

Weakness in MLM continues to weigh

Hai-O posted 9MFY20 revenue and core net profit of RM201.5m (-22% yoy) and RM22.7m (-39.4% yoy) respectively. The MLM segment remains a major weak link for the group, given the backdrop of cautious consumption spending. Adding to the woes, the Movement Control Order (MCO), which is now extended to 14 April 2020, would likely further dampen overall sales performance. All in, we cut earnings by a further 10-47% for FY20-22E amidst the Covid-19 disruptions. As such, we lower our TP to RM0.60 (from RM1.10). Maintain SELL.

MLM sales remain subdued; below expectations

Hai-O's 9MFY20 revenue contracted 22% yoy to RM201.5m, predominantly led by a decline in the MLM segment to RM121.4m (-31.6% yoy) while the wholesale and retail divisions declined to RM46.7m (-0.5% yoy) and RM30.2m (-2.5% yoy) respectively. The MLM segment continued to be weighed down by cautious consumption spending whereas new member recruitments and renewals were also impacted. 9MFY20 core net profit came in at RM22.7m (-39.4% yoy), as weaker top-line sales were compounded by narrowing margins due to unfavourable sales mix. Despite the result accounting for 75% of our full-year earnings forecast (70% for consensus), we deem the results below expectations as 4QFY20 is expected to be severely affected by the crippling outbreak of Covid-19.

Sequentially better retail & wholesale segments lifted 3QFY20

On a qoq basis, core net profit saw an uptick of 3.8% to RM7.6m, largely owing to better performance from the group's retail and wholesale segment, offsetting the continued weakness in its MLM division. Both the wholesale and retail businesses benefitted from Lunar New Year festive season, which led to a sequential improvement in both revenue and bottom-line earnings.

Maintain SELL

Having trimmed our earnings earlier by 4-7% for FY20-22E (in tandem with our house GDP downgrade on 16 March 2020), we now make a further downward adjustment of 10-47% to our earnings in view of the extended disruptions due to Covid-19. We foresee all 3 segments to be severely affected by the implementation of MCO, which is now extended to 14 April 2020. Post revision, our TP is lowered to RM0.60 (from RM1.10) based on an unchanged target PER of 9x (1SD below 10-year mean). We had previously lowered our PER target from 12x to better reflect the heightened market volatility amidst Covid-19. All in, given the potential downside to the current share price, we maintain our SELL rating.

Earnings & Valuation Summary

FYE 30 Apr	2018	2019	2020E	2021E	2022E
Revenue (RMm)	461.7	328.4	244.4	171.0	208.5
EBITDA (RMm)	99.0	66.9	40.3	28.6	39.0
Pretax profit (RMm)	96.5	63.4	36.5	24.8	35.2
Net profit (RMm)	72.3	47.7	27.6	18.7	26.6
EPS (sen)	24.9	16.4	9.5	6.4	9.2
PER (x)	4.7	7.1	12.3	18.2	12.8
Core net profit (RMm)	72.3	47.7	27.6	18.7	26.6
Core EPS (sen)	24.9	16.4	9.5	6.4	9.2
Core EPS growth (%)	21.7	-33.9	-42.3	-32.2	42.2
Core PER (x)	4.7	7.1	12.3	18.2	12.8
Net DPS (sen)	20.0	13.0	7.6	5.1	7.3
Dividend Yield (%)	17.1	11.1	6.5	4.4	6.3
EV/EBITDA (x)	2.2	3.7	5.8	7.7	5.6
Chg in EPS (%)		-10.5	-46.7	-25.1	
Affin/Consensus (x)		0.8	0.5	0.7	

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Hai-O

HAIO MK
Sector: Consumer

RM1.17 @ 25 March 2020

SELL (maintain)

Downside: -49%

Price Target: RM0.60

Previous Target: RM1.10*

* Most recent TP incorporated in our Strategy Note dated 16 March 2020. TP prior to that was RM1.50.



Price Performance

	1M	3M	12M
Absolute	-40.9%	-42.1%	-56.7%
Rel to KLCI	-33.0%	-29.8%	-46.0%

Stock Data

Issued shares (m)	290.3
Mkt cap (RMm)/(US\$M)	339.7/77.4
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	1.12-2.77
Est free float	55.6%
BV per share (RM)	1.03
P/BV (x)	1.14
Net cash/ (debt) (RMm)	52.5
ROE (2020E)	9.0%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

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

Source: Affin Hwang, Bloomberg

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Key risks

Upside risks: i) recovery in MLM distributor base; ii) better-than-expected take-up rate for its new products; and (iii) higher cost savings.

Fig 1: Results Comparison

FYE Apr (RMm)	3Q FY19	2Q FY20	3Q FY20	QoQ % chg	YoY % chg	9M FY19	9M FY20	YoY % chg	Comments
Revenue	86.2	68.4	67.0	(2.0)	(22.2)	258.4	201.5	(22.0)	9MFY20 decline in MLM (-32% yoy), Wholesale (-0.5% yoy) and Retail (-2.5% yoy) segment sales
Op costs	(68.2)	(57.5)	(54.6)	(4.9)	(20.0)	(206.0)	(166.6)	(19.1)	
EBITDA	17.9	10.9	12.4	13.5	(30.8)	52.4	34.9	(33.5)	
<i>EBITDA margin (%)</i>	20.8	16.0	18.5	2.5 ppt	-2.3 ppt	20.3	17.3	-3ppt	Unfavorable sales mix and higher import purchase cost
Depn and amort	(1.3)	(1.6)	(1.6)	2.8	26.5	(3.6)	(4.7)	29.8	
EBIT	16.7	9.4	10.8	15.3	(35.1)	48.8	30.2	(38.2)	
<i>EBIT margin (%)</i>	19.3	13.7	16.1	2.4 ppt	-3.2 ppt	18.9	15.0	-3.9 ppt	
Int expense	(0.0)	(0.1)	(0.1)	(9.0)	121.9	(0.1)	(0.2)	99.1	
Int and other inc	0.3	0.3	0.3	(2.7)	(12.2)	0.9	0.8	(12.9)	
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	16.9	9.5	11.0	15.0	(35.1)	49.6	30.7	(38.1)	
Tax	(4.1)	(2.3)	(3.1)	35.5	(25.5)	(12.3)	(8.0)	(34.9)	
<i>Tax rate (%)</i>	24.4	23.8	28.0	4.2ppt	3.6ppt	24.8	26.1	1.3ppt	
MI	(0.0)	0.0	(0.3)	n.m	n.m	0.1	(0.1)	n.m	
Net profit	12.8	7.3	7.6	3.8	(40.6)	37.4	22.7	(39.4)	
EPS (sen)	4.4	2.5	2.6	3.8	(40.6)	12.9	7.8	(39.4)	
Core net profit	12.8	7.3	7.6	3.8	(40.6)	37.4	22.7	(39.4)	Below our and consensus expectations

Source: Affin Hwang, Company data

Fig 2: Segmental Breakdown

	3QFY19	2QFY20	3QFY20	QoQ % chg	YoY % chg	9MFY19	9MFY20	YoY % chg
Segmental Revenue								
MLM	56.3	42.6	36.8	(13.5)	(34.6)	177.5	121.4	(31.6)
Wholesale	16.2	15.1	16.7	10.4	3.0	46.9	46.7	(0.5)
Retail	12.5	9.6	12.5	29.0	(0.8)	31.0	30.2	(2.5)
Others	1.1	1.0	1.0	0.1	(7.1)	3.0	3.1	3.1
Total revenue	86.2	68.4	67.0	(2.0)	(22.2)	258.4	201.5	(22.0)
Segmental Profit*								
MLM	11.9	7.4	7.2	(2.9)	(39.2)	36.3	21.8	(40.0)
Wholesale	3.1	1.4	2.5	74.4	(18.6)	8.9	5.3	(40.4)
Retail	0.5	0.2	0.9	273.4	97.6	0.4	0.9	108.1
Others	1.4	0.8	0.2	(70.7)	(82.8)	3.2	2.5	(21.3)
	16.7	9.4	10.8	15.3	(35.1)	48.8	30.5	(37.5)

Source: Affin Hwang, Company data

*Total segmental profit differs from group EBIT due to elimination

Important Disclosures and Disclaimer**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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