

Company Result

29 September 2021

Hai-O Enterprise Berhad

A slower start

HOLD

Maintained

Share Price	RM2.00
Target Price	RM1.86

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 / HAI0 MK
Board / Sector	Industrial/Food & Drug Retailers
Syariah Compliant status	No
FTSE4Good Index	No
ESG Rating	☆☆
Issued shares (m)	300.10
Par Value (RM)	0.50
Market cap. (RMm)	600.21
52-week price Range	RM1.68 – 2.35
Beta (against KLCI)	0.97
3-m Average Daily Volume	0.05m
3-m Average Daily Value ^A	RM0.10m

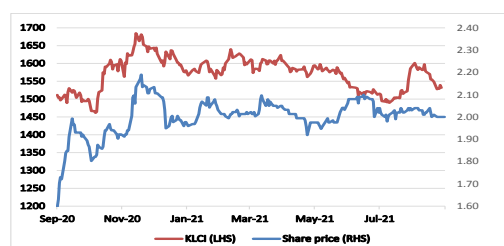
Share Performance

	1m	3m	12m
Absolute (%)	-1.5	-6.1	18.0
Relative (%-pts)	1.3	-5.1	14.7

Major Shareholders

Shareholder	%
Kai Hee Tan	10.66
Akintan Sdn Bhd	8.13
Excellent Communications	5.38

Historical Chart



Source: Bloomberg

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- **Hai-O posted a net profit of RM7m during first quarter of FY22, down 14.6% qoq and 32% yoy on the back of sluggish revenue which declined 26.5% qoq and 31% yoy.**
- **Below forecast.** 1QFY22 net profit of RM7m lags behind our in-house and market expectation, only accounts for 17.4% and 17.1% of full year earnings forecast respectively. The lower-than-expected result was dented by lower sales from all of its segments resulted from various phases of movement control order (MCOs).

Comment

- **Restricted movement order held back QoQ growth.** Revenue deteriorated 26.5% qoq, no thanks to MCOs which resulted in sluggish performance of all of its segments. MLM segmental revenue declined 23.9% qoq following subdued sales as physical marketing activities were unable to take place during lockdown. Additionally, Ramadan fasting month and Hari Raya festive season which fell during this quarter also further dampened the Group's revenue as sales were traditionally muted during these seasons. Besides, revenue for Wholesale and Retail segments were down by 32.9% qoq and 28.4% qoq respectively due to higher base. Also, delivery of non-essential goods was disallowed during MCOs period coupled with poor customer traffic and limited business hours also led to disappointing sales. Nevertheless, the Group's PBT picked up slightly by 2.1ppts qoq, spurred by lower operating costs due to cost optimization measures.
- **Better sales mix and price adjustment from Wholesale segment lifted YoY gross margin despite muted sales.** Hai-O revenue eased 31% yoy following subdued sales from MLM segment (revenue:-39.1% yoy), Wholesale segment (revenue:-18.2% yoy) and Retail segment (revenue:-7.6% yoy) pursuant to various phases of lockdown. Besides, lower number of member recruitment for MLM segment and weaker contribution from online sales from Retail segment further weighed down the Group's performance. However, it was offset by improved gross margin from Wholesale segment arising from favourable sales mix and price adjustment as well as higher PBT margin from Retail segment (+4.2ppts yoy).
- **Soothing outlook for FY22.** Looking forward, the Group remains cautious on its outlook, which might be impacted by Covid-19 that affected overall business growth. Hai-O is committed on several proactive measures and continues to

strengthen its position as a premier healthcare player such as emphasizing on online platforms as well as reinforcing of digital adoption for marketing and selling products which applied for all of its segments. Also, the Group will focus more on affordable range of health products as well as to implement strategies to penetrate youngster market. Overall, we expect the Group's business to go through stiff operating environment despite some relaxation of economic activities as we expect consumer sentiment to remain weak at this juncture resulted from lower contribution from its online platform segments.

Earnings Outlook/Revision

- **We tweak down our FY22F and FY23F full year earnings forecasts by 13.6% and 15.3% respectively to RM34.8m and RM37.6m to account for lower-than-expected margin and sales.**

Valuation & Recommendation

- **Maintain HOLD with a lower target price of RM1.86 (RM2.13 previously) following our earnings downgrade.** Our revised target price is now based on P/E multiple of 16x FY22F EPS of 11.6 sen (13.4 sen previously), which is slightly higher than 5-year mean PE of 15.3x. We deem the stock is fairly valued and share price is well supported by its decent dividend yield of over 4.5% 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 which weigh down overall business performance.

Figure 1: Quarterly Figures

Year ended 30 April	1QFY22	4QFY21	1QFY21	QoQ	YoY
	RM'm	RM'm	RM'm	%	%
Revenue	49.1	66.8	71.2	-26.5%	-31.0%
Gross profit	20.8	26.8	26.1	-22.4%	-20.3%
Operating profit	9.3	11.3	13.5	-17.7%	-31.1%
PBT	9.4	11.4	13.7	-17.5%	-31.4%
PAT	7.0	8.4	10.2	-16.7%	-31.4%
Net profit	7.0	8.2	10.3	-14.6%	-32.0%
Margin (%)				<i>ppts</i>	<i>ppts</i>
Gross profit margin	42.4%	40.1%	36.7%	2.2	5.7
EBIT margin	18.9%	16.9%	19.0%	2.0	0.0
PBT margin	19.1%	17.1%	19.2%	2.1	-0.1
PAT margin	14.3%	12.6%	14.3%	1.7	-0.1
Net profit margin	14.3%	12.3%	14.5%	2.0	-0.2

Source: Company, JF Apex

Figure 2: Revenue and PBT by division

Year ended 30 April	1QFY22	4QFY21	1QFY21	QoQ	YoY
	RM'm	RM'm	RM'm	%	%
Revenue					
MLM division	30.0	39.4	49.3	-23.9%	-39.1%
Wholesale division	10.8	16.1	13.2	-32.9%	-18.2%
Retail division	7.3	10.2	7.9	-28.4%	-7.6%
PBT					
MLM division	6.2	6.3	10.0	-1.6%	-38.0%
Wholesale division	1.4	2.7	2.9	-48.1%	-51.7%
Retail division	0.4	0.7	0.1	-42.9%	300.0%
PBT margin (%)				<i>ppts</i>	<i>ppts</i>
MLM division	20.7%	16.0%	20.3%	4.7	0.4
Wholesale division	13.0%	16.8%	22.0%	-3.8	-9
Retail division	5.5%	6.9%	1.3%	-1.4	4.2

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	268.4	272.6
Gross profit	162.2	126.2	99.2	105.0	104.3	106.6
Operating profit	97.6	62.2	43.1	53.4	48.0	50.7
PBT	99.0	63.4	41.5	52.3	48.1	50.9
PAT	75.1	47.5	32.3	38.9	34.6	37.4
Net profit	75.4	47.7	32.6	39.2	34.8	37.6
Margin (%)						
Gross profit margin	35.1%	38.4%	38.9%	38.7%	38.9%	39.1%
Operating profit	21.1%	18.9%	16.9%	19.7%	17.9%	18.6%
PBT margin	21.4%	19.3%	16.3%	19.3%	17.9%	18.7%
PAT margin	16.3%	14.4%	12.7%	14.3%	12.9%	13.7%
Net profit margin	16.3%	14.5%	12.8%	14.4%	13.0%	13.8%
Growth (%)						
Revenue growth	14.3%	-28.9%	-22.3%	6.3%	-1.1%	1.5%
Gross Profit growth	22.1%	-22.2%	-21.4%	5.8%	-0.7%	2.2%
PBT growth	26.8%	-36.0%	-34.5%	26.0%	-8.0%	5.7%
PAT growth	26.9%	-36.8%	-31.9%	20.4%	-11.1%	8.0%
Net profit growth	27.2%	-36.7%	-31.7%	20.2%	-11.2%	7.9%
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%	11.0%
ROE	23.6%	14.9%	10.5%	12.1%	12.5%	13.0%
EPS (sen)	25.1	15.9	10.9	13.1	11.6	12.5
P/E	0.08	0.13	0.18	0.15	0.17	0.16
DPS (sen)	0.20	0.13	0.10	0.09	0.09	0.10
Dividend Payout	0.8%	0.8%	0.9%	0.7%	0.8%	0.8%
Dividend yield (%)	10.0%	6.5%	5.0%	4.5%	4.5%	5.0%

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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