

09 January 2017

Hai-O Enterprise Berhad

MLM Securing its Place

By the Kenanga Research Team | research@kenanga.com.my

We came away feeling comforted on its prospect after a meeting with the CFO, Mr Hew Von Kin. Its MLM division is expected to continue its steady run with the backing of strong new recruitments and new fashion ranges as women made up 70% of its distributor base. The other segments are expected to perform modestly and the direct currency transaction to Renminbi bypassing the usage of USD has been initiated by the Government. All in, we reiterate our MARKET PERFORM call on HAI-O Enterprise with unchanged 15.2x PER FY18E which implied +1 SD over the 5-year mean.

MLM pushing the boundaries. 1H17 MLM EBIT surged 91% to RM25.5m driven by both expansion in distributor base and the strong productivity on the back of the effective product strategy and rewarding incentive system. Meanwhile, new recruitments were encouraging with latest active distributors of c.110k representing a jump of 32.5% from 83k in FY16 with an average age group of 30 to 45 years old. Moving forward, management is confident that the momentum can be sustained with younger generation of distributors coupled with the introduction of new lines of products.

Cautious on wholesale and retail segments. Management is maintaining a conservative stance as both divisions are vulnerable to weak consumer sentiment and attributed the weak performance to seasonality factor. The weakening of MYR further dampened business activities as most of the products in its wholesale division are imported, where a 10% depreciation in the local currency will drag down its net profit by RM2m-RM3m or 5%-8% of our FY17E net profit. The management guided that it has taken up the Government's initiative to capitalise on the Renminbi clearing house as it allowed for direct transaction using Renminbi, bypassing the use of USD as the intermediary for foreign exchange transaction.

Better outlook on the MLM segment. The management is currently rolling out new range of products in stages. The first two products were launched in 2Q17, which is Shake Me and N'Licious in complement with Hai-O's "Shake & Shape" 30-Day Weight Loss Challenge. Moving forward, the management is planning to introduce a range of fashion product, starting with "Hijab" and "Baju Kurung" in collaboration with Jimmy Choo and other well-known fashion designers. The management is confident that the fashion ranges will attract a huge demand from MLM division as women made up 70% of the distributor base.

Maintain MARKET PERFORM with unchanged Target Price of RM4.03 based on an unchanged 15.2x PER FY18E which implied +1SD over the 5-year mean. While we like the company for its resilience amid a challenging environment, the valuation has somewhat reflected the positives. 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: RM4.01
Target Price: RM4.03 ↔

Share Price Performance



KLCI 1,675.49
YTD KLCI chg 2.1%
YTD stock price chg 0.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	771.7
Issued shares	192.9
52-week range (H)	4.01
52-week range (L)	2.30
3-mth avg daily vol:	270,017
Free Float	75%
Beta	0.6

Major Shareholders

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

Summary Earnings Table

FY Apr (RM'm)	2016A	2017E	2018E
Turnover	298.1	387.6	430.9
EBIT	48.3	61.3	66.0
PBT	49.1	62.8	67.2
Net Profit (NP)	36.4	46.7	51.1
Earnings Revision	-	-	-
EPS (sen)	18.8	24.2	26.5
EPS growth (%)	20.8%	28.6%	9.2%
NDPS (sen)	15.0	18.3	19.8
BV/Share (RM)	1.33	1.39	1.46
PER	20.0	15.6	14.2
Price/BV (x)	2.83	2.71	2.58
Net Gearing (x)	Cash	Cash	Cash
Net Dvd Yield (%)	4.0%	4.9%	5.3%

09 January 2017

Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2014A	2015A	2016A	2017E	2018E	FY Apr (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	253.4	239.9	298.1	387.6	430.9	Growth (%)					
EBITDA	53.5	45.4	51.8	65.1	70.2	Revenue	-4.9%	-5.3%	24.2%	30.0%	11.2%
Depreciation	-3.0	-3.2	-3.5	-3.8	-4.3	EBITDA	-9.1%	-15.2%	14.2%	25.7%	7.9%
Operating Profit	50.5	42.2	48.3	61.3	66.0	Operating Profit	-10.1%	-16.4%	14.6%	26.8%	7.6%
Int Income	1.6	1.3	1.5	1.1	0.8	Pre-tax Income	-16.9%	-19.0%	14.2%	27.8%	7.1%
PBT	53.1	43.0	49.1	62.8	67.2	Net Income	-14.6%	-25.3%	20.8%	28.6%	9.2%
Taxation	-12.3	-12.3	-12.5	-15.1	-16.1	Profitability (%)					
Minority Interest	-0.6	-0.7	-0.2	-1.0	-1.0	EBITDA Margin	21.1%	18.9%	17.4%	16.8%	16.3%
Net Profit	40.3	30.1	36.4	46.7	51.1	Operating Margin	19.9%	17.6%	16.2%	15.8%	15.3%
						PBT Margin	21.0%	17.9%	16.5%	16.2%	15.6%
						Core Net Margin	15.9%	12.5%	12.2%	12.1%	11.9%
						Effective Tax Rate	-23.1%	-28.5%	-25.5%	-24.0%	-
						ROE	15.9%	11.9%	14.1%	17.4%	18.1%
						ROA	13.0%	9.8%	11.3%	13.8%	14.4%
						DuPont Analysis					
						Net Margin (%)	15.9%	12.5%	12.2%	12.1%	11.9%
						Assets Turnover (x)	0.82	0.78	0.93	1.15	1.22
						Leverage Factor (x)	1.22	1.20	1.25	1.26	1.26
						ROE (%)	15.9%	11.9%	14.1%	17.4%	18.1%
						Leverage					
						Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
						Net Cash/(Debt)	54.3	44.4	53.3	33.2	30.7
						Net Debt/Equity (x)	Cash	Cash	Cash	Cash	Cash
						Valuations					
						EPS (sen)	20.5	15.4	18.8	24.2	26.5
						NDPS (sen)	14.0	15.0	15.0	18.3	19.8
						BV (RM)	1.30	1.30	1.33	1.39	1.46
						PER (x)	18.4	24.4	20.0	15.6	14.2
						Net Div. Yield (%)	3.7%	4.0%	4.0%	4.9%	5.3%
						P/BV (x)	2.91	2.91	2.90	2.83	2.71
						EV/EBITDA (x)	12.7	12.7	15.2	13.1	10.8

Balance Sheet

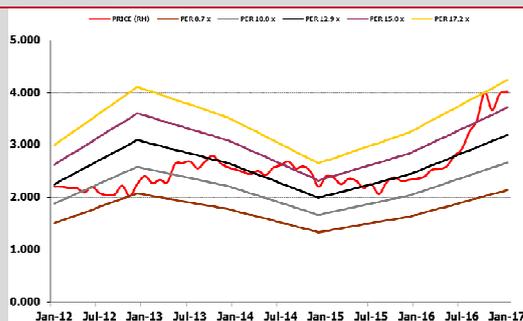
FY Apr (RM m)	2014A	2015A	2016A	2017E	2018E
Fixed Assets	106.5	64.6	66.3	77.5	106.5
Intangible Assets	0.1	0.1	0.1	0.1	0.1
Other FA	5.8	55.1	54.3	54.7	5.8
Inventories	58.5	58.2	68.2	88.8	58.5
Receivables	14.1	16.9	23.6	28.5	14.1
Other CA	63.8	62.7	53.8	53.8	63.8
Cash	59.9	48.3	54.4	34.3	59.9
Total Assets	308.8	305.9	320.6	337.7	308.8
Payables	13.2	12.1	44.4	49.0	13.2
ST Borrowings	3.2	3.9	1.1	1.1	3.2
Other ST Liability	24.3	23.9	6.1	6.1	24.3
LT Borrowings	2.4	0.0	0.0	0.0	2.4
Other LT Liability	0.1	0.1	0.1	0.1	0.1
Minorities Int.	11.5	12.0	11.6	12.6	11.5
Net Assets	254.1	253.9	257.4	268.8	281.6
Share Capital	101.1	101.1	101.1	101.1	101.1
Reserves	153.0	152.8	156.3	167.7	180.5
Equity	254.1	253.9	257.4	268.8	281.6

Cashflow Statement

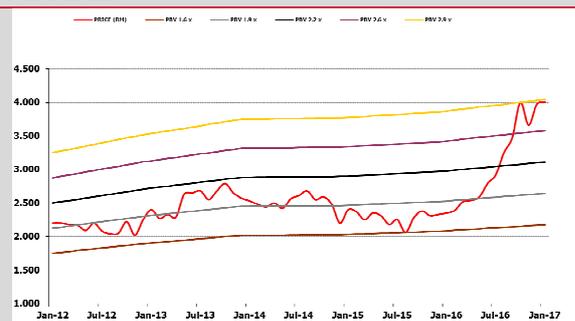
FY Apr (RM m)	2014A	2015A	2016A	2017E	2018E
Operating CF	29.1	27.5	44.8	29.2	45.0
Investing CF	-0.9	-9.2	-2.6	-15.0	-10.0
Financing CF	-32.5	-32.0	-36.1	-34.2	-37.5
Change In Cash	-4.3	-13.7	6.1	-20.0	-2.5
Free CF	38.8	25.1	52.4	29.3	51.1

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

09 January 2017

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				
Consumer - Retail															
AEON CO (M) BHD	2.56	3,594.2	26.9	49.2	38.8	1.6%	7.4%	1.97	133.4	73.7	92.1	-44.8%	25.0%	2.06	UP
AMWAY (MALAYSIA) HLDGS BHD	7.50	1,232.9	19.3	21.9	17.7	3.9%	29.3%	6.00	63.9	56.2	69.5	-12.1%	23.7%	8.04	MP
HAI-O ENTERPRISE BHD	3.94	760.1	20.9	16.3	14.9	4.6%	14.1%	2.96	36.4	46.7	51.1	28.6%	9.2%	4.03	MP
PADINI HOLDINGS BERHAD	2.58	1,697.4	12.4	12.2	10.5	4.7%	26.3%	3.62	137.4	139.0	162.1	1.1%	16.6%	2.66	MP
PARKSON HOLDINGS BHD	0.65	689.3	(7.8)	(15.4)	14.7	7.8%	-3.1%	0.28	(105.6)	(46.4)	48.2	-56.1%	-203.9%	0.66	UP
Consumer - F&B															
DUTCH LADY	55.14	3,529.0	25.0	22.4	21.1	4.4%	86.4%	22.41	141.0	157.2	167.5	11.5%	6.6%	58.42	MP
NESTLE (M)	78.28	18,356.7	31.1	27.5	25.8	3.4%	69.1%	25.92	590.7	668.2	711.1	13.1%	6.4%	82.10	MP
OLDTOWN BHD	1.85	835.2	15.1	14.6	13.5	3.5%	15.3%	2.31	55.3	57.4	61.9	3.7%	7.9%	2.11	OP
QL RESOURCES BHD	4.32	5,391.5	28.1	25.6	23.6	1.2%	12.7%	3.40	192.0	211.4	229.0	10.1%	8.3%	4.16	UP
Consumer - Sin															
BRITISH AMERICAN TOBACCO BHD	43.00	12,277.8	13.5	17.1	16.6	5.1%	162.0%	22.51	910.1	719.1	740.1	-21.0%	2.9%	46.40	MP
CARLSBERG BREWERY MALAYSIA B	13.94	4,288.2	18.8	19.0	17.2	5.2%	61.9%	12.52	228.5	226.1	250.1	-1.1%	10.6%	14.30	MP
HEINEKEN MALAYSIA BHD	16.98	5,129.6	23.9	19.7	18.0	4.8%	74.5%	13.58	214.2	259.9	285.0	21.3%	9.7%	18.48	OP

Source: Bloomberg, Kenanga Research

09 January 2017

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 2626 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research