

**Company Result**

28 June 2021

**Hai-O Enterprise Berhad**

Moderating outlook ahead

**HOLD**  
**Maintained**

<b>Share Price</b>	<b>RM2.08</b>
<b>Target Price</b>	<b>RM2.13</b>

**Result**

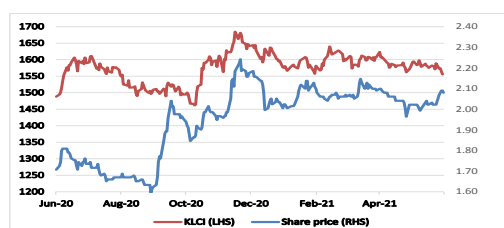
<b>Company Description</b>	
Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.	

<b>Stock Data</b>	
Bursa / Bloomberg code	7668 / HAIO MK
Board / Sector	Industrial/Food & Drug Retailers
Syariah Compliant status	No
FTSE4Good Index	No
ESG Rating	☆☆
Issued shares (m)	300.11
Par Value (RM)	0.50
Market cap. (RMm)	624.23
52-week price Range	RM1.65 – 2.33
Beta (against KLCI)	1.06
3-m Average Daily Volume	0.10m
3-m Average Daily Value <sup>A</sup>	RM0.20m

<b>Share Performance</b>			
	1m	3m	12m
Absolute (%)	2.9	0.9	17.4
Relative (%-pts)	5.1	3.6	12.0

<b>Major Shareholders</b>		<b>%</b>
Kai Hee Tan		10.65
Akintan Sdn Bhd		8.13
Excellent Communications		5.38

**Historical Chart**



Source: Bloomberg

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- **Hai-O registered a net profit of RM8.2m during 4QFY21, which tumbled 20.4% qoq and 17.2% yoy. Meanwhile, revenue declined 0.6% qoq despite soaring 24.4% yoy.**
- **As for full year FY21, the Group posted a net profit of RM39.1m which improved 19.9% yoy on the back of higher revenue which grew 6.4% yoy.** The encouraging results were underpinned by better sales from Multi-Level-Marketing (MLM) and Wholesale segments due to low-base effect for last year pursuant to Covid-19 pandemic.
- **Within expectations.** FY21's full year net profit of RM39.1m was within our in-house (account for 94.4% of full year earnings estimates) and market (96.5%) expectations.
- **Second interim dividend declared.** Hai-O has declared a second single-tier interim dividend of 5sen/share during 4QFY21. As such, total dividend payment for FY21 is 9 sen/share which translates into 4.3% dividend yield. Also, on 4<sup>th</sup> June 2021, the Group declared share dividend of one (1) treasury share for every twenty-six (26) existing ordinary shares of RM1.00 each for FY22.

**Comment**

- **Sluggish sales from MLM and Wholesale segments weighed on QoQ performance despite stellar result from Retail segment.** Hai-O's revenue was slightly down by 0.6% qoq following disappointing sales from MLM segment (-0.3% qoq) and Wholesale segment (-2.4% qoq) due to higher base in 3QFY21. Nevertheless, sales for Retail segment picked up by +7.4% qoq resulting from Chinese New Year sales as well as year-end members' sales promotion campaign. Besides, PBT depleted 16.8% qoq given sluggish MLM and Wholesale PBT margin (down 29.2% qoq and 3.6% qoq respectively) due to impairment loss from an associate company amounting to RM1.5m as well as lower A&P subsidy from suppliers.
- **Launch of new products for MLM segment coupled with intense sales promotion from Wholesale and Retail segments spurred YoY growth.** The Group's revenue escalated 24.4% yoy on the back of higher PBT margin which soared 4.6% yoy. MLM segment revenue rose 11.6% yoy following higher sales attributable to its newly launched slimming lady wear line as well as sales campaign promotion which took place during this period. Besides, Wholesale and Retail segment also registered stellar results,

improving 49.1% yoy and 56.9% yoy respectively, thanks to higher sales of Chinese medicated tonic, premium cooking wine and patented medicine as the Group conducted “last-buy” sales promotion campaign prior to Chinese New Year festive. Additionally, Retail segment sales growth was buoyed by year end members’ sales promotion campaign amid lower base in the same quarter of the previous year whereby movement control order (MCO) 1.0 took place.

- Stellar FY21.** Cumulatively, Hai-O’s 12MFY21 revenue and PBT increased 6.4% yoy and 19.9% yoy, spurred by massive growth in MLM segment (revenue: +10% yoy; PBT: +5.0% yoy) and Wholesale segment (revenue: +3.7% yoy; PBT: +103.2% yoy). Massive growth from MLM segment was largely backed by digital platform (such as social media and e-commerce platforms) during Covid-19 pandemic situation. Also, Wholesale segment was boosted by encouraging sales from Chinese medicated tonic, premium cooking wine and patented medicine. Nevertheless, performance of Retail segment was challenging during FY21 as this segment was largely relied on its brick-and-mortar sales. In conjunction with that, revenue was down 2.5% yoy despite improved PBT margin which rose 3.6ppts.
- Moderating outlook amid current stubbornly high Covid-19 cases.** Looking forward, the Group remains cautious on its outlook, which is impacted by Covid-19 that might halt overall business growth. Hai-O is committed to emphasis on several proactive measures and continue to strengthen their position as a premier healthcare player. Additionally, Hai-O is pinning hopes on their business to register resilient growth banking on rollout of our nation immunisation programme which could lead to relaxation of MCO in the near future. Overall, we expect the Group’s business to go through stiff operating environment amid resurgence of Covid-19 cases. We expect growth momentum would be interrupted in 1HFY22 amid continuation of restricted movement (expected till 3QCY21) as well as slow vaccination rollout in our nation.

### Earnings Outlook/Revision

- We tweak down our FY22F full year earnings forecast by 7.6% to RM40.3m to account for lower-than-expected margin and sales.** Also, we introduce FY23F net earnings forecast of RM44.4m with 10.2% yoy growth.

### Valuation & Recommendation

- Maintain HOLD with a lower target price of RM2.13 (RM2.30 previously) following our earnings downgraded.** Our target price is now based on P/E multiple of 15.9x FY22F EPS of 13.4sen (14.5sen previously), slightly higher than average mean PE of 14.6x. 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) perpetual COVID-19 pandemic weighed down overall business performance.

**Figure 1: Quarterly Figures**

Year ended 30 April	4QFY21	3QFY21	4QFY20	QoQ	YoY	12MFY21	12MFY20	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue	66.8	67.2	53.7	-0.6%	24.4%	271.4	255.2	6.4%
Gross profit	26.8	26.1	23.0	2.7%	16.5%	105.2	99.4	5.8%
Operating profit	11.3	13.6	10.8	-16.9%	4.6%	52.0	41.0	27.0%
PBT	11.4	13.7	10.9	-16.8%	4.6%	52.3	41.5	26.0%
PAT	8.4	10.4	9.6	-19.2%	-12.5%	39.2	32.3	21.4%
Net profit	8.2	10.3	9.9	-20.4%	-17.2%	39.1	32.6	19.9%
Margin (%)				<i>ppts</i>	<i>ppts</i>			<i>ppts</i>
Gross profit margin	40.1%	38.8%	42.8%	1.3	-2.7	38.8%	39.0%	-0.2
EBIT margin	16.9%	20.2%	20.1%	-3.3	-3.2	19.2%	16.1%	3.1
PBT margin	17.1%	20.4%	20.3%	-3.3	-3.2	19.3%	16.3%	3.0
PAT margin	12.6%	15.5%	17.9%	-2.9	-5.3	14.4%	12.7%	1.8
Net profit margin	12.3%	15.3%	18.4%	-3.1	-6.2	14.4%	12.8%	1.6

Source: Company, JF Apex

**Figure 2: Revenue and PBT by division**

Year ended 30 April	4QFY21	3QFY21	4QFY20	QoQ	YoY	12MFY21	12MFY20	YoY
	RM'm	RM'm	RM'm	%	%	RM'm	RM'm	%
Revenue								
MLM division	39.4	39.5	35.3	-0.3%	11.6%	172.4	156.7	10.0%
Wholesale division	16.1	16.5	10.8	-2.4%	49.1%	58.6	56.5	3.7%
Retail division	10.2	9.5	6.5	7.4%	56.9%	35.8	36.7	-2.5%
PBT								
MLM division	6.3	8.9	10.2	-29.2%	-38.2%	33.6	32.0	5.0%
Wholesale division	2.7	2.8	0.9	-3.6%	200.0%	12.6	6.2	103.2%
Retail division	0.7	0.5	(0.9)	40.0%	N/A	1.3	-	N/A
PBT margin (%)				<i>ppts</i>	<i>ppts</i>			
MLM division	16.0%	22.5%	28.9%	-6.5	-12.9	19.5%	20.4%	-0.9
Wholesale division	16.8%	17.0%	8.3%	-0.2	8.4	21.5%	11.0%	10.5
Retail division	6.9%	5.3%	-13.8%	1.6	20.7	3.6%	0.0%	3.6

Source: Company, JF Apex

Figure 3: Financial Summary

Year ended 30 April	FY18	FY19	FY20	FY21	FY22F	FY23F
	RMm	RMm	RMm	RMm	RMm	RMm
Revenue	461.8	328.4	255.2	271.4	276.3	280.5
Gross profit	162.2	126.2	99.4	105.2	110.0	113.0
Operating profit	97.6	62.2	41.0	52.0	53.5	57.0
PBT	99.0	63.4	41.5	52.3	53.6	57.2
PAT	75.1	47.5	32.3	39.2	40.1	44.2
Net profit	75.4	47.7	32.6	39.2	40.3	44.4
<b>Margin (%)</b>						
Gross profit margin	35.1%	38.4%	38.9%	38.8%	39.8%	40.3%
Operating profit	21.1%	18.9%	16.1%	19.2%	19.4%	20.3%
PBT margin	21.4%	19.3%	16.3%	19.3%	19.4%	20.4%
PAT margin	16.3%	14.4%	12.7%	14.4%	14.5%	15.8%
Net profit margin	16.3%	14.5%	12.8%	14.4%	14.6%	15.8%
<b>Growth (%)</b>						
Revenue growth	14.3%	-28.9%	-22.3%	6.3%	1.8%	1.5%
Gross Profit growth	22.1%	-22.2%	-21.2%	5.8%	4.6%	2.7%
PBT growth	26.8%	-36.0%	-34.5%	26.0%	2.6%	6.7%
PAT growth	26.9%	-36.8%	-31.9%	21.4%	2.4%	10.2%
Net profit growth	27.2%	-36.7%	-31.7%	20.2%	2.9%	10.2%
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROA	19.0%	13.1%	9.0%	10.6%	10.0%	110.0%
ROE	23.6%	14.9%	10.5%	12.1%	12.0%	112.0%
EPS (sen)	25.1	15.9	10.9	13.1	13.4	14.7
P/E	0.08	0.13	0.19	0.16	0.15	0.14
DPS (sen)	0.20	0.13	0.10	0.09	0.09	0.10
Dividend Payout	0.8%	0.8%	0.9%	0.7%	0.7%	0.7%
Dividend yield (%)	9.6%	6.3%	4.8%	4.3%	4.3%	4.8%

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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