

"Below expectations"

Share price performance



	1M	3M	12M
Absolute (%)	-1.5	-5.2	18.0
Rel KLCI (%)	1.3	-5.3	15.3

	BUY	HOLD	SELL
Consensus	-	3	-

Stock Data

Sector	Consumer
Issued shares (m)	300.1
Mkt cap (RMm)/(US\$m)	600.2/143.5
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.68-2.35
Est free float	56.4%
Stock Beta	0.97
Net cash / (debt) (RMm)	104.3
ROE (FY22E)	10.9
Derivatives	Nil
Shariah Compliant	No
FTSE4Good Constituent	No
FBM EMAS (Top 200)	Top 25-50%
ESG Rank	
ESG Risk Rating	27.8

Key Shareholders

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

Source: Bloomberg, Affin Hwang, ESG Risk Rating
 Powered by Sustainalytics, Bursa Malaysia

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Hai-O (HAIO MK)

HOLD (maintain)

Up/Downside: 6.0%

Price Target: RM2.12

Previous Target (Rating): RM2.19 (Hold)

Below expectations

- 1QFY22 core net profit fell 29.5% yoy / 23.6% qoq on lower contributions across its three main divisions due to weaker consumer sentiment
- MLM division revenue fell to a low of RM30.1m (-39% yoy / -23.8% qoq) due to a slowdown in members' recruitment and renewal on reduced physical marketing due to MCO
- We cut our FY21-23E earnings estimates by 12.8-17.7%. Post earnings revisions, we arrive at a lower TP of RM2.12. Maintain HOLD

Hai-O's 1QFY22 core net profit at RM7.0m (-29.5% yoy)

Hai-O's 1QFY22 revenue and core net profit fell 31% and 29.5% yoy respectively attributable to lower sales in all of its three main divisions - MLM (-39% yoy due to a higher base in 1Q21 and a slowdown in members' recruitment and renewal as a result of the imposition of various phases of MCO), its wholesale division (-17.9% on a weaker consumer spending and as the delivery of non-essential goods was disallowed due to Covid-19 restrictions) and its retail division (-7.8% yoy due to a decline in footfall, but was partially supported by aggressive promotions on online platforms). Notably, EBITDA margin improved 1.3ppt qoq to 22% on favorable sales mix and price adjustment for selected product in its wholesale division during the quarter. Nevertheless, results were below our expectations due to lower-than-expected revenue.

Sequentially weaker contribution across all divisions on stricter Covid-19 SOPs

Sequentially, revenue and core net profit fell 26.4% and 23.6% qoq. MLM division revenue fell 23.8% qoq to a low of RM30.1m on reduced physical marketing activities due to Covid-19 SOPs. Meanwhile, wholesale division revenue declined 32.9% qoq on the back of a stronger 4QFY21 from sales campaign on its Chinese medicated tonic range of products and some restrictions on delivery of non-essential goods during the quarter. Its retail division revenue also declined 28.6% on lower foot traffic.

Maintain HOLD

In view of the weaker MCO3.0/FMCO impacted quarter, we cut our FY22-23 earnings forecasts by 12.8-17.7%. We reiterate our HOLD call on Hai-O with a lower target price RM2.12 but based on a revised 5-year mean PER of 16.9x (from 14.9x, -1SD from its 5-year mean previously) as investors possibly look towards an earnings recovery post pandemic. 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	246.9	276.2	282.7
EBITDA (RMm)	47.5	58.2	49.0	55.2	56.1
Pretax profit (RMm)	41.5	52.3	44.3	50.5	51.5
Net profit (RMm)	32.6	39.1	34.5	39.3	40.1
EPS (sen)	10.9	13.0	11.5	13.1	13.3
PER (x)	18.4	15.3	17.4	15.3	15.0
Core net profit (RMm)	32.6	39.01	34.5	39.3	40.1
Core EPS (sen)	10.9	13.0	11.5	13.1	13.3
Core EPS growth (%)	(31.8)	19.7	(11.5)	13.9	1.9
Core PER (x)	18.4	15.4	17.4	15.3	15.0
Net DPS (sen)	10.0	10.0	9.2	10.5	10.7
Dividend Yield (%)	5.0	5.0	4.6	5.2	5.3
EV/EBITDA	10.6	8.4	9.7	8.5	8.2
Chg in EPS (%)			-17.7	-12.8	-12.9
Affin/Consensus (x)			0.8	0.9	0.9

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Apr (RMm)	1Q FY21	4Q FY21	1Q FY22	QoQ % chg	YoY % chg	Comments
Revenue	71.2	66.8	49.1	(26.4)	(31.0)	Lower revenue contribution from its 3 main divisions
Op costs	(56.5)	(53.0)	(38.3)	(27.7)	(32.2)	
EBITDA	14.8	13.8	10.8	(21.6)	(26.7)	
EBITDA margin (%)	20.7	20.7	22.0	1.3ppt	1.3ppt	
Depn and amort	(1.6)	(1.5)	(1.5)	0.0	(3.1)	
EBIT	13.2	12.2	9.3	(24.4)	(29.6)	
EBIT margin (%)	18.5	18.3	18.9	0.5ppt	0.4ppt	
Int expense	(0.1)	(0.1)	(0.1)	3.5	(14.5)	
Int and other inc	0.2	0.2	0.2	6.3	(9.2)	
Associates	(0.0)	(0.0)	(0.0)	(23.1)	25.0	
Exceptional items	0.4	(0.9)	0.0	(103.6)	(91.6)	Includes reversal on loss of inventories
Pretax	13.7	11.4	9.4	(17.8)	(31.2)	
Tax	(3.4)	(3.1)	(2.3)	(23.5)	(31.4)	
Tax rate (%)	25.1	26.8	25.0	-1.9ppt	-0.1ppt	
MI	0.0	(0.1)	(0.0)	(66.4)	(235.3)	
Net profit	10.3	8.2	7.0	(14.9)	(31.8)	
EPS (sen)	3.5	2.8	2.4	(14.9)	(31.7)	
Core net profit	9.9	9.1	7.0	(23.6)	(29.5)	Below expectations

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FY Apr (RMm)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	QoQ % chg	YoY % chg
Segmental Revenue							
MLM	49.3	44.2	39.5	39.5	30.1	(23.8)	(39.0)
Wholesale	13.2	12.7	16.5	16.1	10.8	(32.9)	(17.9)
Retailing	7.9	8.2	9.6	10.2	7.3	(28.6)	(7.8)
Others	0.9	1.0	1.6	1.1	1.0	(6.7)	14.5
Total Revenue	71.2	66.1	67.2	66.8	49.1	(26.4)	(31.0)
Segmental Profit							
MLM	10.0	8.3	8.9	6.4	6.2	(3.3)	(38.2)
Wholesale	2.9	3.2	3.8	2.7	1.4	(48.7)	(52.0)
Retailing	0.1	(0.0)	0.5	0.7	0.4	(43.4)	237.4
Others	1.1	0.7	0.7	1.0	1.1	15.4	4.4
Total	13.5	13.5	13.6	11.3	9.3	(18.1)	(31.4)

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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