

26 March 2018

# Hai-O Enterprise Bhd

## 9M18 Within Expectations

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**9M18 net profit of RM58.6m (+42% YoY) came in within both our/consensus expectations at 70% of full-year forecasts. We expect 4Q18 to register higher sales with the start of the 26th year grand sales overseas trip promotion to Switzerland and Paris (Jan-May 2018) as well as maiden contribution from the highly anticipated shoes and leather goods. Maintain OUTPERFORM with unchanged TP of RM6.00.**

**9M18 within expectations.** 9M18 net profit of RM58.6m (+42% YoY) came in within both of our/consensus expectations at 70% of full-year forecasts. The group declared interim DPS of 9.0 sen for 9M18 (9M17: 5.0sen), which is within our expectation as normally c.70% of dividends are paid out in 4Q.

We expect 4Q18 to register higher sales with the start of the 26th year grand sales overseas trip promotion to Switzerland and Paris (Jan-May 2018) as well as maiden contribution from the highly anticipated shoes and leather goods designed with the consultation of Datuk Jimmy Choo.

**YoY**, 9M18 net profit surged 42% underpinned by: (i) higher revenue (+23%) driven by MLM division (+28%), and Wholesale division (+17%) attributable to higher sales volume from newly launched big-ticket items in its MLM fashion and beauty care range of products as well as higher Wholesale sales from its health tonic and Chinese tea, (ii) EBIT jumping 38% with expanded EBIT margin by +2.3pp to 21.3% from 19.0% in 9M17, boosted by MLM division (+24%), which contributed 70% of the 9M18 group EBIT and supported by its Wholesale division (+168%) through sales of high-margin products (i.e. premium Chinese medicated tonic), and (iii) lower effective tax rate of 23.1% (9M17:24.9%).

**QoQ**, 3Q18 net profit declined by 10% mainly due to the lower revenue (-17%) from the earlier termination of the 25<sup>th</sup> year grand sales overseas trip promotion, which ended in the 2Q18 as well as a higher effective tax rate of 23.2% (2Q18:22.3%).

**Outlook.** We expect MLM earnings to gain further momentum with shoes and leather goods designed with the consultation of Datuk Jimmy Choo which are set to boost high-margin products composition as well as being supported by HAIO's 26th year anniversary grand sales promotion in 2018 as well as higher contribution from the newly launched fashion and beauty care range of products under the "Infincence" brand. Moving forward, the MLM division will continue to expand its lifestyle segment of which margins are better compared to F&B products. On the other hand, wholesale and retail segments are expected to maintain its high EBIT margin with the sales of high margin in-house brands (i.e. premium Chinese medicated tonic).

**Maintain OUTPERFORM with an unchanged target price of RM6.00** based on 17x FY19E EPS implying +1.0SD of its 5-year forward historical mean. We believe our target PER of 17x is justifiable considering HAIO's average 32% net profit growth per annum over the next two years.

We like HAIO for its; (i) double-digit growth in distributors base (currently at c.160k), (ii) net profit growth averaging 31% per annum over the next two years boosted by double-digit margin, and (iii) strong earnings support from high-margin products under its MLM and leading Chinese medicine retail shops (under other business).

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

# OUTPERFORM ↔

**Price:** RM4.70  
**Target Price:** RM6.00 ↔

### Share Price Performance



KLCI	1,865.22
YTD KLCI chg	3.8%
YTD stock price chg	-12.3%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAI0 MK Equity
Market Cap (RM m)	1,368.7
Issued shares	291.2
52-week range (H)	5.60
52-week range (L)	3.20
3-mth avg daily vol:	287,747
Free Float	77%
Beta	0.7

### 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)	-	85.4	102.7
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	22.9	16.3	13.5
Price/BV (x)	4.8	4.5	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

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	103.1	123.5	-16.6%	107.2	-3.8%	351.1	285.6	22.9%
EBIT	24.6	27.4	-10.4%	21.4	14.9%	74.8	54.2	38.2%
PBT	25.0	27.9	-10.2%	21.7	15.3%	76.0	54.6	39.1%
Taxation	-5.8	-6.2	-6.8%	-6.0	-3.8%	-17.5	-13.6	29.0%
Net Profit (NP)	19.3	21.4	-10.2%	15.7	22.9%	58.6	41.3	41.7%
EPS (sen)	6.7	7.4	-10.2%	5.4	22.9%	20.2	14.3	41.7%
EBIT margin	23.8%	22.2%		20.0%		21.3%	19.0%	
PBT margin	24.3%	22.5%		20.2%		21.6%	19.1%	
NP margin	18.7%	17.4%		14.6%		16.7%	14.5%	
Effective tax rate	23.2%	22.3%		27.8%		23.1%	24.9%	

Source: Bursa Announcement, Kenanga Research

### Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
- Multi-Level-Marketing	75.5	95.5	-20.9%	79.4	-4.9%	273.4	213.3	28.2%
- Wholesale	17.1	16.5	3.9%	14.2	20.3%	46.6	40.0	16.5%
- Retail	9.3	10.4	-10.2%	12.4	-24.8%	27.8	28.8	-3.4%
- Others	1.1	1.2	-6.6%	1.1	-5.0%	3.2	3.5	-6.3%
Group Revenue	103.1	123.5	-16.6%	107.2	-3.8%	351.1	285.6	22.9%
- Multi-Level-Marketing	14.1	19.5	-27.5%	16.8	-15.9%	52.5	42.3	23.9%
- Wholesale	9.1	6.7	36.2%	2.5	268.1%	18.7	7.0	168.1%
- Retail	0.1	0.5	-72.7%	1.1	-87.7%	0.1	1.0	-91.7%
- Others	1.5	1.2	19.4%	1.5	-4.8%	3.9	4.2	-7.4%
- Elimination	-0.3	-0.5	-46.1%	-0.5	-47.6%	-0.3	-0.4	-10.8%
Group EBIT	24.6	27.4	-10.4%	21.4	14.9%	74.8	54.2	38.2%
- Multi-Level-Marketing	18.7%	20.4%		21.2%		19.2%	19.8%	
- Wholesale	53.1%	40.5%		17.3%		40.1%	17.4%	
- Retail	1.4%	4.6%		8.6%		0.3%	3.5%	
- Others	134.7%	105.4%		134.5%		119.2%	120.6%	
Group EBIT Margin	23.8%	22.2%		20.0%		21.3%	19.0%	

Source: Bursa Announcement, Kenanga Research

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### Peer Comparison

NAME	Price (23-Mar-18) (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	1.50	1,665.6	36.9	30.8	27.8	2.6%	91.7%	0.53	50.1	60.0	66.4	19.8%	10.7%	1.70	OP
Aeon Co (M) Bhd	1.79	2,513.2	23.9	21.1	18.5	2.2%	5.0%	1.70	106.1	119.1	135.9	12.2%	14.1%	2.00	OP
Amway (Malaysia) Holdings Bhd	7.60	1,249.3	23.7	19.3	17.4	4.6%	24.8%	5.94	52.6	64.9	72.0	23.3%	10.9%	8.30	OP
Hai-O Enterprise Bhd	4.70	1,368.7	22.9	16.2	13.4	4.6%	26.1%	4.78	59.4	83.8	101.6	41.0%	21.3%	6.00	OP
MyNews Holdings Bhd	1.65	1,125.6	46.8	31.1	27.3	0.8%	12.2%	4.71	24.0	36.2	41.3	50.7%	14.0%	1.45	MP
Padini Holdings Bhd	4.45	2,927.7	16.2	15.0	12.6	2.8%	27.7%	5.30	180.6	195.4	231.7	8.2%	18.6%	5.10	MP
Parkson Holdings Bhd	0.445	474.9	(4.0)	13.5	8.9	0.0%	-7.7%	0.20	(179.2)	35.8	54.6	-120.0%	52.5%	0.860	OP
<b>Consumer - F&amp;B</b>															
Dutch Lady Milk Industries Bhd	66.40	4,249.6	35.2	33.7	28.2	3.3%	87.4%	40.86	120.8	126.3	150.5	4.5%	19.2%	61.15	UP
Fraser & Neave Holdings Bhd	33.40	12,242.5	30.7	29.5	27.0	2.1%	13.9%	5.74	398.6	415.4	453.8	4.2%	9.2%	29.10	MP
Nestle (M) Bhd	150.00	35,175.0	54.5	49.1	42.0	1.9%	100.3%	54.97	645.8	716.7	837.6	11.0%	16.9%	114.30	MP
Oldtown Bhd	3.13	1,449.9	22.8	18.8	17.9	3.5%	13.1%	3.72	60.8	73.6	77.4	21.1%	5.1%	3.18	Accept Offer
Power Root Bhd	1.18	381.7	8.6	14.3	10.6	8.5%	11.7%	1.49	43.5	26.2	35.2	-39.9%	34.7%	2.00	OP
QL Resources Bhd	4.98	8,079.7	41.2	37.4	35.6	0.8%	11.8%	4.62	195.9	216.2	227.1	10.3%	5.1%	4.05	UP
Spritzer Bhd	2.38	499.7	18.2	15.7	14.7	2.5%	8.0%	1.15	23.8	31.8	33.9	33.9%	6.5%	2.40	MP
<b>Consumer - Sin</b>															
British American Tobacco Bhd	28.30	8,080.5	15.5	15.1	14.2	6.3%	99.0%	21.15	522.4	536.9	570.4	2.8%	6.2%	33.85	MP
Carlsberg Brewery Malaysia Bhd	19.00	5,844.8	26.3	23.1	20.4	4.3%	71.3%	19.43	221.2	251.7	284.1	13.8%	12.9%	17.65	OP
Heineken Malaysia Bhd	21.32	6,440.7	23.8	20.2	18.3	4.9%	71.7%	17.87	270.1	319.0	352.1	18.1%	10.4%	23.30	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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