

"Results above expectations"

Share price performance



	1M	3M	12M
Absolute (%)	0.0	-3.2	-20.4
Rel KLCI (%)	1.4	-3.8	-16.1

	BUY	HOLD	SELL
Consensus	-	1	2

Source: Bloomberg

Stock Data

Sector	Consumer
Issued shares (m)	289.9
Mkt cap (RMm)/(US\$m)	521.9/125.5
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.12-2.4
Est free float	56.5%
Stock Beta	0.96
Net cash/(debt) (RMm)	61.5
ROE (CY20E)	10.7%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Kai Hee Tan	10.6%
Akintan Sdn Bhd	8.1%
Excellent Communication	5.4%

Source: Affin Hwang, Bloomberg

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Hai-O (HAIO MK)

HOLD (upgrade)

Up/Downside: +7.5%

Price Target: RM1.93

Previous Target (Rating): RM1.65 (SELL)

Bright start to the year

- Hai-O reported a solid set of results, with 1QFY21 core net profit at RM9.9m (+27.6% yoy) tracking ahead of our and street expectations.
- The earnings surprise was predominantly driven by a successful MLM sales campaign, on top of continual cost optimisation initiatives across the board.
- We lift our earnings estimates by 3-34% for FY21-23E and upgrade Hai-O to a HOLD with a higher TP of RM1.93.

Core net profit at RM9.9m; above expectations

Hai-O's 1QFY21 revenue rose 7.8% yoy to RM71.2m, underpinned by higher MLM sales of RM49.3m (+17%). This partly comes on the success of its "Duit Raya" sales campaign and strong sales from its newly launched lady-wear items during the period. On the flipside, the wholesale (-11%) and retail (-3%) divisions slightly negated the strong MLM performance, as both were affected by operational constraints during the CMCO/RMCO. Meanwhile, EBITDA margin expanded 3ppt yoy to 20.7%, benefitting from: i) effective cost optimisation; ii) favourable sales mix for MLM and wholesale; and iii) rental rebates for its retail outlets. Consequently, core net profit grew 27.6% to RM9.9m, tracking ahead of our (40%) and the street's (37%) full-year expectations. Variance against our estimates was due to higher-than-expected MLM sales and margins.

Intensifying marketing events to support sales

Sequentially, revenue and core net profit grew +32.7% and 3.3% respectively – rebounding from preceding quarter's low base due to MCO. Moving forward, focus for the group will be on enhancing digital marketing strategies across all segments, to capture opportunities amid the new normal. In the coming quarters, more marketing events are on the cards for MLM, such as: i) local incentive trips to reward members; ii) monthly flash sales; and iii) free member fees campaign. The wholesale division will collaborate with key clients to offer sales promotions while the retail division will launch its half-yearly sales campaign and step up sales promotions through various e-commerce platforms.

Upgrade to HOLD

In light of the better-than-expected results, we lift our earnings estimates by 3-34% for FY21-23E, largely to account for higher MLM sales and overall lower opex. After rolling forward our valuation base year to FY22E, we derive a higher 12-month TP of RM1.93, pegged to a lower FY22E 16x PER target (1SD below its 3-year mean, from 20x) to better reflect the prolonged challenges in the business environment amid the pandemic. Upgrade to HOLD in view of a potential upside of 7.5% to our new TP.

Earnings & Valuation Summary

FYE 30 Apr	2019	2020	2021E	2022E	2023E
Revenue (RMm)	328.4	255.2	251.0	269.5	291.1
EBITDA (RMm)	66.9	40.9	44.4	49.0	55.9
Pretax profit (RMm)	63.4	41.5	41.2	45.7	56.7
Net profit (RMm)	47.7	32.6	32.1	35.6	44.1
EPS (sen)	16.4	11.2	11.0	12.2	15.2
PER (x)	10.9	16.1	16.3	14.7	11.9
Core net profit (RMm)	47.7	32.6	32.1	35.6	44.1
Core EPS (sen)	16.4	11.2	11.0	12.2	15.2
Core EPS growth (%)	(33.9)	(31.8)	(1.5)	10.9	24.0
Core PER (x)	10.9	16.1	16.3	14.7	11.9
Net DPS (sen)	13.0	10.0	8.8	9.8	12.1
Dividend Yield (%)	7.2	5.6	4.9	5.4	6.7
EV/EBITDA	6.4	10.4	9.4	8.4	7.2

Chg in EPS (%)	+34.2	+5.9	+2.6
Affin/Consensus (x)	1.2	1.1	1.0

Source: Company, Affin Hwang estimates

Key Risks

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

Fig 1: Results Comparison

FYE Apr (RMm)	1QFY20	4QFY20	1QFY21	QoQ % chg	YoY % chg	Comments
Revenue	66.1	53.7	71.2	32.7	7.8	Yoy increase in MLM (+17% yoy) offset by wholesale (-11% yoy) and retail (-3% yoy). Qoq rebound in all segments.
Op costs	(54.5)	(41.0)	(56.5)	37.9	3.6	
EBITDA	11.5	12.7	14.8	16.1	27.8	Higher yoy resulting from effective cost optimisation and favourable sales mix from MLM and wholesale divisions.
EBITDA margin (%)	17.5	23.7	20.7	-3ppt	3.2ppt	
Depn and amort	(1.6)	(1.9)	(1.6)	(15.6)	2.6	
EBIT	10.0	10.8	13.2	21.6	31.8	
EBIT margin (%)	15.1	20.2	18.5	-1.7ppt	3.4ppt	
Int expense	(0.1)	(0.1)	(0.1)	(52.1)	1.5	
Int and other inc	0.3	0.2	0.2	(9.8)	(27.5)	
Associates	0.0	(0.0)	(0.0)	n.m	n.m	
Exceptional items	0.0	0.0	0.4	n.m	n.m	
Pretax	10.2	10.9	13.7	25.5	33.9	
Tax	(2.7)	(1.6)	(3.4)	114.0	28.4	
Tax rate (%)	26.2	14.7	25.1	10.4ppt	-1.1ppt	
MI	0.2	0.3	0.0	(88.2)	(84.1)	
Net profit	7.7	9.6	10.3	7.3	32.5	
EPS (sen)	2.7	3.3	3.5	7.3	32.5	
Core net profit	7.7	9.6	9.9	3.3	27.6	Above our and consensus expectations

Source: Affin Hwang, Company

Fig 2: Segmental Breakdown

	1QFY20	4QFY20	1QFY21	QoQ % chg	YoY % chg
Segmental Revenue					
MLM	42.1	35.3	49.3	39.9	17.3
Wholesale	14.8	10.8	13.2	22.3	(11.1)
Retail	8.1	6.5	7.9	21.4	(3.2)
Others	1.1	1.2	0.9	(25.2)	(17.9)
Total revenue	66.1	53.7	71.2	32.7	7.8
Segmental Profit*					
MLM	7.1	10.3	10.0	(2.3)	40.7
Wholesale	1.3	(0.1)	2.9	n.m	117.0
Retail	(0.3)	(0.8)	0.1	n.m	n.m
Others	1.5	0.7	1.1	46.8	(27.9)
	10.0	10.8	13.5	25.2	35.6

Source: Affin Hwang, Company

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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