

Company Result

26 June 2019

Hai-O Enterprise Berhad

Not out of the woods

HOLD

Maintained

Share Price	RM2.24
Target Price	RM2.24

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)	290.37
Par Value (RM)	0.50
Market cap. (RMm)	650.42
52-week price Range	RM2.20 – 4.95
Beta (against KLCI)	0.64
3-m Average Daily Volume	0.17m
3-m Average Daily Value ^A	RM0.43m

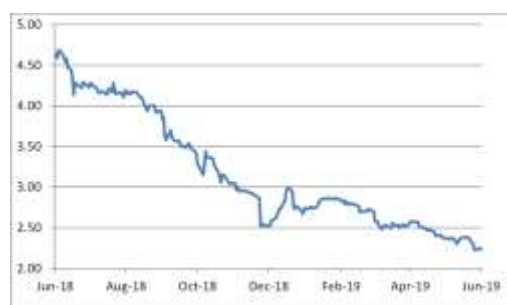
Share Performance

	1m	3m	12m
Absolute (%)	-5.5	-11.8	-53.7
Relative (%-pts)	-9.9	-18.4	-53.7

Major Shareholders

	%
Kai Hee Tan	10.18
Akintan Sdn Bhd	8.05
Excellent Communications	5.35

Historical Chart



Source: Bloomberg

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Result

- **Hai-O reported a net profit of RM10.0m for its 4QFY19**, declining by 21.6% qoq and 38.4% yoy. Meanwhile, the group recorded quarterly revenue of RM69.9m, down 18.8% qoq and 38.4% yoy.
- **For 12MFY19**, the Group attained a lower topline, -28.9% and bottomline, -36.6%.
- **Slightly below expectation.** 12MFY19F net profits of RM47.4m matching 93.5%/93.9% of our/consensus' full year forecast.

Comment

- **Lackluster QoQ earnings.** The Group recorded lower revenue, -18.8% qoq mainly due to lower sales generated from MLM division (i.e. lower number of new member recruitment and weak consumer sentiment despite the launch of incentive sales campaign in the 4QFY19) and wholesale division (i.e. higher sales during CNY festive season in 3QFY19). Besides, the Group recorded a lower PBT margin (-3.5pts qoq), affected by higher administrative expenses.
- **Unfavourable YoY earnings.** Again, Hai-O recognized a lower revenue as a result of weaker sales from MLM division (i.e. slowdown in new member recruitment coupled with lower sales registered) along with lower revenue from wholesale division (i.e. lower sale from Chinese medicated tonic and vintage tea). Furthermore, the Group incurred higher administrative expenses, resulting in lower PBT/PBT margin of -39.8%/-10.4ppts.
- **Disappointing 12MFY19.** The Group's 12M revenue dropped by 28.9% YoY after adjustments arising from MFRS 9, MFRS 15 and lower-than-expected revenue from MLM division. However, better gross profit margin, +3.8 ppts YoY was recorded, thanks to higher margin contribution from "small-ticket" items in MLM division. Despite that, the higher CSR cost (+RM1.4m yoy), branding cost (+RM1.4 yoy) and one-off 6% rebate (+RM0.9m yoy) incurred during the period further lowered its bottom line. As such, PBT/PBT margin decreased by 37.2% yoy/-2.1ppts.
- **MLM division – Business environment remains challenging.** The division will continue to develop more "small ticket" items with affordable prices due to prevailing high cost of living. In addition, the Group will realign its marketing strategies by reinforcing ongoing digitalization initiatives to sustain its member base.
- **Wholesale division – focus on core products.** The Wholesale division will focus on its core product (ie. Chinese

medicated tonic and other health and wellness products). On top of that, the division will continue to widen its product portfolio by securing more product agencies.

- **Retail division – continuous expansion.** The division will continue to develop more affordable house brand product and revamp its sales incentive scheme to increase the productivity of the outlet sales personnel. Looking forward, the group will also strengthen its business collaboration with Chinese physicians to complement its business.
- **Stable dividend yield.** The group declared a final dividend of 9sen/share, resulting total dividend of 13 sen/share. As such, this translates into a dividend yield of 5.8% based on current share price.
- **Cautious outlook ahead.** We opine that Hai-O's business performance will not recover in the immediate term and might be further bogged down by MLM division on the back of lower new member recruitment coupled with high branding and marketing expenses.
- **Risks include:** 1) Higher-than-expected operating expenses (ie. higher marketing and branding expenses) and 2) Lower-than-expected domestic spending due to higher cost of living.

Earnings Outlook/Revision

- **We adjust downwards our earnings forecasts for FY20F by 4.7%** to RM48.3 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 in FY20F. We also introduce our FY21F net earnings of RM49.8m. Our net profits for FY20F and FY21F represent growth of 1.8% and 3.1% respectively.

Valuation & Recommendation

- **Maintain HOLD with a lower target price of RM2.24** (previous target price: RM2.44) following our earnings cut. Our revised target price is now based on P/E multiple of 13.5x FY20F EPS, which is at its 3-year historical mean P/E.
- **We remain neutral on Hai-O** as we believe current share price is well supported by its stable dividend yield of 5.8% for FY19/20F amid unfavourable performance of its MLM division.

Figure 1: Quarterly Figures

Year ended 30 April	4QFY19	3QFY19	4QFY18	QoQ	YoY	12MFY19	12MFY18	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	69.9	86.2	110.6	-18.8%	-36.8%	328.4	461.8	-28.9%
Gross profit	25.5	32.6	39.0	-21.9%	-34.6%	125.9	162.2	-22.3%
Operating profit	13.6	16.7	22.8	-18.6%	-40.6%	62.4	97.6	-36.1%
PBT	13.9	16.9	23.1	-18.0%	-39.8%	63.5	99.0	-35.9%
PAT	9.8	12.8	16.7	-23.2%	-41.0%	47.1	75.1	-37.2%
Net profit	10.0	12.8	16.3	-21.6%	-38.4%	47.4	74.8	-36.6%
Margin (%)				ppts	ppts			ppts
Gross profit margin	29.6%	37.9%	45.2%	-8.3	-15.6	38.4%	35.1%	3.2
EBIT margin	15.7%	19.3%	26.5%	-3.6	-10.7	19.0%	21.1%	-2.1
PBT margin	16.1%	19.6%	26.8%	-3.5	-10.7	19.3%	21.4%	-2.1
PAT margin	11.4%	14.9%	19.4%	-3.4	-7.9	14.4%	16.3%	-1.9
Net profit margin	11.6%	14.8%	18.9%	-3.2	-7.3	14.4%	16.2%	-1.8

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	4QFY19	3QFY19	4QFY18	QoQ	YoY
	RM'm	RM'm	RM'm	%	%
MLM division	47.4	56.3	79.1	-15.8%	-40.1%
Wholesale division	12.0	17.0	17.6	-29.4%	-31.8%
Retail division	10.1	12.6	13.7	-19.8%	-26.3%
Total Revenue	69.5	85.9	110.4	-19.1%	-37.0%
MLM division	10.4	12.1	16.8	-14.0%	-38.1%
Wholesale division	2.0	3.0	3.6	-33.3%	-44.4%
Retail division	0.4	0.5	1.4	-20.0%	-71.4%
Total PBT	12.8	15.6	21.8	-17.9%	-41.3%
PBT margin (%)				ppts	ppts
MLM division	21.9%	21.5%	21.2%	0.4	0.7
Wholesale division	16.7%	17.6%	20.5%	-1	-3.8
Retail division	4.0%	4.0%	10.2%	0	-6.3

Source: Company, JF Apex

Figure 3: Peer Comparison

Company	Price	Recom	T.price	P/E		P/B	P/S	PBT margin	Div Yield
	RM		RM	19'	20'				
Hai-O	2.24	HOLD	2.24	13.7	13.6	2.62	2.0	19.3	5.8
Amway	6.05	-	-	17.5	16.6	4.81	1.0	7.2	3.3

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	351.5	397.4
Gross profit	101.4	132.9	162.2	125.9	133.5	152.4
Operating profit	48.3	77.3	97.6	62.4	65.6	68.9
PBT	49.1	78.1	99.0	63.5	66.5	70.0
PAT	36.6	59.2	75.1	47.1	48.5	50.0
Net profit	36.3	59.3	75.4	47.4	48.3	49.8
Margin (%)						
Gross profit margin	34.1%	32.9%	35.1%	38.4%	38.0%	38.3%
Operating profit	16.2%	19.1%	21.1%	19.0%	18.7%	17.3%
PBT margin	16.5%	19.3%	21.4%	19.3%	18.9%	17.6%
PAT margin	12.3%	14.7%	16.3%	14.4%	13.8%	12.6%
Net profit margin	12.2%	14.7%	16.3%	14.4%	13.7%	12.5%
Growth (%)						
Revenue growth	24.1%	35.7%	14.3%	-28.9%	7.0%	13.1%
Gross Profit growth	18.5%	31.0%	22.1%	-22.3%	6.0%	14.2%
PBT growth	14.0%	59.2%	26.8%	-35.9%	4.7%	5.3%
PAT growth	18.9%	61.9%	26.9%	-37.2%	2.8%	3.1%
Net profit growth	20.8%	63.1%	27.2%	-37.1%	1.8%	3.1%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROA	11.3%	16.3%	19.1%	14.0%	13.9%	15.5%
ROE	13.5%	20.0%	23.7%	16.5%	16.2%	18.7%
EPS (sen)	12.5	20.4	26.0	16.3	16.6	17.1
P/E	17.9	11.0	8.6	13.7	13.5	13.1
DPS (sen)	10.0	16.0	20.0	13.0	14.0	14.0
Dividend Payout	79.9%	78.4%	77.0%	79.6%	84.2%	81.7%
Dividend yield (%)	4.5%	7.1%	8.9%	5.8%	6.3%	6.3%

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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