

26 June 2019

Hai-O Enterprise Bhd

FY19 Below Expectations

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FY19 CNP of RM47.4m (-37%) came in below our/consensus expectations at 95%/94% of full-year estimates, dragged down by lower-than-expected MLM sales. We cut our FY20E CNP by 7% on the expectation of lower MLM sales and we introduced FY21E CNP at RM48.3m. Subsequently, we cut our TP to RM1.95 from RM2.10 based on an unchanged 12x FY20E EPS. Reiterate UNDERPERFORM.

FY19 below expectations. FY19 CNP of RM47.4m (-37%) came in below our/consensus expectations at 95%/94% of full-year estimates, dragged down by lower-than-expected MLM sales. Final DPS of 9.0sen was declared for the quarter, bringing FY19 DPS to 13.0sen (FY18: 20.0sen).

YoY, FY19 CNP plunged 37% dragged by: (i) lower revenue (-29%) from lower sales of all division, MLM division (-36%), Wholesale (-8%) and Retail division (-2%), (ii) contraction in EBIT margin by 2.1ppt to 19.0% from 21.1% in FY18 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 25.8% (FY18: 24.1%). It was unable to match last year grand sales due to weaker MLM sales attributed to cautious distributors spending, and tepid purchasing power that led to stagnant distributors' growth.

QoQ, 4Q19 CNP plunged 22% mainly due to lower revenue (-19%) from lower sales of all division, MLM division (-16%), Wholesale (-26%) and Retail division (-24%). MLM division continued to hit by lower number of members' recruitment/renewal, and further affected by weak responses to overseas incentive sales campaign. Retail division was also weak due to seasonally weak quarter post-CNY festivities. EBIT margin was slightly better by 0.1ppt to 19.4% from 19.3% in 3Q19 but negated by a higher effective tax rate at 29.1% (vs. 24.4% in 3Q19).

Outlook. We expect to see further pressure from stagnant distributors' growth (average at 140k, plunging from the highest level in FY18 at 160k distributors) as well as from weakening MYR against RMB. The MLM division will develop more "small ticket" items with affordable prices to cater for market needs in view of lower spending power of its members and reinforcing the ongoing digitalization initiatives. The Wholesale division will focus on its core products, which include Chinese medicated tonic and other health and wellness products, and will continue to widen its product portfolio. The Retail division will strengthen its business collaboration with Chinese physicians to complement its business and will continue to develop more affordable house brand products to widen its product portfolio as well as improvement in its sales incentive scheme.

Cut FY20E CNP by 7%. We cut our FY20E CNP by 7% on the expectation of lower MLM distributors and average sales. We introduced FY21E CNP at RM48.3m.

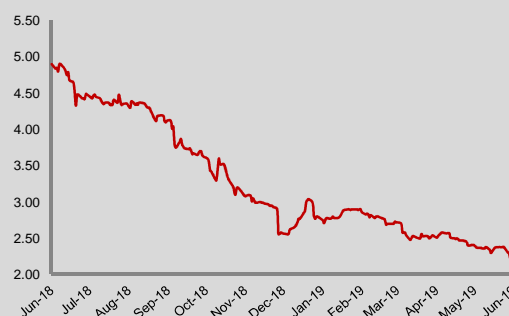
As such, we also cut our target price to RM1.95, from RM2.10, based on an unchanged 12x FY20E EPS at its -0.5SD of 5-year forward historical mean. Reiterate **UNDERPERFORM**.

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

UNDERPERFORM ↔

Price: RM2.24
Target Price: RM1.95 ↓

Share Price Performance



KLCI	1,676.61
YTD KLCI change	-0.8%
YTD stock price change	-15.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK EQUITY
Market Cap (RM m)	650.4
Shares Outstanding	290.4
52-week range (H)	4.95
52-week range (L)	2.20
3-mth avg daily vol:	173,505
Free Float	76%
Beta	0.6

Major Shareholders

Tan Kai Hee	10.2%
Akintan Sdn Bhd	8.1%
Excellant Communication	5.4%

Summary Earnings Table

FY Apr (RM'm)	2019A	2020E	2021E
Turnover	328.4	334.0	341.6
EBIT	62.4	63.0	64.1
PBT	63.5	64.1	65.3
Net Profit (NP)	47.4	47.4	48.3
Consensus (NP)	-	53.4	54.4
Earnings Revision	-	-7.2%	new
EPS (sen)	16.3	16.3	16.6
EPS growth (%)	-34.4	0.1	1.8
NDPS (sen)	13.0	13.0	13.0
BV/Share (RM)	1.07	1.10	1.14
PER	13.7	13.7	13.5
Price/BV (x)	2.1	2.0	2.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	5.8	5.8	5.8

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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Apr (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	69.9	86.2	-18.8%	110.6	-36.8%	328.4	461.8	-28.9%
EBIT	13.6	16.7	-18.6%	22.8	-40.6%	62.4	97.6	-36.1%
PBT	13.9	16.9	-18.0%	23.1	-39.8%	63.5	99.0	-35.9%
Taxation	-4.0	-4.1	-2.0%	-6.4	-36.6%	-16.4	-23.9	-31.6%
Net Profit (NP)	10.0	12.8	-21.6%	16.3	-38.4%	47.4	74.8	-36.6%
EPS (sen)	3.5	4.4	-21.6%	5.6	-38.4%	16.4	25.9	-36.6%
EBIT margin	19.4%	19.3%		20.6%		19.0%	21.1%	
PBT margin	19.8%	19.6%		20.8%		19.3%	21.4%	
NP margin	14.3%	14.8%		14.7%		14.4%	16.2%	
Effective tax rate	29.1%	24.4%		27.7%		25.8%	24.1%	

Source: Bursa Announcement, Kenanga Research

Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Apr (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
- Multi-Level-Marketing	47.4	56.3	-15.7%	79.1	-40.0%	224.9	352.5	-36.2%
- Wholesale	12.0	16.2	-26.1%	17.0	-29.6%	58.9	63.7	-7.5%
- Retail	9.6	12.5	-23.7%	13.7	-30.0%	40.6	41.5	-2.2%
- Others	1.0	1.1	-15.0%	0.9	11.4%	4.0	4.1	-2.6%
Group Revenue	69.9	86.2	-18.8%	110.6	-36.8%	328.4	461.8	-28.9%
- Multi-Level-Marketing	10.2	11.9	-14.3%	16.6	-38.6%	46.5	69.1	-32.7%
- Wholesale	1.3	3.1	-56.5%	3.5	-61.2%	10.2	22.2	-54.0%
- Retail	0.4	0.4	-6.2%	1.4	-70.7%	0.8	1.5	-43.1%
- Others	1.1	1.4	-24.3%	1.2	-12.4%	4.3	5.1	-15.5%
- Elimination	0.6	-0.2	-419.3%	0.2	253.5%	0.6	-0.2	-481.9%
Group EBIT	13.6	16.6	-18.5%	22.8	-40.6%	62.4	97.6	-36.1%
- Multi-Level-Marketing	21.5%	21.1%		21.0%		20.7%	19.6%	
- Wholesale	11.2%	19.0%		20.3%		17.3%	34.8%	
- Retail	4.3%	3.5%		10.2%		2.1%	3.5%	
Group EBIT Margin	19.4%	19.3%		20.6%		19.0%	21.1%	

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	1.48	1,733.8	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.6	31.3	29.7	24.6	23.9	77.5%	2.7%	1.35	UP	
AEON CO (M) BHD	1.71	2,400.8	Y	12/2019	3.1%	3.0%	9.2%	3.6%	19.3	17.7	17.1	1.2	1.1	6.6%	2.3%	2.10	OP	
AMWAY MALAYSIA HOLDINGS BHD	6.05	994.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.2	17.3	16.3	4.2	4.0	23.8%	4.5%	7.25	OP	
DUTCH LADY MILK INDUSTRIES BHD	63.50	4,064.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	32.8	33.5	31.3	38.5	38.6	115.2%	3.0%	62.90	MP	
FRASER & NEAVE HOLDINGS BHD	34.50	12,653.9	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.9	29.1	28.3	5.5	5.1	18.0%	1.9%	36.60	MP	
HAI-O ENTERPRISE BHD	2.24	650.4	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.7	13.7	13.5	2.0	2.1	15.1%	5.8%	1.95	UP	
MYNEWS HOLDINGS BHD	1.38	941.4	N	10/2019	27.3%	14.2%	21.0%	20.7%	35.5	29.4	24.3	3.0	2.9	10.2%	0.7%	1.55	OP	
NESTLE (MALAYSIA) BHD	149.00	34,940.5	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.8	47.7	45.7	53.4	53.4	114.7%	2.1%	137.00	MP	
PADINI HOLDINGS BHD	3.70	2,434.3	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	13.7	15.7	12.9	3.7	3.3	22.3%	3.1%	4.00	MP	
PARKSON HOLDINGS BHD	0.26	272.1	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	32.9	0.1	0.1	-1.7%	0.0%	0.24	MP	
POWER ROOT BHD	1.53	605.7	Y	03/2020	6.3%	8.6%	26.3%	16.8%	18.3	15.0	13.2	2.8	2.5	18.0%	5.9%	1.75	OP	
QL RESOURCES BHD	6.85	11,113.7	Y	03/2020	10.9%	4.5%	13.0%	4.2%	51.3	45.4	43.5	5.5	5.1	12.1%	0.8%	6.05	UP	
SPRITZER BHD	2.20	461.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.1	16.6	14.7	1.2	1.1	7.0%	1.8%	2.40	MP	
Simple Average					6.3%	4.3%	4.6%	63.5%	28.6	26.0	24.9	11.2	11.0	33.8%	2.7%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	29.06	8,297.5	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	17.7	20.0	19.7	19.7	18.8	96.0%	4.7%	29.55	UP	
CARLSBERG BREWERY MALAYSIA BHD	25.40	7,813.6	N	12/2019	11.4%	4.6%	6.9%	4.8%	28.5	26.7	25.4	43.2	47.0	173.9%	3.9%	23.00	MP	
HEINEKEN MALAYSIA BHD	23.90	7,220.1	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.6	24.9	23.6	19.5	19.3	77.9%	4.0%	23.25	MP	
Simple Average					3.8%	4.1%	-0.6%	3.9%	23.9	23.8	22.9	27.5	28.3	115.9%	4.2%			
CONSENSUS ESTIMATES																		
BERJAYA FOOD BHD	1.64	588.0	N	06/2019	10.1%	8.8%	22.4%	11.1%	22.4	18.3	16.4	n/a	1.5	7.8%	3.2%	2.06	BUY	
BONIA CORPORATION BHD	0.33	260.9	Y	06/2019	-4.9%	1.3%	-29.7%	2.9%	13.2	18.8	18.2	0.7	0.6	2.8%	2.1%	0.25	SELL	
COCOALAND BHD	1.81	414.1	Y	12/2019	7.0%	5.2%	1.1%	7.6%	13.4	13.2	12.3	1.7	1.5	11.8%	4.3%	2.12	NEUTRAL	
LAY HONG BHD	1.34	481.8	Y	12/2019	16.5%	19.9%	11.7%	27.0%	21.1	18.9	14.9	1.5	1.4	7.5%	2.8%	0.98	SELL	
KAWAN FOOD BHD	4.90	797.0	Y	04/2020	18.8%	4.5%	13.0%	5.2%	7.8	6.9	6.5	1.5	n/a	20.3%	n/a	6.60	BUY	
MAGNI-TECH INDUSTRIES BHD	1.64	588.0	N	06/2019	10.1%	8.8%	22.4%	11.1%	22.4	18.3	16.4	n/a	1.5	7.8%	3.2%	2.06	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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