

Hai-O Enterprise Bhd

Fashion Products Boost MLM

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MARKET PERFORM ↔

Price: RM4.70
Target Price: RM4.40 ↑

1Q18 net profit of RM17.6m (+81% YoY, -3% QoQ) came within our expectation at 23% of full-year forecast. Post results, we upgrade our FY18E/ FY19E earnings by 11%/3% on higher contribution from sales of newly launched fashion and beauty care range of products as well as higher distributors base assumptions. Maintain MARKET PERFORM with a higher Target Price of RM4.40 (from TP of RM4.00, previously).

First quarter within expectation. 1Q18 net profit of RM17.6m (+81% YoY, -3% QoQ) is within our expectation at 23% of full-year forecast. Consensus comparison is not available as the stock is not widely tracked. No dividend was declared for the quarter as expected.

YoY, 1Q18 revenue surged 58% to RM124.5m, mainly driven by impressive growth in MLM division (+81%) attributable to additional sales generated from newly recruited distributors and higher sales volume from newly launched big-ticket items in its fashion and beauty care range of products (hijabs under the brand "Infinence", with estimated contribution at c.30% of revenue) supported by recurring sales from its consumer products. Correspondingly, EBIT jumped to RM22.8m (+82%), with expanded margin of 18% (+2.3pts), again boosted by MLM division (+94%), which contributed 82% of the 1Q18 group EBIT (1Q17:77%). Coupled with a lower effective tax rate of 24% (1Q17: 25%), 1Q18 net profit increased by 81% with expanded margin at 14% (+1.7pts).

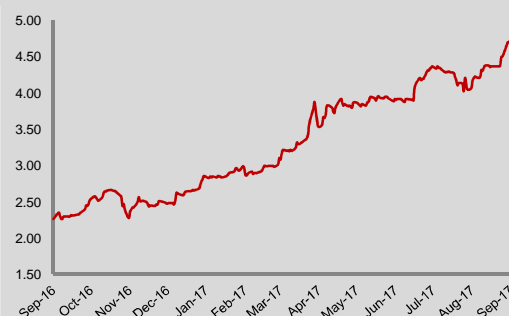
QoQ, 1Q18 revenue climbed 5%, from improvement in MLM division (+7%), from the higher sales of the newly launched fashion and beauty range of products, supported by several mega events as well as products promotion and training activities. However, EBIT was marginally lower by 1% due to lower contribution from MLM division (-2%) attributed to higher promotion costs from the mega events. Coupled with the higher effective tax rate of 24% (4Q17:23%), net profit was lower by 3% with compressed margin at 14% (-1.3pts).

Fashion products boost MLM sales. MLM continued its momentum, which was driven by expansion in distributor base, effective product strategy and reward incentive system as well as the recently launched fashion and beauty care range of products under the brand "Infinence". On the other hand, its other operating divisions, including wholesale and retail divisions were still being affected by the weak consumer sentiment and unfavourable forex. Moving forward, the group will continue to collaborate with a well-known local designer (currently, Rizman Ruzaini, supported by the expertise of Jimmy Choo) to roll out more fashion and beauty care range of products, while increasing its MLM contribution to suppress weakness in other segments.

Post results, we upgrade our FY18E/ FY19E earnings by 11% and 3%, respectively, on higher contribution from the sales of the newly launched fashion and beauty care range of products as well as higher distributors base assumptions.

Maintain MARKET PERFORM with a higher target price of RM4.40 (from RM4.00, previously) based on unchanged 15.2x PER, implying +1.0 SD over the 5-year mean, against FY18E EPS. Dividend yield of 5% on the back of sturdy balance sheet and strong operating cash flow should continue to provide support to the share price.

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,773.58 |
| YTD KLCI chg | 8.0% |
| YTD stock price chg | 77.6% |

Stock Information

| | |
|----------------------|----------------|
| Shariah Compliant | No |
| Bloomberg Ticker | HAIO MK Equity |
| Market Cap (RM m) | 1,361.8 |
| Issued shares | 289.7 |
| 52-week range (H) | 4.74 |
| 52-week range (L) | 2.21 |
| 3-mth avg daily vol: | 236,295 |
| Free Float | 75% |
| Beta | 0.6 |

Major Shareholders

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

Summary Earnings Table

| FY April (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 |
| Net Profit (NP) | 59.4 | 83.8 | 101.6 |
| Earnings Revision | - | 10.6% | 3.3% |
| 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 | 22.9 | 16.2 | 13.4 |
| Price/BV (x) | 4.8 | 4.4 | 4.1 |
| Net Gearing (x) | N.Cash | N.Cash | N.Cash |
| Net Dvd Yield (%) | 3.4% | 4.6% | 5.6% |

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Results Highlights

| | 1Q | 4Q | QoQ | 1Q | YoY | 3M | 3M | YoY |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| FY Apr (RM'm) | FY18 | FY17 | Chg | FY17 | Chg | FY18 | FY17 | Chg |
| Turnover | 124.5 | 118.4 | 5.2% | 78.7 | 58.3% | 124.5 | 78.7 | 58.3% |
| EBIT | 22.8 | 23.2 | -1.3% | 12.6 | 81.9% | 22.8 | 12.6 | 81.9% |
| PBT | 23.1 | 23.5 | -1.7% | 12.6 | 83.4% | 23.1 | 12.6 | 83.4% |
| Taxation | -5.5 | -5.3 | 3.2% | -3.1 | 75.1% | -5.5 | -3.1 | 75.1% |
| Net Profit (NP) | 17.6 | 18.2 | -3.2% | 9.7 | 80.6% | 17.6 | 9.7 | 80.6% |
| EPS (sen) | 6.1 | 6.3 | -3.2% | 3.4 | 80.6% | 6.1 | 3.4 | 80.6% |
| EBIT margin | 18.3% | 19.6% | | 16.0% | | 18.3% | 16.0% | |
| PBT margin | 18.6% | 19.9% | | 16.0% | | 18.6% | 16.0% | |
| NP margin | 14.1% | 15.4% | | 12.4% | | 14.1% | 12.4% | |
| Effective tax rate | 23.9% | 22.7% | | 25.0% | | 23.9% | 25.0% | |

Source: Company, Kenanga Research

Segmental Breakdown

| | 1Q | 4Q | QoQ | 1Q | YoY | 3M | 3M | YoY |
|-------------------------|--------|--------|---------|--------|-------|--------|--------|-------|
| FY Apr (RM'm) | FY18 | FY17 | Chg | FY17 | Chg | FY18 | FY17 | Chg |
| - Multi-Level-Marketing | 102.4 | 95.4 | 7.3% | 56.4 | 81.4% | 102.4 | 56.4 | 81.4% |
| - Wholesale | 13.0 | 12.6 | 3.2% | 14.1 | -7.6% | 13.0 | 14.1 | -7.6% |
| - Retail | 8.1 | 9.4 | -13.2% | 7.1 | 13.8% | 8.1 | 7.1 | 13.8% |
| - Others | 1.0 | 1.0 | -0.4% | 1.0 | 3.8% | 1.0 | 1.0 | 3.8% |
| Group Revenue | 124.5 | 118.4 | 5.2% | 78.7 | 58.3% | 124.5 | 78.7 | 58.3% |
| - Multi-Level-Marketing | 18.8 | 19.2 | -1.8% | 9.7 | 94.0% | 18.8 | 9.7 | 94.0% |
| - Wholesale | 3.0 | 2.1 | 38.0% | 1.8 | 62.8% | 3.0 | 1.8 | 62.8% |
| - Retail | -0.5 | 0.3 | -288.9% | -0.5 | -1.7% | -0.5 | -0.5 | -1.7% |
| - Others | 1.2 | 1.4 | -14.3% | 1.1 | 3.5% | 1.2 | 1.1 | 3.5% |
| - Elimination | 0.4 | 0.2 | 113.4% | 0.4 | -3.6% | 0.4 | 0.4 | -3.6% |
| Group EBIT | 22.8 | 23.2 | -1.3% | 12.6 | 81.9% | 22.8 | 12.6 | 81.9% |
| - Multi-Level-Marketing | 18.4% | 20.1% | | 17.2% | | 18.4% | 17.2% | |
| - Wholesale | 22.7% | 16.9% | | 12.8% | | 22.7% | 12.8% | |
| - Retail | -6.5% | 3.0% | | -7.5% | | -6.5% | -7.5% | |
| - Others | 118.2% | 137.3% | | 118.5% | | 118.2% | 118.5% | |
| Group EBIT Margin | 18.3% | 19.6% | | 16.0% | | 18.3% | 16.0% | |

Source: Company, Kenanga Research

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Peer Comparison

| NAME | Price (20-Sep-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 |
|--------------------------------|------------------------------|------------------|------------|-----------|-----------|-------------------|-------------------|-------------|------------------|-----------|-----------|-------------------------|-------------------------|-------------------------|--------|
| | | | Historical | 1Y Fwd | 2Y Fwd | | | | Historical | 1Y Fwd | 2Y Fwd | | | | |
| Consumer - Retail | | | | | | | | | | | | | | | |
| Aeon Co (M) Bhd | 2.07 | 2,906.3 | 38.8 | 31.6 | 29.4 | 1.4% | 4.2% | 1.56 | 75.0 | 91.8 | 98.8 | 22.5% | 7.6% | 2.20 | MP |
| Amway (Malaysia) Holdings Bhd | 7.41 | 1,218.1 | 22.3 | 22.3 | 18.8 | 4.0% | 23.4% | 5.79 | 54.6 | 54.7 | 64.9 | 0.0% | 18.6% | 7.50 | MP |
| Bison Consolidated Bhd | 2.30 | 713.2 | 39.3 | 27.9 | 21.7 | 0.9% | 17.4% | 4.68 | 18.1 | 25.6 | 32.9 | 41.2% | 28.6% | 2.50 | MP |
| Hai-O Enterprise Bhd | 4.70 | 1,361.8 | 22.9 | 16.2 | 13.4 | 4.6% | 21.9% | 4.78 | 59.4 | 83.8 | 101.6 | 41.0% | 21.3% | 4.40 | MP |
| Padini Holdings Bhd | 4.29 | 2,822.4 | 14.9 | 12.6 | 11.8 | 2.9% | 31.1% | 5.11 | 189.6 | 224.6 | 239.9 | 18.5% | 6.8% | 4.60 | OP |
| Parkson Holdings Bhd | 0.55 | 587.0 | (4.9) | 12.5 | 9.0 | 0.0% | -4.9% | 0.25 | (179.2) | 48.0 | 66.6 | -126.8% | 38.8% | 0.88 | OP |
| Consumer - F&B | | | | | | | | | | | | | | | |
| Dutch Lady Milk Industries Bhd | 58.88 | 3,768.3 | 25.3 | 26.9 | 24.2 | 3.7% | 102.5% | 22.77 | 149.1 | 139.8 | 155.5 | -6.2% | 11.2% | 54.15 | MP |
| Fraser & Neave Holdings Bhd | 24.60 | 9,016.9 | 24.3 | 26.3 | 23.2 | 2.1% | 17.5% | 4.53 | 370.5 | 354.4 | 388.7 | -4.3% | 9.7% | 24.95 | MP |
| Nestle (M) Bhd | 85.00 | 19,932.5 | 31.3 | 29.4 | 28.4 | 3.2% | 86.4% | 30.80 | 637.1 | 677.9 | 702.7 | 6.4% | 3.7% | 83.90 | MP |
| Oldtown Bhd | 2.69 | 1,246.1 | 19.6 | 16.2 | 15.4 | 4.1% | 16.6% | 3.20 | 60.8 | 73.6 | 77.4 | 21.1% | 5.1% | 3.15 | OP |
| Power Root Bhd | 2.11 | 682.37 | 15.3 | 15.1 | 13.4 | 5.7% | 15.0% | 2.66 | 43.5 | 44.2 | 49.8 | 1.5% | 12.6% | 2.70 | OP |
| QL Resources Bhd | 3.88 | 6,295.1 | 32.1 | 29.1 | 27.7 | 1.0% | 11.4% | 3.60 | 195.9 | 216.2 | 227.1 | 10.3% | 5.1% | 3.78 | MP |
| Spritzer Bhd | 2.14 | 390.7 | 9.5 | 16.9 | 12.8 | 2.3% | 10.0% | 1.35 | 41.0 | 23.0 | 30.3 | -43.8% | 31.8% | 2.20 | MP |
| Consumer - Sin | | | | | | | | | | | | | | | |
| British American Tobacco Bhd | 44.30 | 12,649.0 | 18.7 | 20.2 | 18.9 | 4.8% | 192.6% | 20.62 | 675.1 | 626.2 | 670.9 | -7.2% | 7.1% | 47.00 | OP |
| Carlsberg Brewery Malaysia Bhd | 14.86 | 4,571.2 | 22.2 | 19.0 | 17.1 | 5.0% | 91.8% | 14.15 | 205.0 | 233.7 | 257.8 | 14.0% | 10.3% | 15.30 | MP |
| Heineken Malaysia Bhd | 18.80 | 5,679.4 | 13.3 | 21.5 | 18.5 | 5.1% | 82.7% | 14.47 | 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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Published and printed by:

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