

*“Maintain HOLD as we continue to remain cautious on the turnaround of its MLM division”*

### Share price performance



	1M	3M	12M
Absolute (%)	2.9	0.5	17.4
Rel KLCI (%)	4.1	2.9	12.1

	BUY	HOLD	SELL
Consensus	-	2	-

Source: Bloomberg

### Stock Data

Sector	Consumer
Issued shares (m)	300.1
Mkt cap (RMm)/(US\$m)	624.3/150.2
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.65 – 2.35
Est free float	56.3%
Stock Beta	1.06
Net cash / (debt) (RMm)	113.2
ROE (FY22E)	13%
Derivatives	Nil
Shariah Compliant	No

### Key Shareholders

Kai Hee Tan	10.7%
Akintan Sdn Bhd	8.1%
Excellent Communication	5.4%

Source: Affin, Bloomberg

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## Hai-O (HAIO MK)

### HOLD (maintain)

Up/Downside: +5.3%

### Price Target: RM2.19

Previous Target (Rating): RM2.22 (HOLD)

### Within expectations

- FY21 core net profit of RM39m (+19.7% yoy) was within our and consensus estimates
- Sequentially weaker contribution from its MLM and wholesale divisions due to the Ramadan fasting month and higher CNY festive base, respectively
- We raise our FY22-23 earnings estimates by 3.4-3.6%. Maintain a HOLD call but with a lower TP of RM2.19 based on a lower CY22E PER of 14.9x

### FY21 core net profit at RM39m (+19.7% yoy)

Hai-O's FY21 revenue and core net profit rose 6.4% yoy and 19.7% yoy respectively, attributable to higher contributions from its MLM division (+10.1% yoy as a result of attractive promotion campaigns and increased adaption to digital marketing) and wholesale division (+6.3% yoy due to higher sales of Chinese medicated tonic, premium cooking wine and patent medicine). Nevertheless, the higher revenue was partially offset by a decline in retail division revenue of 2.5% due to the ongoing impact from Covid-19 movement restrictions in Malaysia. Results were within our and consensus estimates. The group has thus far announced a total interim dividend of 9 sen (vs total dividend of 10 sen in FY20).

### Sequentially weaker MLM and wholesale contributions

Sequentially, revenue declined slightly by 0.7% qoq due to slightly lower MLM revenue (-0.1% qoq) due to the Ramadan fasting month and lower wholesale contribution of 2.6% qoq on the back of a higher seasonal base in 3QFY21. Meanwhile, the retail division posted a firmer growth of 2.7% qoq, attributable to a relaxation in Covid-19 restrictions since Feb-20 as well as its year-end members' sales which lifted sales from house brand products by 21.5% qoq. Excluding one-off expenses, including impairment loss on amount due from an overseas associate company amounting to RM1.5m, sequential core net profit declined 9.4%.

### Maintain HOLD

We raise our FY2022-2023 earnings estimates by 3.6-4.3% after adjusting our EBITDA margin higher to 19.9-20% for FY22-23 (from 18.7-19.8% previously) to take into account of potentially continued cost optimisation efforts. Nevertheless, we remain cautious on the turnaround of its MLM division moving forward. We reiterate our HOLD call on Hai-O with a lower target price of RM2.19 based on a lower PER of 14.9x (-1SD from its 5-year mean) on its CY22E EPS. Risks: i) recovery/fall in MLM distributor base; ii) better-/worse-than-expected take-up rate for its new products; (iii) disruptions in the supply chain and (iv) higher/lower cost savings.

### Earnings & Valuation Summary

FYE 30 Apr	2020	2021	2022E	2023E	2024E
Revenue (RMm)	255.2	271.4	294.9	313.2	328.1
EBITDA (RMm)	47.5	58.2	58.5	62.6	65.1
Pretax profit (RMm)	41.5	52.3	53.9	57.9	60.5
Net profit (RMm)	32.6	39.1	41.9	45.1	47.1
EPS (sen)	10.9	13.0	14.0	15.0	15.7
PER (x)	19.2	16.0	14.9	13.9	13.3
Core net profit (RMm)	32.6	39.0	41.9	45.1	47.1
Core EPS (sen)	10.9	13.0	14.0	15.0	15.7
Core EPS growth (%)	(31.8)	19.7	7.5	7.5	4.5
Core PER (x)	19.2	16.0	14.9	13.9	13.3
Net DPS (sen)	10.0	10.0	11.2	12.0	12.5
Dividend Yield (%)	4.8	4.8	5.4	5.8	6.0
EV/EBITDA	11.1	8.8	8.6	7.9	7.5

Chg in EPS (%)		+4.3	+3.6	new
Affin/Consensus (x)		1.0	1.0	-

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Apr (RMm)	4Q	3Q	4Q	QoQ	YoY	FY20	FY21	YoY	Comments
	FY20	FY21	FY21	% chg	% chg			% chg	
Revenue	53.7	67.2	66.8	(0.7)	24.3	255.2	271.4	6.4	FY21: revenue growth on higher contribution from MLM division (+10.1% yoy) and wholesale division (+6.3% yoy) but was off-set by retail (-31.1% yoy) and others (-31.1% yoy)
Op costs	(41.0)	(52.3)	(53.0)	1.4	29.1	(207.6)	(213.2)	2.7	
EBITDA	12.7	15.0	13.8	(7.8)	8.8	47.5	58.2	22.3	
EBITDA margin (%)	23.6	22.3	20.7	-1.6 ppt	-2.9 ppt	18.6	21.4	2.8ppt	
Depn and amort	(1.9)	(1.6)	(1.5)	(1.5)	(19.0)	(6.6)	(6.3)	(4.4)	
EBIT	10.8	13.4	12.2	(8.5)	13.8	41.0	51.8	26.6	
EBIT margin (%)	20.0	19.9	18.3	-1.6 ppt	-1.7 ppt	16.0	19.1	3.1ppt	
Int expense	(0.1)	(0.1)	(0.1)	(23.0)	(60.4)	(0.4)	(0.3)	(24.9)	
Int and other inc	0.2	0.2	0.2	(14.6)	(25.5)	1.0	0.7	(29.5)	
Associates	(0.0)	(0.0)	(0.0)	30.0	(69.0)	(0.0)	(0.0)	31.0	
Exceptional items	0.0	0.2	(0.9)	n.m.	n.m.	0.0	0.1	n.m.	FY21: includes gain from disposal of vintage tea amounting to RM0.9m and impairment loss due from associate company amounting to RM1.5m
<b>Pretax</b>	<b>10.8</b>	<b>13.7</b>	<b>11.4</b>	(16.5)	6.0	<b>41.5</b>	<b>52.3</b>	26.0	
Tax	(1.2)	(3.3)	(3.1)	(5.7)	158.4	(9.2)	(13.1)	42.3	
Tax rate (%)	11.0	23.8	26.8	3.1ppt	15.8 ppt	22.2	25.0	2.8ppt	
MI	0.3	(0.2)	(0.1)	>100	n.m.	0.3	(0.1)	n.m.	
<b>Net profit</b>	<b>9.9</b>	<b>10.3</b>	<b>8.2</b>	(20.0)	(17.0)	<b>32.6</b>	<b>39.1</b>	20.1	
EPS (sen)	3.4	3.5	2.8	(19.9)	(16.9)	11.2	13.5	20.4	
<b>Core net profit</b>	<b>9.9</b>	<b>10.1</b>	<b>9.1</b>	(9.4)	(8.0)	<b>32.6</b>	<b>39.0</b>	19.7	Within our expectations

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FYE Apr (RMm)	4QFY20	3QFY21	4QFY21	QoQ	YoY	FY20	FY21	YoY
				Chg %	Chg %			Chg %
<b>Segmental Revenue</b>								
MLM	35.3	39.5	39.5	(0.1)	11.9	156.7	172.4	10.1
Wholesale	8.4	16.5	16.1	(2.6)	90.8	55.1	58.6	6.3
Retailing	6.5	9.6	10.2	6.0	56.3	36.7	35.8	(2.5)
Others	3.5	1.6	1.1	(34.4)	(69.6)	6.7	4.6	(31.1)
<b>Total Revenue</b>	<b>53.7</b>	<b>67.2</b>	<b>66.8</b>	<b>-0.7</b>	<b>24.3</b>	<b>255.2</b>	<b>271.4</b>	<b>6.4</b>
<b>Segmental Profit</b>								
MLM	10.3	8.9	6.4	(28.0)	(37.7)	32.0	33.6	5.0
Wholesale	(0.1)	3.8	2.7	(27.8)	n.m.	5.2	12.6	>100
Retailing	(0.8)	0.5	0.7	28.7	n.m.	0.1	1.3	>100
Others	0.7	0.7	1.0	45.1	32.7	3.3	3.4	5.1
<b>Total</b>	<b>9.8</b>	<b>13.6</b>	<b>11.3</b>	<b>-16.6</b>	<b>15.5</b>	<b>40.65</b>	<b>50.97</b>	<b>25.4</b>

Source: Affin Hwang, Company

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	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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