

19 December 2019

Hai-O Enterprise Bhd

1HFY20 Below Expectations

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1HFY20 net profit of RM15.1m (-39%) came in below expectations at 32%/33% of our/consensus full-year estimate due to lower-than-expected margin, which we believe is from higher-than-expected rebates on promotional items to attract distributors. As such, we cut our FY20E and FY21E net profit by 25% and 20%, and our TP to RM1.50 (from RM1.95, previously), based on unchanged 12x FY20E EPS. Reiterate UP.

1HFY20 below expectations. 1HFY20 net profit of RM15.1m (-39%) came in below expectations at 32%/33% of our/consensus full-year estimate due to lower-than-expected margin which we believe is from higher-than-expected rebates on promotional items to attract distributors. 1st Interim DPS of 3.0sen (1HFY19: 4.0sen), was declared, below expectation.

YoY, 1HFY20 net profit plunged 39% dragged by: (i) lower revenue (-22%), from tax-holiday driven higher base last year, with weaker MLM division (-30%), subsequently, Wholesale (-2%) as well as Retail division (-4%), and (ii) contraction in EBIT margin by 4.3ppt to 14.4% from 18.7% in 1HFY19 from unfavourable merchandise mix skewed towards small ticket items as well as higher rebates on promotional items to attract distributors. MLM division's dismal performance continued to persist in view of weak market sentiment with distributors continuing to cut back spending and slowed down marketing activities, which also affected members' recruitment and renewal. On the other hand, its Retail division aggressive promotion campaign was uninspiring as buying momentum remained subdued especially for premium health supplement products in the midst of high cost of living and sluggish consumer sentiment, while Wholesale division higher bird nest products export sales were offset by weakness in Chinese medicate tonic and patented medicine sales.

QoQ, 2QFY20 net profit decreased 6% mainly due to contraction in EBIT margin by 1.4ppt to 13.7% from 15.1% in 1QFY20 from unfavourable merchandise mix and higher rebates. These more than offset: (i) higher revenue (+4%), with MLM division (+1%), Retail division (+19%), and Wholesale division (+2%), and, (ii) lower effective tax rate at 23.8% (1QFY20: 26.2%). Revenue only increased marginally as MLM higher sales was from "big-ticket" items in the 2nd quarter but were offset by lower sales for "small ticket" items, while, Wholesale higher Chinese medicated tonic and bird nest sales were offset by lower revenue from patented medicine. Retail division was boosted by the half yearly members' grand sales promotion campaign.

Outlook. We expect to see further pressure from stagnant distributors' growth (averaging at 140k, plunging from the highest level in FY18 at 160k distributors) as well as from weakening MYR against RMB. The MLM division will develop more "small ticket" items with affordable prices to cater for market needs in view of lower spending power of its members and reinforce ongoing digitalization initiatives. The Wholesale division will focus on its core products, which include Chinese medicated tonic and other health and wellness products, and will continue to widen its product portfolio. The Retail division will continue to develop more affordable house brand products to widen its product portfolio as well as improvement in its sales incentive scheme.

Cut FY20E and FY21E net profit by 25% and 20%, respectively to account for the lower-than-expected margin. We also trimmed our DPS expectation to 10sen-11sen for FY20-21E from 13sen each, previously.

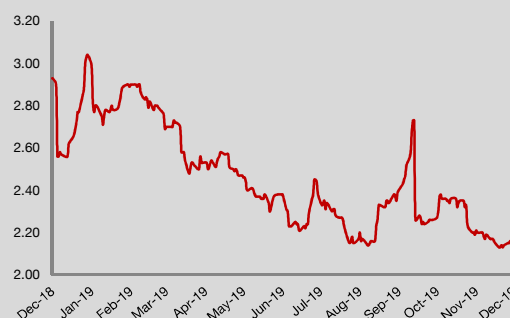
Reiterate UNDERPERFORM with lower target price of RM1.50 (from RM1.95, previously) based on unchanged 12x FY20E EPS (at its -0.5SD of 5-year forward historical mean).

Risks to our call include: (i) better-than-expected sales, and (ii) lower-than-expected cost of sales.

UNDERPERFORM ↔

Price: RM2.15
Target Price: RM1.50 ↓

Share Price Performance



KLCI	1,599.11
YTD KLCI change	-5.4%
YTD stock price change	-19.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK EQUITY
Market Cap (RM m)	624.2
Shares Outstanding	290.3
52-week range (H)	3.08
52-week range (L)	2.11
3-mth avg daily vol:	379,585
Free Float	56%
Beta	0.7

Major Shareholders

Tan Kai Hee	10.2%
Akintan Sdn Bhd	8.1%
Excellant Communication	5.4%

Summary Earnings Table

FY Apr (RM'm)	2019A	2020E	2021E
Turnover	328.4	334.0	341.6
EBIT	62.4	47.0	51.1
PBT	63.5	48.1	52.2
Net Profit (NP)	47.4	35.6	38.7
Consensus (NP)	-	42.8	45.7
Earnings Revision	-	-25.0%	-20.0%
EPS (sen)	16.3	12.2	13.3
EPS growth (%)	-34.4	-25.0	8.7
NDPS (sen)	13.0	10.0	11.0
BV/Share (RM)	1.07	1.09	1.11
PER (x)	13.2	17.6	16.2
Price/BV (x)	2.0	2.0	1.9
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	6.0	4.7	5.1

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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Apr (RM'm)	FY20	FY20	Chg	FY20	Chg	FY20	FY19	Chg
Turnover	68.4	66.1	3.5%	92.2	-25.8%	134.5	172.3	-21.9%
EBIT	9.4	10.0	-6.2%	18.0	-47.9%	19.4	32.2	-39.8%
PBT	9.5	10.2	-6.4%	18.3	-47.7%	19.7	32.7	-39.6%
Taxation	-2.3	-2.7	-14.9%	-4.4	-48.5%	-4.9	-8.2	-39.7%
Net Profit (NP)	7.3	7.7	-5.5%	13.6	-46.2%	15.1	24.6	-38.8%
EPS (sen)	2.5	2.7	-5.5%	4.7	-46.2%	5.2	8.5	-38.8%
EBIT margin	13.7%	15.1%		19.5%		14.4%	18.7%	
PBT margin	14.0%	15.4%		19.8%		14.7%	19.0%	
NP margin	10.7%	11.7%		14.8%		11.2%	14.3%	
Effective tax rate	23.8%	26.2%		24.1%		25.0%	25.0%	

Source: Bursa Announcement, Kenanga Research

Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Apr (RM'm)	FY20	FY20	Chg	FY20	Chg	FY20	FY19	Chg
- MLM	42.6	42.1	1.2%	63.2	-32.6%	84.6	121.2	-30.2%
- Wholesale	15.1	14.8	2.2%	17.1	-11.7%	29.9	30.7	-2.4%
- Retail	9.6	8.1	18.8%	10.8	-10.9%	17.8	18.4	-3.6%
- Others	1.0	1.1	-2.2%	1.0	-0.7%	2.1	1.9	9.1%
Group Revenue	68.4	66.1	3.5%	92.2	-25.8%	134.5	172.3	-21.9%
- MLM	7.4	7.1	4.3%	14.0	-47.0%	14.6	24.4	-40.3%
- Wholesale	1.4	1.3	7.5%	3.1	-53.0%	2.8	5.8	-52.0%
- Retail	0.2	-0.3	>100%	0.6	-59.3%	0.0	0.0	>100%
- Others	0.8	1.5	-44.4%	1.0	-17.1%	2.3	1.8	25.9%
- Elimination	-0.6	0.3	<100%	-0.6	-12.3%	-0.3	0.2	<100%
Group EBIT	9.4	10.0	-6.2%	18.0	-48.0%	19.4	32.2	-39.9%
- MLM	17.5%	16.9%		22.2%		17.2%	20.1%	
- Wholesale	9.5%	9.0%		17.8%		9.3%	18.8%	
- Retail	2.5%	-3.2%		5.5%		-0.1%	0.0%	
EBIT Margin	13.7%	15.1%		19.6%		14.4%	18.7%	

Source: Bursa Announcement, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating	
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
F&B AND RETAIL																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.43	1,644.8	N	12/2019	12.4%	4.9%	13.6%	5.5%	34.4	30.2	28.7	23.8	23.1	77.5%	2.8%	1.35	MP	
AEON CO (M) BHD	1.42	1,993.7	Y	12/2019	5.5%	5.4%	-26.5%	16.4%	16.0	21.8	18.7	1.0	1.0	4.5%	2.8%	1.60	MP	
AMWAY MALAYSIA HOLDINGS BHD	5.74	943.6	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.3	16.4	15.4	4.0	3.8	23.8%	4.8%	5.90	MP	
DUTCH LADY MILK INDUSTRIES BHD	46.00	2,944.0	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	23.7	28.7	26.1	27.9	27.5	97.9%	3.5%	54.60	MP	
FRASER & NEAVE HOLDINGS BHD	34.80	12,763.9	Y	09/2020	2.7%	2.4%	2.5%	5.7%	30.5	29.7	28.1	5.1	4.7	16.5%	1.9%	35.15	MP	
HAI-O ENTERPRISE BHD	2.15	624.2	N	04/2020	1.7%	2.3%	-25.0%	8.7%	13.2	17.6	16.2	2.0	2.0	11.4%	4.7%	1.50	UP	
MYNEWS HOLDINGS BHD	1.20	818.6	N	10/2019	27.3%	14.2%	21.0%	20.7%	30.9	25.5	21.1	2.6	2.6	10.2%	0.8%	1.55	OP	
NESTLE (MALAYSIA) BHD	144.20	33,814.9	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.1	50.3	47.0	51.7	50.9	104.6%	2.0%	128.00	UP	
PADINI HOLDINGS BHD	3.14	2,065.8	Y	06/2020	0.5%	4.7%	12.8%	5.3%	13.2	11.7	11.1	3.1	2.7	24.5%	3.7%	4.00	OP	
PARKSON HOLDINGS BHD	0.22	229.4	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	27.6	23.8	0.1	0.1	0.3%	0.0%	0.27	MP	
POWER ROOT BHD	2.42	982.0	Y	03/2020	13.3%	10.5%	54.0%	12.3%	28.6	19.2	17.6	4.4	3.9	21.8%	3.7%	2.75	OP	
QL RESOURCES BHD	8.06	13,076.9	Y	03/2020	10.9%	4.5%	13.0%	4.2%	60.3	53.4	51.2	6.5	6.0	12.1%	0.7%	6.60	UP	
SPRITZER BHD	2.20	461.9	Y	12/2019	8.0%	1.2%	27.6%	6.4%	19.1	14.9	14.1	1.2	1.1	7.7%	1.8%	2.50	OP	
Simple Average					6.5%	4.5%	64.2%	9.6%	28.3	26.7	24.6	10.3	9.9	31.8%	2.5%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	15.06	4,300.1	N	12/2019	-18.2%	-3.4%	-28.9%	-2.0%	9.2	12.9	13.2	10.2	10.0	78.1%	7.5%	18.30	MP	
CARLSBERG BREWERY MALAYSIA BHD	28.00	8,613.4	N	12/2019	16.0%	7.3%	13.6%	9.0%	31.4	29.4	28.0	47.7	46.7	175.6%	3.6%	30.00	OP	
HEINEKEN MALAYSIA BHD	27.00	8,156.6	N	12/2019	22.4%	4.0%	21.3%	5.1%	28.9	28.1	26.7	22.0	19.1	85.9%	3.5%	28.60	OP	
Simple Average					6.7%	2.7%	2.0%	4.0%	23.2	23.5	22.6	26.6	25.3	113.2%	4.9%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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