

30 June 2020

Hai-O Enterprise Bhd

Weak Sentiment Continues to Drag Sales

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UNDERPERFORM ↔

Price: RM1.86
Target Price: RM1.20 ↑

FY20 net profit of RM32.2m (-32%) came in above both our/consensus expectations at 115% of full-year estimate due to better-than-expected margin with cost optimisation leaning toward digitalisation. As such, we increased FY21E NP by 17% and introduce FY22E NP of RM37.7m (+6%), and upgrade our TP to RM1.20 (from RM0.850 previously), based on the revised 10x FY21E EPS. Nonetheless, we expect MLM distributors' growth will continue to be capped by cautious consumer sentiment amidst the economic uncertainties. Maintain UP.

FY20 above expectations. FY20 net profit of RM32.2m (-32%) came in above both our/consensus expectations at 115% of full-year estimate due to better-than-expected margin with cost optimisation leaning toward digitalisation. A final interim DPS of 4.0 sen elevated FY20 DPS to 10.0 sen (FY19: 13.0 sen), within expectation.

YoY, FY20 net profit plunged 32% dragged by: (i) lower revenue (-22%) due to weaker MLM division (-30%), Wholesale (-3%) as well as Retail division (-10%), and (ii) contraction in EBIT margin by 2.9ppt to 16.1% from 19.0% in FY19 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 affected members' recruitment and renewal. Retail division's buying momentum remained subdued but cushioned by better merchandise mix and cost optimization initiatives, while Wholesale division's higher sales generated from Puer tea and the export of bird nest products cushioned the drop in Chinese medicated tonic and patented medicine sales.

QoQ, 4QFY20 net profit surged 26% mainly from: (i) expansion in EBIT margin by 4.1ppt to 20.2% from 16.1% in 3QFY20 with improved cost optimization measures especially toward digitalisation and absent of sales incentive campaign in light of the MCO, and (ii) lower effective tax rate of 14.7% (3QFY20: 28.0%) from reversal of tax overprovision. These more than offset the lower revenue (-20%) for all business segment. For MLM (-4%), negative impact of MCO period was cushioned by the aggressive expansion of e-commerce platform by encouraging distributors to shift to its online portal to reach out to its members with free membership and "Stay at home, earn from home" campaign. The retail segment (-48%) was hit hard by the MCO as its outlets operated at a minimal level during the 1st phase of the MCO and only partially re-opened from the 2nd phase with shorter operating hours.

Outlook. We expect to see slower distributors' growth (averaging at 120k, plunging from the highest level in FY18 at 160k distributors) amidst the economic uncertainties. The MLM division will develop more "small ticket" items with affordable prices to cater for market needs and reinforce on-going digitalization initiatives. The Wholesale and Retail divisions will focus on its core products, and will continue to widen product portfolio. Moving forward, the group will continue to optimise costs, re-strategize business plans, and further strengthen existing digital infrastructure, enhancing presence in social media and digital advertising.

Increase FY21E NP by 17% and we introduce FY22E NP of RM37.7m (+6%) to account for better margin with the cost optimization strategy leaning toward digitalization.

Maintain UNDERPERFORM but with a higher TP of RM1.20 (from RM0.850 previously) based on higher PER of 10x (at its -1.0SD of 5-year forward historical mean) from PER of 8x (at its -2.0SD) on FY21 EPS.

Risks to our call include: (i) better-than-expected sales, and (ii) higher-than-expected margin.

Share Price Performance



KLCI 1,494.43
YTD KLCI change -5.9%
YTD stock price change -8.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK EQUITY
Market Cap (RM m)	539.9
Shares Outstanding	290.3
52-week range (H)	2.77
52-week range (L)	1.12
3-mth avg daily vol:	198,321
Free Float	56%
Beta	0.9

Major Shareholders

Tan Kai Hee	10.3%
Akintan Sdn Bhd	8.1%
Excellant Communication	5.4%

Summary Earnings Table

FY Apr (RM m)	2020A	2021E	2022E
Turnover	255.2	261.1	267.1
EBIT	41.0	44.9	47.7
PBT	41.6	46.0	48.8
Net Profit (NP)	32.2	35.4	37.7
Consensus (NP)	-	25.1	26.6
Earnings Revision	-	+16.8%	NEW
EPS (sen)	11.1	12.2	13.0
EPS growth (%)	-32.0	10.0	6.2
NDPS (sen)	10.0	10.0	10.0
BV/Share (RM)	1.07	1.09	1.12
PER (x)	16.8	15.2	14.3
Price/BV (x)	1.7	1.7	1.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	7.0	5.4	5.4

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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Apr (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	53.7	67.0	-19.9%	69.9	-23.2%	255.2	328.4	-22.3%
EBIT	10.8	10.8	0.2%	13.6	-20.2%	41.0	62.4	-34.3%
PBT	10.9	11.0	-0.9%	13.9	-21.6%	41.6	63.5	-34.5%
Taxation	-1.6	-3.1	-48.0%	-4.0	-60.4%	-9.6	-16.4	-41.2%
Net Profit (NP)	9.6	7.6	25.9%	10.0	-4.5%	32.2	47.4	-32.0%
EPS (sen)	3.3	2.6	25.9%	3.5	-4.5%	11.1	16.4	-32.0%
EBIT margin	20.2%	16.1%		19.4%		16.1%	19.0%	
PBT margin	20.3%	16.4%		19.8%		16.3%	19.3%	
NP margin	17.8%	11.3%		14.3%		12.6%	14.4%	
Effective tax rate	14.7%	28.0%		29.1%		23.1%	25.8%	

Source: Bursa Announcement, Kenanga Research

Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Apr (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
- MLM	35.3	36.8	-4.2%	47.4	-25.6%	156.7	224.9	-30.3%
- Wholesale	10.8	16.7	-35.6%	12.0	-10.2%	57.4	58.9	-2.5%
- Retail	6.5	12.5	-47.9%	9.6	-32.3%	36.7	40.6	-9.5%
- Others	1.2	1.0	12.1%	1.0	22.5%	4.3	4.0	7.7%
Group Revenue	53.7	67.0	-19.9%	69.9	-23.2%	255.2	328.4	-22.3%
- MLM	10.3	7.2	42.3%	10.2	0.8%	32.0	46.5	-31.0%
- Wholesale	-0.1	2.5	>100%	1.3	-106.1%	5.2	10.2	-49.0%
- Retail	-0.8	0.9	>100%	0.4	-286.0%	0.1	0.8	-83.3%
- Others	0.7	0.2	201.7%	1.1	-31.6%	3.3	4.3	-23.9%
- Elimination	0.7	-0.1	>100%	0.6	19.0%	0.3	0.6	-43.2%
Group EBIT	10.8	10.8	0.2%	13.6	-20.1%	41.0	62.4	-34.3%
- MLM	29.1%	19.6%		21.5%		20.4%	20.7%	
- Wholesale	-0.8%	15.0%		11.2%		9.1%	17.3%	
- Retail	-11.7%	7.3%		4.3%		0.4%	2.1%	
EBIT Margin	20.2%	16.1%		19.4%		16.1%	19.0%	

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	1.31	1,506.7	N	12/2020	4.6%	3.4%	3.7%	7.0%	29.9	28.8	26.9	15.8	16.7	56.5%	3.8%	1.30	MP
AEON CO. (M) BHD	1.01	1,418.0	Y	12/2020	-5.8%	-0.6%	-43.1%	28.5%	13.0	22.8	17.7	0.8	0.8	3.7%	4.0%	1.00	UP
AMWAY (MALAYSIA) HOLDINGS BHD	5.05	830.1	Y	12/2019	-1.0%	2.0%	-12.5%	16.5%	16.2	18.5	15.9	3.7	3.7	20.1%	5.4%	5.10	MP
DUTCH LADY MILK INDUSTRIES BHD	42.90	2,745.6	Y	12/2020	-3.0%	5.0%	-14.2%	13.2%	26.7	31.1	27.4	19.0	15.1	54.2%	1.9%	37.55	UP
FRASER & NEAVE HOLDINGS BHD	32.06	11,758.9	Y	09/2020	0.6%	2.2%	-3.4%	9.1%	28.0	29.0	26.6	4.6	4.3	15.5%	1.9%	36.20	OP
HAI-O ENTERPRISE BHD	1.86	539.9	N	04/2021	2.3%	2.3%	9.9%	6.5%	16.8	15.3	14.3	1.7	1.7	11.3%	4.3%	1.20	UP
MYNEWS HOLDINGS BHD	0.700	477.5	N	10/2020	-14.7%	11.2%	-81.0%	256.9%	17.8	93.6	26.2	1.6	1.6	1.7%	1.4%	0.480	UP
NESTLE (MALAYSIA) BHD	138.80	32,548.6	Y	12/2020	-2.2%	1.9%	-4.4%	5.8%	49.9	52.2	49.4	48.5	47.6	92.0%	1.9%	122.30	UP
PADINI HOLDINGS BHD	2.47	1,625.0	Y	06/2020	-6.6%	4.7%	-15.8%	10.3%	10.4	12.3	11.2	2.2	2.0	17.2%	4.7%	2.65	MP
POWER ROOT BHD	2.23	923.5	Y	03/2021	-1.4%	14.1%	-5.8%	11.3%	17.0	18.0	16.2	3.6	3.3	19.2%	5.2%	2.45	MP
QL RESOURCES BHD	9.50	15,413.2	Y	03/2021	13.2%	7.4%	13.6%	9.1%	64.4	56.7	52.0	7.4	6.8	12.4%	0.6%	9.05	MP
SPRITZER BHD	2.08	436.7	Y	12/2020	-2.4%	5.0%	-11.2%	16.6%	14.0	15.8	13.5	1.1	1.0	6.6%	1.9%	2.10	MP
Simple Average					-1.4%	4.9%	-13.7%	32.6%	25.3	32.8	24.8	9.2	8.7	25.9%	3.1%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	10.92	3,118.0	N	12/2020	-24.6%	-1.9%	-38.8%	-0.1%	8.6	14.1	14.1	7.2	7.1	51.0%	6.9%	10.05	UP
CARLSBERG BREWERY MALAYSIA BHD	25.06	7,662.0	N	12/2020	-28.3%	35.0%	-29.5%	36.0%	26.5	37.6	27.7	46.4	28.9	98.1%	1.4%	21.00	UP
HEINEKEN MALAYSIA BHD	22.50	6,797.2	N	12/2020	-28.7%	16.1%	-19.8%	13.9%	21.7	27.1	23.8	19.0	19.3	68.8%	3.7%	20.85	UP
Simple Average					-27.2%	16.4%	-29.4%	16.6%	19.0	26.3	21.9	24.2	18.5	72.6%	4.0%		

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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