

Outthink. Outperform.

Results Note

Hai-O

 HAIO MK
 Sector: Consumer

RM2.90 @ 17 Dec 2018
HOLD (maintain)

Downside: 6.9%

Price Target: RM2.70

Previous Target: RM4.00



Price Performance

	1M	3M	12M
Absolute	-9.4%	-30.8%	-46.4%
Rel to KLCI	-5.8%	-24.0%	-42.8%

Stock Data

Issued shares (m)	290.4
Mkt cap (RMm)/(US\$m)	842.1/201.5
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	2.86-5.6
Est free float	55.4%
BV per share (RM)	1.03
P/BV (x)	2.83
Net cash/ (debt) (RMm)	125.21
ROE (2019E)	29.5%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Kai Hee Tan	10.1%
Akintan Sdn Bhd	7.9%
Excellent Communicat.	5.4%

Source: Affin Hwang, Bloomberg

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A bit bumpy, but sales expected to stabilize

Hai-O's 1HFY19 core earnings declined 37% yoy to RM25m, which came in below our and consensus expectations, accounting for 40% and 34% of full-year estimates (prior to revisions) respectively. The disappointment was mainly due to the MLM segment, which missed our expectations, as sales were lower while overall margins declined. In view of our revised expectation of a less upbeat sales growth for Hai-O – the MLM segment in particular, we trim our earnings forecasts by -11.5%/-9.8%/-6.6% for 2018E/19E/20E. Maintain HOLD with a lower TP of RM2.70 at a 13x CY19E PE target (from RM4.00 at 17x PE target).

Below expectations, 1HFY19 core net profit down 37.4% yoy

Hai-O's 1HFY19 core net profit fell 37.4% yoy to RM24.6m, largely driven by a sharp decline in MLM segment sales (-38.8% yoy) which also posted a -36.4% decline yoy in 1HFY19 operating profit, albeit from a high base due to 1HFY18's 25th anniversary promotional drive. Yet, distributors' activities from the MLM division were subdued and continued to prolong into 2QFY19, even after the Raya period (1QFY19) and post-GE14 uncertainties. 1HFY19 EBIT margin declined by 1.6ppts yoy to 18.7%, further led by higher marketing and promotional costs incurred as well as lower Wholesale division earnings.

Sequentially stronger, but still appears subdued

Sequentially, 2QFY19 core net profit rose 23.7% qoq to RM13.6m, driven by higher sales recorded (+15.1% qoq) and the MLM segment's margin improvement, as well as lower marketing spend and better sales mix as a result of top-line contribution from its newly introduced "Infinence" brand products. On the other hand, Wholesale margins remain weak, attributable to lower inter-segment sales qoq but the impact was minimal on the group.

Maintain HOLD with revised TP of RM2.70

In the next three years, we foresee a less upbeat sales growth in Hai-O's MLM segment, though we expect the decline in sales to stabilize on the back of more new products roll-out and of which may fetch better margins. Members' activities and recruitment are expected to normalize, though we expect domestic market consumption of Hai-O's health-related products to face competition. As such, we cut FY19-21E EPS by -11.5%/-9.8%/-6.6% respectively. Consequently, we maintain our **HOLD** call with a revised TP of **RM2.70**, based on a lower CY19E PE target of 13x (from 17x). Downside/upside risks to our call: i) loss/expansion in MLM distributor base; ii) online competition and new alternative products.

* This note marks a transfer of analyst coverage.

Earnings & Valuation Summary

FYE Apr	2017	2018	2019E	2020E	2021E
Revenue (RMm)	404.2	461.8	379.6	434.8	504.0
EBITDA (RMm)	81.1	105.6	76.6	89.2	102.8
Pretax profit (RMm)	78.3	99.0	72.0	84.7	98.2
Net profit (RMm)	59.4	75.4	54.9	64.6	74.9
EPS (sen)	20.2	25.7	18.7	22.0	25.5
PER (x)	14.3	11.3	15.5	13.2	11.4
Core net profit (RMm)	59.4	75.4	54.9	64.6	74.9
Core EPS (sen)	20.2	25.7	18.7	22.0	25.5
Core EPS growth (%)	63.3	27.0	-27.2	17.6	15.9
Core PER (x)	14.3	11.3	15.5	13.2	11.4
Net DPS (sen)	16.0	20.0	12.2	14.3	16.6
Dividend Yield (%)	5.5	6.9	4.2	4.9	5.7
EV/EBITDA (x)	8.9	6.9	9.2	7.7	6.4
Chg in EPS (%)			-11.5	-9.8	-6.6
Affin/Consensus (x)			0.75	0.74	0.93

Source: Company, Bloomberg, Affin Hwang forecasts

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Fig 1: Results Comparison

FYE Apr (RMm)	2Q18	1Q19	2Q19	QoQ % chg	YoY % chg	1HFY18	1HFY19	YoY % chg	Comments
Revenue	123.5	80.1	92.2	15.1	(25.4)	248.1	172.3	(30.6)	Predominantly due to a significant 1HFY19 decline in MLM segment sales (-38.8% yoy), partially offset by +4% yoy increase in wholesale revenue
Op costs	(95.1)	(64.8)	(72.9)	12.6	(23.3)	(195.9)	(137.7)	(29.7)	
EBITDA	28.4	15.3	19.2	25.6	(32.3)	52.2	34.5	(33.8)	
<i>EBITDA margin (%)</i>	<i>23.0</i>	<i>19.1</i>	<i>20.9</i>	<i>-1.7</i> <i>ppts</i>	<i>-2.1</i> <i>ppts</i>	<i>21.0</i>	<i>20.1</i>	<i>-1.0</i> <i>ppt</i>	
Depn and amort	(1.0)	(1.1)	(1.2)	7.8	25.1	(1.9)	(2.4)	21.9	
EBIT	27.4	14.2	18.0	27.0	(34.3)	50.3	32.2	(36.0)	
<i>EBIT margin (%)</i>	<i>22.2</i>	<i>17.7</i>	<i>19.5</i>	<i>+1.8</i> <i>ppts</i>	<i>-2.7</i> <i>ppts</i>	<i>20.3</i>	<i>18.7</i>	<i>-1.6</i> <i>ppts</i>	Margins contracted on the back of lower sales and higher marketing costs incurred, despite recording better gross margins due to better sales mix
Int expense	(0.0)	(0.1)	(0.0)	(51.9)	66.7	(0.1)	(0.1)	2.7	
Int and other inc	0.4	0.3	0.3	(11.4)	(36.9)	0.8	0.6	(22.0)	
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>	
Pretax	27.9	14.4	18.3	26.5	(34.4)	51.0	32.7	(35.8)	
Tax	(6.2)	(3.8)	(4.4)	16.6	(29.2)	(11.7)	(8.2)	(30.2)	Higher than statutory tax rate due to certain non-deductible expenses and losses of certain subsidiaries
<i>Tax rate (%)</i>	<i>22.3</i>	<i>26.2</i>	<i>24.1</i>	<i>-2.0</i> <i>ppts</i>	<i>+1.8</i> <i>ppts</i>	<i>23.0</i>	<i>25.0</i>	<i>+2.0</i> <i>ppts</i>	
MI	(0.2)	0.3	(0.3)	<i>n.m.</i>	<i>n.m.</i>	0.1	0.1	0.0	
Net profit	21.4	11.0	13.6	23.7	(36.6)	39.3	24.6	(37.4)	
EPS (sen)	7.4	3.8	4.7	23.7	(36.6)	13.6	8.5	(37.4)	
Core net profit	21.4	11.0	13.6	23.7	(36.6)	39.3	24.6	(37.4)	Below our and consensus estimates, accounting for 40% and 34% of full-year forecasts

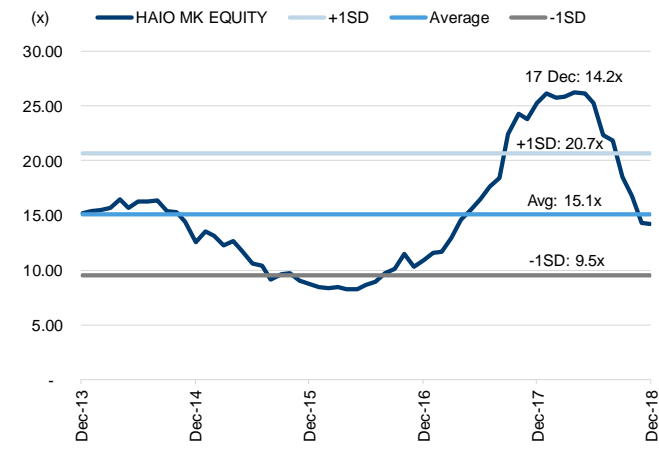
Source: Affin Hwang, Company data

Fig 2: Segmental Breakdown

	2Q18	1Q19	2Q19	QoQ % chg	YoY % chg
Segmental Revenue					
MLM	95.64	58.03	63.16	8.84	(33.95)
Wholesale	16.47	13.56	17.14	26.41	4.02
Retail	10.38	7.62	10.83	42.13	4.34
Others	1.17	0.88	1.05	18.89	(10.30)
Total revenue	123.53	80.09	92.17	15.09	(25.38)
Segmental Profit					
MLM	19.52	10.37	14.02	35.18	(28.20)
Wholesale	6.67	2.72	3.06	12.35	(54.20)
Retail	0.48	(0.60)	0.57	<i>n.m.</i>	19.17
Others	1.23	0.84	0.99	18.80	(19.22)
	27.42	14.18	18.01	27.02	(34.34)

Source: Affin Hwang, Company data

Fig 3: Forward P/E



Source: Bloomberg, Affin Hwang estimates

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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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