

Outthink. Outperform.

## Weakness in MLM continues to weigh

Hai-O posted 9MFY20 revenue and core net profit of RM201.5m (-22% yoy) and RM22.7m (-39.4% yoy) respectively. The MLM segment remains a major weak link for the group, given the backdrop of cautious consumption spending. Adding to the woes, the Movement Control Order (MCO), which is now extended to 14 April 2020, would likely further dampen overall sales performance. All in, we cut earnings by a further 10-47% for FY20-22E amidst the Covid-19 disruptions. As such, we lower our TP to RM0.60 (from RM1.10). Maintain SELL.

### MLM sales remain subdued; below expectations

Hai-O's 9MFY20 revenue contracted 22% yoy to RM201.5m, predominantly led by a decline in the MLM segment to RM121.4m (-31.6% yoy) while the wholesale and retail divisions declined to RM46.7m (-0.5% yoy) and RM30.2m (-2.5% yoy) respectively. The MLM segment continued to be weighed down by cautious consumption spending whereas new member recruitments and renewals were also impacted. 9MFY20 core net profit came in at RM22.7m (-39.4% yoy), as weaker top-line sales were compounded by narrowing margins due to unfavourable sales mix. Despite the result accounting for 75% of our full-year earnings forecast (70% for consensus), we deem the results below expectations as 4QFY20 is expected to be severely affected by the crippling outbreak of Covid-19.

### Sequentially better retail & wholesale segments lifted 3QFY20

On a qoq basis, core net profit saw an uptick of 3.8% to RM7.6m, largely owing to better performance from the group's retail and wholesale segment, offsetting the continued weakness in its MLM division. Both the wholesale and retail businesses benefitted from Lunar New Year festive season, which led to a sequential improvement in both revenue and bottom-line earnings.

### Maintain SELL

Having trimmed our earnings earlier by 4-7% for FY20-22E (in tandem with our house GDP downgrade on 16 March 2020), we now make a further downward adjustment of 10-47% to our earnings in view of the extended disruptions due to Covid-19. We foresee all 3 segments to be severely affected by the implementation of MCO, which is now extended to 14 April 2020. Post revision, our TP is lowered to RM0.60 (from RM1.10) based on an unchanged target PER of 9x (1SD below 10-year mean). We had previously lowered our PER target from 12x to better reflect the heightened market volatility amidst Covid-19. All in, given the potential downside to the current share price, we maintain our SELL rating.

### Earnings & Valuation Summary

| FYE 30 Apr            | 2018  | 2019  | 2020E | 2021E | 2022E |
|-----------------------|-------|-------|-------|-------|-------|
| Revenue (RMm)         | 461.7 | 328.4 | 244.4 | 171.0 | 208.5 |
| EBITDA (RMm)          | 99.0  | 66.9  | 40.3  | 28.6  | 39.0  |
| Pretax profit (RMm)   | 96.5  | 63.4  | 36.5  | 24.8  | 35.2  |
| Net profit (RMm)      | 72.3  | 47.7  | 27.6  | 18.7  | 26.6  |
| EPS (sen)             | 24.9  | 16.4  | 9.5   | 6.4   | 9.2   |
| PER (x)               | 4.7   | 7.1   | 12.3  | 18.2  | 12.8  |
| Core net profit (RMm) | 72.3  | 47.7  | 27.6  | 18.7  | 26.6  |
| Core EPS (sen)        | 24.9  | 16.4  | 9.5   | 6.4   | 9.2   |
| Core EPS growth (%)   | 21.7  | -33.9 | -42.3 | -32.2 | 42.2  |
| Core PER (x)          | 4.7   | 7.1   | 12.3  | 18.2  | 12.8  |
| Net DPS (sen)         | 20.0  | 13.0  | 7.6   | 5.1   | 7.3   |
| Dividend Yield (%)    | 17.1  | 11.1  | 6.5   | 4.4   | 6.3   |
| EV/EBITDA (x)         | 2.2   | 3.7   | 5.8   | 7.7   | 5.6   |
| Chg in EPS (%)        |       |       | -10.5 | -46.7 | -25.1 |
| Affin/Consensus (x)   |       |       | 0.8   | 0.5   | 0.7   |

Source: Company, Bloomberg, Affin Hwang forecasts

## Results Note

# Hai-O

HAIO MK

Sector: Consumer

RM1.17 @ 25 March 2020

## SELL (maintain)

Downside: -49%

## Price Target: RM0.60

Previous Target: RM1.10\*

\* Most recent TP incorporated in our Strategy Note dated 16 March 2020. TP prior to that was RM1.50.



## Price Performance

|             | 1M     | 3M     | 12M    |
|-------------|--------|--------|--------|
| Absolute    | -40.9% | -42.1% | -56.7% |
| Rel to KLCI | -33.0% | -29.8% | -46.0% |

## Stock Data

|                          |            |
|--------------------------|------------|
| Issued shares (m)        | 290.3      |
| Mkt cap (RMm)/(US\$m)    | 339.7/77.4 |
| Avg daily vol - 6mth (m) | 0.3        |
| 52-wk range (RM)         | 1.12-2.77  |
| Est free float           | 55.6%      |
| BV per share (RM)        | 1.03       |
| P/BV (x)                 | 1.14       |
| Net cash/ (debt) (RMm)   | 52.5       |
| ROE (2020E)              | 9.0%       |
| Derivatives              | Nil        |
| Shariah Compliant        | No         |

## Key Shareholders

|                         |       |
|-------------------------|-------|
| Kai Hee Tan             | 10.3% |
| Akintan Sdn Bhd         | 8.1%  |
| Excellent Communication | 5.4%  |

Source: Affin Hwang, Bloomberg

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**Key risks**

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)            | 3Q<br>FY19  | 2Q<br>FY20  | 3Q<br>FY20  | QoQ<br>% chg   | YoY<br>% chg    | 9M<br>FY19  | 9M<br>FY20  | YoY<br>% chg    | Comments   |
|--------------------------|-------------|-------------|-------------|----------------|-----------------|-------------|-------------|-----------------|--|
| Revenue                  | 86.2        | 68.4        | 67.0        | (2.0)          | (22.2)          | 258.4       | 201.5       | (22.0)          | 9MFY20 decline in MLM (-32% yoy), Wholesale (-0.5% yoy) and Retail (-2.5% yoy) segment sales |
| Op costs                 | (68.2)      | (57.5)      | (54.6)      | (4.9)          | (20.0)          | (206.0)     | (166.6)     | (19.1)          |  |
| EBITDA                   | 17.9        | 10.9        | 12.4        | 13.5           | (30.8)          | 52.4        | 34.9        | (33.5)          |  |
| <i>EBITDA margin (%)</i> | <i>20.8</i> | <i>16.0</i> | <i>18.5</i> | <i>2.5 ppt</i> | <i>-2.3 ppt</i> | <i>20.3</i> | <i>17.3</i> | <i>-3ppt</i>    | Unfavorable sales mix and higher import purchase cost  |
| Depn and amort           | (1.3)       | (1.6)       | (1.6)       | 2.8            | 26.5            | (3.6)       | (4.7)       | 29.8            |  |
| EBIT                     | 16.7        | 9.4         | 10.8        | 15.3           | (35.1)          | 48.8        | 30.2        | (38.2)          |  |
| <i>EBIT margin (%)</i>   | <i>19.3</i> | <i>13.7</i> | <i>16.1</i> | <i>2.4 ppt</i> | <i>-3.2 ppt</i> | <i>18.9</i> | <i>15.0</i> | <i>-3.9 ppt</i> |  |
| Int expense              | (0.0)       | (0.1)       | (0.1)       | (9.0)          | 121.9           | (0.1)       | (0.2)       | 99.1            |  |
| Int and other inc        | 0.3         | 0.3         | 0.3         | (2.7)          | (12.2)          | 0.9         | 0.8         | (12.9)          |  |
| Associates               | 0.0         | (0.0)       | (0.0)       | <i>n.m</i>     | <i>n.m</i>      | 0.0         | 0.0         | <i>n.m</i>      |  |
| 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>16.9</b> | <b>9.5</b>  | <b>11.0</b> | <i>15.0</i>    | <i>(35.1)</i>   | <b>49.6</b> | <b>30.7</b> | <i>(38.1)</i>   |  |
| Tax                      | (4.1)       | (2.3)       | (3.1)       | 35.5           | (25.5)          | (12.3)      | (8.0)       | (34.9)          |  |
| <i>Tax rate (%)</i>      | <i>24.4</i> | <i>23.8</i> | <i>28.0</i> | <i>4.2ppt</i>  | <i>3.6ppt</i>   | <i>24.8</i> | <i>26.1</i> | <i>1.3ppt</i>   |  |
| MI                       | (0.0)       | 0.0         | (0.3)       | <i>n.m</i>     | <i>n.m</i>      | 0.1         | (0.1)       | <i>n.m</i>      |  |
| <b>Net profit</b>        | <b>12.8</b> | <b>7.3</b>  | <b>7.6</b>  | <i>3.8</i>     | <i>(40.6)</i>   | <b>37.4</b> | <b>22.7</b> | <i>(39.4)</i>   |  |
| EPS (sen)                | 4.4         | 2.5         | 2.6         | 3.8            | (40.6)          | 12.9        | 7.8         | (39.4)          |  |
| <b>Core net profit</b>   | <b>12.8</b> | <b>7.3</b>  | <b>7.6</b>  | <i>3.8</i>     | <i>(40.6)</i>   | <b>37.4</b> | <b>22.7</b> | <i>(39.4)</i>   | Below our and consensus expectations   |

Source: Affin Hwang, Company data

**Fig 2: Segmental Breakdown**

|                          | 3QFY19      | 2QFY20      | 3QFY20      | QoQ<br>% chg | YoY<br>% chg  | 9MFY19       | 9MFY20       | YoY<br>% chg  |
|--------------------------|-------------|-------------|-------------|--------------|---------------|--------------|--------------|---------------|
| <b>Segmental Revenue</b> |             |             |             |              |               |              |              |               |
| MLM                      | 56.3        | 42.6        | 36.8        | (13.5)       | (34.6)        | 177.5        | 121.4        | (31.6)        |
| Wholesale                | 16.2        | 15.1        | 16.7        | 10.4         | 3.0           | 46.9         | 46.7         | (0.5)         |
| Retail                   | 12.5        | 9.6         | 12.5        | 29.0         | (0.8)         | 31.0         | 30.2         | (2.5)         |
| Others                   | 1.1         | 1.0         | 1.0         | 0.1          | (7.1)         | 3.0          | 3.1          | 3.1           |
| <b>Total revenue</b>     | <b>86.2</b> | <b>68.4</b> | <b>67.0</b> | <b>(2.0)</b> | <b>(22.2)</b> | <b>258.4</b> | <b>201.5</b> | <b>(22.0)</b> |
| <b>Segmental Profit*</b> |             |             |             |              |               |              |              |               |
| MLM                      | 11.9        | 7.4         | 7.2         | (2.9)        | (39.2)        | 36.3         | 21.8         | (40.0)        |
| Wholesale                | 3.1         | 1.4         | 2.5         | 74.4         | (18.6)        | 8.9          | 5.3          | (40.4)        |
| Retail                   | 0.5         | 0.2         | 0.9         | 273.4        | 97.6          | 0.4          | 0.9          | 108.1         |
| Others                   | 1.4         | 0.8         | 0.2         | (70.7)       | (82.8)        | 3.2          | 2.5          | (21.3)        |
|                          | <b>16.7</b> | <b>9.4</b>  | <b>10.8</b> | <b>15.3</b>  | <b>(35.1)</b> | <b>48.8</b>  | <b>30.5</b>  | <b>(37.5)</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

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|                  |  |
|------------------|--|
| <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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