

30 June 2016

Hai-O Enterprise Berhad

Transformation Bore Fruits

By Soong Wei Siang | soongws@kenanga.com.my

FY16 net profit of RM36.4m beat our expectation by 6%. FY16 DPS of 15 sen was above forecast due to the stronger-than-expected earnings. FY17E net profit upgraded by 7% on higher MLM contribution while FY18E earnings introduced (9.8% growth). Earnings growth momentum expected to be supported by MLM division. Maintain Market Perform, TP lifted to RM2.85 post-earnings upgrade and higher valuation to reflect the strong results and healthy earnings growth.

Slightly above expectation. FY16 net profit of RM36.4m (+22.2% YoY) was slightly above expectations by matching 106% of our full-year forecast. Consensus comparison is not available as the stock is not widely tracked. The stronger-than-expected performance from MLM division might have contributed to the positive deviation. As expected, final DPS of 11 sen was proposed, bringing FY16 total DPS to 15 sen (FY15:15sen) which is above our initial forecast due to the higher-than-expected profit.

YoY, FY16 revenue grew 24.3% to RM298.1m, driven by strong contribution from MLM division (+46.6% to RM198.7m) thanks to the successful strategy transformation to focus on smaller consumer products that attracted more young entrepreneurs to join in as distributors. The higher sales led segmental operating profit to jump 25.8% to RM35.5m. As a result, the Group net profit surged 22.2% to RM36.4m.

QoQ, 4Q16 revenue grew 10.0% to RM88.6m, again driven by MLM division (+23.0% to RM64.2m) as the positive momentum was sustained on the back of the successful transformation strategy which more than offset lower contribution from wholesale (-17.9%) and retail (-6.8%). Operating profit contribution by MLM division grew in tandem with the sales growth by 18.4% to RM12.0m. However, net profit only increased by 14.5% to RM11.2m as the effective tax rate was higher at 26.9% in 4Q16 (vs 3Q16:25.0%).

MLM to anchor growth. We are encouraged by the commendable results as the Group has managed to showcase its flexibility and market awareness in adopting the appropriate strategy to protect its business from the threat of negative economy headwinds and subdued consumer sentiments. As such, we are hopeful that the earnings growth momentum moving forward will continue to be supported by the MLM division on the back of overwhelming growth (>30%) in its distributor force, thanks to the transformed business model which required smaller capital outlay.

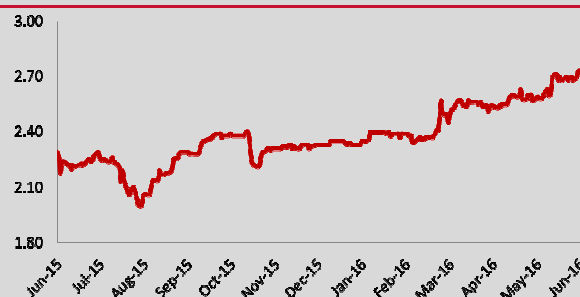
Lifting FY17E earnings. We upgrade FY17E net profit by 6.7% after we factor in higher earnings contribution from MLM division. We also take the opportunity to introduce FY18E earnings implying net profit growth of 9.8%.

Maintain Market Perform with higher Target Price of RM2.85 (from RM2.55). Correspondingly with the earnings upgrade, our TP is lifted to RM2.85, based on higher FY17E PER of 13.3x (from 12.9x) which implied +0.5 SD over 5-year mean. We think that the higher valuation is justified by its strong performance; particularly considering it was achieved on the back of weak consumer sentiment due to its successful transformation strategy, which has borne meaningful fruit. We expect the momentum to be sustained as earnings growths are forecasted to be at 14.0% and 9.8% in the next two years.

MARKET PERFORM ↔

Price: RM2.73
Target Price: RM2.85 ↑

Share Price Performance



KLCI	1,642.21
YTD KLCI chg	-3.0%
YTD stock price chg	17.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	526.9
Issued shares	193.0
52-week range (H)	2.76
52-week range (L)	1.89
3-mth avg daily vol:	70,226
Free Float	75%
Beta	0.6

Major Shareholders

KAI HEE TAN	10.1%
AKINTAN SDN BHD	7.9%
SIOU ENG TAN	7.0%

Summary Earnings Table

FY Apr (RM'm)	2016A	2017E	2018E
Turnover	298.1	315.7	334.3
EBIT	48.3	54.8	58.9
PBT	49.1	55.5	59.6
Net Profit (NP)	36.4	41.3	45.4
Earnings Revision	-	+6.7%	-
EPS (sen)	18.8	21.4	23.5
EPS growth (%)	23.3%	14.0%	9.8%
NDPS (sen)	15.0	16.2	17.6
BV/Share (RM)	1.33	1.41	1.47
PER	14.5	12.8	11.6
Price/BV (x)	2.05	1.93	1.85
Net Gearing (x)	Cash	Cash	Cash
Net Dvd Yield (%)	5.5%	5.9%	6.5%



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Result Highlights

	4Q	3Q	QoQ	4Q	YoY	4Q	FY15	YoY
FY Apr (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Turnover	88.6	80.5	10.0%	70.4	25.8%	298.1	239.9	24.3%
Operating profit	15.0	13.1	14.6%	14.9	0.7%	48.3	41.8	15.6%
PBT	15.3	13.2	15.9%	15.1	1.0%	49.1	42.7	15.1%
Taxation	-4.1	-3.3	24.9%	-5.4	-24.5%	-12.5	-12.2	2.4%
Net Profit (NP)	11.2	9.8	14.5%	9.0	24.4%	36.4	29.8	22.2%
EPS (sen)	5.8	5.1	14.5%	3.7	24.4%	18.8	15.2	23.3%
Operating margin	17.0%	16.3%		21.2%		16.2%	17.4%	
PBT margin	17.2%	16.4%		21.5%		16.5%	17.8%	
NP margin	12.6%	12.2%		12.8%		12.2%	12.4%	
Effective tax rate	26.9%	25.0%		36.0%		25.5%	28.7%	

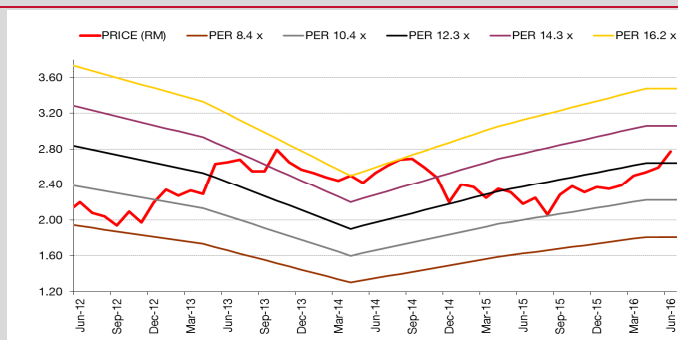
Source: Company, Kenanga Research

Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	4Q	FY15	YoY
FY Apr (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
- Multi-Level-Marketing	64.2	52.2	23.0%	38.4	67.2%	198.7	135.6	46.6%
- Wholesale	12.8	15.6	-17.9%	16.4	-22.1%	54.4	56.7	-4.0%
- Retail	10.2	11.0	-6.8%	14.2	-27.9%	38.3	40.7	-5.9%
- Others	1.4	1.8	-	1.5	-	6.6	7.0	-5.8%
Group Revenue	88.6	80.5	10.0%	70.4	25.8%	298.1	239.9	24.3%
- Multi-Level-Marketing	12.0	10.1	18.4%	8.7	37.8%	35.5	28.2	25.8%
- Wholesale	0.8	1.5	-45.8%	3.2	-74.4%	5.7	6.6	-12.9%
- Retail	0.9	0.2	-	2.1	-	1.6	2.4	-32.7%
- Others	1.2	1.4	-15.6%	1.2	-4.2%	5.4	5.1	7.5%
- Elimination	0.2	-0.1	-	0.0	-	0.1	-0.2	-
Group EBIT	15.0	13.1	14.6%	14.9	0.7%	48.3	41.8	15.6%
- Multi-Level-Marketing	18.7%	19.4%		22.7%		17.9%	20.8%	
- Wholesale	6.4%	9.7%		19.5%		10.5%	11.6%	
- Retail	8.9%	1.7%		14.8%		4.2%	5.9%	
- Others	83.2%	76.8%		80.0%		82.2%	72.0%	
Group EBIT Margin	17.0%	16.3%		21.2%		16.2%	17.4%	

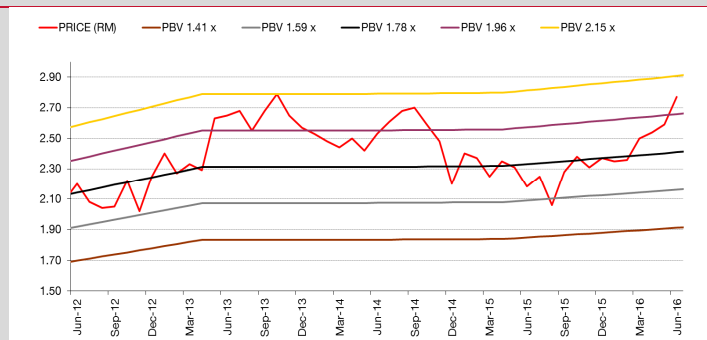
Source: Company, Kenanga Research

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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Peer Comparison

Name	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Historical ROE	P/BV	Net Profit (RMm)			1Y Fwd Growth (%)	2Y Fwd Growth (%)	Target Price (RM)	Rating
	(RM)		(RMm)	Historical	1Y Fwd				2Y Fwd	(x)	Historical				
RETAIL															
AEON	2.55	3,580.2	26.8	25.2	23.9	1.6%	6.1%	1.96	133.4	142.1	149.6	6.5%	5.3%	2.46	Underperform
AMWAY	8.90	1,463.0	22.9	18.4	17.1	4.6%	21.2%	7.12	63.9	79.2	84.7	23.9%	6.9%	9.84	Market Perform
HAIO	2.73	526.9	14.4	12.8	11.6	5.9%	14.1%	2.05	36.4	41.3	45.4	13.5%	9.9%	2.85	Market Perform
PADINI	2.37	1,559.2	19.4	12.6	11.1	5.9%	27.5%	3.84	80.2	123.9	141.0	54.5%	13.8%	2.78	Outperform
PARKSON	0.84	877.3	11.4	(40.0)	22.7	7.1%	-3.1%	0.35	80.7	(23.3)	41.0	-128.9%	-276.0%	0.76	Underperform
F&B															
DLADY	58.00	3,712.0	26.3	23.6	22.2	4.1%	86.4%	23.58	141.0	157.2	167.5	11.5%	6.6%	59.20	Outperform
NESTLE	76.50	17,939.3	30.4	26.8	25.2	3.5%	69.1%	25.33	590.7	668.2	711.1	13.1%	6.4%	82.10	Outperform
OLDTOWN	1.91	862.3	15.6	15.0	13.9	3.4%	15.3%	2.39	55.3	57.4	61.9	3.7%	7.9%	1.79	Outperform
QL	4.45	5,553.7	28.9	26.3	24.3	1.1%	12.7%	3.50	192.0	211.4	229.0	10.1%	8.3%	4.16	Underperform
SIN															
BAT	50.80	14,504.9	15.9	18.6	18.7	5.3%	162.0%	26.60	910.1	780.1	775.6	-14.3%	-0.6%	48.70	Underperform
CARLSBG	13.10	4,029.8	17.7	16.6	15.7	5.9%	61.9%	11.76	228.5	242.6	257.3	6.2%	6.0%	14.70	Outperform
GAB	15.26	4,610.0	21.5	17.8	16.3	6.6%	74.5%	12.21	214.2	259.5	283.7	21.2%	9.3%	16.90	Outperform

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% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research