

Company Result

22 December 2016

Hai-O Enterprise Berhad

Impressive growth on MLM division

HOLD

Maintained

Share Price	RM3.77
Target Price	RM3.75

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)	192.93
Par Value (RM)	0.50
Market cap. (RMm)	754.35
52-week price Range	RM2.30– 4.00
Beta (against KLCI)	0.60
3-m Average Daily Volume	0.26m
3-m Average Daily Value ^A	RM0.96m

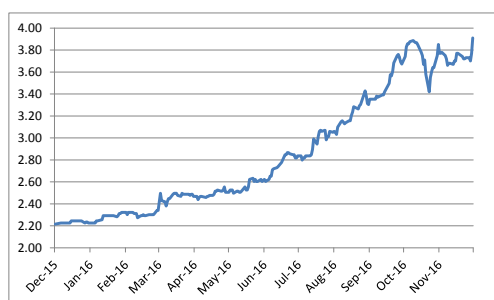
Share Performance

	1m	3m	12m
Absolute (%)	1.6	12.7	69.3
Relative (%-pts)	1.7	18.0	70.9

Major Shareholders

Major Shareholders	%
KAI HEE TAN	10.08
AKINTAN SDN BHD	7.85
SIOU ENG TAN	6.98

Historical Chart



Source: Bloomberg

Team Coverage

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- **Hai-O's 2QFY17 net profit was recorded at RM15.9mill**, which increased 63.3% qoq and 77.9% yoy. Similarly, quarterly revenue posted a positive growth of 26.8% qoq and 35.6% yoy.
- For 1H2017, net profit was registered at RM25.7mill, soaring 64.8% y-o-y. Meanwhile, revenue expanded by 38.4% y-o-y to RM178.4mill.
- **Above expectations-** 6MFY17 net profit reached 58% and 60% of our full year net earnings forecast and consensus respectively. The encouraging results were mainly attributed by better performance from its MLM division.

Comment

- **Another robust growth from MLM division for this quarter.** MLM division's PBT increased both yearly and quarterly bases thanks to additional sales from its key beverage products following the successful launch of its rebranding campaign activities in the 1st quarter. Furthermore, rising new recruited members in this quarter coupled with positive response from the incentive trip promotional campaign also contributed to the inspiring performance of its MLM division.
- **Similarly, 6MFY17 PBT for MLM increased by 91% yoy**, mainly attributable to strong recurring sale of the small-ticket items. In addition, the division has successfully recruited new members to participate in MLM business. Besides, full commission of the new "Customer Relationship Management" system which provides E-commerce platform has been widely used by the distributors, which helped to increase their sales, productivity and efficiency.
- **Wholesale division's pre-tax profit improved during this quarter.....** Wholesale segment's PBT posted a positive yoy and qoq growth aided by higher margins contribution from tea segment and inter-segment sales. Likewise, the division's PBT increased by 32.4% yoy for 1HFY17.
- **.....However, the division registered lower revenue yoy and qoq** mainly due to lower overall sales generated from duty-free goods and Chinese medicated tonic as most of the medical halls reduced their stockholding level since the increase in selling prices early this year.
- **Retail division made a turnaround in 2QFY17.....** Retail division managed to register a positive PBT number

in 2QFY17 against net loss of RM0.54mill in last quarter in line with positive topline mainly supported by effective members' sales promotional campaign carried out in this quarter. Despite continuous weak consumer sentiment, the continuous support from Hai-O members enabled to lift its revenue by 30.1% qoq.

- **.....But still down in 1HFY17.** Nevertheless, the PBT of retail division during 1HFY17 declined due to higher operating costs and lower A&P income subsidy from suppliers, coupled with lower sales of the high-margin house-brand products.
- **Proposed bonus issue.** The Group has proposed a bonus issue of 1 bonus share for every 2 existing Hai-O shares with the entitlement date to be determined later. This is to reward shareholders and improve its share liquidity.

Earnings Outlook/Revision

- **We revise upwards on our earnings forecast for FY17F by 5.6% following the surge in sales in 2QFY17 while we foresee sales momentum would soften for the remaining of the year. We also adjust upwards of our earnings forecast for FY18F by 3%.**

Valuation & Recommendation

- **Maintain HOLD on Hai-O with a higher target price of RM3.75 (previous target price was RM3.22)** as we roll over our valuation to FY18F and pegged at 14x FY18F EPS which is +1SD above its 3 year mean PE. Current valuation looks steep as we deem that share price has factored in the positives. However, current share price could stay elevated and well supported by the positive news of Bonus issue.

Figure 1: Quarterly Figures

Year to 30 Apr	2QFY17 (RMm)	1QFY17 (RMm)	2QFY17 (RMm)	QoQ % chg	YoY % chg	6MFY17 (RMm)	6MFY16 (RMm)	YoY % chg
Revenue	99.8	78.7	73.6	26.8%	35.6%	178.4	129.0	38.4%
Operating Profit	20.2	12.6	11.5	61.0%	76.3%	32.8	20.2	62.4%
Pre-tax Profit	20.3	12.6	11.9	61.3%	70.9%	32.9	20.7	59.1%
Profit After Tax	15.9	9.4	9.0	68.4%	76.3%	25.4	15.6	63.0%
Net Profit	15.9	9.7	8.9	63.3%	77.9%	25.7	15.6	64.8%
MARGIN (%)								
Operating	20.3%	16.0%	15.6%	4.3ppt	4.7ppt	18.4%	15.6%	2.7ppt
Profit Before Tax	20.4%	16.0%	16.2%	4.4ppt	4.2ppt	18.4%	16.0%	2.4ppt
Profit After Tax	15.9%	12.0%	12.3%	3.9ppt	3.7ppt	14.2%	12.1%	2.1ppt
Net Profit Margin	15.9%	12.4%	12.1%	3.6ppt	3.8ppt	14.4%	12.1%	2.3ppt

Source: Company, JF Apex

Figure 2: Revenue and PBT by divisions

Year to 30 Apr	2QFY17	1QFY17	2QFY16	QoQ	YoY	6MFY17	6MFY16	YoY
	(RMm)	(RMm)	(RMm)	% chg	% chg	(RMm)	(RMm)	% chg
Segment Revenue								
MLM	77.48	56.45	45.55	37.25%	70.11%	133.9	82.3	62.8%
Wholesales	11.66	14.12	16.84	-17.39%	-30.74%	25.8	26.1	-1.2%
Retail	9.28	7.13	9.52	30.10%	-2.60%	16.4	17.1	-4.1%
Total Revenue	98.42	77.70	71.91	26.66%	36.86%	176.1	125.5	40.3%
Segment Profit Before Tax								
MLM	15.83	9.70	7.13	63.21%	121.91%	25.5	13.4	91.0%
Wholesales	2.71	1.80	1.63	50.72%	66.44%	4.5	3.4	32.3%
Retail	0.48	-0.54	0.68	N/A	-28.93%	-0.1	0.5	N/A
Total Profit Before Tax	19.03	10.96	9.45	73.61%	101.46%	30.0	17.3	73.2%
Segment PBT margin								
MLM	20.43%	17.18%	15.66%	3.25ppt	4.77ppt	19.1%	16.2%	2.8ppt
Wholesales	23.26%	12.75%	9.68%	10.51ppt	13.58ppt	17.5%	13.1%	4.4ppt
Retail	5.22%	-7.57%	7.15%	12.79ppt	-1.93ppt	-0.3%	3.1%	-3.4ppt

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	333.2	366.1
Operating profit	52.1	41.8	48.3	63.3	73.2
Net profit	40.3	29.8	36.4	46.8	51.7
EPS (sen)	20.9	15.4	18.8	24.3	26.8
P/E (x)	16.3	22.1	18.1	14.0	12.7
P/BV (x)	2.5	2.5	2.4	2.4	2.4
Dividend yield (%)	3.1%	3.3%	3.2%	3.5%	3.6%
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%	17.2%	18.6%

Source: Company, JF Apex Estimates

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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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