Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

Keep surprising on upside

Hai-O reported a 1H18 core net profit of RM39.3m (+53%yoy), coming in slightly above our expectation but in line with consensus expectations. The strong growth was mainly driven by contribution from the multi-level marketing (MLM) segment and wholesale segment. We reiterate our BUY rating with a higher TP of RM6.44 as we increase earnings by 3-7% for FY18-20E assuming higher growth from MLM.

1H18 better than our expectations

Hai-O reported an increase in 1H18 revenue by 39% yoy to RM248m whereas core net profit increased by 53% yoy to RM39.3m. This was slightly above our our expectation but in line with consensus expectations, accounting for 48% and 46% of full-year estimates respectively. 1H18 EBIT margin was 20.3%, showing an improvement of 1.9 ppts yoy. MLM's margin expanded marginally by 0.4 ppts to 19.4% but wholesale division's margin improved significantly from 17.5% in 1H17 to 32.6% in 1H18. 6 sen interim dividend was declared vs 5 sen in FY17.

Strong growth in MLM and wholesale division in 2Q18

Hai-O's revenue increased by 24% yoy to RM123.5m on the back of 23% yoy and 41% yoy increase in MLM and wholesale revenue to RM96m and RM16m respectively. MLM's growth was attributable to higher recurring sales/distributor and positive effect of the recent 25th year anniversary grand sales promotion, resulting in higher sales of "small ticket" items. The wholesale division saw higher sales generated from Chinese medicated tonic due to positive response of its promotional campaign. As a result, MLM's EBIT increased 25% yoy to Rm19.5m and wholesale's EBIT increased by more than double from RM2.7m to RM6.7m. The retail division's revenue increased by 12% yoy to RM10.4m but the EBIT was only RM0.5m due to higher sales discount given out during the promotion campaign.

Maintain BUY with higher TP of RM6.44

We revise up Hai-O's core net profit by 3-7% in FY18-20E assuming higher sales/distributors that help to improve net profit margin. Hai-O intends to develop more new products, and launch fashion and garment products in 2H18. We believe it will improve sales productivity/distributor growth and expand profit margin. We raise TP to RM6.44 based on an unchanged target FY18E PER. We like Hai-O's management quality and its ability to deliver growth going forward, and 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 (%)			3.1	7.2	7.2
Affin/Consensus (x)			1.00	1.00	1.07

Source: Company, Bloomberg, Affin Hwang forecast

Results Note

HAI-O

HAIO MK
Sector: Consumer

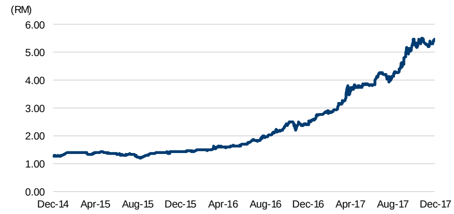
RM5.47 @ 18 Dec 2017

BUY (maintain)

Upside 18%

Price Target: RM6.44

Previous Target: RM6.10



Price Performance

	1M	3M	12M
Absolute	2.2%	17.4%	120.0%
Rel to KLCI	0.5%	19.5%	105.7%

Stock Data

Issued shares (m)	291.4
Mkt cap (RMm)/(US$m)	1594.1/390.1
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	2.45-5.6
Est free float	55.3%
BV per share (RM)	1.06
P/BV (x)	5.18
Net cash/ (debt) (RMm) (2QFY18)	92.5
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

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Fig 1: Results Comparison

FYE Apr (RMm)	2Q18	QoQ % chg	YoY % chg	1HFY18	YoY % chg	Comments
Revenue	123.5	(0.8)	23.8	248.1	39.0	1H18 revenue growth was driven by 48% yoy growth in MLM, 14% yoy growth in wholesale and 13% yoy growth in retail. MLM growth was mainly attributable to higher recurring sales of small-ticket items and the new series of fashion wear.
Op costs	(95.1)	(5.6)	20.9	(195.9)	36.1	
EBITDA	28.4	19.3	34.6	52.2	51.1	
EBITDA margin (%)	23.0	*3.9ppts*	*1.8ppts*	21.0	*1.7ppts*	
Depn and amort	(1.0)	2.3	10.1	(1.9)	9.6	
EBIT	27.4	20.0	35.6	50.3	53.3	
EBIT margin (%)	*22.2*	*3.9ppts*	*1.9ppts*	*20.3*	*1.9ppts*	EBIT margin improved due to the growing sales per distributor and higher contribution of premium products in wholesale division.
Int expense	(0.0)	(75.0)	(34.8)	(0.1)	(6.3)	
Int and other inc	0.4	38.1	16.3	0.8	25.1	
Associates	0.0	0.0	0.0	0.0	0.0	
Exceptional items	0.0	0.0	0.0	0.0	0.0	
Pretax	**27.9**	**20.5**	**37.1**	51.0	**54.8**	
Tax	(6.2)	12.9	41.1	(11.7)	55.3	
Tax rate (%)	*22.3*	*-1.5ppts*	*0.6ppts*	*23.0*	*0.1ppts*	
MI	(0.2)	n.m.	n.m.	0.1	(71.4)	
Net profit	**21.4**	**20.0**	**34.8**	**39.3**	**53.2**	
EPS (sen)	7.4	20.0	34.8	13.6	53.2	
Core net profit	**21.4**	**20.0**	**34.8**	**39.3**	**53.2**	Slightly above our expectation, accounting for 48% of our full-year estimes. We expect stronger 2H18 result.

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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