

27 June 2018

Hai-O Enterprise Bhd

FY18 Below Expectations

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OUTPERFORM ↔

Price: RM4.85
Target Price: RM6.00 ↔

FY18 net profit of RM74.8m (+26%) came in below our/consensus expectations at 89%/87% of full-year estimates due to the lower-than-expected sales and higher-than-expected effective tax rate in 4Q18. Nonetheless, we keep our FY19E assumptions unchanged as we believe that the zero-rated GST effective 1st June 2018 will drive higher sales volume. Maintain OUTPERFORM call with unchanged TP of RM6.00.

FY18 below expectations. FY18 net profit of RM74.8m (+26%) came in below our/consensus expectations at 89%/87% of full-year estimates due to the lower-than-expected sales and higher-than-expected effective tax rate in 4Q18. HAI0 considered the 4Q18 sales (+7%) which accounted for c.24% of FY18 revenue as lower than expected as 4Q typically registers c.30% of full-year sales, mainly due to the cautious consumer spending prior to the 14th General Election. The group declared a final DPS of 11.0 sen, bringing FY18 DPS to 20.0 sen (FY17: 16.0 sen), within expectation.

YoY, FY18 net profit surged 26% underpinned by: (i) higher revenue (+14%) driven by MLM division (+14%), and Wholesale division (+21%) attributable to higher sales volume from newly launched big-ticket items in its MLM fashion and beauty care range of products as well as higher Wholesale sales from health tonic and Chinese tea, and (ii) EBIT jumping 26% with expanded EBIT margin by +2.0ppt to 21.1% from 19.1% in FY17, boosted by MLM division (+12%), which contributed 71% of the FY18 group EBIT and supported by its Wholesale division (+143%), where both benefited from the sales of high-margin products (i.e. Infinence brands and premium Chinese medicated tonic).

QoQ, 4Q18 net profit declined by 16% mainly due to: (i) contraction in EBIT margin by 3.2ppt to 20.6% from 23.8% in 3Q18 due to lower inter-segment sales in wholesale division (-62%) from slower bulk purchases on premium items, and (ii) higher effective tax rate of 27.7% (3Q18:23.2%). Furthermore, HAI0 considered the 4Q18 sales (+7%) as lower-than-expected, accounting for c.24% of FY18 revenue as 4Q typically registers c.30% of full-year sales. The weaker sales this 4Q was mainly due to the cautious consumer spending prior to the 14th General Election.

Outlook. We expect MLM earnings to gain further momentum with shoes and leather goods designed locally with the consultation of Datuk Jimmy Choo which set to boost high-margin products composition as well as being supported by HAI0's 26th year anniversary grand sales promotion starting January 2018 as well as higher contribution from the newly launched fashion and beauty care range of products under the "Infinence" brand. Moving forward, the MLM division will continue to expand its lifestyle segment of which margins are better compared to F&B products. On the other hand, wholesale and retail segments are expected to maintain its high EBIT margin with the sales of high margin in-house brands (i.e. premium Chinese medicated tonic).

Maintain OUTPERFORM with an unchanged target price of RM6.00 based on 17x FY19E EPS implying +1.0SD above 5-year forward historical mean. We believe our target PER of 17x is justifiable considering HAI0's average 13% net profit growth per annum over the next two years.

We like HAI0 for its; (i) double-digit growth in distributors base (currently at c.160k), (ii) net profit growth averaging at 18% per annum over the next two years boosted by double-digit margin, and (iii) strong earnings support from high-margin products under its MLM network and leading Chinese medicine retail shops (under its other business). Risks to our call include: (i) lower-than-expected sales, and (ii) higher-than-expected operating expenses.

Share Price Performance



KLCI	1,675.86
YTD KLCI change	-6.7%
YTD stock price change	-9.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAI0 MK Equity
Market Cap (RM m)	1,411.1
Shares Outstanding	290.9
52-week range (H)	5.60
52-week range (L)	3.88
3-mth avg daily vol:	192,862
Free Float	77%
Beta	0.8

Major Shareholders

Kai Hee Tan	10.1%
Akintan Sdn Bhd	7.8%
Excellant Communication	5.3%

Summary Earnings Table

FY Apr (RM'm)	2018A	2019E	2020E
Turnover	461.8	664.4	701.9
EBIT	97.6	121.9	122.5
PBT	99.0	132.4	139.1
Net Profit (NP)	74.8	101.6	106.7
Consensus (NP)	85.8	103.8	106.0
Earnings Revision	-	-	new
EPS (sen)	25.9	35.1	36.9
EPS growth (%)	41.0%	21.3%	5.0%
NDPS (sen)	20.0	26.3	27.7
BV/Share (RM)	1.06	1.14	1.24
PER	18.8	13.8	13.2
Price/BV (x)	4.6	4.2	3.9
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	4.1%	5.4%	5.7%

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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Apr (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	110.6	103.1	7.4%	118.4	-6.5%	461.8	404.0	14.3%
EBIT	22.8	24.6	-7.2%	23.2	-1.5%	97.6	77.3	26.3%
PBT	23.1	25.0	-7.9%	23.5	-2.0%	99.0	78.1	26.8%
Taxation	-6.4	-5.8	9.9%	-5.3	19.4%	-23.9	-18.9	26.3%
Net Profit (NP)	16.3	19.3	-15.5%	18.2	-10.5%	74.8	59.3	26.3%
EPS (sen)	5.6	6.7	-15.5%	6.3	-10.5%	25.9	20.5	26.3%
EBIT margin	20.6%	23.8%		19.6%		21.1%	19.1%	
PBT margin	20.8%	24.3%		19.9%		21.4%	19.3%	
NP margin	14.7%	18.7%		15.4%		16.2%	14.7%	
Effective tax rate	27.7%	23.2%		22.7%		24.1%	24.2%	

Source: Bursa Announcement, Kenanga Research

Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Apr (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
- Multi-Level-Marketing	79.1	75.5	4.7%	95.4	-17.1%	352.5	308.7	14.2%
- Wholesale	17.0	17.1	-0.6%	12.6	34.8%	63.7	52.6	20.9%
- Retail	13.7	9.3	46.7%	9.4	46.2%	41.5	38.1	8.7%
- Others	0.9	1.1	-21.5%	1.0	-14.5%	4.1	4.5	-8.2%
Group Revenue	110.6	103.1	7.4%	118.4	-6.5%	461.8	404.0	14.3%
- Multi-Level-Marketing	16.6	14.1	17.3%	19.2	-13.4%	69.1	61.5	12.3%
- Wholesale	3.5	9.1	-62.0%	2.1	61.2%	22.2	9.1	143.0%
- Retail	1.4	0.1	>100%	0.3	397.5%	1.5	1.3	14.1%
- Others	1.2	1.5	-17.2%	1.4	-11.5%	5.1	5.6	-8.4%
- Elimination	0.2	-0.3	<100%	0.2	-21.3%	-0.2	-0.2	3.3%
Group EBIT	22.8	24.6	-7.2%	23.2	-1.5%	97.6	77.3	26.3%
- Multi-Level-Marketing	21.0%	18.7%		20.1%		19.6%	19.9%	
- Wholesale	20.3%	53.1%		16.9%		34.8%	17.3%	
- Retail	10.2%	1.4%		3.0%		3.5%	3.4%	
- Others	142.2%	134.7%		137.3%		123.9%	124.3%	
Group EBIT Margin	20.6%	23.8%		19.6%		21.1%	19.1%	

Source: Bursa Announcement, Kenanga Research

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Peer Comparison

NAME	Price (26-June-18) (RM)	Mkt Cap (RMm)	PER (x)			Est. Div. Yld.	Historical ROE	P/BV (x)	Net Profit (RMm)			1Y Fwd Growth (%)	2Y Fwd Growth (%)	Target Price (RM)	Rating
			Hist.	1Y Fwd	2Y Fwd				Hist.	1Y Fwd	2Y Fwd				
Consumer - Retail															
7-Eleven Malaysia Holdings Bhd	1.46	1,648.2	35.9	34.8	30.8	2.1%	91.6%	24.33	50.1	51.7	58.4	3.2%	12.9%	1.55	MP
Aeon Co (M) Bhd	2.26	3,173.0	30.2	26.6	23.4	1.8%	5.2%	1.61	106.1	119.1	135.9	12.2%	14.1%	2.60	OP
Amway (Malaysia) Holdings Bhd	7.53	1,237.8	23.5	22.9	18.6	3.7%	26.2%	5.79	52.6	54.1	66.7	2.8%	23.2%	8.50	MP
Hai-O Enterprise Bhd	4.85	1,411.1	18.8	13.8	13.2	5.4%	27.1%	4.59	74.8	101.6	106.7	35.8%	5.0%	6.00	OP
MyNews Holdings Bhd	1.64	1,118.7	46.5	39.9	34.2	0.7%	12.2%	4.69	24.0	28.0	32.7	16.6%	16.7%	1.25	UP
Padini Holdings Bhd	5.58	3,671.1	20.3	20.1	17.3	2.1%	27.6%	6.64	180.6	182.5	212.3	1.1%	16.3%	5.25	MP
Parkson Holdings Bhd	0.590	629.7	(5.3)	17.9	11.8	0.0%	-5.3%	0.26	(179.2)	35.8	54.6	-120.0%	52.5%	0.860	OP
Consumer - F&B															
Dutch Lady Milk Industries Bhd	68.00	4,352.0	34.9	30.5	26.7	3.2%	71.5%	41.84	124.6	142.9	162.8	14.7%	13.9%	66.15	MP
Fraser & Neave Holdings Bhd	38.78	14,214.5	35.7	38.5	33.8	1.5%	13.2%	6.67	398.6	369.1	421.0	-7.4%	14.1%	27.00	UP
Nestle (M) Bhd	147.40	34,565.3	53.5	48.2	41.3	2.0%	75.0%	54.01	645.8	716.7	837.6	11.0%	16.9%	114.30	UP
Power Root Bhd	1.75	566.4	23.8	17.2	13.4	5.7%	4.1%	2.71	23.8	32.9	42.2	38.2%	28.4%	1.50	MP
QL Resources Bhd	5.90	9,572.4	46.4	44.0	41.3	0.8%	11.6%	5.30	206.2	217.3	231.6	5.4%	6.6%	3.90	UP
Spritzer Bhd	2.31	485.0	17.7	15.4	14.7	2.6%	8.0%	1.12	23.8	31.3	33.0	31.9%	5.4%	2.50	MP
Consumer - Sin															
British American Tobacco Bhd	34.44	9,833.7	18.8	19.6	17.6	4.8%	128.5%	25.73	522.4	502.8	557.9	-3.7%	11.0%	31.70	MP
Carlsberg Brewery Malaysia Bhd	19.46	5,986.3	26.9	23.2	20.3	4.4%	61.6%	19.90	221.2	257.0	293.8	16.2%	14.3%	18.25	MP
Heineken Malaysia Bhd	21.34	6,446.8	23.9	20.2	18.3	4.9%	63.4%	17.88	270.1	319.0	352.1	18.1%	10.4%	23.30	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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