

22 September 2016

Hai-O Enterprise Berhad

Sailing On

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1Q17 net profit of RM9.7m (+47.1% YoY) was within our expectation at 23.5% of our forecast. No DPS was declared, as expected. MLM is expected to spearhead growth as the Group continues to reap the fruit of a successful strategy transformation. Maintain MARKET PERFORM with higher TP of RM3.60 after rolling over to FY18E. We believe the positives have been mostly priced in, but we still like the company for its strong fundamentals.

Within expectation. 1Q17 net profit of RM9.7m (+47.1% YoY) was within our expectation by matching 23.5% of our full-year forecast. Consensus comparison is not available as the stock is not widely tracked. No DPS was declared, as expected.

YoY, 1Q17 revenue jumped 42.1% to RM78.7m, mainly supported by sustained growth momentum in MLM division (+53.6%) due to the successful strategy transformation and recovery in Wholesale (+52.5%) as 1Q16 was a low base quarter in comparison on post-GST implementation. 1Q17 operating profit surged 44.2% to RM12.6m, primarily driven by the strong performance in MLM division. As a result, 1Q17 net profit rose 47.1% to RM9.7m.

QoQ, 1Q17 revenue declined by 11.2% to RM78.7m as key contributing division MLM recorded lower revenue by 12.1% due to the strong 4Q16 which was boosted by higher sales led by an incentive trip campaign while 1Q17 was also dragged down by less activity due to the fasting month. 1Q17 operating profit fell by 16.5% to RM12.6m due mainly to lower contribution from MLM division on the reasons mentioned above. As a result, 1Q17 net profit slid 13.0% to RM9.7m.

MLM still the hero. MLM continued to spearhead growth on the back of rising numbers of distributor thanks to its transformed business model, which required smaller capital outlay. 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 sentiment. As such, we are hopeful that the earnings growth momentum moving forward will continue to be supported by the MLM division.

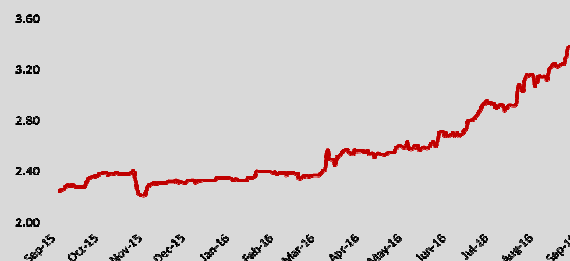
Earnings estimates maintained. We made no changes to our earnings forecasts.

Maintain MARKET PERFORM with higher Target Price of RM3.60 (from RM3.25). We rolled over our valuation base year to FY18, and derived our new TP of RM3.60 based on unchanged 15.2x PER, which is on par with +1 SD over its 5-year mean. While we like the company for its resilience amid a challenging environment, the valuation has somewhat reflected the positives after a strong 46.4% rally in YTD share price. As such, we are maintaining our neutral stance on the company on its strong brand names, sturdy balance sheet and generous dividend pay-out.

MARKET PERFORM ↔

Price: **RM3.41**
Target Price: **RM3.60** ↑

Share Price Performance



KLCI	1,658.73
YTD KLCI chg	-2.0%
YTD stock price chg	46.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	658.2
Issued shares	193.0
52-week range (H)	3.59
52-week range (L)	2.19
3-mth avg daily vol:	149,185
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	323.5	346.7
EBIT	48.3	54.1	58.5
PBT	49.1	55.7	60.1
Net Profit (NP)	36.4	41.5	45.8
Earnings Revision	-	-	-
EPS (sen)	18.9	21.5	23.7
EPS growth (%)	23.3%	13.8%	10.3%
NDPS (sen)	15.0	16.2	17.8
BV/Share (RM)	1.33	1.39	1.45
PER	14.5	15.9	14.4
Price/BV (x)	2.05	2.46	2.36
Net Gearing (x)	Cash	Cash	Cash
Net Dvd Yield (%)	4.4%	4.8%	5.2%

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Result Highlights

	1Q	4Q	QoQ	1Q	YoY
FY Apr (RM'm)	FY17	FY16	Chg	FY16	Chg
Turnover	78.7	88.6	-11.2%	55.4	42.1%
Operating profit	12.6	15.0	-16.5%	8.7	44.2%
PBT	12.6	15.3	-17.5%	8.8	43.1%
Taxation	-3.1	-4.1	-23.4%	-2.3	38.5%
Net Profit (NP)	9.7	11.2	-13.0%	6.6	47.1%
EPS (sen)	5.0	5.8	-13.0%	3.4	47.1%
Operating margin	16.0%	17.0%		15.7%	
PBT margin	16.0%	17.2%		15.9%	
NP margin	12.4%	12.6%		12.0%	
Effective tax rate	25.0%	26.9%		25.8%	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY
FY Apr (RM'm)	FY17	FY16	Chg	FY16	Chg
- Multi-Level-Marketing	56.4	64.2	-12.1%	36.7	53.6%
- Wholesale	14.1	12.8	10.6%	9.3	52.5%
- Retail	7.1	10.2	-30.3%	7.6	-5.8%
- Others	1.0	1.4	-	1.8	-
Group Revenue	78.7	88.6	-11.2%	55.4	42.1%
- Multi-Level-Marketing	9.7	12.0	-19.1%	6.2	55.5%
- Wholesale	1.8	0.8	121.2%	1.8	1.9%
- Retail	-0.5	0.9	-	-0.2	-
- Others	1.1	1.2	-	0.3	-
- Elimination	0.4	0.2	-	0.5	-
Group EBIT	12.6	15.0	-16.5%	8.7	44.2%
- Multi-Level-Marketing	17.2%	18.7%		17.0%	
- Wholesale	12.8%	6.4%		19.2%	
- Retail	-7.5%	8.9%		-2.0%	
- Others	118.5%	83.2%		18.3%	
Group EBIT Margin	16.0%	17.0%		15.7%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Historical ROE	P/BV (x)	Net Profit (RMm)			1Y Fwd Growth (%)	2Y Fwd Growth (%)	Target Price (RM)	Rating
	(RM)	(RMm)	Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd				
RETAIL															
AEON	2.85	4,001.4	30.0	37.9	33.5	1.4%	6.1%	2.19	133.4	105.6	119.4	-20.8%	13.0%	2.14	Underperform
AMWAY	8.58	1,410.4	22.1	25.1	20.3	3.4%	21.2%	6.86	63.9	56.2	69.5	-12.1%	23.7%	8.04	Underperform
HAIO	3.41	658.2	18.0	15.9	14.4	4.8%	14.3%	2.56	36.4	41.5	45.8	14.1%	10.3%	3.60	Market Perform
PADINI	2.88	1,894.8	13.8	12.6	10.8	4.8%	27.5%	4.67	137.4	150.0	175.8	9.2%	17.2%	2.96	Market Perform
PARKSON	0.79	849.1	10.6	(9.5)	23.1	7.6%	-3.1%	0.32	80.7	(105.6)	37.6	-230.9%	-135.6%	0.70	Underperform
F&B															
DLADY	59.60	3,814.4	27.1	24.3	22.8	4.0%	86.4%	24.23	141.0	157.2	167.5	11.5%	6.6%	62.36	Market Perform
NESTLE	79.52	18,647.4	31.6	27.9	26.2	3.4%	69.1%	26.33	590.7	668.2	711.1	13.1%	6.4%	82.10	Market Perform
OLDTOWN	2.06	930.0	16.8	16.2	15.0	3.2%	15.3%	2.58	55.3	57.4	61.9	3.7%	7.9%	1.92	Market Perform
QL	4.37	5,453.9	28.4	25.9	23.9	1.1%	12.7%	3.44	192.0	211.4	229.0	10.1%	8.3%	4.16	Underperform
SIN															
BAT	48.80	13,933.9	15.3	17.9	18.0	5.5%	145.6%	25.55	910.1	780.1	775.6	-14.3%	-0.6%	48.70	Underperform
CARLSBG	14.28	4,392.8	19.2	18.1	17.1	5.4%	61.9%	12.82	228.5	242.6	257.3	6.2%	6.0%	14.70	Market Perform
HEIM	17.68	5,341.1	24.9	20.6	18.7	4.6%	74.5%	14.14	214.2	259.9	285.0	21.3%	9.7%	18.48	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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Published and printed by:

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