

30 June 2017

# Hai-O Enterprise Bhd

## Above Our Expectation

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**FY17 net profit of RM59.3m (+63%) came above our expectation (109% of forecast). The positive deviation can be attributed to the stronger-than-expected performance in MLM division. Post results, we upgrade our FY18E earnings forecast to RM75.7m (+9.3%) and we introduced our FY19E earnings forecast of RM98.3m. Maintain MARKET PERFORM with a higher Target Price of RM4.00 (from TP of RM3.64, previously).**

**Above our expectation.** FY17 net profit of RM59.3m (+63%) was above our expectation at 109% of full-year forecast. Consensus comparison is not available as the stock is not widely tracked. The positive deviation can be attributed to the stronger-than-expected performance in MLM division. Final single-tier dividend of 11.0 sen was declared, bringing the total DPS for FY17 to 16.0 sen (FY16:15.0 sen).

**YoY,** FY17 revenue surged 36% to RM404.0m, mainly driven by impressive growth in MLM division (+55%) thanks to the strengthening of distributor base to c.143k (FY16: c.83k distributors) and the success in re-branding key beverage product "Min kaffe". Correspondingly, EBIT jumped to RM77.3m (+60%), with expanded margin of 19.1% (+2.9pts), again boosted by MLM division (+73%), the MLM division contributed 80% of the FY17 group EBIT (FY16:74%). Coupled with a lower effective tax rate of 24.2% (FY16: 25.5%), FY17 net profit grew stronger by 63% to RM59.3m.

**QoQ,** 4Q17 revenue climbed 10% to RM118.4m, from improvement in MLM division (+20%), mainly due to the successful year-end overseas incentive trip sales campaign with higher sales volume generated from most of the products. The overwhelming response from Top Leaders Recognition Night and several mega events helped to keep its business momentum going. Correspondingly, EBIT was higher at RM23.2m (+8%), attributed by higher sales and A&P subsidy from suppliers in MLM division (+14%). Coupled with the lower effective tax rate of 22.7% (3Q17:27.8%), net profit was higher at RM18.2m (+16%).

**MLM steady momentum.** MLM continued with its momentum, which was driven by both expansion in distributor base and the strong productivity on the back of the effective product strategy and reward incentive system. The increased contribution of MLM division has also reduced the risks of other operating divisions, including wholesale and retail divisions, which are exposed to currency risk and weak consumer sentiment. Moving forward, the company is expanding its MLM business, venturing into fashion and beauty care under the brand "Infinence", supported by the expertise of the company non-independent and non-executive director Prof. Datuk Dr Choo Yeang Keat (a.k.a. "Jimmy Choo") and professional consultants (currently Rizman Ruzaini).

**Post results, we upgrade our FY18E earnings forecasts to RM75.7m (+9.3%) and we introduce our FY19E earnings forecast of RM98.3m,** on higher distributors base assumptions. Correspondingly, with the earnings upgrade, our **TP is lifted to RM4.00** from RM3.64, based on a target PER of 15.2x, implying +1.5 SD over the 5-year mean, against FY18E EPS. Reiterate **MARKET PERFORM**.

# MARKET PERFORM ↔

**Price:** RM3.90  
**Target Price:** RM4.00 ↑

### Share Price Performance



KLCI	1,771.36
YTD KLCI chg	7.9%
YTD stock price chg	47.4%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	1,128.6
Issued shares	289.4
52-week range (H)	3.98
52-week range (L)	1.80
3-mth avg daily vol:	441,697
Free Float	75%
Beta	0.7

### Major Shareholders

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

### Summary Earnings Table

FY April (RM'm)	2017A	2018E	2019E
Turnover	404.0	529.3	684.5
EBIT	77.3	96.9	126.3
PBT	78.1	98.3	128.1
<b>Net Profit (NP)</b>	<b>59.3</b>	<b>75.7</b>	<b>98.3</b>
Earnings Revision	-	9.3%	-
EPS (sen)	20.5	26.2	34.0
EPS growth (%)	62.1%	27.8%	29.9%
NDPS (sen)	16.0	19.6	25.5
BV/Share (RM)	0.98	1.05	1.13
PER	19.0	14.9	11.5
Price/BV (x)	4.0	3.7	3.4
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	4.1%	5.0%	6.5%

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### Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Apr (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	118.4	107.2	10.4%	88.1	34.3%	404.0	297.6	35.7%
EBIT	23.2	21.4	8.2%	15.0	54.2%	77.3	48.3	60.0%
PBT	23.5	21.7	8.4%	15.2	54.6%	78.1	49.1	59.2%
Taxation	-5.3	-6.0	-11.5%	-4.1	30.9%	-18.9	-12.5	51.3%
Net Profit (NP)	18.2	15.7	16.0%	11.2	62.6%	59.3	36.3	63.1%
EPS (sen)	6.3	5.4	16.0%	3.9	62.6%	20.5	12.6	63.1%
EBIT margin	19.6%	20.0%		17.0%		19.1%	16.2%	
PBT margin	19.9%	20.2%		17.3%		19.3%	16.5%	
NP margin	15.4%	14.6%		12.7%		14.7%	12.2%	
Effective tax rate	22.7%	27.8%		26.8%		24.2%	25.5%	

Source: Company, Kenanga Research

### Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Apr (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
- Multi-Level-Marketing	95.4	79.4	20.1%	64.2	48.6%	308.7	198.7	55.4%
- Wholesale	12.6	14.2	-11.2%	12.8	-1.1%	52.6	54.4	-3.3%
- Retail	9.4	12.4	-24.5%	10.2	-8.6%	38.1	38.3	-0.4%
- Others	1.0	1.1	-12.8%	1.4	-27.8%	4.5	6.6	-32.6%
Group Revenue	118.4	107.2	10.4%	88.6	33.6%	404.0	297.6	35.7%
- Multi-Level-Marketing	19.2	16.8	13.9%	12.0	59.8%	61.5	35.5	73.3%
- Wholesale	2.1	2.5	-13.3%	0.8	161.0%	9.1	5.7	58.9%
- Retail	0.3	1.1	-73.9%	0.9	-69.4%	1.3	1.6	-20.6%
- Others	1.4	1.5	-10.9%	1.2	19.3%	5.6	5.4	2.0%
- Elimination	0.2	-0.5	-140.6%	0.2	17.4%	-0.2	0.1	-345.9%
Group EBIT	23.2	21.4	8.2%	15.0	53.9%	77.3	48.3	60.0%
- Multi-Level-Marketing	20.1%	21.2%		18.7%		19.9%	17.9%	
- Wholesale	16.9%	17.3%		6.4%		17.3%	10.5%	
- Retail	3.0%	8.6%		8.9%		3.4%	4.2%	
- Others	137.3%	134.5%		83.2%		124.3%	82.2%	
Group EBIT Margin	19.6%	20.0%		17.0%		19.1%	16.2%	

Source: Company, Kenanga Research

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### Peer Comparison

NAME	Price (29-June-17)	Mkt Cap	PER (x)			Est. Div. Yld.	Historical ROE	P/BV	Net Profit (RMm)			1Y Fwd Growth	2Y Fwd Growth	Target Price	Rating
	(RM)	(RMm)	Historical	1Y Fwd	2Y Fwd				(x)	Historical	1Y Fwd	2Y Fwd	(%)	(%)	
<b>Consumer - Retail</b>															
Aeon Co (M) Bhd	2.24	3,145.0	42.0	34.0	31.3	1.8%	3.9%	1.69	75.0	92.4	100.5	23.3%	8.7%	2.38	MP
Amway (Malaysia) Holdings Bhd	7.45	1,224.7	22.4	20.4	17.3	4.0%	23.4%	5.82	54.6	60.0	70.7	9.7%	17.9%	8.17	MP
Hai-O Enterprise Bhd	3.90	1,128.6	19.0	14.9	11.5	5.0%	21.9%	3.96	59.3	75.7	98.3	27.8%	29.9%	4.00	MP
Padini Holdings Bhd	3.55	2,335.6	17.0	14.6	12.5	4.1%	31.1%	4.98	137.4	160.4	186.9	16.7%	16.5%	3.80	OP
Parkson Holdings Bhd	0.57	608.3	(6.9)	(13.6)	13.0	8.8%	-4.6%	0.25	(105.6)	(46.4)	48.2	-56.1%	-203.9%	0.88	OP
<b>Consumer - F&amp;B</b>															
Dutch Lady Milk Industries Bhd	58.16	3,722.2	25.0	25.7	23.4	4.1%	75.7%	22.49	149.1	144.6	159.2	-3.0%	10.0%	55.44	MP
Nestle (M) Bhd	83.48	19,576.1	30.7	28.9	27.9	3.2%	75.9%	30.25	637.1	677.9	702.7	6.4%	3.7%	83.90	MP
Oldtown Bhd	2.88	1,334.1	21.0	17.6	16.8	3.8%	16.6%	3.42	60.8	72.4	76.0	19.1%	5.0%	2.95	MP
Power Root Bhd	2.38	770.22	16.9	13.9	13.1	5.0%	17.8%	2.94	43.5	53.0	56.4	21.8%	6.4%	2.90	OP
QL Resources Bhd	4.90	6,115.3	31.2	28.3	26.9	1.0%	11.7%	3.50	195.9	216.2	227.1	10.4%	5.0%	4.70	MP
<b>Consumer - Sin</b>															
British American Tobacco Bhd	43.50	12,420.6	18.4	19.8	18.5	4.9%	152.3%	20.25	675.1	626.2	670.9	-7.2%	7.1%	42.30	UP
Carlsberg Brewery Malaysia Bhd	15.02	4,620.5	22.4	19.7	17.8	4.5%	54.1%	13.49	205.0	233.7	257.8	14.0%	10.3%	14.84	MP
Heineken Malaysia Bhd	18.40	5,558.6	13.0	18.6	16.4	5.2%	75.7%	14.15	427.3	298.2	339.5	-30.2%	13.8%	21.38	OP

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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