

Company Result

26 March 2020

Hai-O Enterprise Berhad

SELL

Bumpy road ahead

Downgraded

Share Price	RM1.17
Target Price	RM1.00

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)	359.99
52-week price Range	RM1.20 – 2.77
Beta (against KLCI)	1.00
3-m Average Daily Volume	0.16m
3-m Average Daily Value ^A	RM0.30m

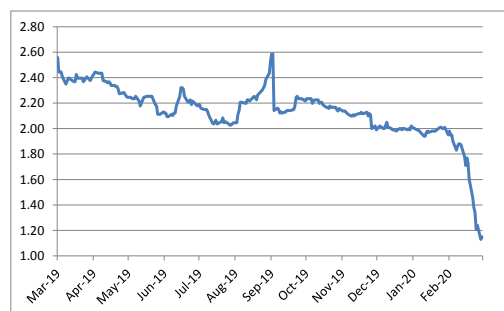
Share Performance

	1m	3m	12m
Absolute (%)	-38.3	-38.9	-54.4
Relative (%-pts)	-27.5	-25.1	-41.7

Major Shareholders

Shareholder	%
Kai Hee Tan	10.27
Akintan Sdn Bhd	8.09
Excellent Communications	5.36

Historical Chart



Source: Bloomberg

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- **Hai-O registered a net profit of RM7.6m during 3QFY20 which increased 4.1% qoq but depleted 40.6% yoy. Meanwhile, revenue diminished 2.0% qoq and 22.2% yoy.**
- **As for 9MFY20, the Group recorded a net profit of RM22.7m during this period, which tumbled 39.3% yoy on the back of sluggish revenue of RM201.5m, -22% yoy.** The subdued results were dented by poor results from all of its segments in view of lower sales and higher cost incurred.
- **Marginally below expectations.** 9MFY20 net profit of RM22.7m is below our and consensus expectation, only accounting for 68.1%/69.1% of our/consensus full year expectation.

Comment

- **Massive drop in MLM segment bogged down QoQ revenue despite improved earnings.** The Group's revenue slid 2.0% qoq due to uninspiring sales from MLM division which dropped 13.8% qoq. However, revenue from Wholesale and Retail division rose +11.3% qoq and 27.8% qoq respectively arising from better sales during Chinese New Year (CNY) festive season campaign. Moreover, PBT increased 15.2% qoq, thanks to improved margins from Wholesale and Retail segments.
- **MLM segment continued to deteriorate on YoY basis.** Hai-O's revenue and PBT were down 22.2% yoy and 35% yoy respectively during 3QFY20. The disappointing performance was due to lower sales from all segment [MLM:-34.8% yoy, Wholesale:-1.2% yoy and Retail:-1.6% yoy] due to lack of incentives to the members during this period as well as poor consumer sentiment amid current economic condition. Moreover, lower earnings were dented by MLM division coupled with Wholesale division due to unfavorable change in sales mix as well as higher import cost following strengthening Chinese Yuan against Malaysian Ringgit which led to the above segments' PBT margins dropped by 6.1pptts and 2.8pptts respectively.
- **Subdued 9MFY20.** Cumulatively, Hai-O's 9MFY20 revenue and PBT dropped 22% yoy and 38% yoy respectively due to lower contributions from MLM, Wholesale and Retail segments on the back of soothing consumer spending and higher cost incurred.

- **Unattractive outlook ahead.** The Group remains pessimistic about the company's outlook amid current economic condition coupled with pandemic outbreak which dampened overall consumer sector. As the entire segments being deteriorated by weak consumer sentiment, the Group committed to emphasis on several strategies for their business. Looking forward, we expect the Group'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 and member renewal amid lack of incentives campaign as well as uninspiring consumer demand towards its core products (i.e. Chinese medicated tonic and other health and wellness products).
- **Dividend declared.** The Group has declared a second single-tier interim dividend of 3sen/share for FY20, which constitutes 54.5% of our full year FY20 dividend forecast.

Earnings Outlook/Revision

- **We cuts our earnings forecasts for FY20F and FY21F by 13.3% and 21%** to RM28.8m and RM32.8m 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

- **Downgraded to SELL from HOLD with a lower target price of RM1.00** (previous target price: RM1.93) following our earnings cut. We roll over our valuation to FY21F, based on P/E multiple of 9.2x FY21F EPS of 10.9sen which is -1 SD of 3-year historical mean PE of 13.4x.
- **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	3QFY20	2QFY20	3QFY19	QoQ	YoY	9MFY20	9MFY19	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	67.0	68.4	86.2	-2.0%	-22.2%	201.5	258.4	-22.0%
Gross profit	27.2	24.1	32.6	13.1%	-16.6%	76.4	100.5	-23.9%
Operating profit	10.8	9.4	16.7	15.2%	-35.1%	30.2	48.8	-38.2%
PBT	11.0	9.5	16.9	15.2%	-35.0%	30.7	49.6	-38.0%
PAT	7.9	7.3	12.8	8.2%	-38.3%	22.7	37.3	-39.1%
Net profit	7.6	7.3	12.8	4.1%	-40.6%	22.7	37.4	-39.3%
Margin (%)				ppts	ppts			ppts
Gross profit margin	40.6%	35.2%	37.9%	5.4	2.7	37.9%	38.9%	-0.9
EBIT margin	16.1%	13.7%	19.3%	2.4	-3.2	15.0%	18.9%	-3.9
PBT margin	16.4%	14.0%	19.6%	2.5	-3.2	15.3%	19.2%	-3.9
PAT margin	11.8%	10.7%	14.9%	1.1	-3.1	11.3%	14.4%	-3.2
Net profit margin	11.3%	10.7%	14.8%	0.7	-3.5	11.3%	14.5%	-3.2

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	3QFY20	2QFY20	3QFY19	QoQ	YoY	9MFY20	9MFY19	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
MLM division	36.7	42.6	56.3	-13.8%	-34.8%	121.4	177.5	-31.6%
Wholesale division	16.8	15.1	17.0	11.3%	-1.2%	46.7	47.7	-2.1%
Retail division	12.4	9.7	12.6	27.8%	-1.6%	30.2	31.0	-2.6%
Total Revenue	65.9	67.4	85.9	-2.2%	-23.3%	198.3	172.3	15.1%
MLM division	6.9	7.6	14.0	-9.2%	-50.7%	21.8	38.3	-43.1%
Wholesale division	2.6	1.0	3.1	160.0%	-16.1%	5.3	9.9	-46.5%
Retail division	1.0	0.2	(0.6)	400.0%	N/A	0.9	(1.8)	N/A
Total PBT	10.5	8.8	16.5	19.3%	-36.4%	28.0	46.4	-39.7%
PBT margin (%)				ppts	ppts			
MLM division	18.8%	17.8%	24.9%	1.0	-6.1	18.0%	21.6%	-3.6
Wholesale division	15.5%	6.6%	18.2%	8.9	-2.8	11.3%	20.8%	-9.4
Retail division	8.1%	2.1%	-4.8%	6.0	N/A	3.0%	-5.8%	N/A

Source: Company, JF Apex

Figure 3: 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	332.7	328.4	338.9
Gross profit	101.4	132.9	162.2	130.3	113.4	113.9
Operating profit	48.3	77.3	97.6	66.7	42.4	45.9
PBT	49.1	78.1	99.0	67.9	43.0	47.0
PAT	36.6	59.2	75.1	51.5	29.0	33.0
Net profit	36.3	59.3	75.4	51.8	28.8	32.8
Margin (%)						
Gross profit margin	34.1%	32.9%	35.1%	39.2%	34.5%	33.6%
Operating profit	16.2%	19.1%	21.1%	20.1%	12.9%	13.5%
PBT margin	16.5%	19.3%	21.4%	20.4%	13.1%	13.9%
PAT margin	12.3%	14.7%	16.3%	15.5%	8.8%	9.7%
Net profit margin	12.2%	14.7%	16.3%	15.6%	8.8%	9.7%
Growth (%)						
Revenue growth	24.1%	35.7%	14.3%	-27.9%	-1.3%	3.2%
Gross Profit growth	18.5%	31.0%	22.1%	-19.6%	-13.0%	0.4%
PBT growth	14.0%	59.2%	26.8%	-31.5%	-36.6%	9.2%
PAT growth	18.9%	61.9%	26.9%	-31.4%	-43.6%	13.6%
Net profit growth	20.8%	63.1%	27.2%	-31.3%	-44.3%	13.7%
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	17.2	9.6	10.9
P/E	0.10	0.06	0.05	0.07	0.12	0.11
DPS (sen)	0.10	0.16	0.20	0.13	0.11	0.11
Dividend Payout	0.8%	0.8%	0.8%	0.8%	1.1%	1.0%
Dividend yield (%)	8.5%	13.7%	17.1%	11.1%	9.4%	9.4%

Source: Company, JF Apex

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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

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