

# Hai-O Enterprise Bhd

## Higher Sales for All Core Segments

By Wan Mustaqim Bin Wan Ab Aziz I [wanmustaqim@kenanga.com.my](mailto:wanmustaqim@kenanga.com.my)

**1H18 net profit of RM39.3m (+53%) came in within both of our/consensus expectations at 47% of full-year forecasts. The group declared interim DPS of 6.0sen for 1H18, which is 20% higher than 1H17. We upgrade our Target Price to RM5.60 from RM4.40 based on the revised 16x FY19E EPS. Maintain MARKET PERFORM.**

**1H18 within expectations.** 1H18 net profit of RM39.3m (+53%) came in within both of our/consensus expectations at 47% of full-year forecasts. The group declared interim DPS of 6.0sen for 1H18 (1H17:5.0sen), which is within our expectation as c.70% of dividend pay-out typically falls in 4Q.

**YoY**, 1H18 net profit surged 53% underpinned by: (i) higher revenue (+39%) driven by all three main segments of MLM division (+48%), Wholesale division (+15%) and Retail division (+13%) attributable to its 25<sup>th</sup> year anniversary grand sales promotion and higher sales volume from newly launched big-ticket items in its MLM fashion and beauty care range of products, and (ii) EBIT jumped 53% with expanded EBIT margin of 20.3% (+1.9pp), boosted by MLM division (+50%), which contributed 76% of the 1H18 group EBIT and supported by its Wholesale division (+113%) with its sales of high-margin products (i.e. premium Chinese medicated tonic).

**QoQ**, 2Q18 net profit grew 20% despite slightly lower revenue (-1%) thanks to: (i) EBIT increased by 20% with expanded margin of 22.2% (+3.9pp), primarily contributed by its MLM division (+4%), which comprise 71% of the 2Q18 group EBIT and supported by its Wholesale division (+126%), both attributable to higher recurring sales of high-margin consumer products (i.e. F&B, MLM fashion and beauty care range of products), and (ii) lower effective tax rate of 22.3% compared to 23.9% in 1Q18.

**Outlook.** MLM continued its momentum with its 25th year anniversary grand sales promotion and higher sales volume from newly launched fashion and beauty care range of products under the brand of "Infidence". Moving forward, the MLM division will continue to develop more products, especially on lifestyle related range of products and beverage products. As Chinese New Year (CNY) festive season is approaching, the Wholesale and Retail divisions will carry out an extensive CNY promotion. Nonetheless, we expect the earnings momentum to be limited by its higher promotion costs and its other operating divisions, including wholesale and retail divisions are still susceptible to unfavourable forex.

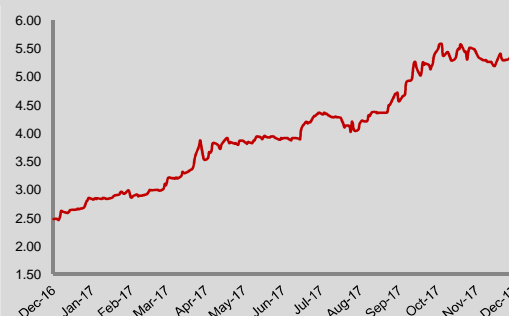
**Maintain MARKET PERFORM with a higher target price of RM5.60** as we roll-over our valuation year to FY19E (previously from TP of RM4.40 based on 15.2x FY18E EPS). The targeted PER of 16x implying a rerated +1SD of its 5-year mean of Forward PER which was only registered at 15.2x a quarter ago. We believe the 16x PER is justified considering HAIO net profit growth averaging at 31% per annum over the next two years.

Risks to our call include: (i) lower-than-expected sales (ii) Higher-than-expected operating expenses.

## MARKET PERFORM ↔

**Price:** RM5.47  
**Target Price:** RM5.60 ↑

### Share Price Performance



KLCI	1,751.64
YTD KLCI chg	6.7%
YTD stock price chg	106.7%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	1,594.1
Issued shares	291.4
52-week range (H)	5.60
52-week range (L)	2.45
3-mth avg daily vol:	294,825
Free Float	77%
Beta	0.5

### Major Shareholders

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

### Summary Earnings Table

FY Apr (RM'm)	2017A	2018E	2019E
Turnover	404.2	543.8	664.4
EBIT	77.4	103.6	121.9
PBT	78.3	108.9	132.4
<b>Net Profit (NP)</b>	<b>59.4</b>	<b>83.8</b>	<b>101.6</b>
Consensus (NP)	-	84.2	99.4
Earnings Revision	-	-	-
EPS (sen)	20.5	29.0	35.1
EPS growth (%)	62.5%	41.0%	21.3%
NDPS (sen)	16.0	21.7	26.3
BV/Share (RM)	0.98	1.06	1.14
PER	26.6	18.9	15.6
Price/BV (x)	5.6	5.2	4.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Dvd Yield (%)	2.9%	4.0%	4.8%

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### Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Apr (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	123.5	124.5	-0.8%	99.8	23.8%	248.1	178.4	39.0%
EBIT	27.4	22.8	20.0%	20.2	35.6%	50.3	32.8	53.4%
PBT	27.9	23.1	20.5%	20.3	37.1%	51.0	32.9	54.8%
Taxation	-6.2	-5.5	12.9%	-4.4	41.1%	-11.7	-7.6	55.3%
Net Profit (NP)	21.4	17.9	20.0%	15.9	34.8%	39.3	25.7	53.2%
EPS (sen)	7.4	6.2	20.0%	5.5	34.8%	13.6	8.9	53.2%
EBIT margin	22.2%	18.3%		20.3%		20.3%	18.4%	
PBT margin	22.5%	18.6%		20.4%		20.5%	18.4%	
NP margin	17.4%	14.3%		15.9%		15.8%	14.4%	
Effective tax rate	22.3%	23.9%		21.7%		23.0%	23.0%	

Source: Bursa Announcement, Kenanga Research

### Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FY Apr (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
- Multi-Level-Marketing	95.5	102.4	-6.7%	77.5	23.3%	197.9	133.9	47.8%
- Wholesale	16.5	13.0	26.3%	11.7	41.2%	29.5	25.8	14.5%
- Retail	10.4	8.1	27.8%	9.3	11.9%	18.5	16.4	12.7%
- Others	1.2	1.0	17.1%	1.4	-14.6%	2.2	2.3	-7.0%
Group Revenue	123.5	124.5	-0.8%	99.8	23.8%	248.1	178.4	39.0%
- Multi-Level-Marketing	19.5	18.8	3.8%	15.8	23.3%	38.3	25.5	50.2%
- Wholesale	6.7	3.0	125.9%	2.7	147.3%	9.6	4.5	113.3%
- Retail	0.5	-0.5	-191.1%	0.5	0.0%	0.0	-0.1	-16.1%
- Others	1.2	1.2	4.4%	1.5	-18.4%	2.4	2.6	-9.0%
- Elimination	-0.5	0.4	-212.3%	-0.3	60.8%	-0.1	0.1	-136.3%
Group EBIT	27.4	22.8	20.0%	20.2	35.6%	50.3	32.8	53.4%
- Multi-Level-Marketing	20.4%	18.4%		20.4%		19.4%	19.1%	
- Wholesale	40.5%	22.7%		23.1%		32.6%	17.5%	
- Retail	4.6%	-6.5%		5.2%		-0.3%	-0.3%	
- Others	105.4%	118.2%		110.3%		111.3%	113.7%	
Group EBIT Margin	22.2%	18.3%		20.3%		20.3%	18.4%	

Source: Bursa Announcement, Kenanga Research

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### Peer Comparison

NAME	Price (18-Dec-17) (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				
<b>Consumer - Retail</b>															
7-Eleven Malaysia Holdings Bhd	1.53	1,698.9	36.2	40.2	31.4	2.0%	66.4%	0.54	52.2	47.0	60.0	-10.0%	27.7%	1.70	OP
Aeon Co (M) Bhd	1.72	2,414.9	32.2	30.1	28.0	1.7%	4.5%	1.29	75.0	80.2	86.2	7.0%	7.5%	2.00	MP
Amway (Malaysia) Holdings Bhd	7.30	1,200.0	22.0	21.9	18.5	4.1%	24.3%	5.70	54.6	54.7	64.9	0.0%	18.6%	7.50	MP
Bison Consolidated Bhd	1.49	1,016.4	42.3	28.1	24.6	0.9%	17.4%	4.26	24.0	36.2	41.3	50.7%	14.0%	1.45	MP
Hai-O Enterprise Bhd	5.47	1,594.1	26.6	18.9	15.6	4.0%	23.6%	5.56	59.4	83.8	101.6	41.0%	21.3%	5.60	MP
Padini Holdings Bhd	5.46	3,592.2	19.0	16.0	15.0	2.3%	30.5%	6.50	189.6	224.6	239.9	18.5%	6.8%	4.80	MP
Parkson Holdings Bhd	0.520	554.9	(4.6)	11.8	8.5	0.0%	-4.2%	0.23	(179.2)	48.0	66.6	-126.8%	38.8%	0.880	OP
<b>Consumer - F&amp;B</b>															
Dutch Lady Milk Industries Bhd	60.90	3,897.6	26.1	30.7	26.7	4.6%	76.6%	23.55	149.1	127.2	145.9	-14.7%	14.7%	57.00	MP
Fraser & Neave Holdings Bhd	26.16	9,588.7	25.9	28.0	24.7	2.0%	15.7%	4.82	370.5	354.4	388.7	-4.3%	9.7%	24.95	MP
Nestle (M) Bhd	99.70	23,379.7	36.7	38.9	34.4	2.7%	81.7%	36.12	637.1	600.3	679.3	-5.8%	13.2%	86.90	MP
Oldtown Bhd	3.08	1,426.8	22.4	18.5	17.6	3.6%	17.0%	3.66	60.8	73.6	77.4	21.1%	5.1%	3.18	Accept Offer
Power Root Bhd	1.86	601.59	13.5	17.5	13.0	5.4%	14.3%	2.34	43.5	33.6	45.2	-22.8%	34.4%	2.45	OP
QL Resources Bhd	4.35	7,057.6	36.0	32.6	31.1	0.9%	12.0%	4.04	195.9	216.2	227.1	10.3%	5.1%	3.78	MP
Spritzer Bhd	2.31	485.0	10.3	18.3	15.5	2.2%	9.5%	1.46	41.0	23.0	31.3	-43.8%	35.9%	2.20	MP
<b>Consumer - Sin</b>															
British American Tobacco Bhd	36.20	10,336.2	15.3	18.2	16.1	5.5%	156.1%	16.85	675.1	567.7	642.3	-15.9%	13.1%	45.00	OP
Carlsberg Brewery Malaysia Bhd	15.44	4,749.7	23.0	19.7	17.8	4.9%	81.4%	14.70	205.0	233.7	257.8	14.0%	10.3%	15.30	MP
Heineken Malaysia Bhd	18.48	5,582.8	13.1	21.1	18.2	5.1%	101.3%	14.22	427.3	264.3	306.4	-38.1%	15.9%	19.30	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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research

