Hai-O Enterprise Berhad

MLM Riding the Wave

MARKET PERFORM ↔

Price: RM3.30
Target Price: RM3.21 ↑

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9M17 net profit of RM41.3m (+64.2% YoY) came above our expectation (88.4% of forecast). No dividend was declared, as expected. Strong and sustained performance in MLM surprised us positively, supported by the improvement in other divisions. Hence, FY17E-FY18E earnings forecasts are raised by 15.1%-19.7%. Maintain MARKET PERFORM with higher Target Price of RM3.21 (previously TP of RM2.68).

Above expectation. 9M17 net profit of RM41.3m (+64.2% YoY) was above our expectation by matching 88.4% of our 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. No dividend was declared, as expected.

YoY, 9M17 revenue surged 36.3% to RM285.6m, mainly driven by impressive growth in MLM division (+58.6%) thanks to the strengthening of distributor base and strong sales of consumer products. 9M17 operating profit jumped 62.6% to RM54.2m, again boosted by MLM division (+80.3%), with expanded margin of 19.0% (vs 15.9% in 9M16). The MLM division contributed 78.0% of the 9M17 group operating profit (vs 70.6% in 9M16). As a result, 9M17 net profit grew 64.2% to RM41.3m.

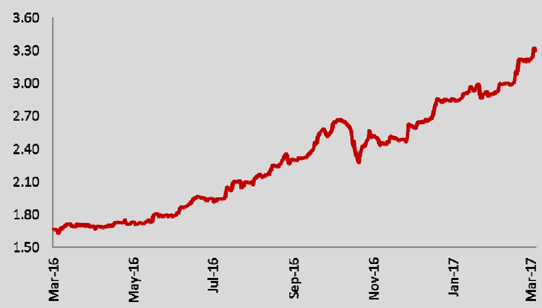
QoQ, 3Q17 revenue climbed 7.4% to RM107.2m, from improvement across all divisions - MLM division (+2.5%), Wholesale division (+22.0%) and Retail division (+33.6%), thanks to the festive promotion carried out during the quarter as well as strong sales from the personal care and household consumer products. 3Q17 operating profit increased 5.8% to RM21.4m, mainly driven by MLM division (+6.2%). However, 3Q17 net profit slightly declined by 1.5% to RM15.7m due to a higher effective tax rate of 27.8%.

MLM riding the wave. 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 rewarding 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 the currency risk and weak consumer sentiment, respectively. Moving forwards, the company is expanding its MLM business venturing into fashion and beauty care, to be on par with other mid-to high-end brands, supported by the expertise of the company non-independent and non-executive director Prof Datuk Dr Choo Yeang Keat (also known as “Jimmy Choo”).

Earnings forecasts upgraded. We raise FY17E and FY18E net profits by 15.1% and 19.7%, respectively, after imputing higher growth assumption for its distributor base.

Maintain MARKET PERFORM with higher Target Price of RM3.21. Correspondingly with the earnings upgrade, our TP is lifted to RM3.21 from TP of RM2.68, based on an unchanged 15.2x PER FY18E which implied +1 SD over the 5-year mean.

Share Price Performance



KLCI	1,750.41
YTD KLCI chg	6.6%
YTD stock price chg	24.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	955.0
Issued shares	289.4
52-week range (H)	3.34
52-week range (L)	1.61
3-mth avg daily vol:	314,417
Free Float	75%
Beta	0.6

Major Shareholders

KAI HEE TAN	10.1%
AKINTAN SDN BHD	7.9%
SIOW ENG TAN	7.0%

Summary Earnings Table

FY Apr (RM'm)	2016A	2017E	2018E
Turnover	298.1	441.0	509.2
EBIT	48.3	70.3	78.7
PBT	49.1	72.2	80.8
Net Profit (NP)	**36.4**	**53.7**	**61.1**
Earnings Revision	-	+15.1%	+19.7%
EPS (sen)	12.6	18.6	21.1
EPS growth (%)	20.8%	47.8%	13.8%
NDPS (sen)	10.2	14.0	15.8
BV/Share (RM)	1.04	1.09	1.14
PER	26.3	17.8	15.6
Price/BV (x)	3.2	3.0	2.9
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	3.1%	4.2%	4.8%

Bonus Issue

1-for-2 bonus Issue. HAIO has announced a bonus issue of 1 bonus shares for every 2 existing shares (1-for-2), through issuance of additional 95.9m bonus shares. Post-bonus, share capital expected to increase to RM144.7m from RM101.1m, with number of shares increasing to 289.4m from 193.5m.

Result Highlights

FY Apr (RM'm)	3Q FY17	2Q FY17	QoQ Chg	3Q FY16	YoY Chg	9M FY17	9M FY16	YoY Chg
Turnover	107.2	99.8	7.4%	80.5	33.1%	285.6	209.5	36.3%
Operating profit	21.4	20.2	5.8%	13.1	63.0%	54.2	33.3	62.6%
PBT	21.7	20.3	6.8%	13.2	64.8%	54.6	33.9	61.3%
Taxation	-6.0	-4.4	36.7%	-3.3	83.3%	-13.6	-8.4	61.2%
Net Profit (NP)	15.7	15.9	-1.5%	9.8	60.1%	41.3	25.2	64.2%
EPS (sen)	5.4	8.2	-1.5%	3.4	60.1%	14.3	8.7	64.2%
Operating margin	20.0%	20.3%		16.3%		19.0%	15.9%	
PBT margin	20.2%	20.4%		16.4%		19.1%	16.2%	
NP margin	14.6%	15.9%		12.2%		14.5%	12.0%	
Effective tax rate	27.8%	21.7%		25.0%		24.9%	24.9%	

Source: Company, Kenanga Research

Segmental Breakdown

FY Apr (RM'm)	3Q FY17	2Q FY17	QoQ Chg	3Q FY16	YoY Chg	9M FY17	9M FY16	YoY Chg
- Multi-Level-Marketing	79.4	77.5	2.5%	52.2	52.1%	213.3	134.5	58.6%
- Wholesale	14.2	11.7	22.0%	15.6	-8.6%	40.0	41.7	-4.0%
- Retail	12.4	9.3	33.6%	11.0	12.9%	28.8	28.1	2.6%
- Others	1.1	1.4	-16.1%	1.8	-35.5%	3.5	5.2	-33.8%
Group Revenue	107.2	99.8	7.4%	80.5	33.1%	285.6	209.5	36.3%
- Multi-Level-Marketing	16.8	15.8	6.2%	10.1	66.0%	42.3	23.5	80.3%
- Wholesale	2.5	2.7	-8.5%	1.5	63.3%	7.0	4.9	41.9%
- Retail	1.1	0.5	122.3%	0.2	483.1%	1.0	0.7	41.6%
- Others	1.5	1.5	2.3%	1.4	13.1%	4.2	4.3	-2.6%
- Elimination	-0.5	-0.3	-	-0.1	-	-0.4	-0.1	-
Group EBIT	21.4	20.2	5.8%	13.1	63.0%	54.2	33.3	62.6%
- Multi-Level-Marketing	21.2%	20.4%		19.4%		19.8%	17.5%	
- Wholesale	17.3%	23.1%		9.7%		17.4%	11.8%	
- Retail	8.6%	5.2%		1.7%		3.5%	2.5%	
- Others	134.5%	110.3%		76.8%		120.6%	81.9%	
Group EBIT Margin	20.0%	20.3%		16.3%		19.0%	15.9%	

Source: Company, Kenanga Research

Peer Comparison

NAME	Price (29-Mar-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	(%)	(%)	(RM)	
Consumer - Retail															
AEON CO (M) BHD	2.38	3,341.5	41.9	35.1	33.2	1.7%	4.3%	1.83	75.0	92.1	100.5	22.9%	9.1%	2.38	UP
AMWAY (MALAYSIA) HLDGS BHD	7.40	1,216.5	22.3	16.3	15.6	5.4%	26.3%	5.52	54.6	74.6	77.7	36.5%	4.2%	8.98	OP
HAI-O ENTERPRISE BHD	3.30	955.0	26.3	17.8	15.6	4.2%	18.4%	3.17	36.4	53.7	61.1	47.8%	13.8%	3.21	MP
PADINI HOLDINGS BERHAD	2.93	1,927.7	14.0	13.0	11.1	4.1%	32.3%	3.05	137.4	148.3	173.1	7.9%	16.7%	2.83	MP
PARKSON HOLDINGS BHD	0.64	683.0	(7.7)	(15.2)	14.5	7.8%	-4.2%	0.28	(105.6)	(46.4)	48.2	-56.1%	-203.9%	0.88	OP
Consumer - F&B															
DUTCH LADY	57.00	3,648.0	24.5	22.3	21.3	4.2%	92.4%	22.04	149.1	163.4	171.5	9.6%	4.9%	59.74	MP
NESTLE (M)	78.62	18,436.4	28.9	28.3	27.5	3.4%	94.0%	28.08	637.1	652.1	671.7	2.4%	3.0%	80.66	MP
OLDTOWN BHD	2.65	1,196.4	22.5	18.4	16.1	3.4%	18.5%	3.31	52.3	63.9	73.1	22.2%	14.4%	2.64	MP
QL RESOURCES BHD	4.65	5,803.3	30.2	27.3	25.2	1.2%	11.3%	3.65	192.1	207.3	224.6	7.9%	8.3%	4.34	UP
Consumer - Sin															
BRITISH AMERICAN TOBACCO BHD	45.44	12,974.5	19.2	18.9	18.7	5.2%	124.4%	21.64	675.1	688.0	693.0	1.9%	0.7%	43.44	UP
CARLSBERG BREWERY MALAYSIA B	15.00	4,614.3	22.4	19.6	17.8	4.5%	62.4%	13.47	205.0	233.7	257.8	14.0%	10.3%	14.84	MP
HEINEKEN MALAYSIA BHD	17.84	5,389.4	12.6	17.3	15.8	5.3%	71.1%	13.72	427.3	312.4	340.1	-26.9%	8.9%	21.38	OP

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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