

Company Result

29 March 2021

Hai-O Enterprise Berhad

Revitalizing MLM products to boost earnings

HOLD
Maintained

Share Price	RM2.14
Target Price	RM2.30

Result

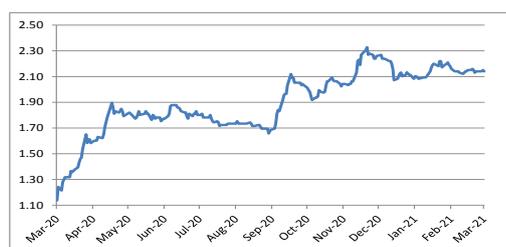
Company Description	
Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.	

Stock Data	
Bursa / Bloomberg code	7668 / HAIO MK
Board / Sector	Industrial/Food & Drug Retailers
Syariah Compliant status	No
FTSE4Good Index	No
ESG Rating	☆☆
Issued shares (m)	289.29
Par Value (RM)	0.50
Market cap. (RMm)	619.09
52-week price Range	RM1.18 – 2.44
Beta (against KLCI)	1.00
3-m Average Daily Volume	0.12m
3-m Average Daily Value ^A	RM0.26m

Share Performance			
	1m	3m	12m
Absolute (%)	-0.9	-6.1	78.3
Relative (%-pts)	-2.4	5.0	49.6

Major Shareholders		%
Kai Hee Tan		10.65
Akintan Sdn Bhd		8.12
Excellent Communications		5.37

Historical Chart



Source: Bloomberg

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- **Hai-O posted a net profit of RM10.3m during 3QFY21, which increased 1.0% qoq and 35.5% yoy on the back of slightly higher revenue, +1.7% qoq and +0.3% yoy.**
- **As for 9MFY21, the Group registered a net profit of RM31m which jumped 36.6% yoy.** Meanwhile, revenue stood at RM204.5m which grew 1.5% yoy. The better performance was underpinned by greater sales from MLM segment on the back of improved margins from MLM and Wholesale segments.
- **Within expectations.** 9MFY21's net profit of RM31m was within our in-house (74.9% of full year earnings estimates) and market (76.5%) expectation.

Comment

- **MCO 2.0 dragged down MLM segment's sales on qoq basis amid strong sales from Wholesale and Retail segments.** Hai-O's revenue and PBT inched up 1.7% qoq and 1.5% qoq respectively during 3QFY21. Better revenue was buoyed by the Wholesale (+28.9% qoq) and Retail (+15.9%) segments, thanks to its CNY sales promotional campaign. Nevertheless, revenue for MLM segment tumbled 10.6% qoq, dented by re-implementation of MCO 2.0 coupled with long year-end holiday. However, PBT margin for MLM and Retail segments were higher, +3.5ppts and +5.3ppts respectively during 3QFY21 given better cost optimization strategies which offset disappointing PBT margin from Wholesale segment (-15.8ppts).
- **Sturdy sales from MLM segment boosted YoY performance amid better cost optimisation measure from Wholesale segment.** Revenue improved 0.3% yoy underpinned by higher sales from MLM segment (+7.6%) yoy despite slumbering Wholesale and Retail segments which were down 1.8% yoy and 23.4% yoy respectively. The encouraging sales from MLM segment was spurred by higher contribution from online sales as well as massive sales on its small ticket items. Additionally, number of new members' recruitment was also higher during this period. Besides, the Group's PBT rose 24.5% yoy, buoyed by better margins and effective cost measures from Wholesale segment (+1.5ppts) as well as MLM segment (+3.7ppts).
- **Encouraging 9MFY21.** Cumulatively, Hai-O's 9MFY21 revenue and PBT increased 1.5% yoy and 33% yoy, thanks to better results from MLM segment. MLM segment revenue

and PBT escalated 9.6% yoy and 25.2% yoy respectively, leveraged on online sales platform, hefty demand on its newly launched lady wear series as well as encouraging number of new members. Nevertheless, Wholesale segment's revenue was dampened by lower sales from duty-free market in view of lower tourist traffic following restricted movement in relation to curbing Covid-19 pandemic. Meanwhile, Retail segment's performance was subdued due to lower contribution from CNY sales campaign on the back of lesser consumer demand during re-imposition of MCO 2.0.

- **Pinning hopes on better outlook but cautious remains.** Looking forward, Hai-O is optimistic on their business performance given starting of our nation immunisation programme which could lead to better business growth in the future. Nevertheless, the Group is still cautious on current Covid-19 impact and risk remains before the community reaching full immunity. Also, Hai-O is committed to emphasis on several proactive measures such as enlightening consumer awareness, buying pattern as well as logistic requirement. According to the Group, MLM segment is currently undertaking rebranding exercise through repacking and reformulating of few major products and put in massive effort to recruit new members and retain its active members. Also, Wholesale and Retail segments' business operations will be further strengthened through e-commerce platform such as digital marketing to ensure its sturdy business growth.

Earnings Outlook/Revision

- **No change for our FY21F and FY22F earnings forecast.**

Valuation & Recommendation

- **Maintain HOLD with an unchanged target price of RM2.30.** Our target price is based on P/E multiple of 15.9x FY22F EPS of 14.5sen, slightly higher than 3-year historical mean P/E of 14.8x. We deem the stock is fairly valued and share price is well supported by its decent dividend yield of over 4% for FY22F.
- **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, 3) COVID-19 pandemic weighed down overall business Group's performance.

Figure 1: Quarterly Figures

Year ended 30 April	3QFY21	2QFY21	3QFY20	QoQ	YoY	9MFY21	9MFY20	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	67.2	66.1	67.0	1.7%	0.3%	204.5	201.5	1.5%
Gross profit	26.1	66.1	27.2	-60.5%	-4.0%	78.3	76.4	2.4%
Operating profit	13.6	26.1	10.8	-47.9%	25.9%	40.6	30.2	34.6%
PBT	13.7	13.5	11.0	1.5%	24.5%	40.9	30.7	33.0%
PAT	10.4	13.5	7.9	-23.0%	31.6%	30.8	22.7	35.5%
Net profit	10.3	10.2	7.6	1.0%	35.5%	31.0	22.7	36.6%
Margin (%)				ppts	ppts			ppts
Gross profit margin	38.8%	100.0%	40.6%	-61.2	-1.8	38.3%	37.9%	0.3
EBIT margin	20.2%	39.5%	16.1%	-19.2	4.1	19.9%	15.0%	4.9
PBT margin	20.4%	20.4%	16.4%	0.0	4.0	20.0%	15.3%	4.7
PAT margin	15.5%	20.4%	11.8%	-4.9	3.7	15.1%	11.3%	3.8
Net profit margin	15.3%	15.4%	11.3%	-0.1	4.0	15.2%	11.3%	3.9

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	3QFY21	2QFY21	3QFY20	QoQ	YoY	9MFY21	9MFY20	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue								
MLM division	39.5	44.2	36.7	-10.6%	7.6%	133.0	121.4	9.6%
Wholesale division	16.5	12.8	16.8	28.9%	-1.8%	42.5	45.7	-7.0%
Retail division	9.5	8.2	12.4	15.9%	-23.4%	25.6	30.2	-15.2%
PBT								
MLM division	8.9	8.4	6.9	6.0%	29.0%	27.3	21.8	25.2%
Wholesale division	2.8	4.2	2.6	-33.3%	7.7%	9.9	5.3	86.8%
Retail division	0.5	-	1.0	N/A	-50.0%	0.6	0.9	-33.3%
PBT margin (%)								
				ppts	ppts			
MLM division	22.5%	19.0%	18.8%	3.5	3.7	20.5%	18.0%	2.6
Wholesale division	17.0%	32.8%	15.5%	-15.8	1.5	23.3%	11.6%	11.7
Retail division	5.3%	0.0%	8.1%	5.3	-2.8	2.3%	3.0%	-0.6

Source: Company, JF Apex

Figure 3: 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 gearing	Net 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	0.13	0.20	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 (%)	7.5%	9.3%	6.1%	4.7%	4.2%	4.7%

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.

*capital gain + dividend yield

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.

ESG RECOMMENDATIONS

- ☆☆☆☆ : Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆☆ : Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆☆ : Top 51-75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell
- ☆ : Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSA Russell

Source: Bursa Malaysia and FTSE Russell

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