

Hai-O Enterprise Bhd

1H19 Hit By Lower-than-expected Sales

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MARKET PERFORM ↓

Price: RM2.90
Target Price: RM3.00 ↓

1H19 Net Profit of RM24.6m (-37%) came in below our/consensus expectations at 28%/34% of full-year estimates due to lower-than-expected sales. We cut our FY19E/FY20E NP by 26%/27% on an expectation of lower sales and assuming lower MLM distributors' base at 140k, from 170k previously. Subsequently, we cut our Target Price to RM3.00 from RM5.15. Downgrade to MARKET PERFORM from OUTPERFORM.

1H19 below expectations. 1H19 Net Profit of RM24.6m (-37%) came in below our/consensus expectations at 28%/34% of full-year estimates due to the lower-than-expected sales. 1st interim DPS of 4.0 sen (2Q18: 6.0sen) was proposed for the quarter, which is below expectation. Thus, we cut our full-year DPS assumption to 10.0 sen (from 20.0 sen).

YoY, 1H19 core PATAMI plunged 37% dragged by: (i) lower revenue (-31%) from lower MLM division (-39%), netted off by Wholesale division (+4%), attributed to the cautious distributors spending with the uncertainties in new government regulation, which led to stagnant distributors' growth which was unable to match last year grand sales, (ii) contraction in EBIT margin by 1.6ppt to 18.7% from 20.3% in 1H18 from unfavourable merchandise mix skewed towards small ticket items as well as heavy discounting activities to attract distributors, and (iii) higher effective tax rate of 25.0% (1H18: 23.0%).

QoQ, 2Q19 core PATAMI increased by 24% mainly due to: (i) higher revenue (+15%) from higher Wholesale division contribution (+26%), and supported by MLM division (+9%), attributable to higher sales volume from newly launched big-ticket items in its MLM fashion and beauty care range of products as well as higher Wholesale sales from health tonic and Chinese tea, (ii) expansion in EBIT margin by 1.8ppt to 19.5% from 17.7% in 1Q19 with merchandise mix skewed towards high margin items, and (iii) lower effective tax rate of 24.1% (1Q19:26.2%).

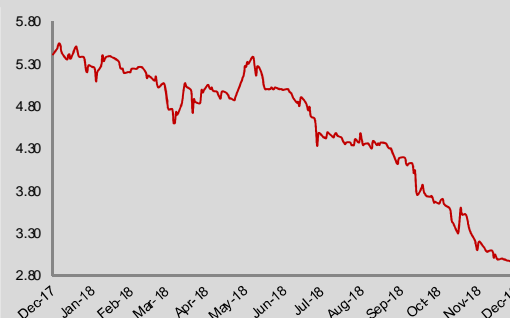
Outlook. We expect the distributors' base to see slower growth for the next two years amidst uncertainty with the new government regulation. Note that, the distributors' base was reduced to 140k from 160k in FY18. Nevertheless, the group MLM division will continue to focus on new product development to widen its product range while intensifying new membership recruitment and retention programs to sustain its distributors' base. As Chinese New Year festive season is approaching, the Wholesale and Retail divisions will carry out an extensive promotion campaign via social media platform to reach out to a younger and wider group of customers.

Cut FY19-20E NP by 26-27%. We cut our FY19E and FY20E net profits by 26% and 27% on expectation of lower sales and assuming lower MLM distributors' base at 140k, from 170k previously.

We downgrade our call to MARKET PERFORM from OUTPERFORM with a lower target price of RM3.00 based on lower 14.0x FY19 EPS, at its 5-year forward historical mean to reflect the lower earnings growth (from RM5.15, based on 17.6x FY19E EPS, at +1.0SD of its 5-year forward historical mean).

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

Share Price Performance



KLCI	1,641.62
YTD KLCI change	-8.6%
YTD stock price change	-45.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	842.1
Shares Outstanding	290.4
52-week range (H)	5.59
52-week range (L)	2.86
3-mth avg daily vol:	258,457
Free Float	77%
Beta	0.8

Major Shareholders

Tan Kai Hee	10.1%
Akintan Sdn Bhd	7.9%
Excellant Communication	5.4%

Summary Earnings Table

FY Apr (RM'm)	2018A	2019E	2020E
Turnover	461.7	426.7	436.3
EBIT	94.9	86.1	87.7
PBT	96.5	87.6	89.5
Net Profit (NP)	72.3	64.8	66.2
Consensus (NP)	-	73.4	86.8
Earnings Revision	-	-26.1%	-27.3%
EPS (sen)	24.9	21.6	22.1
EPS growth (%)	21.6	-13.3	2.2
NDPS (sen)	20.0	10.0	10.0
BV/Share (RM)	1.10	1.18	1.30
PER	12.1	13.4	13.1
Price/BV (x)	4.5	2.5	2.2
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	6.7	3.4	3.4

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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Apr (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	92.2	80.1	15.1%	123.5	-25.4%	172.3	248.1	-30.6%
EBIT	18.0	14.2	27.0%	27.4	-34.4%	32.2	50.3	-36.0%
PBT	18.3	14.4	26.5%	27.9	-34.4%	32.7	51.0	-35.8%
Taxation	-4.4	-3.8	16.6%	-6.2	-29.2%	-8.2	-11.7	-30.2%
Net Profit (NP)	13.6	11.0	23.7%	21.4	-36.6%	24.6	39.3	-37.4%
EPS (sen)	4.7	3.8	23.7%	7.4	-36.6%	8.5	13.6	-37.4%
EBIT margin	19.5%	17.7%		22.2%		18.7%	20.3%	
PBT margin	19.8%	18.0%		22.5%		19.0%	20.5%	
NP margin	14.8%	13.7%		17.4%		14.3%	15.8%	
Effective tax rate	24.1%	26.2%		22.3%		25.0%	23.0%	

Source: Bursa Announcement, Kenanga Research

Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Apr (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
- Multi-Level-Marketing	63.2	58.0	8.8%	95.5	-33.9%	121.2	197.9	-38.8%
- Wholesale	17.1	13.6	26.4%	16.5	4.0%	30.7	29.5	4.0%
- Retail	10.8	7.6	42.1%	10.4	4.3%	18.4	18.5	-0.3%
- Others	1.0	0.9	18.9%	1.2	-10.3%	1.9	2.2	-10.9%
Group Revenue	92.2	80.1	15.1%	123.5	-25.4%	172.3	248.1	-30.6%
- Multi-Level-Marketing	14.0	10.4	35.2%	19.5	-28.2%	24.4	38.3	-36.4%
- Wholesale	3.1	2.7	12.3%	6.7	-54.2%	5.8	9.6	-40.0%
- Retail	0.6	-0.6	-199.5%	0.5	24.8%	0.0	0.0	-93.6%
- Others	1.0	0.8	18.8%	1.2	-19.2%	1.8	2.4	-24.0%
- Elimination	-0.6	0.8	-175.7%	-0.5	32.6%	0.2	-0.1	-488.7%
Group EBIT	18.0	14.2	27.2%	27.4	-34.3%	32.2	50.3	-36.0%
- Multi-Level-Marketing	22.2%	17.9%		20.4%		20.1%	19.4%	
- Wholesale	17.8%	20.1%		40.5%		18.8%	32.6%	
- Retail	5.5%	-7.9%		4.6%		0.0%	-0.3%	
- Others	94.9%	95.0%		105.4%		95.0%	111.3%	
Group EBIT Margin	19.6%	17.7%		22.2%		18.7%	20.3%	

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	1.30	1,467.6	N	12/2018	8.2%	5.2%	3.2%	13.0%	32.0	31.0	27.4	21.7	18.6	64.6%	2.3%	1.30	MP
AEON CO (M) BHD	1.55	2,176.2	Y	12/2018	6.6%	4.1%	13.4%	14.1%	20.7	18.3	16.0	1.1	1.1	6.0%	2.6%	2.60	OP
AMWAY MALAYSIA HOLDINGS BHD	6.49	1,066.9	Y	12/2018	0.0%	3.0%	-20.6%	37.4%	20.3	25.5	18.6	5.0	4.8	19.1%	3.1%	6.80	MP
DUTCH LADY MILK INDUSTRIES BHD	62.30	3,987.2	Y	12/2018	-2.0%	2.9%	-0.4%	18.0%	32.0	27.9	24.5	38.3	37.6	131.6%	3.5%	64.10	MP
FRASER & NEAVE HOLDINGS BHD	30.50	11,186.7	Y	09/2019	4.2%	4.1%	2.7%	4.0%	28.2	27.5	26.4	4.8	4.5	17.0%	2.2%	33.30	MP
HAI-O ENTERPRISE BHD	2.90	842.1	N	04/2019	-7.6%	2.3%	-10.3%	2.2%	13.8	10.0	8.3	3.0	2.7	19.3%	7.5%	3.00	MP
MYNEWS HOLDINGS BHD	1.43	975.5	N	10/2018	27.3%	14.2%	21.0%	20.7%	36.8	30.4	25.2	3.5	3.2	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	144.50	33,885.3	Y	12/2018	3.5%	1.1%	11.4%	13.7%	52.5	47.1	41.4	53.0	49.9	109.1%	2.0%	146.50	MP
PADINI HOLDINGS BHD	3.35	2,204.0	Y	06/2019	10.5%	5.1%	1.2%	10.8%	12.4	12.2	11.0	3.4	2.9	25.6%	3.4%	4.90	UP
PARKSON HOLDINGS BHD	0.250	266.8	Y	06/2019	4.3%	0.2%	185.3%	13.6%	N.A.	16.5	14.5	0.1	0.1	0.5%	0.0%	0.370	OP
POWER ROOT BHD	1.26	498.0	Y	03/2019	-1.0%	8.6%	43.2%	30.9%	21.1	15.2	12.1	2.4	2.2	16.4%	6.3%	1.90	OP
QL RESOURCES BHD	6.32	10,253.8	Y	03/2019	7.2%	11.1%	3.1%	8.7%	49.7	47.2	44.3	5.4	5.0	11.4%	0.7%	5.70	UP
SPRITZER BHD	2.18	457.7	Y	12/2018	10.4%	4.0%	14.7%	10.9%	16.7	16.8	15.1	1.1	1.2	7.1%	2.8%	2.30	MP
Simple Average					5.5%	5.1%	20.6%	15.2%	28.0	25.0	21.9	11.0	10.3	33.7%	2.9%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	34.70	9,907.9	N	12/2018	-1.5%	0.3%	-12.2%	0.6%	19.0	21.6	21.5	25.9	24.5	116.6%	4.4%	29.10	UP
CARLSBERG BREWERY MALAYSIA BHD	19.80	6,090.9	N	12/2018	9.9%	7.7%	17.2%	9.8%	27.4	23.4	21.3	19.5	19.6	87.2%	4.4%	17.70	UP
HEINEKEN MALAYSIA BHD	20.50	6,193.0	N	12/2018	5.0%	6.1%	1.2%	3.0%	22.9	22.7	22.0	17.2	17.1	75.6%	4.4%	18.60	MP
Simple Average					4.5%	4.7%	2.1%	4.5%	23.1	22.5	21.6	20.9	20.4	93.1%	4.4%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.33	482.7	N	04/2019	10.1%	8.6%	2111.6%	16.4%	410.8	18.6	16.0	1.3	1.2	6.6%	3.2%	1.86	BUY
BONIA CORPORATION BHD	0.250	201.4	Y	06/2019	-6.5%	3.2%	-49.8%	89.3%	10.2	20.3	10.7	0.5	0.4	3.9%	2.4%	0.250	SELL
COCOALAND BHD	2.00	457.6	Y	12/2018	4.6%	2.4%	-7.0%	9.2%	13.7	14.7	13.4	1.9	1.7	13.4%	5.7%	2.45	BUY
LAY HONG BHD	0.360	234.4	Y	03/2019	-1.5%	9.3%	-43.7%	93.7%	6.4	11.4	5.9	0.7	0.7	4.1%	1.4%	0.490	BUY
KAWAN FOOD BHD	2.00	719.0	Y	12/2018	8.5%	17.4%	-13.3%	43.1%	24.7	28.5	19.9	2.3	1.9	7.9%	2.3%	2.45	NEUTRAL
MAGNI-TECH INDUSTRIES BHD	3.99	649.3	Y	04/2019	13.0%	7.0%	16.0%	11.3%	7.1	6.1	5.5	1.3	N/A	21.0%	N/A	6.45	BUY

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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