

Company Result

19 December 2019

Hai-O Enterprise Berhad

Disappointing 1HFY20

HOLD

Maintained

Share Price	RM2.15
Target Price	RM1.93

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 / HAIO MK
Board / Sector	Industrial/Food & Drug Retailers
Syariah Compliant status	No
Issued shares (m)	290.33
Par Value (RM)	0.50
Market cap. (RMm)	790.37
52-week price Range	RM2.11 – 3.08
Beta (against KLCI)	0.70
3-m Average Daily Volume	0.38m
3-m Average Daily Value ^A	RM0.89m

Share Performance

	1m	3m	12m
Absolute (%)	-2.3	-5.7	-16.0
Relative (%-pts)	-2.0	-12.2	-14.1

Major Shareholders

	%
Kai Hee Tan	10.18
Akintan Sdn Bhd	8.05
Excellent Communications	5.36

Historical Chart



Source: Bloomberg

Nursuhaiza Hashim

03-87361118, ext. 752

nursuhaiza@jfapex.com.my

- **Hai-O posted a net profit of RM7.3m during 2QFY20**, which was down by 5.7% qoq and 46.3% yoy. Meanwhile, the Group recorded a quarterly revenue of RM68.4m, which improved 3.5% qoq but depleted 25.8% yoy.
- **As for 1HFY20, the Group registered a net profit of RM15m, which dropped 38.8% yoy on the back of subdued revenue of RM134.5m, -21.9% yoy.** The subdued results were dented by discouraging performances from the all of its segments mainly Multi-Level Marketing (MLM) segment.
- **Below expectations.** 1HFY20 net profit of RM15m is below our and consensus expectation, only accounting for 34.3%/35% of our/consensus full year estimates.

Comment

- **Lackluster margin from Wholesale division dragged down QoQ earnings despite stellar revenue.** The Group PBT slid 6.4% qoq due to slower Wholesale PBT margin (down 41.2% qoq) which offset higher margin in MLM division (up 4.1% qoq) following disappointing sales mix coupled with higher cost. However, the Group's revenue increased 3.5% qoq, thanks to higher big-ticket items sales from MLM division, stellar sales in Chinese medicated tonic and bird nest products under Wholesale division as well sales promotional campaign from Retail division.
- **Disappointing YoY performance.** Hai-O's revenue tumbled 25.8% yoy during 2QFY20 due to high base effect coupled with lower consumer sentiment which resulted in lower revenue in all of its segments (MLM: -32.6% yoy; Wholesale: -11.7% yoy and Retail: -10.2% yoy). On the same note, PBT also depleted 47.7% yoy following higher import cost and unfavourable change in sales mix under Retail segment which led to PBT margin dropped by 5.9ppts.
- **Subdued 1HFY20.** Cumulatively, Hai-O's 1HFY20 revenue and PBT dropped 21.9% yoy and 39.6% yoy respectively due to lower contributions from MLM, Wholesale and Retail segments on the back of slower consumer spending and higher cost incurred.
- **Unattractive outlook ahead.** Looking forward, the Group will continue to emphasis on several strategies for MLM division to reinforce its distributor base and continue to reward it members with variety of rewards and incentives. Besides, the Group will also put in massive promotional

campaigns for its Wholesale and Retails divisional products for the upcoming Chinese New Year festival. However, we foresee that Hai-O's operating outlook will be challenging in the immediate term and might be further bogged down by MLM division on the back of lower new member recruitment coupled with lower member renewal as bogged down by disappointing consumer demand towards its core products (i.e. Chinese medicated tonic and other health and wellness products).

- **Dividend declared.** The Group has declared a single tier interim dividend of 3sen/share for FY20, representing 27.3% of our full year FY20 dividend forecast.

Earnings Outlook/Revision

- **We cuts our earnings forecasts for FY20F and FY21F by 24% and 15.8%** to RM33.2m and RM41.5m respectively, after lowering our sales assumptions for MLM division to better reflect its lower new member recruitment and lower PBT margin pursuant to higher marketing and branding expenses.

Valuation & Recommendation

- **Maintained HOLD with a lower target price of RM1.93** (previous target price: RM2.30) following our earnings cut. Our revised target price is now based on P/E multiple of 17.5x FY20F EPS of 11 sen which is below its +1 SD of 3-year historical mean of 19.3x.
- **Risks include:** 1) Higher-than-expected operating expenses (i.e. higher marketing and branding expenses) and 2) Lower-than-expected domestic spending due to higher cost of living.

Figure 1: Quarterly Figures

Year ended 30 April	2QFY20	1QFY20	2QFY19	QoQ	YoY	6MFY20	6MFY19	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	68.4	66.1	92.2	3.5%	-25.8%	134.5	172.3	-21.9%
Gross profit	24.1	25.2	35.7	-4.4%	-32.6%	49.2	67.8	-27.4%
Operating profit	9.4	10.0	18.0	-6.2%	-47.9%	19.4	32.2	-39.8%
PBT	9.5	10.2	18.3	-6.4%	-47.7%	19.7	32.7	-39.6%
PAT	7.3	7.5	13.9	-3.0%	-47.3%	14.8	24.5	-39.5%
Net profit	7.3	7.7	13.6	-5.7%	-46.3%	15.0	24.6	-38.8%
Margin (%)				ppts	ppts			ppts
Gross profit margin	35.2%	38.1%	38.7%	-2.9	-3.5	36.6%	39.4%	-2.8
EBIT margin	13.7%	15.1%	19.5%	-1.4	-5.8	14.4%	18.7%	-4.3
PBT margin	14.0%	15.4%	19.8%	-1.5	-5.9	14.7%	19.0%	-4.3
PAT margin	10.7%	11.4%	15.0%	-0.7	-4.4	11.0%	14.2%	-3.2
Net profit margin	10.7%	11.7%	14.8%	-1.0	-4.1	11.2%	14.3%	-3.1

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	2QFY20	1QFY20	2QFY19	QoQ	YoY
	RM'm	RM'm	RM'm	%	%
MLM division	42.6	42.1	63.2	1.2%	-32.6%
Wholesale division	15.1	14.8	17.1	2.0%	-11.7%
Retail division	9.7	8.1	10.8	19.8%	-10.2%
Total Revenue	67.4	65.0	91.1	3.7%	-26.0%
MLM division	7.6	7.3	14.0	4.1%	-45.7%
Wholesale division	1.0	1.7	3.1	-41.2%	-67.7%
Retail division	0.2	(0.3)	(0.6)	N/A	N/A
Total PBT	8.8	8.7	16.5	1.1%	-46.7%
PBT margin (%)				ppts	ppts
MLM division	17.8%	17.3%	22.2%	0.5	-4.3
Wholesale division	6.6%	11.5%	18.1%	-4.9	-11.5
Retail division	2.1%	-3.7%	-5.6%	N/A	N/A

Source: Company, JF Apex

Figure 3: Peer Comparison

Company	Price	Recom	T.price	P/E		P/B	ROE	Div Yield
	RM		RM	19'	20'			
Hai-O	2.15	HOLD	1.93	16.5	14.8	2.1	12.7	6
Amway	5.74	-	-	15.3	15.8	4.3	29.2	4.8

Source: Company, JF Apex

Figure 4: Financial Summary

Year ended 30 April	FY16	FY17	FY18	FY19	FY20F	FY21F
	RMm	RMm	RMm	RMm	RMm	RMm
Revenue	297.6	404.0	461.8	328.4	333.1	348.9
Gross profit	101.4	132.9	162.2	125.9	118.1	123.9
Operating profit	48.3	77.3	97.6	62.4	46.9	54.7
PBT	49.1	78.1	99.0	63.5	47.4	55.7
PAT	36.6	59.2	75.1	47.1	33.4	41.7
Net profit	36.3	59.3	75.4	47.4	33.2	41.5
Margin (%)						
Gross profit margin	34.1%	32.9%	35.1%	38.4%	35.4%	35.5%
Operating profit	16.2%	19.1%	21.1%	19.0%	14.1%	15.7%
PBT margin	16.5%	19.3%	21.4%	19.3%	14.2%	16.0%
PAT margin	12.3%	14.7%	16.3%	14.4%	10.0%	12.0%
Net profit margin	12.2%	14.7%	16.3%	14.4%	10.0%	11.9%
Growth (%)						
Revenue growth	24.1%	35.7%	14.3%	-28.9%	1.4%	4.8%
Gross Profit growth	18.5%	31.0%	22.1%	-22.3%	-6.3%	4.9%
PBT growth	14.0%	59.2%	26.8%	-35.9%	-25.4%	17.6%
PAT growth	18.9%	61.9%	26.9%	-37.2%	-29.2%	25.0%
Net profit growth	20.8%	63.1%	27.2%	-37.1%	-30.0%	25.1%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROA	11.3%	16.3%	19.0%	14.0%	13.9%	15.5%
ROE	13.5%	20.0%	23.6%	16.5%	16.2%	18.7%
EPS (sen)	12.1	19.7	25.1	15.8	11.0	13.8
P/E	0.18	0.11	0.09	0.14	0.19	0.16
DPS (sen)	0.10	0.16	0.20	0.13	0.11	0.11
Dividend Payout	0.8%	0.8%	0.8%	0.8%	1.0%	0.8%
Dividend yield (%)	4.7%	7.4%	9.3%	6.0%	5.1%	5.1%

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST

JF APEX SECURITIES BHD

Head Office:
6th 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:

15th 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)
Nur Nadia (ext 741)
Ahmad Mansor (ext 744)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Joanne Tan Hui Bin (Ext 111)

RESEARCH TEAM

Head Office:
Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Nursuhaiza Hashim (ext 752)
How Chi Hoong (ext 754)

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)