

27 September 2019

# Hai-O Enterprise Bhd

## 1Q20 Within Expectations

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1Q20 net profit of RM7.7m (-30% YoY, -23%QoQ) came in at 16%/17% of our/consensus full-year estimate. We deemed the results to be within our expectation as the first quarter is seasonally the weakest quarter due to slowdown in business activities during the Ramadan fasting month and the Hari Raya festive season. Additionally, last year was a higher base from tax-holiday sales. No changes to our FY20-21E CNP and our TP of RM1.95 based on 12x FY20E EPS. Maintain UP.

**1Q20 within expectations.** 1Q20 CNP of RM7.7m (-30% YoY, -23%QoQ) came in at 16%/17% of our/consensus full-year estimate. We deemed the results to be within our expectation as the first quarter is seasonally the weakest quarter due to slowdown in business activities during the Ramadan fasting month and the Hari Raya festive season. Additionally, last year was a higher base from tax-holiday sales. No dividend was declared for the quarter, as expected.

**YoY,** 1Q20 net profit plunged 30% dragged by: (i) lower revenue (-18%), from tax-holiday driven higher base last year, with weaker MLM division (-28%), but cushioned by better contribution from Wholesale (+9%) as well as Retail division (+7%), and (ii) contraction in EBIT margin by 2.6ppt to 15.1% from 17.7% in 1Q19 from unfavourable merchandise mix skewed towards small ticket items as well as heavy discounting activities to attract distributors. MLM division's dismal performance continued to persist in view of weak market sentiment with distributors continuing to cut back spending and slowed down marketing activities, as well as uninspiring response from overseas incentive campaign which ended in May 2019. On the other hand, its Retail division received good response from its Loyalty Friendship members with the extensive sales promotion, while Wholesale division received a boost from higher sales of Chinese medicated tonic and maiden export sales of bird nest products to China after obtaining an export permit from Certification and Accreditation Administration of the People's Republic of China (CNCA). Note that, net impact of -RM0.4m was recognized under depreciation and amortization on right-use-of-assets for MFRS 16.

**QoQ,** 1Q20 net profit decreased 23% dragged by: (i) lower revenue (-6%), with MLM division (-11%) as well as Retail division (-15%), but cushioned by Wholesale (+24%), and (ii) contraction in EBIT margin by 4.3ppt to 15.1% from 19.4% in 4Q19 from unfavourable merchandise mix and heavy discounting activities. MLM distributors' slowed down their business activities during the Ramadan fasting month and the Hari Raya festive season, while Retail division saw reduction in A&P subsidy income and other income received. Wholesale division was driven by higher sales of Chinese medicated tonic, patented medicine and bird nest products export sales.

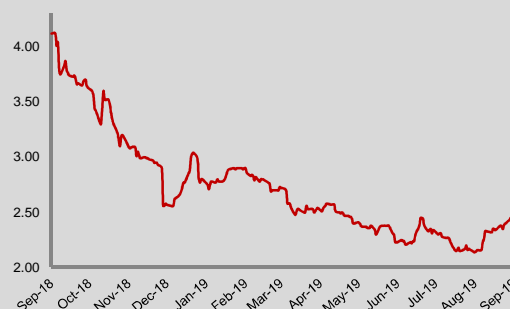
**Outlook.** We expect to see further pressure from stagnant distributors' growth (averaging at 140k, plunging from the highest level in FY18 at 160k distributors) as well as from weakening MYR against RMB. The MLM division will develop more "small ticket" items with affordable prices to cater for market needs in view of lower spending power of its members and reinforce ongoing digitalization initiatives. The Wholesale division will focus on its core products, which include Chinese medicated tonic and other health and wellness products, and will continue to widen its product portfolio. The Retail division will continue to develop more affordable house brand products to widen its product portfolio as well as improvement in its sales incentive scheme.

**Maintain UNDERPERFORM with unchanged target price of RM1.95,** based on 12x FY20E EPS (at its -0.5SD of 5-year forward historical mean). **Risks to our call include:** (i) better-than-expected sales, and (ii) lower-than-expected cost of sales.

# UNDERPERFORM ↔

**Price:** RM2.73  
**Target Price:** RM1.95 ↔

### Share Price Performance



KLCI	1,593.00
YTD KLCI change	-5.8%
YTD stock price change	2.6%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK EQUITY
Market Cap (RM m)	792.7
Shares Outstanding	290.4
52-week range (H)	4.09
52-week range (L)	2.11
3-mth avg daily vol:	267,669
Free Float	56%
Beta	0.7

### Major Shareholders

Tan Kai Hee	10.2%
Akintan Sdn Bhd	8.1%
Excellant Communication	5.4%

### Summary Earnings Table

FY Apr (RM'm)	2019A	2020E	2021E
Turnover	328.4	334.0	341.6
EBIT	62.4	63.0	64.1
PBT	63.5	64.1	65.3
<b>Net Profit (NP)</b>	<b>47.4</b>	<b>47.4</b>	<b>48.3</b>
Consensus (NP)	-	45.9	48.0
Earnings Revision	-	-	-
EPS (sen)	16.3	16.3	16.6
EPS growth (%)	-34.4	0.1	1.8
NDPS (sen)	13.0	13.0	13.0
BV/Share (RM)	1.07	1.10	1.14
PER (x)	16.7	16.7	16.4
Price/BV (x)	2.6	2.5	2.4
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	4.8	4.8	4.8

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### Results Highlights

	1Q FY20	4Q FY19	QoQ Chg	1Q FY19	YoY Chg
<b>FY Apr (RM'm)</b>					
Turnover	66.1	69.9	-5.5%	80.1	-17.5%
EBIT	10.0	13.6	-26.3%	14.2	-29.5%
PBT	10.2	13.9	-26.5%	14.4	-29.4%
Taxation	-2.7	-4.0	-34.0%	-3.8	-29.4%
<b>Net Profit (NP)</b>	<b>7.7</b>	<b>10.0</b>	<b>-22.7%</b>	<b>11.0</b>	<b>-29.6%</b>
EPS (sen)	2.7	3.5	-22.7%	3.8	-29.6%
EBIT margin	15.1%	19.4%		17.7%	
PBT margin	15.4%	19.8%		18.0%	
NP margin	11.7%	14.3%		13.7%	
Effective tax rate	26.2%	29.1%		26.2%	

Source: Bursa Announcement, Kenanga Research

### Segmental Breakdown

	1Q FY20	4Q FY19	QoQ Chg	1Q FY19	YoY Chg
<b>FY Apr (RM'm)</b>					
- Multi-Level-Marketing	42.1	47.4	-11.3%	58.0	-27.5%
- Wholesale	14.8	12.0	23.5%	13.6	9.3%
- Retail	8.1	9.6	-15.1%	7.6	6.7%
- Others	1.1	1.0	11.6%	0.9	20.7%
<b>Group Revenue</b>	<b>66.1</b>	<b>69.9</b>	<b>-5.5%</b>	<b>80.1</b>	<b>-17.5%</b>
- Multi-Level-Marketing	7.1	10.2	-30.0%	10.4	-31.3%
- Wholesale	1.3	1.3	-0.1%	2.7	-50.8%
- Retail	-0.3	0.4	-163.4%	-0.6	-57.1%
- Others	1.5	1.1	39.1%	0.8	77.1%
- Elimination	0.3	0.6	-45.7%	0.8	-64.0%
<b>Group EBIT</b>	<b>10.0</b>	<b>13.6</b>	<b>-26.3%</b>	<b>14.2</b>	<b>-29.5%</b>
- Multi-Level-Marketing	16.9%	21.5%		17.9%	
- Wholesale	9.0%	11.2%		20.1%	
- Retail	-3.2%	4.3%		-7.9%	
Group EBIT Margin	15.1%	19.4%		17.7%	

Source: Bursa Announcement, Kenanga Research

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### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>F&amp;B AND RETAIL</b>																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.46	1,710.4	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.1	30.9	29.3	24.3	23.6	77.5%	2.7%	1.35	UP
AEON CO (M) BHD	1.47	2,063.9	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	16.6	20.3	18.5	1.0	1.0	5.0%	2.7%	1.70	MP
AMWAY MALAYSIA HOLDINGS BHD	5.90	969.9	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.8	16.9	15.9	4.1	3.9	23.8%	4.7%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	59.58	3,813.1	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	30.7	37.2	33.8	36.2	35.6	97.9%	2.7%	54.60	UP
FRASER & NEAVE HOLDINGS BHD	35.00	12,837.2	Y	09/2019	5.9%	7.0%	9.4%	2.9%	32.3	29.6	28.7	5.6	5.1	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.73	792.7	N	04/2020	1.7%	2.3%	0.1%	1.8%	16.7	16.7	16.4	2.5	2.6	15.1%	4.8%	1.95	UP
MYNEWS HOLDINGS BHD	1.35	920.9	N	10/2019	27.3%	14.2%	21.0%	20.7%	34.7	28.7	23.8	3.0	2.9	10.2%	0.7%	1.55	OP
NESTLE (MALAYSIA) BHD	145.50	34,119.8	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.5	50.8	47.4	52.1	51.4	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.83	2,519.8	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	16.1	13.2	11.7	3.9	3.3	26.8%	3.0%	3.75	OP
PARKSON HOLDINGS BHD	0.22	229.4	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	27.6	23.8	0.1	0.1	0.3%	0.0%	0.27	OP
POWER ROOT BHD	2.07	826.0	Y	03/2020	12.3%	9.7%	26.6%	16.0%	24.7	20.2	18.0	3.7	3.4	18.1%	4.3%	2.30	OP
QL RESOURCES BHD	7.18	11,649.1	Y	03/2020	10.9%	4.5%	13.0%	4.2%	53.7	47.6	45.6	5.8	5.4	12.1%	0.8%	6.30	UP
SPRITZER BHD	2.24	470.3	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.4	16.9	15.0	1.2	1.2	7.0%	1.8%	2.40	MP
<b>Simple Average</b>					<b>6.9%</b>	<b>4.3%</b>	<b>64.9%</b>	<b>9.7%</b>	<b>29.2</b>	<b>27.4</b>	<b>25.2</b>	<b>11.0</b>	<b>10.7</b>	<b>32.0%</b>	<b>2.5%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	19.20	5,482.2	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	11.7	13.2	13.0	13.0	12.5	84.5%	6.3%	24.40	UP
CARLSBERG BREWERY MALAYSIA BHD	26.30	8,090.4	N	12/2019	11.4%	4.6%	6.9%	4.8%	29.5	27.6	26.3	47.5	52.0	186.7%	3.8%	25.95	OP
HEINEKEN MALAYSIA BHD	23.90	7,220.1	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.6	24.9	23.6	19.5	19.3	77.9%	4.0%	23.25	MP
<b>Simple Average</b>					<b>1.6%</b>	<b>3.4%</b>	<b>-4.2%</b>	<b>3.5%</b>	<b>22.3</b>	<b>21.9</b>	<b>21.0</b>	<b>26.7</b>	<b>27.9</b>	<b>116.4%</b>	<b>4.7%</b>		
<b>CONSENSUS ESTIMATES</b>																	
BERJAYA FOOD BHD	1.40	502.1	N	06/2019	9.8%	8.4%	15.9%	7.8%	19.1	16.5	15.3	1.3	1.3	7.5%	3.3%	1.94	BUY
BONIA CORPORATION BHD	0.26	201.3	Y	06/2020	2.4%	2.0%	-4.0%	4.0%	11.2	11.6	11.2	0.5	0.5	3.7%	3.1%	0.28	NEUTRAL
COCOALAND BHD	1.95	446.2	Y	12/2019	4.8%	6.6%	6.2%	9.8%	14.4	13.6	12.4	1.8	1.8	13.4%	3.9%	2.36	NEUTRAL
KAWAN FOOD	1.29	463.8	Y	12/2019	10.5%	14.5%	-47.4%	75.0%	20.3	38.6	22.1	1.5	1.4	3.6%	1.9%	1.42	SELL
MAGNI-TECH INDUSTRIES BHD	6.48	1,054.0	Y	04/2020	18.8%	4.5%	13.0%	5.2%	10.3	9.1	8.6	1.9	N/A	20.3%	N/A!	6.60	BUY

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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