Securities

AFFIN HWANG CAPITAL

Outthink. Outperform.

Ending on a high note

Hai-O's FY17 core net profit of RM 59.3m came within our and consensus expectations, driven by the multi-level marketing (MLM) segment as membership continues to grow strongly. We believe the MLM segment still has more room to grow and reiterate our BUY call with a higher TP of RM 4.92 as we roll forward our valuation to CY18E.

4Q17 usually the strongest quarter, FY17 within expectations

Hai-O recorded an increase in 4Q17 revenue and core net profit of 34.3% yoy and 63.3% yoy to RM 118.4m and RM 18.3m, bringing FY17 revenue to RM404.0m (+35.7% yoy) and core net profit to RM 59.3m (+63.1% yoy). This was in line with our and consensus expectations, accounting for 101% and 103% of full-year estimates. FY17 EBIT margin increased by 2.9ppts yoy to 19.1% due to the MLM segment (+2.0ppts yoy to 19.9%) and Wholesale segment (+6.8ppts yoy to 17.3%) which mitigated the drop in the Retail segment (-0.8 ppts yoy to 3.4%).

MLM division growing strongly

The group's FY17 results continue to be driven by its MLM division (76% of revenue) where turnover and PBT for MLM increased by 55% yoy and 71% yoy to RM308.7m and RM62.6m, respectively. We attribute this to the group's growing distributor force which is currently expanding at an average of 5,000 distributors/mth and has reached over 100,000 distributors ytd. We believe its "small ticket" items (personal & household, beverage and healthcare segments), coupled with the rebranding of their key beverage product "Min kaffe" and the launch of two new items in the beverage and skincare category during the financial year have contributed positively to earnings. The wholesale division (13% of revenue) recorded a decrease in revenue of 3% yoy due to a drop in sales volume from domestic medical halls, but saw PBT rise strongly by more than 50% yoy to RM9.1m due to higher margin sales from premium products. The retail division posted flat revenue due to weak consumer sentiment but PBT decreased by 22% to RM1.4m due to lower sales from house-brand products and higher staff costs.

Maintain BUY with higher TP of RM4.92

We roll forward our valuation to CY18E and increase our TP to RM4.92 (from RM4.22), using the same PE ratio of 18x. We are positive on Hai-O's management quality and its ability to deliver growth going forward, and we reiterate our BUY call on the stock. 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	404.0	513.3	580.7	622.0
EBITDA (RMm)	51.7	81.0	104.3	117.6	125.7
Pretax profit (RMm)	49.1	78.1	100.4	113.6	121.7
Net profit (RMm)	36.3	59.3	73.7	83.4	89.3
EPS (sen)	12.4	20.2	25.1	28.4	30.5
PER (x)	31.5	19.3	15.5	13.7	12.8
Core net profit (RMm)	36.3	59.3	73.7	83.4	89.3
Core EPS (sen)	12.4	20.2	25.1	28.4	30.5
Core EPS growth (%)	20.8	63.1	24.3	13.2	7.1
Core PER (x)	31.5	19.3	15.5	13.7	12.8
Net DPS (sen)	10.0	16.0	16.3	18.5	19.8
Dividend Yield (%)	2.6	4.1	4.2	4.7	5.1
EV/EBITDA (x)	20.1	13.0	10.0	8.6	7.8
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

HAI-O

HAIO MK
Sector: Consumer

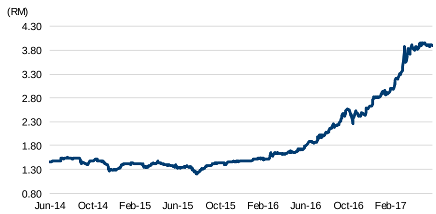
RM3.90 @ 29 June 2017

BUY (maintain)

Upside 26%

Price Target: RM4.92

Previous Target: RM4.22



Price Performance

	1M	3M	12M
Absolute	-0.8%	18.2%	114.3%
Rel to KLCI	-1.1%	16.8%	98.7%

Stock Data

Issued shares (m)	289.4
Mkt cap (RMm)/(US$m)	1128.6/262.7
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	1.8-3.98
Est free float	50.8%
BV per share (RM)	0.92
P/BV (x)	4.24
Net cash/ (debt) (RMm) (FY17)	73.54
ROE (2018E)	26.0%
Derivatives	Nil
Shariah Compliant	NO

Key Shareholders

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

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Apr (RMm)	4Q17	QoQ % chg	YoY % chg	FY17	YoY % chg	Comments
Revenue	118.4	10.4	34.3	404.0	35.7	Higher YoY mainly due to growth in distributors from the MLM division, coupled with launch of new products and the rebranding of key beverage item 'Min Kaffe'.
Op costs	(94.3)	11.1	30.7	(323.0)	31.3	
EBITDA	24.1	8.1	50.6	80.9	56.6	
EBITDA margin (%)	20.4	*-0.4ppts*	*+2.2ppts*	20.0	*+2.7ppts*	
Depn and amort	(1.0)	4.4	10.5	(3.6)	8.6	
EBIT	23.1	8.3	52.9	77.3	60.0	
EBIT margin (%)	*19.6*	*-0.4ppts*	*+2.4ppts*	*19.1*	*+2.9ppts*	EBIT margin expansion due to growth from MLM segment and higher-margin products from the wholesale segment.
Int expense	(0.0)	(33.3)	(46.3)	(0.1)	(38.6)	
Int and other inc	0.4	12.8	(36.0)	1.4	(7.9)	
Associates	0.0	0.0	0.0	(0.4)	(21.1)	
Exceptional items	0.0	0.0	0.0	0.0	0.0	
Pretax	**23.5**	**8.4**	**54.6**	**78.1**	**59.2**	
Tax	(5.3)	(11.5)	30.9	(18.9)	51.3	
Tax rate (%)	*22.7*	*-5.1ppts*	*-4.1ppts*	*24.2*	*-1.3ppts*	
MI	0.1	n.m.	57.4	0.1	n.m.	
Net profit	**18.3**	**18.8**	**63.3**	**59.3**	**63.1**	
EPS (sen)	6.3	18.8	63.3	20.5	63.1	
Core net profit	**18.3**	**18.8**	**63.3**	**59.3**	**63.1**	In-line with expectations.

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

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