

Results within expectations

Share price performance



	1M	3M	12M
Absolute (%)	-0.9	-7.0	78.3
Rel KLCI (%)	-2.4	-4.6	47.9

	BUY	HOLD	SELL
Consensus	-	2	-

Source: Bloomberg

Stock Data

Sector	Consumer
Issued shares (m)	289.3
Mkt cap (RMm)/(US\$m)	619.1/149.3
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.18-2.44
Est free float	56.3%
Stock Beta	1.00
Net cash / (debt) (RMm)	110.8
ROE (2021E)	13.1%
Derivatives	No
Shariah Compliant	No

Key Shareholders

Kai Hee Tan	10.7%
Akintan Sdn Bhd	8.1%
Excellent Communication	5.4%

Source: Affin Hwang, Bloomberg

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Hai-O (HAIO MK)

HOLD (maintain)

Up/Downside: 3.7%

Price Target: RM2.22

Previous Target (Rating): RM2.22 (HOLD)

Seasonally better earnings

- Hai-O's 9MFY21 revenue and core net profit improved by 1.6% and 29.5% to RM204.6m and RM29.4m respectively – in line with our expectations
- On a QoQ basis, Hai-O saw an increase in revenue of 1.7% due to CNY sales. The MLM division, however, partially offset the gain as CMCO/MCO affected business activities of distributors
- We make no changes to our FY2021-23 earnings estimates. Maintain a HOLD rating with an unchanged TP of RM2.22

9MFY21 core net profit at RM29.4m, improved 29.5% yoy

Hai-O's 9MFY21 revenue improved 1.6% yoy to RM204.6m, attributable to a stronger contribution from its MLM division (+9.5% yoy) as the group saw an overwhelming response for one of its newly launched lady wear series. The division was also able to leverage on e-commerce and social media platforms to increase member recruitment. Nevertheless, this was partially offset by lower contributions from wholesale (-9% yoy due to lower sales in the duty-free sales as a result of travel restrictions) and retail (-15.2% yoy from subdued consumer sentiment). Excluding one-offs, core net profit improved 29.5% yoy to RM29.4m aided by a better net operating margin of 19.1% (+4.1ppt yoy) from favourable sales mix and cost optimisation initiatives. Results were within our expectations.

Impact from reimplementing of CMCO/MCO was offset by CNY sales

On a sequential basis, revenue and core net profit increased 1.7% qoq and 6.9% qoq to RM67.2m and RM10.1m respectively, boosted by contributions from wholesale (+29.7% qoq from higher CNY hampers and Chinese medicated tonic sales), retailing (+16.9% qoq due to CNY campaigns being held at outlets and e-commerce platforms) and others (+60% qoq). Hai-O's MLM division, however, saw a decline in contribution of 10.6% as the reimplementing of CMCO and MCO had affected the business activities of distributors. Nevertheless, PBT for the MLM division improved by 7% from better cost optimisation effort. No dividend was proposed during the quarter under review.

Maintain HOLD with an unchanged TP of RM2.22

We leave our FY2021-2023 earnings forecasts unchanged. We reiterate our HOLD call on the stock as we deem it as fairly valued at this juncture with an unchanged FY22E 16x PER price target of RM2.22. We also note that the MLM division is currently embarking on a rebranding exercise and is improving on its recruitment activities. Risks: i) recovery/fall in MLM distributor base; ii) better-/worse-than-expected take-up rate for its new products; (iii) disruptions in the supply chain and (iv) higher/lower cost savings.

Earnings & Valuation Summary

FYE 30 Apr	2019	2020	2021E	2022E	2023E
Revenue (RMm)	328.4	255.2	274.7	294.0	313.2
EBITDA (RMm)	66.9	40.9	54.4	55.0	59.8
Pretax profit (RMm)	63.4	41.5	51.2	51.7	55.9
Net profit (RMm)	47.7	32.6	39.8	40.2	43.5
EPS (sen)	16.5	11.3	13.8	13.9	15.0
PER (x)	13.0	19.0	15.5	15.4	14.2
Core net profit (RMm)	47.7	32.6	39.8	40.2	43.5
Core EPS (sen)	16.5	11.3	13.8	13.9	15.0
Core EPS growth (%)	(33.9)	(31.8)	22.3	0.9	8.2
Core PER (x)	13.0	19.0	15.5	15.4	14.2
Net DPS (sen)	13.0	10.0	9.5	11.1	12.0
Dividend Yield (%)	6.1	4.7	4.4	5.2	5.6
EV/EBITDA	7.8	12.8	9.4	9.1	8.3

Chg in EPS (%)

Affin/Consensus (x)

Source: Company, Affin Hwang estimates

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1.0 1.0 1.0

Fig 1: Results Comparison

FYE Apr (RMm)	3QFY20	2QFY21	3QFY21	QoQ % chg	YoY % chg	9MFY20	9MFY21	YoY % chg	Comments
Revenue	67.0	66.1	67.2	1.7	0.3	201.5	204.6	1.6	9MFY21: Increase due to higher contribution from its MLM segment (+9.5% yoy) but offset by lower contribution from wholesale (-9.0% yoy) and Retail (-15.2% yoy).
Op costs	(54.6)	(52.0)	(52.3)	0.5	(4.3)	(166.6)	(160.8)	(3.5)	
EBITDA	12.4	14.1	15.0	5.8	20.7	34.9	43.9	25.7	
EBITDA margin (%)	18.5	21.4	22.3	0.9ppt	3.8ppt	17.3	21.4	4.1ppt	
Depn and amort	(1.6)	(1.6)	(1.6)	(2.1)	(1.4)	(4.7)	(4.8)	1.6	
EBIT	10.8	12.5	13.4	6.8	23.9	30.2	39.1	29.5	
EBIT margin (%)	16.1	19.0	19.9	1ppt	3.8ppt	15.0	19.1	4.1ppt	9MFY21: Better margin as a result of continued cost optimisation initiatives and favourable sales mix
Int expense	(0.1)	(0.1)	(0.1)	4.2	4.2	(0.2)	(0.2)	(1.4)	
Int and other inc	0.3	0.2	0.2	13.5	(26.9)	0.8	0.5	(30.6)	
Associates	(0.0)	(0.0)	(0.0)	42.9	>100	0.0	(0.0)	n.m.	
Exceptional items	0.0	0.9	0.2	(77.6)	n.m.	(0.0)	1.5	n.m.	9MFY21: including gain from disposal of vintage tea amounting to RM0.9m
Pretax	11.0	13.5	13.7	1.1	24.7	30.7	40.9	33.1	
Tax	(3.1)	(3.3)	(3.3)	(2.3)	6.0	(8.0)	(10.0)	25.0	
Tax rate (%)	28.0	24.6	23.8	-0.8ppt	-4.2ppt	26.1	24.5	-1.6ppt	
MI	(0.3)	0.1	(0.2)	n.m.	(49.0)	(0.1)	0.0	n.m.	
Net profit	7.6	10.4	10.3	(0.7)	35.3	22.7	30.9	36.4	
EPS (sen)	2.6	3.6	3.5	(0.6)	35.5	7.8	10.6	36.6	
Core net profit	7.6	9.4	10.1	6.9	32.6	22.7	29.4	29.5	Within expectations

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FY April (RMm)	3QFY20	2QFY21	3QFY21	QoQ % chg	YoY % chg	9MFY20	9MFY21	QoQ % chg
Segmental Revenue								
MLM	36.8	44.2	39.5	(10.6)	7.2	121.4	133.0	9.5
Wholesale	16.7	12.7	16.5	29.7	(1.1)	46.7	42.5	(9.0)
Retailing	12.5	8.2	9.6	16.9	(23.1)	30.2	25.6	(15.2)
Others	1.0	1.0	1.6	60.0	56.8	3.1	3.5	12.1
Total Revenue	67.0	66.1	67.2	1.7	0.3	201.5	204.6	1.6
Segmental Profit								
MLM	7.2	8.3	8.9	7.0	23.2	21.8	27.2	25.1
Wholesale	2.5	3.2	3.8	18.0	50.0	5.3	9.9	86.5
Retailing	0.9	(0.0)	0.5	n.m.	(41.5)	0.9	0.6	(29.4)
Others	0.2	0.7	0.7	(10.0)	175.9	2.5	2.5	(2.8)
Total	10.9	12.2	13.9	13.3	27.4	30.5	40.2	31.8

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	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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