

Company Update

11 April 2017

Hai-O Enterprise Berhad

HOLD

Making the big leap

Maintained

Share Price	RM3.78
Target Price	RM3.91

What's New

- **We are positive on Hai-O's prospects following our company visit lately.** We acknowledge that the Group's resilient earnings growth is still intact underpinned by impressive performance of its key revenue driver, MLM division which contributes more than 75% of the Group's topline, particularly on its aggressiveness of new members recruitment with an average of 5000-6000 members/month.

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)	1093.90
52-week price Range	RM1.63– 3.80
Beta (against KLCI)	0.61
3-m Average Daily Volume	0.34m
3-m Average Daily Value ^A	RM1.06m

Comment

- **MLM continues to render stellar growth.** To recap, the Group has launched two new products during the financial year. These two products, i.e. "N'licious" and "Infinence" have contributed to the topline growth in addition to the existing "small-ticket" items that have been the major contributor to MLM division over the past few years. In addition, the Group's successful rebranding campaign activities have rendered 58.6% topline and 80.3% bottom line growths for its MLM division for 9MFY17.
- **MLM growth trajectory is expected to be sustainable.** The rising number of new members which are mostly young, energetic and tech-savvy generation has boosted the MLM sales with their creative marketing strategies especially in digital marketing and e-commerce platform. The success of the strong surge in new members was mainly attributable to: a) growing entrepreneurship among the youngster especially under prevalent youth unemployment; b) attractive commission scheme, incentive trips, member retention programme and lower entry cost; as well as c) higher marketability and turnover of its 'small-ticket' items in the likes of health supplements and personal care products.
- **Launch of new product to boost the MLM's topline and bottomline.** Last month, the Group has launched its new product, Hijab and other accessories during its overseas incentive trip. Management highlighted that, in a short period of time, it has already received orders from its members. We are extremely positive on this new product which could contribute double-digit growth to its sales in the coming financial year.
- **Expected recovery in wholesale division.** The Group will further explore its business opportunities with its suppliers in China or locally to widen its product distribution channels. Moreover, the Group will be aggressively adopting E-commerce platform with regular updates and promotional activities from social media, due to the changing buying patterns of customers. Management expects to see some recovery in this segment of business

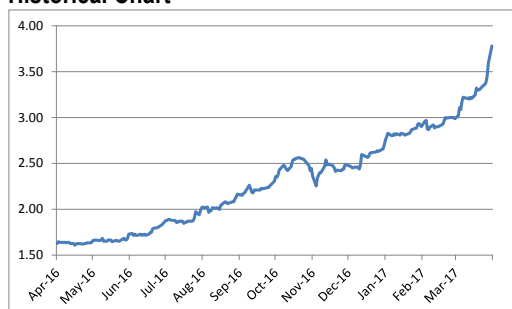
Share Performance

	1m	3m	12m
Absolute (%)	26.6	14.2	122.4
Relative (%-pts)	25.0	32.9	119.7

Major Shareholders

	%
SIOU ENG TAN	10.48
KAI HEE TAN	10.10
AKINTAN SDN BHD	7.86

Historical Chart



Source: Bloomberg

Team Coverage

03-87361118, ext. 755

nazhatulshaza@jfapex.com.my

with the new agencies secured from Taiwan and China for its Kavalan whiskies and Yanghe Blue Classic Series. However, the outlook remains challenging due to reduction in consumer spending arising from higher cost of living as well as uncertainty in economic conditions.

Earnings Outlook/Revision

- **We raise our earnings forecast for FY17F and FY18F by 10.4% and 17.8% respectively** as we foresee the Group to chalk up another better result for its MLM division in coming quarters amid continued growth in its recruited members coupled with a few new products being launched.

Valuation & Recommendation

- **Maintain HOLD call on Hai-O with a higher target price of RM3.91 (previous: RM3.21) as we revised upwards our earnings forecast.** We now peg our target price at 17x (+2std above mean) FY2018F PE based on EPS of 23 sen. While we like the Group for its strong prospects, our target price renders a meager 3.4% upside to the current share price.
- **MLM division as a core growth driver will continue to underpin Hai-O's earnings.** We believe the strong performance of MLM division with the frequent innovation of new products could contribute to higher sales and earnings amid prevailing softer consumer sentiment and cushion the sluggish performance from its lackluster wholesale and retail divisions.

Figure 1: Financial Summary

Year to 30 April (RMm)	FY2014	FY2015	FY2016	FY2017F	FY2018F
Revenue	253.5	239.9	298.1	409.3	501.4
Revenue Growth (%)	-4.9%	-5.4%	24.2%	37.3%	22.5%
Operating profit	52.1	41.8	48.3	76.9	95.3
Operating profit growth (%)	-17.5%	-19.6%	15.6%	59.2%	23.8%
Net profit	40.3	29.8	36.4	57.3	68.7
Net profit growth (%)	-14.6%	-26.1%	22.2%	57.6%	19.9%
EPS (sen)	0.13	0.10	0.12	0.19	0.23
DPS (sen)	7.9	9.2	9.2	16.0	16.0
Dividend yield (%)	2.4%	2.7%	2.7%	4.7%	4.6%
P/E (x)	28.0	37.9	31.0	19.7	16.4
P/BV (x)	4.3	4.2	4.2	4.1	4.1
Operating margin (%)	20.5%	17.4%	16.2%	18.8%	19.0%
PBT margin (%)	21.0%	17.8%	16.5%	19.0%	19.1%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROE (%)	15.2%	11.2%	13.5%	21.0%	24.8%

Source: Company, JF Apex Estimates

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:

Lim Teck Seng
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)
Zairul Azman (ext 746)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Nursuhaiza binti Hashim (ext 752)
Low Zy Jing (ext 754)
Nazhatul Shaza binti Shukor (ext 755)

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

JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:
JF Apex Securities Berhad (47680-X)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)