

Outthink. Outperform.

FY20: Above expectations

Hai-O posted FY20 revenue and core net profit of RM255.2m (-22.3% yoy) and RM32.2m (-32.5% yoy) respectively. The core net profit tracked ahead of our and consensus expectations, accounting for 117% and 115% of respective estimates. We lift our FY21-22 earnings forecasts by 26-28%, mainly to factor in lower operational costs. In tandem, we raise our TP to RM1.65 (20x FY21E EPS). Notwithstanding better cost containment, we expect the upcoming quarters to remain challenging amid a frail macro backdrop which could have an extended impact on discretionary spending. Maintain SELL.

FY20 core net profit at RM32.2m, ahead of expectations

Hai-O's FY20 revenue declined 22.3% yoy to RM255.2m, mainly led by a decline in MLM to RM156.7m (-30% yoy) as the segment continued to be weighed down by lacklustre consumption spending. Meanwhile, the wholesale and retail segments fell to RM57.4m (-2.5% yoy) and RM36.7m (-9.5% yoy) respectively, owing to lower sales of medicated tonics for the former and MCO disruption to retail outlets for the latter. All in all, core net profit came in at RM32.2m (-32.5% yoy) for FY20, tracking ahead of our (117%) and consensus (115%) expectations. The variance to our expectation was largely due to lower-than-expected opex. A final DPS of 4sen was proposed, bringing total DPS to 10sen for FY20 (FY19: 13 sen).

Better cost containment lifted 4QFY20

Sequentially, revenue was down 20% to RM53.7m but core net profit improved 26% to RM9.6m, as the EBIT margin expanded 4ppt to 20% – benefitting from efficiencies by leveraging on technology and social media on top of other broad-based cost optimisation measures. Heading into FY21, while we are encouraged by continual cost optimisation and the group's increasing penetration into online avenues, we retain our cautious stance in the face of lingering uncertainties amidst Covid-19, which could have an extended impact on consumption spending patterns.

Maintain SELL

We lift our FY21-22 earnings forecasts by 26-28%, mainly to account for lower operational costs. Our TP is revised higher to RM1.65 based on an unchanged target PER of 20x (5-year mean) on our FY21E EPS. We maintain our SELL rating as we expect earnings delivery to remain volatile in upcoming quarters amidst a challenging business environment. Upside risks: i) recovery in MLM distributor base; ii) better-than-expected take-up rate for its new products; and (iii) higher cost savings.

Earnings & Valuation Summary

FYE 30 Apr	2019	2020	2021E	2022E	2023E
Revenue (RMm)	328.4	255.2	203.2	248.7	276.4
EBITDA (RMm)	66.9	47.6	33.9	46.5	54.5
Pretax profit (RMm)	63.4	41.6	31.1	43.7	56.0
Net profit (RMm)	47.7	32.2	23.9	33.6	43.0
EPS (sen)	16.4	11.1	8.2	11.6	14.8
PER (x)	11.3	16.8	22.6	16.1	12.6
Core net profit (RMm)	47.7	32.2	23.9	33.6	43.0
Core EPS (sen)	16.4	11.1	8.2	11.6	14.8
Core EPS growth (%)	-33.9	-32.5	-25.7	40.3	28.1
Core PER (x)	11.3	16.8	22.6	16.1	12.6
Net DPS (sen)	13.0	10.0	6.6	9.2	11.8
Dividend Yield (%)	7.0	5.4	3.5	5.0	6.4
EV/EBITDA (x)	6.7	9.3	12.7	9.2	7.6
Chg in EPS (%)			+28.0	+26.3	New
Affin/Consensus (x)			1.0	1.3	New

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Hai-O

HAIO MK

Sector: Consumer

RM1.86 @ 29 June 2020

SELL (maintain)

Downside: 11.3%

Price Target: RM1.65

Previous Target: RM1.30



Price Performance

	1M	3M	12M
Absolute	-0.5%	42.0%	-15.8%
Rel to KLCI	-1.9%	27.6%	-5.8%

Stock Data

Issued shares (m)	290.3
Mkt cap (RMm)/(US\$m)	539.9/126.1
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.12-2.77
Est free float	55.6%
BV per share (RM)	1.02
P/BV (x)	1.82
Net cash/ (debt) (RMm)	57.96
ROE (FY21E)	8.1%
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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Fig 1: Results Comparison

FYE Apr (RMm)	4Q FY19	3Q FY20	4Q FY20	QoQ % chg	YoY % chg	FY19	FY20	YoY % chg	Comments
Revenue	70.0	67.0	53.7	(19.9)	(23.3)	328.4	255.2	(22.3)	FY20 decline in MLM (-30.3% yoy), wholesale (-2.5% yoy) and retail (-9.5% yoy) segment sales
Op costs	(55.6)	(54.6)	(41.0)	(25.0)	(26.3)	(261.5)	(207.6)	(20.6)	
EBITDA	14.4	12.4	12.7	2.6	(11.9)	66.9	47.6	(28.9)	
EBITDA margin (%)	20.6	18.5	23.7	5.2ppt	3.1ppt	20.4	18.6	-1.7ppt	4QFY20: Higher yoy on cost optimisation initiatives, A&P subsidy from suppliers.
Depn and amort	(1.0)	(1.6)	(1.9)	18.8	86.3	(4.6)	(6.6)	42.2	FY20: Lower overall partly on unfavourable sales mix and higher import purchase cost for wholesale division.
EBIT	13.4	10.8	10.8	0.2	(19.3)	62.2	41.0	(34.1)	
EBIT margin (%)	19.2	16.1	20.2	4ppt	1ppt	19.0	16.1	-2.9ppt	
Int expense	0.0	(0.1)	(0.1)	102.8	n.m	(0.1)	(0.4)	231.2	
Int and other inc	0.4	0.3	0.2	(19.0)	(43.4)	1.2	1.0	(21.8)	
Associates	(0.0)	(0.0)	(0.0)	n.m	n.m	0.0	0.0	n.m	
Exceptional items	0.0	0.0	0.0	n.m	n.m	0.0	0.0	n.m	
Pretax	13.8	11.0	10.9	(0.9)	(21.0)	63.4	41.6	(34.4)	
Tax	(3.6)	(3.1)	(1.6)	(48.0)	(56.0)	(15.9)	(9.6)	(39.7)	
Tax rate (%)	26.4	28.0	14.7	-13.3ppt	-11.7ppt	25.2	23.1	-2.1ppt	
MI	0.2	(0.3)	0.3	n.m	30.3	0.3	0.2	(21.7)	
Net profit	10.4	7.6	9.6	25.9	(7.6)	47.7	32.2	(32.5)	
EPS (sen)	3.6	2.6	3.3	25.9	(7.6)	16.4	11.1	(32.5)	
Core net profit	10.4	7.6	9.6	25.9	(7.6)	47.7	32.2	(32.5)	Above our and consensus expectations

Source: Affin Hwang, Company data

Fig 2: Segmental Breakdown

	4QFY19	3QFY20	4QFY20	QoQ % chg	YoY % chg	FY19	FY20	YoY % chg
Segmental Revenue								
MLM	47.4	36.8	35.3	(4.2)	(25.6)	224.9	156.7	(30.3)
Wholesale	12.0	16.7	10.8	(35.6)	(10.2)	58.9	57.4	(2.5)
Retail	9.6	12.5	6.5	(47.9)	(32.3)	40.6	36.7	(9.5)
Others	1.0	1.0	1.2	12.1	22.5	4.0	4.3	7.7
Total revenue	70.0	67.0	53.7	(19.9)	(23.3)	328.4	255.2	(22.0)
Segmental Profit*								
MLM	10.2	7.2	10.3	42.3	0.8	46.5	32.0	(31.0)
Wholesale	1.3	2.5	(0.1)	(103.3)	(106.1)	10.2	5.2	(49.0)
Retail	0.4	0.9	(0.8)	(183.1)	(286.0)	0.8	0.1	(83.3)
Others	1.1	0.2	0.7	201.7	(31.6)	4.3	3.3	(23.9)
	13.4	10.8	10.8	0.2	(19.3)	61.8	40.7	(34.2)

Source: Affin Hwang, Company data

*Total segmental profit differs from group EBIT due to elimination

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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