

Outthink. Outperform.

Results Note

HAI-OHAI O MK
Sector: Consumer**RM4.70 @ 23 Mar 2018****BUY (maintain)**

Upside 37%

Price Target: RM6.44

Previous Target: RM6.44

**Price Performance**

	1M	3M	12M
Absolute	-10.6%	-13.4%	46.0%
Rel to KLCI	-10.8%	-18.3%	36.7%

Stock Data

Issued shares (m)	291.4
Mkt cap (RMm)/(US\$m)	1368.7/349.5
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	3.2-5.6
Est free float	55.3%
BV per share (RM)	1.03
P/BV (x)	4.56
Net cash/ (debt) (RMm) (3QFY18)	133
ROE (2018E)	28.0%
Derivatives	Nil
Shariah Compliant	NO

Key Shareholders

Kai Hee Tan	10.1%
Akintan Sdn Bhd	7.8%
Excellent Communicat.	5.3%

Source: Affin Hwang, Bloomberg

Tan Jun Zhang, CFA
(603) 2146 7487
junzhang.tan@affinhwang.com

Quiet quarter due to seasonality

Hai-O reported a 9M18 core net profit of RM58.6m (+43%yoy), broadly in line with our and consensus expectations. The strong growth was mainly driven by contribution from the multi-level marketing (MLM) segment and wholesale segment. 3Q18 revenue declined marginally by 4% yoy, its first decline after 11 consecutive quarters of growth, due to the timing of an incentive trip in FY17. But, we believe growth should return as 4Q18 tends to be seasonally stronger. Reiterate BUY rating with an unchanged TP of RM6.44.

9M18 earnings within expectations

Hai-O reported an increase in 9M18 revenue by 23% yoy to RM351m whereas core net profit increased by 43% yoy to RM58.6m. This was broadly in line with our and street forecasts. Sales from the MLM division grew by 28% to RM273m due to additional contribution of new products launched in 1H18 and the 25th year anniversary grand sales promotion. The wholesale division's sales increased by 16% yoy to RM46.6m on the back of higher sales from premium Chinese medicated tonic and Chinese tea. 9M18 EBIT margin improved 2.4ppts yoy to 21.3% mainly as the wholesale's EBIT margin expanded to 40% (vs. 17.4% in 9M17) arising from higher sales of high margin products.

MLM affected by timing of incentive trip

In 3Q18, MLM revenue decreased by 5% yoy to RM75.5m after the completion of the overseas incentive trip promotion campaign and 25th year anniversary grand sales promotion in 2Q18. The incentive trip campaign which ended in 3Q17 also formed a high revenue base. Nevertheless, the weakness was offset by the wholesale division which saw PBT more than double to RM8.9m, mainly generated from sales of premium medicate tonic and vintage Puer tea. Management is positive that new lifestyle products and fashion wear will contribute positively in the next quarter. The recent strength in the Ringgit should also contribute to better margins in 4Q18.

Maintain BUY with unchanged TP of RM6.44

We maintain our FY18-20E earnings forecast. HaiO intends to develop new products, and launch fashion and garment items. We believe this will sustain its MLM division's growth and expand profit margin. Hence, we maintain our TP at RM6.44 based on an unchanged target of 20x FY18E PER. We continue to like Hai-O's management quality and the company's strong earnings delivery, and thus reiterate our BUY call. 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	2016	2017	2018E	2019E	2020E
Revenue (RMm)	297.6	404.2	558.5	658.9	702.0
EBITDA (RMm)	51.7	81.1	116.7	137.0	145.8
Pretax profit (RMm)	49.1	78.3	112.5	132.7	141.4
Net profit (RMm)	36.3	59.4	84.3	99.4	106.0
EPS (sen)*	12.4	20.2	28.7	33.9	36.1
PER (x)	44.1	27.0	19.0	16.1	15.1
Core net profit (RMm)	36.3	59.4	84.3	99.4	106.0
Core EPS (sen)*	12.4	20.2	28.7	33.9	36.1
Core EPS growth (%)	20.8	63.3	42.0	18.0	6.6
Core PER (x)	44.1	27.0	19.0	16.1	15.1
Net DPS (sen)	10.0	16.0	18.7	22.0	23.5
Dividend Yield (%)	1.8	2.9	3.4	4.0	4.3
EV/EBITDA (x)	29.0	18.2	12.5	10.4	9.5
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.99	0.97	1.00

Source: Company, Bloomberg, Affin Hwang forecast

Fig 1: Results Comparison

FYE Apr (RMm)	3Q78	2Q18	3Q18	QoQ % chg	YoY % chg	9MFY17	9MFY18	YoY % chg	Comments
Revenue	107.2	123.5	103.1	(16.6)	(3.8)	285.6	351.1	22.9	In 3Q18, MLM revenue decreased by 5% yoy as earlier completion of the overseas incentive trip promotion brought sales forward to 2Q18. Wholesale revenue increased by 20% yoy due to higher sales from Chinese medicated tonic and Chinese tea
Op costs	(84.9)	(95.1)	(77.5)	(18.6)	(8.7)	(228.8)	(273.3)	19.5	
EBITDA	22.3	28.4	25.6	(9.9)	14.8	56.8	77.8	36.9	
<i>EBITDA margin (%)</i>	20.8	23.0	24.8	<i>1.8ppts</i>	<i>4.0ppts</i>	19.9	22.2	<i>2.3ppts</i>	
Depn and amort	(0.9)	(1.0)	(1.0)	3.9	11.0	(2.7)	(3.0)	10.1	
EBIT	21.4	27.4	24.6	(10.4)	14.9	54.2	74.8	38.2	
<i>EBIT margin (%)</i>	<i>19.9</i>	<i>22.2</i>	<i>23.8</i>	<i>1.6ppts</i>	<i>3.9ppts</i>	<i>19.0</i>	<i>21.3</i>	<i>2.4ppts</i>	EBIT margin improved due to the growing sales per distributor and higher contribution of premium products in wholesale division.
Int expense	(0.0)	(0.0)	(0.0)	133.3	6.1	(0.1)	(0.1)	(2.7)	
Int and other inc	0.4	0.4	0.5	3.8	30.8	1.0	1.2	27.2	
Associates	0.0	0.0	0.0	0.0	0.0	(0.4)	0.0	(106.6)	
Exceptional items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.m.	
Pretax	21.7	27.9	25.0	(10.2)	15.3	54.6	76.0	39.1	
Tax	(6.0)	(6.2)	(5.8)	(6.8)	(3.8)	(13.6)	(17.5)	29.0	
<i>Tax rate (%)</i>	<i>27.8</i>	<i>22.3</i>	<i>23.2</i>	<i>0.8ppts</i>	<i>-4.6ppts</i>	<i>24.9</i>	<i>23.1</i>	<i>-1.8ppts</i>	
MI	(0.3)	(0.2)	0.0	(115.4)	(109.5)	(0.0)	0.1	n.m.	
Net profit	15.4	21.4	19.3	(10.2)	25.3	41.0	58.6	42.8	
EPS (sen)	5.3	7.4	6.7	(10.2)	25.3	14.2	20.2	42.8	
Core net profit	15.4	21.4	19.3	(10.2)	25.3	41.0	58.6	42.8	Within our expectation, accounting for 70% of our full-year estimates. We expect a stronger 4Q18 result driven by higher MLM sales as agents would normally try to beat their year-end sales target. A stronger Ringgit and better product mix should provide earnings upside in 4Q18.

Source: Affin Hwang, Company data

	2012	2013	2014	2015	2016	2017
External Revenue						
Wholesale	48.7	50.7	56.3	56.6	54.4	52.6
MLM	141.1	167.0	149.3	135.6	198.3	308.7
Retail	42.8	42.2	40.1	40.6	38.3	38.1
Others	6.9	8.0	7.8	7.1	6.6	4.5
Total revenue	239.5	267.9	253.4	239.9	297.6	404.0
% contribution to revenue						
Wholesale	20.3%	18.9%	22.2%	23.6%	18.3%	13.0%
MLM	58.9%	62.3%	58.9%	56.5%	66.6%	76.4%
Retail	17.9%	15.8%	15.8%	16.9%	12.9%	9.4%
Others	2.9%	3.0%	3.1%	2.9%	2.2%	1.1%
	100%	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

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:
 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

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

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com