

Company Result

22 September 2016

Hai-O Enterprise Berhad

HOLD

1QFY17: Off to a flying start

Maintained

Share Price	RM3.41
Target Price	RM3.22

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
Issued shares (m)	193.02
Par Value (RM)	0.50
Market cap. (RMm)	658.19
52-week price Range	RM2.19– 3.59
Beta (against KLCI)	0.61
3-m Average Daily Volume	0.15m
3-m Average Daily Value [^]	RM0.47m

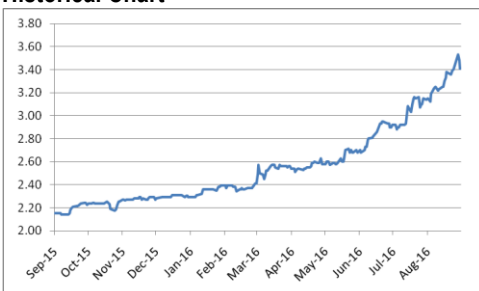
Share Performance

	1m	3m	12m
Absolute (%)	8.6	22.2	49.6
Relative (%-pts)	10.7	25.6	47.5

Major Shareholders

	%
KAI HEE TAN	10.08
AKINTAN SDN BHD	7.85
SLOW ENG TAN	6.98

Historical Chart



Source: Bloomberg

Team Coverage

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- **Hai-O's 1QFY17 net earnings were reported at RM9.74mill**, expanded 47.1% y-o-y while declined 13% q-o-q. Meanwhile, quarterly revenue increased by 42.1% y-o-y but decreased 11.2% q-o-q.
- **Meeting expectations.** 1QFY17 net profit was within our full year earnings expectation and consensus by accounting for 23%. The earnings driver was attributed to continued growth in its MLM division coupled with encouraging performance in wholesale division.

Comment

- **MLM division continued to achieve robust yoy growth.** MLM division's PBT expanded by 55.6% y-o-y in line with higher topline growth of 53.6% y-o-y in 1QFY17. The transformation of focusing more on "small ticket" items managed to deliver encouraging results and continued to render a strong momentum for its MLM division. Furthermore, the impressive growth of its new member recruitment also supported MLM's division in 1QFY17 as compared to previous year's corresponding quarter.
- **Lower qoq on seasonal factor.** In contrast, for its quarterly basis, MLM division's topline and bottomline recorded a negative growth affected by seasonal factor. The slowdown in distributor's activities during the fasting month in 1QFY17 weighed down the earnings for MLM division. Moreover, the unimpressive quarterly performance for this division also dented by high base in 4QFY16 following the successful year-end incentive sales campaign in every 4th quarter.
- **Wholesale division performed well.** The wholesale division's 1QFY17 topline and bottomline managed to post a positive growth as compared to 1QFY16. The increase was primarily supported by higher sales in Chinese medicated tonic and patented medicine including one-off re-export sales amounting to approximately RM2mill of the Chinese liquor.
- Similarly, for its quarterly basis, the wholesale division's PBT jumped by a whopping 119.0% q-o-q while revenue increased in lesser quantum of 10.9% q-o-q. The relatively lower increase in revenue against PBT was affected by revision of higher selling price on selected liquor products due to the recent imposition of higher duty by Custom on all imported liquors. Hence, the additional contribution from one-off re-export sale of RM2mill was offset by the weaker sales in Chinese medicated tonic and cooking wine. Despite a marginal

increase in revenue, the PBT jumped significantly backed by lower operating expenses incurred in current quarter and higher contribution from inter-segment sales.

- **Retail division continued its sluggish performance.** In 1QFY17, the Retail division continued to decline in topline by 5.8% y-o-y while registered a widening pre-tax loss of RM0.5mill from RM0.2mill loss a year ago. The weaker performance owing to lower demand in high-end health supplements products coupled with higher operating costs and lower A&P subsidy from suppliers.
- Similarly, for its quarterly basis, retail segment declined for both topline and bottomline as retail industry still affected by fragility in consumer sentiment in relation to the introduction of GST a year ago coupled with rising in cost of living. Furthermore, the high base in last quarter PBT following higher contribution from year-end grand members' sales campaign also attributed to weaker retail performance in 1QFY17.

Earnings Outlook/Revision

- **We maintain our earnings forecast for FY17-18F.**

Valuation & Recommendation

- **Maintain HOLD call on Hai-O with higher target price of RM3.22 (previous target price was RM2.85)** as we opine the Group's MLM division will continue to perform well going forward. However, current valuation looks steep as we deem that current share price has factored in the positives. Our revised target price is now pegged at 14x FY17F EPS (Previous PE: 12.4x) which is in line with its 3-year mean PER.
- **MLM division unfazed by challenging economic outlook.** We remain positive on the group's MLM division as we foresee ample room for growth backed by its fruitful results of its 'small-ticket item' marketing strategy. Furthermore, we reckon the 2nd phase of IT infrastructure upgrading towards its MLM management system will speed up the ordering process for its stockists and distributors. The management also embarks on another expansion move to improve its brand visibility and buying experience of the members by planning to set up warehousing facilities in the southern and northern regions within Peninsular Malaysia.
- **However, we remain cautious on the group's retail and wholesale divisions** due to reduction in consumer spending arising from higher cost of living as well as uncertainty in economic conditions. Nonetheless, we are confident on the Group's initiatives to work closely with its business affiliates in China to strengthen its business ties in expanding its brand outside Malaysia over a longer run. We believe the management efforts to promote its healthcare products among younger generation including aggressive A&P campaign to enhance brand awareness will ultimately boost its sales moving forward.

Figure 1: Quarterly Figures

Year to 30 Apr	1QFY17 (RMm)	4QFY16 (RMm)	1QFY16 (RMm)	QoQ % chg	YoY % chg
Revenue	78.7	88.6	55.4	-11.2%	42.1%
Operating Profit	12.6	15.0	8.7	-16.5%	44.2%
Pre-tax Profit	12.6	15.3	8.8	-17.5%	43.1%
Profit After Tax	9.4	11.2	6.5	-15.3%	44.7%
Net Profit	9.7	11.2	6.6	-13.0%	47.1%
MARGIN (%)					
Operating	16.0%	17.0%	15.7%	-1.0ppt	0.2ppt
Profit Before Tax	16.0%	17.2%	15.9%	-1.2ppt	0.1ppt
Profit After Tax	12.0%	12.6%	11.8%	-0.6ppt	0.2ppt
Net Profit Margin	12.4%	12.6%	12.0%	-0.3ppt	0.4ppt

Source: Company, JF Apex

Figure 2: Revenue and PBT by divisions

Year to 30 Apr	1QFY17 (RMm)	4QFY16 (RMm)	1QFY16 (RMm)	QoQ % chg	YoY % chg
Segment Revenue					
MLM	56.45	64.20	36.75	-12.07%	53.63%
Wholesales	14.12	12.73	9.26	10.92%	52.52%
Retail	7.13	10.22	7.58	-30.23%	-5.89%
Total Revenue	77.70	87.15	53.58	-10.84%	45.02%
Segment Profit Before Tax					
MLM	9.70	12.01	6.24	-19.23%	55.55%
Wholesales	1.80	0.82	1.78	119.51%	1.12%
Retail	-0.54	0.92	-0.15	-158.70%	N/A
Total Profit Before Tax	10.96	13.75	7.87	-20.29%	39.33%
Segment PBT margin					
MLM	17.18%	18.71%	16.97%	-1.52ppt	0.21ppt
Wholesales	12.75%	6.44%	19.23%	6.31ppt	-6.48ppt
Retail	-7.57%	9.00%	-1.98%	-16.58ppt	-5.59ppt

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 30 April (RMm)	FY2014	FY2015	FY2016	FY2017F	FY2018F
Revenue	253.5	239.9	298.1	315.3	355.6
Operating profit	52.1	41.8	48.3	59.9	71.1
Net profit	40.3	29.8	36.4	44.3	50.2
EPS (sen)	20.9	15.4	18.8	23.0	26.0
P/E (x)	16.3	28.6	28.7	27.9	28.5
P/BV (x)	2.5	3.2	3.9	4.5	5.2
Dividend yield (%)	3.1%	2.5%	2.0%	1.8%	1.6%
PBT margin (%)	21.0%	17.8%	16.5%	24.6%	25.0%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROE (%)	15.2%	11.2%	13.5%	16.2%	18.1%

Source: Company, JF Apex Estimates

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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.

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.

*capital gain + dividend yield

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