

22 December 2016

# Hai-O Enterprise Berhad

## MLM Continues to Shine

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1H17 net profit of RM25.7m (+67% YoY) came above our expectation (62% of forecast). DPS of 5.0 sen was declared, as expected. Strong and sustained performance in MLM surprised us positively, which also reduced the risk of other operating divisions. Hence, FY17E-FY18E earnings forecasts are raised by 12%-13%. TP lifted to RM4.03 but MP call maintained as valuation is not compelling enough to warrant an upgrade.

**Above expectation.** 1H17 net profit of RM25.7m (+66.6% YoY) was above our expectation by matching 61.9% 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. As expected, the Group declared DPS of 5.0 sen (vs. 1H16: 4.0 sen).

**YoY,** 1H17 revenue surged 38.4% to RM178.4m mainly driven by impressive growth in MLM division (+62.7%) thanks to the strengthening of distributor base to c.110k (+32.5%) from 83k in FY16 and strong sales of consumer products. 1H17 operating profit jumped 62.4% to RM32.8m again boosted by MLM division (+91.0%). The division contributed 78% of the 1H17 group operating profit (vs 66% in 1H16). As a result, 1H17 net profit grew 66.6% to RM25.7m.

**QoQ,** 2Q17 revenue climbed 26.8% to RM99.8m, supported by MLM division (+37.3%) thanks to the incentive trip promotion carried out during the quarter as well as the successful rebranding of its beverage product. 2Q17 operating profit surged 61.0% mainly driven by MLM division (+63.3%) on the back of strong revenue growth. As a result, 2Q17 net profit surged 63.3% to RM15.9m.

**MLM continues to shine.** We were positively surprised by the sustained growing momentum of the MLM division 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. Besides, 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. Earnings growth momentum moving forward should be sustained, supported by MLM.

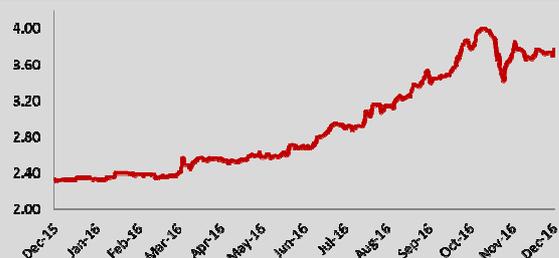
**Earnings forecasts upgraded.** We raise FY17E and FY18E net profits by 12.5% and 11.6%, respectively, after imputing higher growth assumption for its distributor base.

**Maintain MARKET PERFORM with higher Target Price of RM4.03 (from RM3.60).** Correspondingly with the earnings upgrade, our TP is raised to RM4.03, based on an unchanged 15.2x PER FY18E which implied +1 SD over the 5-year mean. While we are impressed with the strong growth achieved, the valuation is not compelling enough (last traded price at 14.2x PER FY18E, above +0.5 SD over 5-year mean) for us to upgrade the rating following the 61.8% YTD surge in share price as we believe the market may have already priced in most of the positives. As such, we are maintaining our neutral stance on the company on its strong brand names, sturdy balance sheet and generous dividend pay-out.

# MARKET PERFORM ↔

Price: **RM3.77**  
Target Price: **RM4.03** ↑

### Share Price Performance



KLCI	1,629.59
YTD KLCI chg	-3.7%
YTD stock price chg	61.8%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	727.3
Issued shares	192.9
52-week range (H)	4.00
52-week range (L)	2.30
3-mth avg daily vol:	261,859
Free Float	75%
Beta	0.6

### Major Shareholders

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

### Summary Earnings Table

FY Apr (RM'm)	2016A	2017E	2018E
Turnover	178.4	387.6	430.9
EBIT	32.8	61.3	66.0
PBT	32.9	62.8	67.2
<b>Net Profit (NP)</b>	<b>25.7</b>	<b>46.7</b>	<b>51.1</b>
Earnings Revision	-	13%	12%
EPS (sen)	18.9	24.2	26.5
EPS growth (%)	66.6%	28.1%	9.2%
NDPS (sen)	15.0	18.3	19.8
BV/Share (RM)	1.33	1.39	1.46
PER	14.5	15.6	14.2
Price/BV (x)	2.05	2.71	2.58
Net Gearing (x)	Cash	Cash	Cash
Net Dvd Yield (%)	4.0%	4.9%	5.3%

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### OTHER POINT

**Proposed 1-for-2 bonus issue.** On a separate note, it has announced to reward shareholders with the proposal of 1-for-2 bonus issue. The entitlement date and listing date are yet to be confirmed but the exercise is expected to be completed by 2QCY17. We are mildly positive on the initiatives as the bonus issue is expected to improve trading liquidity of the company shares but are not factoring in the additional shares arising from the exercise yet pending shareholders' approval and further confirmation of the dates.

#### Result Highlights

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Apr (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	99.8	78.7	26.8%	73.6	35.6%	178.4	129.0	38.4%
Operating profit	20.2	12.6	61.0%	11.5	76.3%	32.8	20.2	62.4%
PBT	20.3	12.6	61.3%	11.9	70.9%	32.9	20.7	59.1%
Taxation	-4.4	-3.1	40.2%	-2.9	53.9%	-7.6	-5.1	47.0%
Net Profit (NP)	15.9	9.7	63.3%	8.9	77.9%	25.7	15.4	66.6%
EPS (sen)	8.2	5.0	63.3%	4.6	77.9%	13.3	8.0	66.6%
Operating margin	20.3%	16.0%		15.6%		18.4%	15.6%	
PBT margin	20.4%	16.0%		16.2%		18.4%	16.0%	
NP margin	15.9%	12.4%		12.1%		14.4%	11.9%	
Effective tax rate	21.7%	25.0%		24.1%		23.0%	24.8%	

Source: Company, Kenanga Research

#### Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Apr (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
- Multi-Level-Marketing	77.5	56.4	37.3%	45.5	70.1%	133.9	82.3	62.7%
- Wholesale	11.7	14.1	-17.4%	16.8	-30.8%	25.8	26.1	-1.2%
- Retail	9.3	7.1	30.0%	9.5	-2.7%	16.4	17.1	-4.1%
- Others	1.4	1.0	-	1.7	-	2.3	3.5	-33.0%
Group Revenue	99.8	78.7	26.8%	73.6	35.6%	178.4	129.0	38.4%
- Multi-Level-Marketing	15.8	9.7	63.3%	7.1	122.1%	25.5	13.4	91.0%
- Wholesale	2.7	1.8	48.8%	1.6	65.8%	4.5	3.4	32.4%
- Retail	0.5	-0.5	-	0.7	-	-0.1	0.5	-110.5%
- Others	1.5	1.1	32.5%	2.6	-42.2%	2.6	2.9	-9.9%
- Elimination	-0.3	0.4	-	-0.6	-	0.1	-0.1	-
Group EBIT	20.2	12.6	61.0%	11.5	76.3%	32.8	20.2	62.4%
- Multi-Level-Marketing	20.4%	17.2%		15.7%		19.1%	16.2%	
- Wholesale	23.1%	12.8%		9.7%		17.5%	13.1%	
- Retail	5.2%	-7.5%		7.1%		-0.3%	3.1%	
- Others	110.3%	118.5%		156.0%		113.7%	84.6%	
Group EBIT Margin	20.3%	16.0%		15.6%		18.4%	15.6%	

Source: Company, Kenanga Research

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### Peer Comparison

Name	Price (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
			Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd				
<b>RETAIL</b>															
AEON	2.58	3,622.3	27.2	49.6	39.1	1.6%	7.4%	1.98	133.4	73.7	92.1	-44.8%	25.0%	2.06	UP
AMWAY	7.50	1,232.9	19.3	21.9	17.7	3.9%	29.3%	6.00	63.9	56.2	69.5	-12.1%	23.7%	8.04	MP
HAIO	3.77	727.3	20.0	15.6	14.2	4.9%	14.1%	2.83	36.4	46.7	51.1	28.6%	9.2%	4.03	MP
PADINI	2.59	1,704.0	12.4	12.3	10.5	4.6%	26.3%	3.63	137.4	139.0	162.1	1.1%	16.6%	2.96	MP
PARKSON	0.64	684.4	(7.7)	(15.2)	14.5	7.8%	-3.1%	0.28	(105.6)	(46.4)	48.2	-56.1%	-203.9%	0.66	UP
<b>F&amp;B</b>															
DLADY	55.56	3,555.8	25.2	22.6	21.2	4.3%	86.4%	22.59	141.0	157.2	167.5	11.5%	6.6%	62.36	MP
NESTLE	78.60	18,431.7	31.2	27.6	25.9	3.4%	69.1%	26.03	590.7	668.2	711.1	13.1%	6.4%	82.10	MP
OLDTOWN	1.88	848.7	15.3	14.8	13.7	3.5%	15.3%	2.35	55.3	57.4	61.9	3.7%	7.9%	2.11	OP
QL	4.34	5,416.4	28.2	25.7	23.7	1.2%	12.7%	3.42	192.0	211.4	229.0	10.1%	8.3%	4.16	UP
<b>SIN</b>															
BAT	43.18	12,329.2	13.5	17.1	16.7	5.0%	162.0%	22.61	910.1	719.1	740.1	-21.0%	2.9%	46.40	UP
CARLSBG	14.00	4,306.7	18.9	19.1	17.2	5.1%	61.9%	12.57	228.5	226.1	250.1	-1.1%	10.6%	14.30	MP
HEIM	17.00	5,135.7	24.0	19.8	18.0	4.8%	74.5%	13.60	214.2	259.9	285.0	21.3%	9.7%	18.48	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% (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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