

Company Result

21 September 2017

Hai-O Enterprise Berhad

BUY

Still going strong

Upgraded

Share Price	RM4.70
Target Price	RM5.23

Company Description

Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.

Stock Data

Bursa / Bloomberg code	7668 / HAI0 MK
Board / Sector	Industrial / Food & Drug Retailers
Syariah Compliant status	No
Issued shares (m)	289.74
Par Value (RM)	0.50
Market cap. (RMm)	1361.76
52-week price Range	RM2.21– 4.74
Beta (against KLCI)	0.62
3-m Average Daily Volume	0.23m
3-m Average Daily Value	RM0.99m

Share Performance

	1m	3m	12m
Absolute (%)	11.4	14.9	106.7
Relative (%-pts)	11.3	21.0	93.4

Major Shareholders

	%
KAI HEE TAN	10.10
AKINTAN SDN BHD	7.87
EXCELLENT COMMUNICATIONS	5.37

Historical Chart



Source: Bloomberg

Team Coverage

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Result

- **Hai-O reported net earnings of RM17.6mill in 1QFY18, slightly down 3.2% qoq but surged strongly by 86.2% yoy.** Meanwhile, revenue stood at RM124.5mill, up 5.2% qoq and 58.3% yoy.
- **A marvelous start of the year with results above expectation.** We were positively surprised with its 1QFY18 net profit which made up 26% of our full year earnings expectation. We deem the results above expectation as 1Q is seasonally weaker quarter. The strong earnings were mainly driven by the MLM and Wholesale divisions.

Comment

- **MLM division continued to be the main driver.** MLM contributed a substantial growth in 1QFY18 on yoy basis. The increase in sales boosted by its "big ticket items" comprise of fashion & garment. The recurring sales from the "small ticket items" such as food & beverages, personal, skincare and house care product also contributed to the total sales volume and margin. The division recorded higher yoy revenue and PBT of 81% and 94% respectively. In addition, the higher number for new member recruitment also lifted the performance of MLM division.
- The higher sales growth was due to intensive sales campaign in relation to overwhelming response from its newly launched fashion product - Hijabs. Besides, the company managed to achieve better yoy profit margin thanks to wider usage of social media and market digital platforms resulted in the operating efficiency of the segment.
- **MLM division will continue to grow strongly.** Moving forward, the division will team up with well-known local designer to gain awareness of the fashion wear and others trendy lifestyle range of product. Moreover, the division will carry out grand sales promotion during its 25th year anniversary to gain more orders from its members. Furthermore, an annual incentive trips campaign will be launch in order to maintain the sales momentum.
- **Rebound in Wholesales division.** Despite topline of the segment down by 8% yoy due to higher base in 1QFY17 as a result of one-off export sales of RM2mill of Chinese liquor, Wholesales division registered higher bottomline, +64% yoy underpinned by higher sales of patented medicine and Chinese medicated tonic which generally carries better margins. Furthermore, higher

profit generated from the inter-segment sales to MLM and Retail divisions also spurred its PBT. Thus, the Wholesales division's PBT margin increased 10.3ppts yoy.

- **Retail division remained healthy operationally.** This division recorded a 14.0% yoy increase of revenue. It was mainly achieved through the effective cost control measures, extensive sales promotion especially from its Loyalty Friendship members. However, it recorded a loss of RM0.5mill due to recognizing the one-off employees' share option expenses.

Earnings Outlook/Revision

- **We revise upwards our earnings forecast for FY18F by 30.0% to RM89.3m from RM68.7m as we anticipate stronger sales momentum from its MLM division.** We also introduce our FY19F of RM109.9m. Our net profits for FY18F and FY19F represent commendable yoy growth of 50.7% and 23.1% respectively.

Valuation & Recommendation

- **Upgraded to BUY from HOLD with a higher target price of RM5.23 (previous: RM4.70)** after the earnings upgrade and applying higher target PER. Our target price is now pegged at 17.5x FY2018F PE (+1.5sd) based on EPS of 29.9 sen. We believe our valuation for Hai-O is justified as assigned PE is at 10% discount to the market leader, Amway which now trades at 19.5x forward PE.

Figure 1: Quarterly Figures

Year to 30 Apr	1QFY18	4QFY17	1QFY17	QoQ	YoY
	RMm	RMm	RMm	%	%
Revenue	124.54	118.37	78.66	5.2%	58.3%
Operating profit	22.85	23.15	12.56	-1.3%	81.9%
Profit before tax	23.11	23.52	12.60	-1.7%	83.4%
Profit after tax	17.59	18.18	9.45	-3.2%	86.2%
Net profit	17.87	18.25	9.74	-2.1%	83.4%
Margin (%)					
Operating	18.3%	19.6%	16.0%	-1.3ppts	2.3ppts
Profit before tax	18.6%	19.9%	16.0%	-1.3ppts	2.6ppts
Profit after tax	14.1%	15.4%	12.0%	-1.3ppts	2.1ppts
Net profit margin	14.3%	15.4%	12.4%	-1.1ppts	1.9ppts

Source: Company, JF Apex

Figure 2: Revenue and PBT by divisions

Year to 30 April	1QFY18	4QFY17	1QFY17	QoQ	YoY
	RMm	RMm	RMm	%	%
Total Revenue	123.6	117.3	77.7	5.4%	59%
MLM	102.4	95.4	56.5	7.4%	81%
Wholesales	13.0	12.6	14.1	3.2%	-8%
Retail	8.1	9.3	7.1	-12.4%	14%
Others	995.0	999.0	959.0	-0.4%	4%
Total Profit before tax	21.2	21.6	11.0	-1.6%	94%
MLM	18.8	19.2	9.7	-1.8%	94%
Wholesales	3.0	2.1	1.8	38.0%	64%
Retail	(0.5)	0.3	(0.5)	n.a.	n.a.
PBT Margin					
MLM	18%	20.1%	17.2%	-2.1ppts	0.8ppts
Wholesales	23%	16.9%	12.7%	6.1ppts	10.3ppts
Retail	-6%	3.0%	-7.6%	-9.0ppts	n.a.

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 30 April (RMm)	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM mill)	239.9	297.6	404.2	553.9	672.4
Gross profit (RM mill)	85.5	101.4	132.5	171.7	201.7
EBIT (RM mill)	41.8	48.3	77.4	113.8	140.3
PBT (RM mill)	42.7	49.1	78.3	114.7	141.1
PAT (RM mill)	30.4	36.6	59.4	89.5	110.1
Net profit (RM mill)	30.4	36.6	59.3	89.3	109.9
Gross profit margin	35.7%	34.1%	32.8%	31.0%	30.0%
EBIT margin	17.4%	16.2%	19.2%	20.5%	20.9%
PBT margin	17.8%	16.5%	19.4%	20.7%	21.0%
PAT margin	12.7%	12.3%	14.7%	16.2%	16.4%
Net profit margin	12.7%	12.3%	14.7%	16.1%	16.3%
Revenue growth	-5.4%	24.1%	35.8%	37.0%	21.4%
Gross profit growth	-8.5%	18.6%	30.7%	29.6%	17.5%
EBIT growth	-19.6%	15.5%	60.3%	47.0%	23.2%
PBT growth	-19.7%	15.0%	59.5%	46.5%	23.1%
PAT growth	-25.6%	20.2%	62.5%	50.6%	23.1%
Net profit growth	-25.4%	20.3%	62.0%	50.7%	23.1%
ROA	8.6%	11.4%	16.3%	23.1%	27.6%
ROE	12.0%	14.2%	20.8%	28.8%	34.4%
EPS (sen)	10.2	12.3	19.8	29.9	36.8
P/E	46.16	38.37	23.69	15.72	12.77
Dividend yield (%)	2.2%	2.2%	3.4%	3.4%	3.4%
Dividend payout (%)	98.2%	81.6%	80.6%	53.5%	43.5%
DPS (sen)	10	10	16	16	16
Net gearing / (cash) (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY : The stock's total returns* are expected to exceed 10% within the next 12 months.

HOLD : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL : The stock's total returns* are expected to be below -10% within the next 12 months.

TRADING BUY : The stock's total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.

MARKETWEIGHT : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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