

Outthink. Outperform.

## MLM division rises among weaker divisions

Hai-O reported a 2016 core net profit improvement of 22.2% to RM 36.4m, coming in above our and consensus expectations. The group's multi-level-marketing (MLM) division drove earnings as the Group saw recurring sales as well as additional revenue from the increase in distributors, thereby mitigating the weaker performance of its other divisions (wholesale and retail). We increase our TP to RM 2.40 and maintain Sell.

### 2016 above expectations

Hai-O recorded a 2016 revenue and core net profit of RM 298.1m (+24.3% yoy) and RM 36.4m (+ 22.2% yoy) respectively. This was mainly due to higher revenue generated by its MLM division, which was its main contributor (67% of revenue and 73% of operating profit). The group's 2016 core earnings were above our and consensus expectations, representing 108% and 105% of both full-year estimates.

### MLM division drives earnings, other divisions falter

The group's FY16 turnover and PBT for its MLM segment increased by 46.5% yoy and 26.7% yoy to RM 135.6m and RM 28.8m respectively due to higher sales volume for most products, especially its "small ticket" items such as mineral coffee, bamboo salt, skin care and health supplements. In addition, the group's active measures to grow its distributor force has seen an increase of about 3,000-4,000 members/mth, which have further contributed to earnings. The wholesale division however was weaker with a drop of revenue by 3.8% to RM 43.4m due to lower demand for Chinese medicine. The retail division also posted a drop in revenue and PBT by 5.7% and 31.3% due to lower demand for high-end health supplements as well as poor response from the year end grand promotions for members.

### Maintain SELL, higher TP of RM2.40

We introduce our 2019E numbers and increase earnings by 17-18% for FY17-18E after updating our assumptions for the MLM division. We increase our TP to RM2.40, based on PE of 11.6x (5 year historical PE) and CY16E. However, we still maintain our SELL call as stock price has reached a high of RM2.73 (peak of RM3.17 in 2010). Note that HAI-O has been actively buying back its shares and currently holds 4.5% of its total issued and paid-up share capital which brings up the possibility of a share dividend distribution to shareholders.

Key risks to our call include: i) a stronger upturn in consumer spending; ii) a strengthening of the RM vs. US\$ which will reduce import costs and iii) higher growth of members for the MLM business.

### Earnings & Valuation Summary

| FYE Apr               | 2015  | 2016  | 2017E | 2018E | 2019E |
|-----------------------|-------|-------|-------|-------|-------|
| Revenue (RMm)         | 239.9 | 298.1 | 340.3 | 368.6 | 388.3 |
| EBITDA (RMm)          | 48.5  | 55.3  | 61.5  | 67.0  | 70.3  |
| Pretax profit (RMm)   | 43.0  | 49.1  | 57.8  | 63.4  | 66.9  |
| Net profit (RMm)      | 30.1  | 36.4  | 42.4  | 46.6  | 49.1  |
| EPS (sen)             | 15.4  | 18.6  | 21.7  | 23.8  | 25.1  |
| PER (x)               | 17.7  | 14.7  | 12.6  | 11.5  | 10.9  |
| Core net profit (RMm) | 30.1  | 36.4  | 42.4  | 46.6  | 49.1  |
| Core EPS (sen)        | 15.4  | 18.6  | 21.71 | 23.8  | 25.1  |
| Core EPS growth (%)   | -24.8 | 20.8  | 16.7  | 9.7   | 5.4   |
| Core PER (x)          | 17.7  | 14.7  | 12.6  | 11.5  | 10.9  |
| Net DPS (sen)         | 15.0  | 15.0  | 14.1  | 15.5  | 16.3  |
| Dividend Yield (%)    | 5.5   | 5.5   | 5.2   | 5.7   | 6.0   |
| EV/EBITDA (x)         | 9.0   | 7.9   | 7.1   | 6.3   | 5.8   |
| Chg in EPS (%)        |       |       | +16.6 | +18.2 |       |
| Affin/Consensus (x)   |       |       | 1.1   | 1.2   |       |

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Results Note

# HAI-O

HAIO MK  
Sector: Consumer

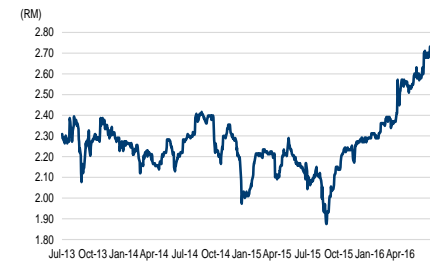
**RM2.73 @ 29 June 2016**

## SELL (maintain)

Downside 12%

**Price Target: RM2.40**

Previous Target: RM2.02



## Price Performance

|             | 1M    | 3M     | 12M    |
|-------------|-------|--------|--------|
| Absolute    | +6.2% | +11.4% | +20.3% |
| Rel to KLCI | +6.0% | +16.4% | +24.0% |

## Stock Data

|                               |             |
|-------------------------------|-------------|
| Issued shares (m)             | 193.4       |
| Mkt cap (RMm)/(US\$m)         | 526.9/130.5 |
| Avg daily vol - 6mth (m)      | 0.1         |
| 52-wk range (RM)              | 1.89-2.76   |
| Est free float                | 50.6%       |
| BV per share (RM)             | 1.28        |
| P/BV (x)                      | 2.14        |
| Net cash/ (debt) (RMm) (FY16) | 53.26       |
| ROE (2017E)                   | 15.8%       |
| Derivatives                   | Nil         |
| Shariah Compliant             | YES         |

## Key Shareholders

|                 |       |
|-----------------|-------|
| Kai Hee Tan     | 10.1% |
| Akintan Sdn Bhd | 7.9%  |
| Siow Eng Tan    | 7.0%  |

Source: Affin Hwang, Bloomberg

Yap Po Leen  
(603) 2146 7547  
poleen.yap@affinhwang.com

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Fig 1: Results Comparison

| FYE Apr (RMm)          | 4Q16        | QoQ<br>% chg | YoY<br>% chg | FY16          | YoY<br>% chg | Comment   |
|------------------------|-------------|--------------|--------------|---------------|--------------|---|
| Revenue                | 88.6        | 10.0         | 25.8         | 298.1         | 24.3         | Growth mainly due to higher sales volume from the MLM division  |
| Op costs               | (73.5)      | 8.9          | 32.6         | (249.8)       | 26.2         |   |
| EBIT                   | 15.0        | 15.8         | 0.8          | 48.2          | 15.2         |   |
| <i>EBIT margin (%)</i> | <i>17.0</i> | <i>0.9</i>   | <i>(4.2)</i> | <i>16.2</i>   | <i>(1.3)</i> | Due to weakening of MYR against USD as most products in wholesale division are imported, higher CSR costs to commemorate Hai-O's 40 <sup>th</sup> anniversary |
| Int expense            | (0.0)       | (46.5)       | (44.6)       | (0.2)         | (30.1)       |   |
| Int and other inc      | 0.6         | >100         | >100         | 1.5           | 31.2         |   |
| Associates             | (0.4)       | 0.0          | 0.0          | (0.4)         | >100         |   |
| Exceptional items      | 0.0         | 0.0          | 0.0          | 0.0           | 0.0          |   |
| <b>Pretax</b>          | <b>15.3</b> | <b>15.9</b>  | <b>1.0</b>   | <b>49.127</b> | <b>15.1</b>  |   |
| Tax                    | (4.1)       | 24.9         | (24.5)       | (12.5)        | 2.4          |   |
| <i>Tax rate (%)</i>    | <i>26.9</i> | <i>1.9</i>   | <i>(9.1)</i> | <i>25.5</i>   | <i>(3.2)</i> |   |
| MI                     | 0.0         | n.m          | n.m          | (0.2)         | (66.1)       |   |
| <b>Net profit</b>      | <b>11.2</b> | <b>14.5</b>  | <b>24.4</b>  | <b>36.4</b>   | <b>22.2</b>  |   |
| EPS (sen)              | 5.8         | 14.5         | 24.4         | 18.8          | 22.2         |   |
| <b>Core net profit</b> | <b>11.2</b> | <b>14.5</b>  | <b>24.4</b>  | <b>36.4</b>   | <b>22.2</b>  | Above expectations  |

Source: Affin Hwang, Company data

|                                  | 2012          | 2013          | 2014          | 2015          | 2016          |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>External Revenue</b>          |               |               |               |               |               |
| Wholesale                        | 48.70         | 50.70         | 56.29         | 56.58         | 54.44         |
| MLM                              | 141.08        | 167.00        | 149.27        | 135.56        | 198.69        |
| Retail                           | 42.81         | 42.24         | 40.06         | 40.64         | 38.31         |
| Others                           | 6.91          | 7.99          | 7.79          | 7.08          | 6.62          |
| <b>Total revenue</b>             | <b>239.50</b> | <b>267.93</b> | <b>253.42</b> | <b>239.85</b> | <b>298.05</b> |
| <b>% contribution to revenue</b> |               |               |               |               |               |
| Wholesale                        | 20.3%         | 18.9%         | 22.2%         | 23.6%         | 18.3%         |
| MLM                              | 58.9%         | 62.3%         | 58.9%         | 56.5%         | 66.7%         |
| Retail                           | 17.9%         | 15.8%         | 15.8%         | 16.9%         | 12.9%         |
| Others                           | 2.9%          | 3.0%          | 3.1%          | 2.9%          | 2.2%          |
|                                  | <b>100%</b>   | <b>100%</b>   | <b>100%</b>   | <b>100%</b>   | <b>100%</b>   |

**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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 Affin Hwang Investment Bank Berhad (14389-U)  
 (formerly known as HwangDBS Investment Bank Berhad)  
 A Participating Organisation of Bursa Malaysia Securities Bhd  
 Chulan Tower Branch,  
 3rd Floor, Chulan Tower,  
 No 3, Jalan Conlay,  
 50450 Kuala Lumpur.  
 www.affinhwang.com  
 Email : affin.research@affinhwang.com  
 Tel : + 603 2143 8668  
 Fax : + 603 2145 3005