

Another disappointing quarter

Hai-O recorded a weak set of results. 9MFY19 core earnings declined 34% yoy to RM37.4m, which missed our and consensus expectations at for 68% and 62% of full-year estimates respectively. The MLM segment continued to underperform, as quarterly sales fell both sequentially (-11%) and yoy (-25%) while members' activity remains subdued. Margins also declined as a result, weighed down further by higher marketing costs. We maintain HOLD on Hai-O with a lower TP of RM2.50, after revising our EPS estimates lower as we turn less upbeat on its MLM segment's performance.

Below expectations

Hai-O's 9MFY19 core net profit declined 33.9% yoy to RM37.4m, mainly due to a sustained slump in MLM segment sales (-35.1% yoy) to RM177.5m which corresponded to a 30.9% fall in EBIT to RM36.3m. Lower intersegment sales from the Wholesale front also weighed on operating profit (-52.7% yoy), despite the segment recording a flattish 0.6% external top-line growth. Meanwhile, the Retail segment fared better as sales grew 11.4% yoy to RM31.0m, but nonetheless continued to be a minor earnings contributor.

Weaker sequentially

On a qoq basis, 3QFY19 earnings declined 6% vs. 2QFY19 to RM12.8m, underpinned by lower sequential sales from its MLM (-11% qoq) and Wholesale (-5.3% qoq) segments. In view of the MLM segment's subdued member activity as well as the challenging business environment currently seen, Hai-O's management intends to re-strategise its members' recruitment and retention plans, while moving towards "small-ticket" items at affordable price points.

Maintain HOLD with a lower TP of RM2.50

We cut our FY19-21E EPS estimates by -8.0%/-14.4%/-15.1% respectively to reflect our view of persisting challenges seen for its MLM segment, both in terms of its member base's activities, as well as reception for its product range. Following on, we derive a lower TP of RM2.50 after rolling forward our valuation base to FY20E, while based on an unchanged PER target of 13x. Maintain our HOLD recommendation on Hai-O. Upside/downside risks: i) strong/weak expansion in MLM distributor base; ii) better/lower-than-expected take-up rate of new products.

Earnings & Valuation Summary

FYE 30 Apr	2017	2018	2019E	2020E	2021E
Revenue (RMm)	404.2	461.8	346.5	369.9	413.5
EBITDA (RMm)	81.1	105.6	69.3	75.5	86.4
Pretax profit (RMm)	78.3	99.0	66.2	72.4	83.3
Net profit (RMm)	59.4	75.4	50.5	55.3	63.5
EPS (sen)	20.4	25.9	17.4	19.0	21.8
PER (x)	13.2	10.4	15.5	14.2	12.4
Core net profit (RMm)	59.4	75.4	50.5	55.3	63.5
Core EPS (sen)	20.4	25.9	17.4	19.0	21.8
Core EPS growth (%)	63.3	27.0	(33.0)	9.4	15.0
Core PER (x)	13.2	10.4	15.5	14.2	12.4
Net DPS (sen)	16.0	20.0	11.3	12.3	14.2
Dividend Yield (%)	5.9	7.4	4.2	4.6	5.3
EV/EBITDA (x)	8.1	6.2	9.3	8.2	7.0
Chg in EPS (%)			(8.0)	(14.4)	(15.1)
Affin/Consensus (x)			0.8	0.8	0.8

Source: Company, Bloomberg, Affin Hwang forecasts

Out think. Out perform.

Results Note

Hai-O

HAIO MK
Sector: Consumer

RM2.70 @ 25 March 2019

HOLD (maintain)

Downside: 7%

Price Target: RM2.50

Previous Target: RM2.70



Price Performance

	1M	3M	12M
Absolute	-4.6%	5.5%	-42.6%
Rel to KLCI	-0.2%	7.7%	-35.0%

Stock Data

Issued shares (m)	290.4
Mkt cap (RMm)/(US\$m)	784/192.7
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	2.48-5.4
Est free float	55.3%
BV per share (RM)	1.03
P/BV (x)	2.62
Net cash/ (debt) (RMm)	117.8
ROE (2019E)	16.3%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Kai Hee Tan	10.1%
Akintan Sdn Bhd	8.0%
Excellent Communication	5.4%

Source: Affin Hwang, Bloomberg

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Weaker sales in 3QFY19

MLM sales fell 11% qoq, off a higher base from 2QFY19's pre-26th anniversary and incentive trip sales campaign, alongside lower number of new members recruited. Wholesale sales declined 5.3% qoq due to higher CNY hamper sales offset by drop in sales of Chinese medicated tonic and patented medicine.

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Fig 1: Results Comparison

FYE Apr (RMm)	3Q18	2Q19	3Q19	QoQ % chg	YoY % chg	9MFY18	9MFY19	YoY % chg	Comments
Revenue	103.1	92.2	86.2	(6.5)	(16.4)	351.1	258.4	(26.4)	Significant 9MFY19 decline in MLM segment sales (-35.1% yoy), partially offset by 0.6% yoy and 11.4% yoy increase in Wholesale and Retail revenue respectively
Op costs	(79.5)	(72.9)	(68.2)	(6.4)	(14.1)	(275.3)	(206.0)	(25.2)	
EBITDA	23.6	19.2	17.9	(6.9)	(24.1)	75.8	52.5	(30.8)	
<i>EBITDA margin (%)</i>	22.9	20.9	20.8	-0.1ppt	-2.1ppt	21.6	20.3	-1.3ppt	
Depn and amort	(1.0)	(1.2)	(1.3)	2.7	23.7	(3.0)	(3.6)	22.5	
EBIT	22.6	18.0	16.7	(7.5)	(26.3)	72.9	48.8	(33.0)	
<i>EBIT margin (%)</i>	21.9	19.5	19.3	-0.2ppt	-2.6ppt	20.7	18.9	-1.9ppt	Lower recorded sales, alongside higher marketing and branding costs, despite a 1.8ppt gross margin improvement on better sales mix.
Int expense	(0.0)	(0.0)	(0.0)	28.0	(8.6)	(0.1)	(0.1)	(0.9)	
Int and other inc	0.5	0.3	0.3	3.2	(37.3)	1.2	0.9	(27.8)	
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	23.0	18.3	16.9	(7.3)	(26.5)	74.0	49.6	(32.9)	
Tax	(5.8)	(4.4)	(4.1)	(6.4)	(28.9)	(17.5)	(12.3)	(29.8)	
<i>Tax rate (%)</i>	25.2	24.1	24.4	0.2ppt	-0.8ppt	23.7	24.8	1.1ppt	
MI	0.0	(0.3)	(0.0)	n.m.	n.m.	0.1	0.1	n.m.	
Net profit	17.3	13.6	12.8	(6.0)	(25.9)	56.6	37.4	(33.9)	
EPS (sen)	5.9	4.7	4.4	(6.0)	(25.9)	19.4	12.9	(33.9)	
Core net profit	17.3	13.6	12.8	(6.0)	(25.9)	56.6	37.4	(33.9)	Below our and consensus estimates, accounting for 68% and 62% of full-year forecasts

Source: Affin Hwang, Company data

Fig 2: Segmental Breakdown

	3Q18	2Q19	3Q19	QoQ % chg	YoY % chg
Segmental Revenue					
MLM	75.42	63.16	56.27	(10.92)	(25.40)
Wholesale	17.12	17.14	16.22	(5.32)	(5.23)
Retail	9.32	10.83	12.55	15.90	34.68
Others	1.09	1.05	1.12	7.08	2.85
Total revenue	103.07	92.17	86.16	(6.53)	(16.41)
Segmental Profit					
MLM	14.15	14.02	11.88	(15.25)	(16.02)
Wholesale	9.09	3.06	3.08	0.79	(66.10)
Retail	0.13	0.57	0.46	(19.41)	251.91
Others	1.47	0.99	1.40	41.53	(4.23)
	24.57	18.01	16.65	(7.54)	(26.28)

Source: Affin Hwang, Company data

Important Disclosures and Disclaimer

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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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