

Outthink. Outperform.

A blip in 4Q18 due to general election

Hai-O reported a FY18 net profit of RM74.8m (+25.8% yoy), which came in below our and consensus expectations. Partly contributing to this was a weaker-than-expected 4Q18, dragged down by a slowdown in activities in the MLM segment ahead of the general election (GE14). We expect subsequent quarters to improve due to the extension of the deadline for this year's incentive trip and a boost from improved consumer sentiments post-GE14. We reiterate our BUY rating on Hai-O with an adjusted TP of RM6.10 based on a 18x FY19E PER. (This note marks a transfer of analyst coverage.)

FY18 recorded 25.8% earnings growth, slightly below expectations

Hai-O reported a 25.8% yoy growth in net earnings for FY18 on the back of a 14.2% yoy growth in revenue. The key earnings drivers were the MLM and wholesale divisions which were up 14.1% and 20.9% yoy respectively. The MLM division grew from the introduction of several new products across the board, which was boosted by the 25th anniversary grand sales promotion. The wholesale division also recorded strong revenue growth due to higher sales of premium Chinese medicated tonics and Chinese tea. However, the net profit of RM74.8m was below expectations, making up 89% and 87% of our and consensus forecasts respectively due to a weak 4Q18.

4Q18 MLM results impacted by uncertainties leading up to GE14

Weaker contribution from the MLM division contributed to the 11.9% yoy drop in net profit (MLM division accounts for ~76% of total revenue). The MLM division was affected by a slowdown in activities prior to GE14, due to members turning more cautious in the lead-up to it. Furthermore, the deadline for the incentive trip for 2018 was extended till May, and thus, we expect a spike in sales activity to be reflected only in 1Q19. The wholesale and retail divisions, on the other hand, provided some respite with revenue growing by 35% and 46% respectively.

Maintain BUY with an adjusted TP of RM6.10

Despite FY18 earnings falling behind expectations, we maintain our FY19-20 earnings forecasts and introduce our FY21 forecasts. In addition to the improving consumer sentiment, we believe the new lifestyle and fashion wear products will contribute positively in the subsequent quarters. We adjust our TP to RM6.10, based on a FY19E PER of 18x (+1.0SD above its 5-year mean) (previously RM6.44 based on 20x CY18E). Key risks to our call: i) loss of distributors in the MLM division; ii) lack of new exciting products to enhance growth; and iii) weakness in the wholesale and retail divisions.

Earnings & Valuation Summary

| FYE | Apr | 2017 | 2018 | 2019E | 2020E | 2021E |
|-----------------------|-----|-------|-------|-------|-------|-------|
| Revenue (RMm) | | 404.2 | 461.8 | 658.9 | 702.0 | 747.5 |
| EBITDA (RMm) | | 81.1 | 101.6 | 137.0 | 145.8 | 155.0 |
| Pretax profit (RMm) | | 78.3 | 99.0 | 132.7 | 141.4 | 150.6 |
| Net profit (RMm) | | 59.4 | 74.8 | 99.4 | 106.0 | 112.8 |
| EPS (sen) | | 20.2 | 24.9 | 33.1 | 36.1 | 38.5 |
| PER (x) | | 24.0 | 19.5 | 14.6 | 13.4 | 12.6 |
| Core net profit (RMm) | | 59.4 | 74.8 | 99.4 | 106.0 | 112.8 |
| Core EPS (sen) | | 20.2 | 24.9 | 33.1 | 36.1 | 38.5 |
| Core EPS growth (%) | | 63.3 | 23.1 | 32.9 | 9.1 | 6.5 |
| Core PER (x) | | 24.0 | 19.5 | 14.6 | 13.4 | 12.6 |
| Net DPS (sen) | | 16.0 | 20.0 | 22.0 | 23.5 | 25.0 |
| Dividend Yield (%) | | 3.3 | 4.1 | 4.5 | 4.8 | 5.2 |
| EV/EBITDA (x) | | 15.9 | 13.1 | 9.3 | 8.3 | 0.0 |

| | | | | |
|---------------------|--|------|------|-----|
| Chg in EPS (%) | | - | - | - |
| Affin/Consensus (x) | | 0.96 | 1.00 | new |

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Hai-O

HAIO MK
Sector: Consumer

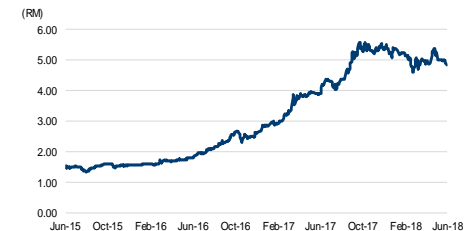
RM4.85 @ 26 June 2018

BUY (maintain)

Upside 25.8%

Price Target: RM6.10

Previous Target: RM6.44



Price Performance

| | 1M | 3M | 12M |
|-------------|-------|-------|-------|
| Absolute | -8.2% | 3.0% | 23.5% |
| Rel to KLCI | -1.3% | 11.9% | 31.4% |

Stock Data

| | |
|--------------------------|--------------|
| Issued shares (m) | 290.9 |
| Mkt cap (RMm)/(US\$m) | 1411.1/350.4 |
| Avg daily vol - 6mth (m) | 0.2 |
| 52-wk range (RM) | 3.88-5.6 |
| Est free float | 55.2% |
| BV per share (RM) | 1.04 |
| P/BV (x) | 4.67 |
| Net cash/ (debt) (RMm) | 58.12 |
| ROE (2019E) | 29.5% |
| 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) | 4Q17 | 3Q18 | 4Q18 | QoQ % chg | YoY % chg | FY17 | FY18 | YoY % chg | Comments |
|--------------------------|-------------|-------------|-------------|----------------------------|----------------------------|-------------|-------------|----------------------------|---|
| Revenue | 118.6 | 103.1 | 110.6 | 7.4 | (6.7) | 404.2 | 461.8 | 14.2 | FY18 revenue growth driven by MLM and Wholesale divisions (+14.1% and 20.9% respectively). 4Q18 revenue declined due to a slowdown in MLM activities leading up to GE14. |
| Op costs | (94.4) | (77.5) | (86.8) | 12.1 | (8.0) | (323.2) | (360.2) | 11.5 | |
| EBITDA | 24.2 | 25.6 | 23.8 | (6.9) | (1.7) | 81.1 | 101.6 | 25.3 | |
| <i>EBITDA margin (%)</i> | <i>20.4</i> | <i>24.8</i> | <i>21.5</i> | <i>-3.3</i> <i>ppts</i> | <i>+1.1</i> <i>ppts</i> | <i>20.1</i> | <i>22.0</i> | <i>+1.9</i> <i>ppts</i> | |
| Depn and amort | (1.0) | (1.0) | (1.0) | 1.3 | 7.7 | (3.6) | (4.0) | 9.5 | |
| EBIT | 23.3 | 24.6 | 22.8 | (7.3) | (2.1) | 77.4 | 97.6 | 26.1 | EBIT margin improved due to the growing sales per distributor and higher contribution of premium products in wholesale division. |
| <i>EBIT margin (%)</i> | <i>19.6</i> | <i>23.8</i> | <i>20.6</i> | <i>-3.2</i> <i>ppts</i> | <i>+1.0</i> <i>ppts</i> | <i>19.2</i> | <i>21.1</i> | <i>+2.0</i> <i>ppts</i> | |
| Int expense | (0.0) | (0.0) | (0.0) | (40.0) | (4.5) | (0.1) | (0.1) | (3.0) | |
| Int and other inc | 0.4 | 0.5 | 0.3 | (38.3) | (29.6) | 1.4 | 1.5 | 10.4 | |
| Associates | 0.0 | 0.0 | 0.0 | n.m. | n.m. | (0.4) | 0.0 | n.m. | |
| Exceptional items | 0.0 | 0.0 | 0.0 | n.m. | n.m. | 0.0 | 0.0 | n.m. | |
| Pretax | 23.7 | 25.0 | 23.1 | (7.9) | (2.6) | 78.3 | 99.0 | 26.5 | |
| Tax | (5.3) | (5.8) | (6.4) | 9.9 | 21.1 | (18.9) | (23.9) | 26.8 | |
| <i>Tax rate (%)</i> | <i>22.3</i> | <i>23.2</i> | <i>27.7</i> | <i>+4.5</i> <i>ppts</i> | <i>+5.4</i> <i>ppts</i> | <i>24.1</i> | <i>24.1</i> | <i>+0.1</i> <i>ppts</i> | |
| MI | 0.1 | 0.0 | (0.4) | n.m. | n.m. | 0.1 | (0.3) | n.m. | |
| Net profit | 18.5 | 19.3 | 16.3 | (15.5) | (11.9) | 59.5 | 74.8 | 25.8 | Below our and consensus estimates due to a drag in MLM results in 4Q18. However, expecting a spike in MLM activity in May 2018 due to the extension of the incentive trip deadline. |
| EPS (sen) | 6.4 | 6.7 | 5.6 | (15.5) | (11.9) | 20.6 | 25.9 | 25.8 | |
| Core net profit | 18.5 | 19.3 | 16.3 | (15.5) | (11.9) | 59.5 | 74.8 | 25.8 | |

Source: Affin Hwang, Company data

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| External Revenue | | | | | | |
| Wholesale | 50.7 | 56.3 | 56.6 | 54.4 | 52.6 | 63.7 |
| MLM | 167.0 | 149.3 | 135.6 | 198.3 | 308.7 | 352.5 |
| Retail | 42.2 | 40.1 | 40.6 | 38.3 | 38.1 | 41.5 |
| Others | 8.0 | 7.8 | 7.1 | 6.6 | 4.5 | 4.1 |
| Total revenue | 267.9 | 253.4 | 239.9 | 297.6 | 404.0 | 461.8 |
| % contribution to revenue | | | | | | |
| Wholesale | 18.9% | 22.2% | 23.6% | 18.3% | 13.0% | 13.8% |
| MLM | 62.3% | 58.9% | 56.5% | 66.6% | 76.4% | 76.3% |
| Retail | 15.8% | 15.8% | 16.9% | 12.9% | 9.4% | 9.0% |
| Others | 3.0% | 3.1% | 2.9% | 2.2% | 1.1% | 0.9% |
| | 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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