

Company Update

13 October 2020

Hai-O Enterprise Berhad

Light at the end of the tunnel

HOLD

Upgraded

| | |
|---------------------|---------------|
| Share Price | RM2.20 |
| Target Price | RM2.30 |

Company Description

Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.

Stock Data

| | |
|--------------------------------------|----------------------------------|
| Bursa / Bloomberg code | 7668 / HAIO MK |
| Board / Sector | Industrial/Food & Drug Retailers |
| Syariah Compliant status | No |
| Issued shares (m) | 289.89 |
| Par Value (RM) | 0.50 |
| Market cap. (RMm) | 637.76 |
| 52-week price Range | RM1.12 – 2.40 |
| Beta (against KLCI) | 0.99 |
| 3-m Average Daily Volume | 0.22m |
| 3-m Average Daily Value ^A | RM0.42m |

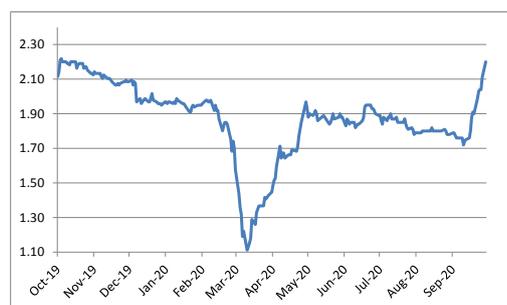
Share Performance

| | 1m | 3m | 12m |
|------------------|------|------|------|
| Absolute (%) | 23.6 | 17.0 | -2.7 |
| Relative (%-pts) | 22.5 | 21.4 | -0.2 |

Major Shareholders

| | % |
|--------------------------|-------|
| Kai Hee Tan | 10.55 |
| Akintan Sdn Bhd | 8.10 |
| Excellent Communications | 5.36 |

Historical Chart



Source: Bloomberg

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What's new

- **Getting better.** We gathered latest corporate updates from Hai-O Enterprise Berhad (Hai-O) and prompted us feeling positive about the Group's future outlook. Management guided that online marketing platform has helped them to address the negative impact of COVID-19 pandemic, particularly for its Multi-Level Marketing (MLM) segment. MLM segment benefited most from e-commerce platform as recent 1QFY21 revenue soared 37% yoy in view of higher volume of online businesses which spiked up more than 30%. However, Wholesale and Retail segments were lagged behind and still relied on physical sales to support the segments. Going forward, the Group remains committed to expand its conventional sales channel together with e-commerce platform to boost its overall business growth trajectory.

Comment

- **Delivering strong 1QFY21 result amid pandemic.** To recap, the Group posted stellar results for its 1QFY21 as revenue and net profit grew 32.6% qoq and 7.8% yoy as well as 7.3% qoq and 33% yoy respectively. The encouraging results were underpinned by higher MLM sales (+39.7% qoq and +17.1% yoy) arising from "Duit Raya" sales campaign and massive sales from its newly launched lady-wear items. On top of that, the Group's PBT margin also improved +3.8ppts from the same period in the prior year following favourable sales mix from MLM and Wholesale segments, effective cost optimization as well as higher rental rebates. Looking forward, we reckon that 2QFY21 to perform better banking on better sales from MLM segment amid easing impact from COVID-19 pandemic.
- **E-commerce bringing into play.** During MCO period, the MLM segment was mainly spurred by higher contribution from e-commerce platform. Hai-O acknowledges change in consumer consumption pattern to adapt to the 'new normal'. Therefore, the Group enhanced its online platform to keep its business progressing. According to Hai-O, the e-commerce platform is not solely focusing on sales transaction but also being used as a platform for business operations and management. We believe Hai-O's existing members are making 'impact' by introducing and sharing their products knowledge online and promoting through social media (i.e. Facebook, Instagram, e.tc.), and even transacting through their online channel platforms. Additionally, the Group also offers "free membership" and the "Stay at home, Earn from home" campaign further attract more new members. Following better contribution

from e-commerce platform, the management said that the business structure for MLM segment remains unchanged and incentives and commission for distributors/members will not be affected regardless through physical sales or online sales. Currently, number of Hai-O's members are about 114k. Ultimately, the Group aims to reach 40% online transaction for its MLM segment in the immediate term.

- **Banking on small-ticket items for recurring sales.** Hai-O is confident to take dynamic approaches amid weakening consumer sentiment that affects overall purchasing power. The Group intends to maintain smaller unit or quantity of their selected stock keeping units (SKU), adopting its "value for money" strategy which includes affordable product with good quality as well as focusing on food and beverages, personal and household products which suit current market needs. Besides, the Group also aims to boost its health supplements and wellness products which offer at reasonable prices in view of high awareness on healthy lifestyle amid prevailing pandemic. Therefore, we expect small-ticket products would help to boost its recurring income as some consumers may experience salary pay cut or retrenchment as affected by the COVID-19 pandemic.
- **Seizing opportunity for Retail segment's products.** Retail segment which mainly focuses on Traditional Chinese Medical (TCM) is not significant to online sales platform and is heavily relied on brick-and-mortar sales. On recent financial quarter, this segmental revenue was down 2.5% yoy in view of negative impact from sales campaign arising from physical distancing measure. As such, the Group has taken proactive measures to market these segmental products and take opportunities to broaden its range of customers by tapping into e-marketplaces such as Lazada and Shopee. We are inspired by the bold measures initiated by Hai-O as both platforms are actively used by consumers nowadays.
- **A strategic move to dispose Indonesian stake.** Sahajidah Hai-O Marketing Sdn. Bhd., a wholly owned subsidiary of the Group, has disposed 15% stake equity interest in PT Hai-O Indonesia (PTI). After the exercise, the Indonesian business partners own an aggregate of 60% of equity interest in PTI. According to the Group, this strategy will enable them to have greater flexibility in expanding and developing in Indonesian market as its local counterparts having better knowledge as well as networking in local market. Overall, we deem overseas contribution will still be minimal at this moment given that the market share is relatively small due to less established network and prolific team leaders.

Earnings Outlook/Revision

- **We lift our earnings forecasts for FY20F and FY21F by 98% and 46.3%% to RM41.4m and RM43.6m respectively,** accounting for higher sales assumptions especially for MLM segment.

- Risks include: 1) Higher-than-expected operating expenses (i.e. higher marketing and branding expenses), 2) Lower-than-expected domestic spending due to higher cost of living, and 3) Depreciation of MYR against USD.

Valuation & Recommendation

- **Upgrade to HOLD from SELL with a higher target price of RM2.30** (previous target price of RM1.30) following our earnings upgrade. We believe worst is over for Hai-O and share price is well supported by its decent dividend yield of over 4% for FY21-22F. Our revised target price is now based on P/E multiple of 15.9x FY22F revised EPS of 14.5sen, pegged at 3-year historical mean P/E of 15.9x

Figure 1: Financial Summary

| Year ended 30 April | FY17 | FY18 | FY19 | FY20 | FY21F | FY22F |
|---------------------|-------|-------|--------|--------|-------|-------|
| | RMm | RMm | RMm | RMm | RMm | RMm |
| Revenue | 404.0 | 461.8 | 328.4 | 255.2 | 269.8 | 276.9 |
| Gross profit | 132.9 | 162.2 | 126.2 | 99.4 | 109.8 | 114.9 |
| Operating profit | 77.3 | 97.6 | 62.2 | 41.0 | 50.6 | 54.9 |
| PBT | 78.1 | 99.0 | 63.4 | 41.6 | 51.2 | 55.4 |
| PAT | 59.2 | 75.1 | 47.5 | 32.3 | 41.2 | 43.4 |
| Net profit | 59.3 | 75.4 | 47.7 | 32.6 | 41.4 | 43.6 |
| Margin (%) | | | | | | |
| Gross profit margin | 32.9% | 35.1% | 38.4% | 38.9% | 40.7% | 41.5% |
| Operating profit | 19.1% | 21.1% | 18.9% | 16.1% | 18.7% | 19.8% |
| PBT margin | 19.3% | 21.4% | 19.3% | 16.3% | 19.0% | 20.0% |
| PAT margin | 14.7% | 16.3% | 14.4% | 12.7% | 15.3% | 15.7% |
| Net profit margin | 14.7% | 16.3% | 14.5% | 12.8% | 15.3% | 15.7% |
| Growth (%) | | | | | | |
| Revenue growth | 35.7% | 14.3% | -28.9% | -22.3% | 5.7% | 2.6% |
| Gross Profit growth | 31.0% | 22.1% | -22.2% | -21.2% | 10.4% | 4.7% |
| PBT growth | 59.2% | 26.8% | -36.0% | -34.3% | 23.0% | 8.3% |
| PAT growth | 61.9% | 26.9% | -36.8% | -31.9% | 27.5% | 5.4% |
| Net profit growth | 63.1% | 27.2% | -36.7% | -31.7% | 26.9% | 5.4% |
| | Net | Net | Net | Net | Net | Net |
| Net gearing | cash | cash | cash | cash | cash | cash |
| ROA | 16.3% | 19.0% | 13.1% | 8.9% | 8.0% | 10.0% |
| ROE | 20.0% | 23.6% | 14.9% | 10.4% | 10.0% | 12.0% |
| EPS (sen) | 19.7 | 25.1 | 15.9 | 10.7 | 13.8 | 14.5 |
| P/E | 0.11 | 0.09 | 0.14 | 0.21 | 0.16 | 0.15 |
| DPS (sen) | 0.16 | 0.20 | 0.13 | 0.10 | 0.09 | 0.10 |
| Dividend Payout | 0.8% | 0.8% | 0.8% | 0.9% | 0.7% | 0.7% |
| Dividend yield (%) | 7.3% | 9.1% | 5.9% | 4.5% | 4.1% | 4.5% |

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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Published & Printed By:
JF Apex Securities Berhad (47680-X)
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