9)	32.2	19.4	(39.8)	
<i>EBIT margin (%)</i>	<i>19.5</i>	<i>15.1</i>	<i>13.7</i>	<i>-1.4 ppt</i>	<i>-5.8 ppt</i>	<i>18.7</i>	<i>14.4</i>	<i>-4.3 ppt</i>	
Int expense	(0.0)	(0.1)	(0.1)	14.7	212.0	(0.1)	(0.1)	89.6	
Int and other inc	0.3	0.3	0.3	2.0	(6.8)	0.6	0.5	(13.3)	
Associates	0.0	0.0	(0.0)	<i>n.m</i>	<i>n.m</i>	0.0	0.0	7.1	
Exceptional items	0.0	0.0	0.0	<i>n.m</i>	<i>n.m</i>	0.0	0.0	<i>n.m</i>	
<b>Pretax</b>	<b>18.3</b>	<b>10.2</b>	<b>9.5</b>	(6.4)	(47.7)	32.7	19.7	(39.6)	
Tax	(4.4)	(2.7)	(2.3)	(14.9)	(48.5)	(8.2)	(4.9)	(39.7)	
<i>Tax rate (%)</i>	<i>24.1</i>	<i>26.2</i>	<i>23.8</i>	<i>-2.4 ppt</i>	<i>-0.4 ppt</i>	<i>25.0</i>	<i>25.0</i>	<i>0ppt</i>	
MI	(0.3)	0.2	0.0	(81.8)	<i>n.m</i>	0.1	0.3	>100	
<b>Net profit</b>	<b>13.6</b>	<b>7.7</b>	<b>7.3</b>	(5.5)	(46.2)	<b>24.6</b>	<b>15.1</b>	(38.8)	
EPS (sen)	4.7	2.7	2.5	(5.5)	(46.2)	8.5	5.2	(38.8)	
<b>Core net profit</b>	<b>13.6</b>	<b>7.7</b>	<b>7.3</b>	(5.5)	(46.2)	<b>24.6</b>	<b>15.1</b>	(38.8)	Below our and consensus estimates, accounting for 42% of respective full-year forecasts

Source: Affin Hwang, Company data

Fig 2: Segmental Breakdown

	2QFY19	1QFY20	2QFY20	QoQ % chg	YoY % chg	6MFY19	6MFY20	YoY % chg
<b>Segmental Revenue</b>								
MLM	63.2	42.1	42.6	1.2	(32.6)	121.2	84.6	(30.2)
Wholesale	17.1	14.8	15.1	2.2	(11.7)	30.7	29.9	(2.4)
Retail	10.8	8.1	9.6	18.8	(10.9)	18.4	17.8	(3.6)
Others	1.0	1.1	1.0	(2.2)	(0.7)	1.9	2.1	9.1
<b>Total revenue</b>	<b>92.2</b>	<b>66.1</b>	<b>68.4</b>	<b>3.5</b>	<b>(25.8)</b>	<b>172.3</b>	<b>134.5</b>	<b>(21.9)</b>
<b>Segmental Profit*</b>								
MLM	14.0	7.1	7.4	4.3	(47.0)	24.4	14.6	(40.3)
Wholesale	3.1	1.3	1.4	7.5	(53.0)	5.8	2.8	(0.5)
Retail	0.6	(0.3)	0.2	(194.6)	(57.3)	(0.0)	(0.0)	(0.5)
Others	1.0	1.5	0.8	(44.4)	(17.1)	1.8	2.3	0.3
	<b>18.0</b>	<b>10.0</b>	<b>9.4</b>	<b>(6.2)</b>	<b>(47.9)</b>	<b>32.2</b>	<b>19.4</b>	<b>(39.8)</b>

Source: Affin Hwang, Company data

\*Total segmental profit differs from group EBIT due to elimination

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<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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