

Company Result

30 March 2017

Hai-O Enterprise Berhad

HOLD

Flying high

Maintained

Share Price	RM3.30
Target Price	RM3.21

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)	289.39
Par Value (RM)	0.50
Market cap. (RMm)	960.78
52-week price Range	RM1.61– 3.68
Beta (against KLCI)	0.61
3-m Average Daily Volume	0.31m
3-m Average Daily Value [^]	RM0.94m

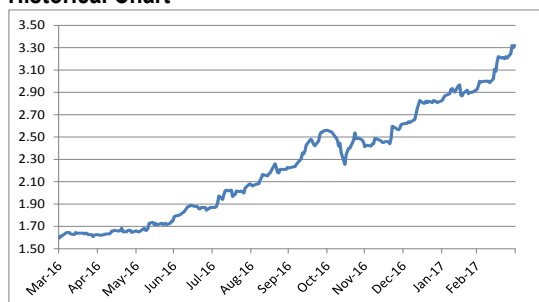
Share Performance

	1m	3m	12m
Absolute (%)	13.4	25.4	100
Relative (%-pts)	9.8	17.7	96.3

Major Shareholders

	%
KAI HEE TAN	10.08
AKINTAN SDN BHD	7.86
SLOW ENG TAN	6.98

Historical Chart



Source: Bloomberg

Team Coverage

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- **Hai-O reported net earnings of RM15.4mill in 3QFY17, down 3.4% qoq but up +57% yoy.** Meanwhile, revenue stood at RM107.2mill, rising 7.4% qoq and 33.1% yoy.
- As for 9MFY17, the group's net earnings stood at RM41mill, +61.8% yoy, on the back of higher revenue, +36.3% yoy to RM285.6mill.
- **Above expectations.** The Group's 9MFY17 earnings were above our expectations while in line with consensus expectations, accounting for 87.6% and 80.4% respectively, thanks to stellar performance in its MLM division coupled with surprised growth in its retail division.

Comment

- **MLM strategy continued to yield greater results.** MLM division posted an astonishing topline and bottomline growths in 3QFY17 for its yearly and quarterly bases. The impressive growth was aided by higher recurring sales volume with more than 70% from the "small ticket items", which comprise of food & beverage, personal care, skincare series and household products. In addition, the higher number for new member recruitment also boosted the performance as MLM members increased to an average of 6,000 members per month. Furthermore, the substantial increase in the renewed members also spilled over to this quarter.
- Similarly, during the 9MFY17, the Group's MLM segment recorded a double digit growth in its topline and bottomline as compared to the preceding year. This was mainly due to the continuous intensive recruitment campaign which targeted on younger generation of distributors who are savvy in digital marketing and dealing via e-commerce platform, boosted the number of new recruited members. In addition, the launch of two new products from food & beverage category during the financial year also contributed to additional sales to the division.
- **Wholesales division was aided by internal sales.** During the 9MFY17, wholesales division posted a marginally lower external revenue by about 4% yoy. This was due to discouraging sales of Chinese medicated wine as medical halls were more cautious in keeping their stock level in view of weak consumer sentiment. Despite the lower topline recorded during the period, PBT managed to sustained higher growth of 41.9% yoy, mainly attributable

to higher contribution from inter-segment sales and higher profit margin from external sales of premium products.

- Similarly, during 3QFY17, the wholesales division posted a decline in its revenue caused by lower sales generated from duty-free market. Meanwhile the increase in its PBT on quarterly basis was mainly attributable to higher contribution from inter-segment sales.
- **Healthy performance by retail division.** During 9MFY17, retail division managed to post a positive growth in its topline and bottomline. The topline increased marginally by about 2.8% while PBT increased about 42.4% in view of the CNY sales fell on 3QFY17. The impressive jump in bottomline mainly due to lower operating costs from ongoing rationalisation plan of non-performing outlets.
- In addition, the retail division's 3QFY17 PBT managed to record positive growths on quarterly and yearly bases despite an overall weak consumer sentiment. This was in line with the higher growth in topline backed by Chinese New Year ("CNY") sales during this quarter supported by effective advertising & promotion campaign and customers' loyalty program.
- **Continuous efforts to improve all divisions.** The Group is constantly monitoring the key risk factors and find ways to mitigate the negative impacts by introducing more new products coupled with the innovative A&P programs. Recently, the MLM division has launched its skin care series products under a new brand "Infinence" and will continue its various ongoing marketing events including to carry out incentive sales campaign and Top Leaders Recognition Nite in the next quarter to keep its business momentum going. In addition, the wholesale division will continue to explore more new agencies with its principals and will carry out a sales promotion while the retail division is working on more new house brand products to widen its product portfolio and will house more Chinese physicians for its outlets to complement its retail business. Meanwhile, for its retail division, the Group is also looking for strategic sites for relocation of existing retail outlets and scale-down the non-performing outlets.

Earnings Outlook/Revision

- **We revise upward both our earnings forecast for FY17F and FY18F by 10.9% and 11% respectively as we anticipate stronger sales momentum.**

Valuation & Recommendation

- **Our call on Hai-O is kept at HOLD but with a higher target price of RM3.21 (previous: RM2.50 after adjusted for bonus issue) after our earnings upgrade and applying higher target PER.** Our target price is now pegged at 17x FY2018F PE (+2sd) based on EPS of 18.9 sen.
- **MLM division continues to shine.** While we reckon that MLM division will continue to underpin the Group's bottomline and topline growth since more than 75% of

total revenue come from MLM division with its aggressiveness of new members recruiting, we think that current valuation is stretched as positives have been factored in.

Figure 1: Quarterly Figures

Year to 30 Apr	3QFY17 (RMm)	2QFY17 (RMm)	3QFY16 (RMm)	QoQ % chg	YoY % chg	9MFY17 (RMm)	9MFY16 (RMm)	YoY % chg
Revenue	107.2	99.8	80.5	7.4%	33.1%	285.6	209.5	36.3%
Operating Profit	21.4	20.2	13.1	5.8%	63.0%	54.2	33.3	62.6%
Pre-tax Profit	21.7	20.3	13.2	6.8%	64.8%	54.6	33.9	61.3%
Profit After Tax	15.7	15.9	9.9	-1.5%	58.6%	41.0	25.4	61.3%
Net Profit	15.4	15.9	9.8	-3.4%	57.0%	41.0	25.3	61.8%
MARGIN (%)								
Operating	20.0%	20.3%	16.3%	-0.3ppt	3.7ppt	19.0%	15.9%	3.1ppt
Profit Before Tax	20.2%	20.4%	16.4%	-0.1ppt	3.9ppt	19.1%	16.2%	3.0ppt
Profit After Tax	14.6%	15.9%	12.3%	-1.3ppt	2.3ppt	14.4%	12.1%	2.2ppt
Net Profit Margin	14.3%	15.9%	12.2%	-1.6ppt	2.2ppt	14.4%	12.1%	2.3ppt

Source: Company, JF Apex

Figure 2: Revenue and PBT by divisions

Year to 30 Apr	3QFY17 (RMm)	2QFY17 (RMm)	3QFY16 (RMm)	QoQ % chg	YoY % chg	9MFY17 (RMm)	9MFY16 (RMm)	YoY % chg
Segment Revenue								
MLM	79.41	77.48	52.21	2.50%	52.10%	213.3	134.5	58.6%
Wholesales	14.23	11.66	15.57	22.01%	-8.60%	40.0	41.7	-4.0%
Retail	12.47	9.28	10.98	34.47%	13.60%	28.9	28.1	2.8%
Total Revenue	106.12	98.42	78.76	7.82%	34.73%	282.2	204.3	38.2%
Segment Profit Before Tax								
MLM	16.81	15.83	10.12	6.20%	66.13%	42.3	23.5	80.3%
Wholesales	2.47	2.71	1.51	-8.99%	63.51%	7.0	4.9	41.9%
Retail	1.07	0.48	0.18	120.45%	496.09%	1.0	0.7	42.4%
Total Profit Before Tax	20.35	19.03	11.81	6.94%	72.31%	50.3	29.1	72.9%
Segment PBT margin								
MLM	21.17%	20.43%	19.38%	0.74%	1.79%	19.8%	17.5%	2.4%
Wholesales	17.35%	23.26%	9.70%	-5.91%	7.65%	17.4%	11.8%	5.6%
Retail	8.55%	5.22%	1.63%	3.34%	6.92%	3.5%	2.5%	1.0%

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	352.9	413.2
Operating profit	52.1	41.8	48.3	67.0	82.6
Net profit	40.3	29.8	36.4	51.9	58.3
Net profit growth (%)	-14.6%	-26.1%	22.2%	42.7%	12.4%
EPS (sen)	13.3	9.8	12.0	17.1	19.2
P/E (x)	24.9	33.6	27.5	19.3	17.2
P/BV (x)	3.8	3.8	3.7	3.7	3.6
Dividend yield (%)	3.2%	3.4%	3.3%	4.0%	4.1%
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%	19.0%	21.0%

*The figure has been adjusted based on the new outstanding shares after bonus issue of 1 for 2 which was completed on 28 March 2017.

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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