

Company Result

21 December 2020

Hai-O Enterprise Berhad

Recovery on track

HOLD

Maintained

Share Price	RM2.32
Target Price	RM2.30

Result

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)	289.72
Par Value (RM)	0.50
Market cap. (RMm)	672.14
52-week price Range	RM1.12 – 2.44
Beta (against KLCI)	1.01
3-m Average Daily Volume	0.32m
3-m Average Daily Value ^A	RM0.66m

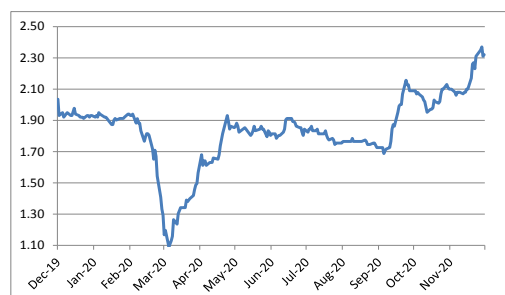
Share Performance

	1m	3m	12m
Absolute (%)	10.5	23.4	7.9
Relative (%-pts)	7.3	20.2	4.4

Major Shareholders

	%
Kai Hee Tan	10.56
Akintan Sdn Bhd	8.11
Excellent Communications	5.37

Historical Chart



Source: Bloomberg

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- **Hai-O registered a net profit of RM10.4m during 2QFY21, which inched up 1.0% qoq and 42.5% yoy despite disappointing revenue which was down 7.2% qoq and 3.3% yoy.**
- **As for 1HFY21, the Group recorded a net profit of RM20.6m which soared 36.4% yoy on the back of higher revenue which improved 2.2% yoy.** The encouraging performance was spurred by higher sales from MLM segment on the back of improved margin given favourable change in sales mix.
- **Within expectations.** 6MFY21's net profit of RM20.7m was within our in-house (50%) and market (54.9%) expectation from full year earnings estimates.
- **Single-tier interim dividend declared.** The Group has declared a single-tier interim dividend of 4sen/share during 2QFY21.

Comment

- **Recent spike in Covid-19 cases deteriorated MLM segment on quarterly basis despite higher Retail segment sales.** Revenue depleted 7.2% qoq following disappointing sales from MLM segment (-10.3% qoq) and Wholesale segment (-3.0% qoq). Lower sales from MLM segment resulted from third wave of new Covid-19 cases (massive spike in Oct'20) which impacted the business activities as well as delivery service in East Malaysia. Nevertheless, sales in Retail segment picked up 3.8% qoq. Additionally, the Group's PBT was down 1.5% qoq due to disappointing earnings from MLM and Retail segments (as PBT margin dropped 1.3ppts for both segments) given higher promotional rebates for MLM segment as well as higher outlet operating costs and personnel costs for Retail segment.
- **YoY performance bogged down by Wholesale and Retail segments despite sturdy result from MLM segment.** Hai'O revenue tumbled 3.3% yoy, no thanks to dismal Wholesale and Retail revenue (decrease 9.2% yoy and 15.5% yoy respectively). Lower sales from Retail segment were due to sluggish sales of premium cooking wine to restaurant and goods sold to duty free market due to movement control order (MCO). Also, disappointing sales from Wholesale segment was dented by lesser impact from marketing activities following delayed in their half yearly members' grand sales promotion campaign. Nevertheless,

PBT managed to escalate 41.4% yoy to 6.5ppts, thank to better margin in MLM and Wholesale segments (PBT margin rose 1.2ppts and 28.8ppts respectively).

- **Improving 1HFY21.** Cumulatively, Hai-O's 6MFY21 revenue and PBT increased 2.2% yoy and 37.8% yoy given better sales in MLM segment on the back of improved earnings from all segments. MLM segment rose 10.5% yoy banking on e-commerce and social media platforms, success of its "Duit Raya" sales campaign coupled with its local incentive trip campaign as well as better sales from its newly launched lady wear product ranges. Meanwhile, earnings were spurred by favourable change in sales mix in their MLM segment. Meanwhile earnings in Wholesale segment lifted by better cost optimization strategies, higher margins for Chinese medicated tonic and premium cooking wine, as well as a one-off gain from the disposal of vintage tea amounting to RM0.8m.
- **Brighter business outlook.** Looking forward, Hai-O is optimistic on their business outlook banking on recent developments on the vaccine as well as implementation of the PRIHATIN Supplementary Initiative Package from government to support businesses and households which could reduce the impact of Covid-19 pandemic. On the following quarter, management guided that new member recruitment for MLM segment will be offered with another attractive campaign, as an effort to attract membership. Also, the Group intends to continue with its monthly flash sales to boost the MLM's topline. Additionally, the Group will extend slimming lady wear series as well as repackaging and reformulation of several star products as strategies to widen and strengthen its product portfolio in tandem with current market trend. As for Wholesale and Retail divisions, both segments will leverage on upcoming Chinese New Year (CNY) festive season through massive campaign activities and conventional channel as well as e-market platforms. Overall, Hai-O is committed to emphasis on several strategies for their business such as cost-optimism strategies, re-strategize business plans as well as works toward digital and e-commerce platforms.

Earnings Outlook/Revision

- **No change for our FY21F and FY22F earnings forecast.**

Valuation & Recommendation

- **Maintain HOLD with an unchanged target price of RM2.30.** Our target price is based on P/E multiple of 15.9x FY22F EPS of 14.5sen, slightly higher than 3-year historical mean P/E of 15.4x. We believe worst is over for Hai-O and share price is well supported by its decent dividend yield of over 4% for FY22F.
- **Risks include:** 1) Higher-than-expected operating expenses (i.e. higher marketing and branding expenses) and 2) Lower-than-expected domestic spending due to higher cost of living. 3) COVID-19 pandemic weighed down overall

business Group's performance.

Figure 1: Quarterly Figures

Year ended 30 April	2QFY21	1QFY21	2QFY20	QoQ	YoY	6MFY21	6MFY20	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	66.1	71.2	68.4	-7.2%	-3.3%	137.4	134.5	2.2%
Gross profit	26.1	26.1	24.1	0.0%	8.5%	52.3	49.2	6.2%
Operating profit	13.5	13.5	9.4	0.0%	44.0%	27.0	19.4	39.5%
PBT	13.5	13.7	9.5	-1.5%	41.4%	27.2	19.7	37.8%
PAT	10.2	10.2	7.3	0.0%	39.7%	20.4	14.8	37.6%
Net profit	10.4	10.3	7.3	1.0%	42.5%	20.6	15.1	36.4%
Margin (%)				<i>ppts</i>	<i>ppts</i>			<i>ppts</i>
Gross profit margin	39.5%	36.7%	35.2%	2.8	4.3	38.1%	36.6%	1.4
EBIT margin	20.4%	19.0%	13.7%	1.5	6.7	19.7%	14.4%	5.3
PBT margin	20.4%	19.2%	14.0%	1.2	6.5	19.8%	14.7%	5.1
PAT margin	15.4%	14.3%	10.7%	1.1	4.8	14.8%	11.0%	3.8
Net profit margin	15.7%	14.5%	10.7%	1.3	5.1	15.0%	11.2%	3.8

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	2QFY21	1QFY21	2QFY20	QoQ	YoY	6MFY21	6MFY20	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue								
MLM division	44.2	49.3	42.6	-10.3%	3.8%	93.5	84.6	10.5%
Wholesale division	12.8	13.2	14.1	-3.0%	-9.2%	26.0	28.9	-10.0%
Retail division	8.2	7.9	9.7	3.8%	-15.5%	16.1	17.8	-9.6%
PBT								
MLM division	8.4	10.0	7.6	-16.0%	10.5%	18.3	14.9	22.8%
Wholesale division	4.6	2.9	1.0	58.6%	360.0%	7.1	2.7	163.0%
Retail division	-	0.1	0.2	N/A	N/A	0.1	(0.1)	N/A
PBT margin (%)				<i>ppts</i>	<i>ppts</i>			
MLM division	19.0%	20.3%	17.8%	-1.3	1.2	19.6%	17.6%	2.0
Wholesale division	35.9%	22.0%	7.1%	14	28.8	27.3%	9.3%	18.0
Retail division	0.0%	1.3%	2.1%	-1.3	-2.1	0.6%	-0.6%	1.2

Source: Company, JF Apex

Figure 3: Financial Summary

Year ended 30 April	FY17	FY18	FY19	FY20	FY21F	FY22F
	RMm	RMm	RMm	RMm	RMm	RMm
Revenue	404.0	461.8	328.4	255.2	269.8	276.9
Gross profit	132.9	162.2	126.2	99.4	109.8	114.9
Operating profit	77.3	97.6	62.2	41.0	50.6	54.9
PBT	78.1	99.0	63.4	41.6	51.2	55.4
PAT	59.2	75.1	47.5	32.3	41.2	43.4
Net profit	59.3	75.4	47.7	32.6	41.4	43.6
Margin (%)						
Gross profit margin	32.9%	35.1%	38.4%	38.9%	40.7%	41.5%
Operating profit	19.1%	21.1%	18.9%	16.1%	18.7%	19.8%
PBT margin	19.3%	21.4%	19.3%	16.3%	19.0%	20.0%
PAT margin	14.7%	16.3%	14.4%	12.7%	15.3%	15.7%
Net profit margin	14.7%	16.3%	14.5%	12.8%	15.3%	15.7%
Growth (%)						
Revenue growth	35.7%	14.3%	-28.9%	-22.3%	5.7%	2.6%
Gross Profit growth	31.0%	22.1%	-22.2%	-21.2%	10.4%	4.7%
PBT growth	59.2%	26.8%	-36.0%	-34.3%	23.0%	8.3%
PAT growth	61.9%	26.9%	-36.8%	-31.9%	27.5%	5.4%
Net profit growth	63.1%	27.2%	-36.7%	-31.7%	26.9%	5.4%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROA	16.3%	19.0%	13.1%	8.9%	8.0%	10.0%
ROE	20.0%	23.6%	14.9%	10.4%	10.0%	12.0%
EPS (sen)	19.7	25.1	15.9	10.7	13.8	14.5
P/E	0.12	0.09	0.15	0.22	0.17	0.16
DPS (sen)	0.16	0.20	0.13	0.10	0.09	0.10
Dividend Payout	0.8%	0.8%	0.8%	0.9%	0.7%	0.7%
Dividend yield (%)	6.9%	8.6%	5.6%	4.3%	3.9%	4.3%

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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