

Driven by MLM

Hai-O reported a 9M17 core net profit improvement of 63.0% yoy to RM41.0m, in line with our estimates but above consensus. The group's multi-level-marketing (MLM) division continued to drive earnings as the number of distributors continued to grow strongly. We maintain our earnings and BUY call with a TP of RM3.93 post the company's recent 1-for-2 bonus issue.

9M17 in line with expectations

Hai-O recorded an increase in 9M17 revenue by 36.3% yoy to RM285.6m, whereas core net profit increased by 63.0% yoy to RM41.0m. This was in line with our forecasts but above consensus expectations, accounting for 74% and 80% of full-year estimates. The 9M17 EBIT margin also increased by 3.1ppts yoy to 19% as EBIT margins improved in all three segments (MLM: +2.3ppts yoy to 19.8%, Wholesale: +5.6ppts yoy to 17.4% and Retail: +1 ppts yoy to 3.5%).

MLM division growing strongly

The group's 9M17 results continue to be driven by its MLM division (75% of revenue) where turnover and PBT for its MLM segment increased by 59% yoy and 80% yoy to RM213.3m and RM42.3m, respectively. We attribute this to the group's growing distributor force which is currently growing at an average of 6,000 distributors/mth and has reached over 100,000 distributors ytd. We believe its "small ticket" items in the personal & household, beverage and healthcare segments and the launch of two new products in the food and beverage category during the financial year also have contributed positively to earnings. The wholesale division (14% of revenue) recorded a decrease in revenue of 4% yoy due to the increase in ASP which affected sales volume, but saw EBIT rise strongly by 42% yoy to RM6.9m due to higher margin sales from premium products. The retail division posted a slight drop in revenue by 3% yoy due to weak consumer sentiment but an increase in EBIT by 42% to RM1.0m due to the rationalisation of non-performing outlets.

Maintain BUY with TP of RM3.93 post recent bonus issue

We keep our TP unchanged at RM 3.93*, based on a PE ratio of 18x on CY17E EPS, still at a 14% discount to local peer Amway's 3 year PE ratio of 20.7x. Note that HAI-O has been actively buying back its shares and currently holds close to 4.6% of its total issued and paid-up share capital, which brings up the possibility of a share-dividend distribution to shareholders. Key risks to our call: i) loss of distributors in the MLM division; ii) lack of new exciting products to enhance growth; and iii) further weakness in the wholesale/retail division.

Earnings & Valuation Summary

FYE Apr	2015	2016	2017E	2018E	2019E
Revenue (RMm)	239.9	297.6	399.4	474.5	542.8
EBITDA (RMm)	48.5	51.7	79.2	96.8	110.2
Pretax profit (RMm)	43.0	49.1	75.3	92.8	106.2
Net profit (RMm)	30.1	36.3	55.3	68.1	77.9
EPS (sen)*	10.3	12.4	18.8	23.2	26.6
PER (x)	32.2	26.6	17.5	14.2	12.4
Core net profit (RMm)	30.1	36.3	55.3	68.1	77.9
Core EPS (sen)*	10.3	12.4	18.8	23.2	26.6
Core EPS growth (%)	-25.3	20.8	52.1	23.2	14.4
Core PER (x)	32.2	26.6	17.5	14.2	12.4
Net DPS (sen)	10.0	10.0	12.2	15.1	17.3
Dividend Yield (%)	3.0	3.0	3.7	4.6	5.2
EV/EBITDA (x)	17.9	16.7	11.0	8.8	7.5
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.1	1.2	1.1

Source: Company, Affin Hwang estimates; *adjusted for 1-for-2 bonus issue effective 28 Mar 2017

Results Note

HAI-O

HAIO MK
Sector: Consumer

RM3.30 @ 29 March 2017

BUY (maintain)

Upside 19%

Price Target: RM3.93*

Previous Target: RM3.93*

*TP adjusted for 1-for-2 bonus issue effective 28 Mar 2017



Price Performance

	1M	3M	12M
Absolute	+12.8%	+25.0%	+102%
Rel to KLCI	+9.1%	+17.0%	+98%

Stock Data

Issued shares (m)	289.4
Mkt cap (RMm)/(US\$m)	955/216.1
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	1.61-3.34
Est free float	50.8%
BV per share (RM)	0.9
P/BV (x)	3.66
Net cash/ (debt) (RMm) (9M17)	63.11
ROE (2017E)	21.0%
Derivatives	Nil
Shariah Compliant	NO

Key Shareholders

Kai Hee Tan	10.1%
Akintan Sdn Bhd	7.9%
Siow Eng Tan	7.0%

Source: Affin Hwang, Bloomberg

Yap Po Leen
(603) 2146 7547
poleen.yap@affinhwang.com

Fig 1: Results Comparison

FYE Apr (RMm)	3Q17	QoQ % chg	YoY % chg	9M17	YoY % chg	Comments
Revenue	107.2	7.4	33.1	285.6	36.3	Higher YoY mainly due to growth in distributors from the MLM division, coupled with launch of new products.
Op costs	(84.9)	7.9	27.3	(228.8)	31.6	QoQ expansion due to revenue generated from personal care and household consumer products.
EBITDA	22.3	5.6	61.0	56.8	59.3	
EBITDA margin (%)	20.8	-0.4ppts	+3.6ppts	19.9	+2.9ppts	
Depn and amort	(0.9)	3.0	7.4	(2.7)	7.9	
EBIT	21.4	5.7	64.6	54.2	63.2	
EBIT margin (%)	19.9	-0.3ppts	+3.8ppts	19.0	+3.1ppts	EBIT margin expansion due to growth from MLM segment, higher-margin products from the wholesale segment and lower operating costs from rationalization of non performing outlets.
Int expense	(0.0)	43.5	(61.6)	(0.1)	(36.9)	
Int and other inc	0.4	(7.6)	33.0	1.0	12.4	
Associates	0.0	0.0	0.0	(0.4)	n.m	
Exceptional items	0.0	0.0	0.0	0.0	0.0	
Pretax	21.7	6.8	64.8	54.6	61.3	
Tax	(6.0)	36.7	83.3	(13.6)	61.2	
Tax rate (%)	27.8	+6.1ppts	+2.8ppts	24.9	-0.0ppts	Current quarter effective tax rate higher due to certain expenses not deductible for tax purposes.
MI	(0.3)	>100	>100	(0.0)	(96.3)	
Net profit	15.4	(3.4)	57.0	41.0	63.0	
EPS (sen)	5.3	(3.4)	57.0	14.2	63.0	
Core net profit	15.4	(3.4)	57.0	41.0	63.0	In-line expectations.

Source: Affin Hwang, Company data

	2012	2013	2014	2015	2016
External Revenue					
Wholesale	48.7	50.7	56.3	56.6	54.4
MLM	141.1	167.0	149.3	135.6	198.3
Retail	42.8	42.2	40.1	40.6	38.3
Others	6.9	8.0	7.8	7.1	6.6
Total revenue	239.5	267.9	253.4	239.9	297.6
% contribution to revenue					
Wholesale	20.3%	18.9%	22.2%	23.6%	18.3%
MLM	58.9%	62.3%	58.9%	56.5%	66.6%
Retail	17.9%	15.8%	15.8%	16.9%	12.9%
Others	2.9%	3.0%	3.1%	2.9%	2.2%
	100%	100%	100%	100%	100%

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com