

Outthink. Outperform.

## MLM division remains strong

Hai-O reported 9MFY16 core net profit improvement of 21.6% to RM 25.2m, coming in within our but above consensus expectations. The group saw higher revenue from its multi-level-marketing (MLM) division, while its other divisions (wholesale and retail) also saw an improvement. We make no changes to our TP of RM 2.02 but downgrade the stock to a SELL as we see limited upside due to the softer consumer spending environment after share price rally of 23% since Sep-15.

### 9MFY16 in line with expectations

Hai-O recorded a 9MFY16 revenue and core net profit of RM 209.5m (+23.6% yoy) and RM 25.2m (+ 21.6% yoy) respectively. This was mainly due to higher revenue generated by its MLM division, which was its main contributor (64% of revenue and 71% of PBT). The group's 9MFY16 core earnings were within our but above consensus expectations, representing 75% and 82% of both full-year estimates.

### MLM division drives earnings, other divisions recovering

The group's 9MFY16 turnover and PBT for its MLM segment increased by 38.4% yoy and 21.2% yoy to RM 134.5m and RM 24.2m respectively due to higher sales volume for most products, especially its "small ticket" items. In addition, the group's newly recruited members have grown by over 50% yoy and this has further contributed to earnings. The wholesale division managed to maintain its external revenue but PBT increased by 39% yoy to RM 4.8m because of higher inter-segment sales. The retail division has also seen an improvement as the pre-CNY sale coincided with this financial quarter compared to last year's fourth quarter.

### Downgrade to SELL, maintain TP of RM2.02

Share price has seen an increase of 23% since its low of RM 1.93 in Sep-15 on the back of improved earnings and possibly due to the change in management in Feb-16. Note that the group managing director Tan Kai Hee has handed over the reins to his son, Tan Keng Kang who plans to explore new projects and strengthen its MLM business in the ASEAN region. We maintain our TP of RM2.02, pegged to an existing 11.5x CY16E EPS (in line with the stock's 5-year historical PE) but downgrade the stock to a SELL as share price has moved above our target price and due to the weak consumer sentiment.

Key risks to our call include: i) a stronger upturn in consumer spending; and ii) a strengthening of the RM vs. US\$ which will reduce import costs.

### Earnings & Valuation Summary

FYE Apr	2014	2015	2016E	2017E	2018E
Revenue (RMm)	253.4	239.9	270.0	283.8	303.4
EBITDA (RMm)	58.0	48.5	49.3	53.0	57.0
Pretax profit (RMm)	53.1	43.0	45.8	49.6	53.7
Net profit (RMm)	40.3	30.1	33.6	36.4	39.4
EPS (sen)	19.9	14.8	16.6	18.0	19.4
PER (x)	11.9	16.0	14.3	13.2	12.2
Core net profit (RMm)	40.3	30.1	33.6	36.4	39.4
Core EPS (sen)	19.9	14.8	16.6	18.0	19.4
Core EPS growth (%)	-7.5	-25.3	11.7	8.3	8.2
Core PER (x)	11.9	16.0	14.3	13.2	12.2
Net DPS (sen)	14.0	15.0	10.8	11.7	12.6
Dividend Yield (%)	5.9	6.3	4.5	4.9	5.3
EV/EBITDA (x)	6.3	7.9	7.8	7.0	6.2
Chg in EPS (%)			0.0	0.0	
Affin/Consensus (x)			1.1	0.9	

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)  
 (Formerly known as HwangDBS Investment Bank Bhd)

## Results Note

# HAI-O

HAIO MK  
 Sector: Consumer

RM2.37 @ 18 March 2016

## SELL (downgrade)

Downside 15%

## Price Target: RM2.02

Previous Target: RM2.02



## Price Performance

	1M	3M	12M
Absolute	-0.4%	+1.7%	+0.4%
Rel to KLCI	-2.5%	-2.6%	+5.2%

## Stock Data

Issued shares (m)	193.4
Mkt cap (RMm)/(US\$m)	458.3/113.0
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.89-2.45
Est free float	50.7%
BV per share (RM)	1.27
P/BV (x)	1.87
Net cash/ (debt) (RMm) (9MFY16)	48.76
ROE (2016E)	13.2%
Derivatives	Nil
Shariah Compliant	YES

## Key Shareholders

Kai Hee Tan	10.1%
Akintan Sdn Bhd	7.8%
Siow Eng Tan	7.0%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Apr (RMm)	3Q16	QoQ % chg	YoY % chg	9MFY16	YoY % chg	Comment
Revenue	80.5	9.4	29.9	209.5	23.6	Growth mainly due to higher sales volume from the MLM division
Op costs	(67.5)	8.7	28.1	(176.3)	23.7	
EBIT	13.0	13.2	40.6	33.2	23.1	
<i>EBIT margin (%)</i>	<i>16.1</i>	<i>0.5</i>	<i>1.2</i>	<i>15.8</i>	<i>(0.1)</i>	Slight contraction due to weakening of MYR against USD
Int expense	(0.1)	>100	38.7	(0.2)	(25.1)	
Int and other inc	0.3	(38.3)	(9.6)	0.9	1.4	
Associates	0.0	0.0	0.0	0.0	0.0	
Exceptional items	0.0	0.0	0.0	0.0	0.0	
<b>Pretax</b>	<b>13.2</b>	<b>10.7</b>	<b>39.1</b>	<b>33.9</b>	<b>22.9</b>	PBT saw an improvement in all segments (MLM, wholesale, retail)
Tax	(3.3)	14.8	37.3	(8.4)	23.9	
<i>Tax rate (%)</i>	<i>25.0</i>	<i>0.9</i>	<i>(0.3)</i>	<i>24.9</i>	<i>0.2</i>	
MI	(0.1)	10.7	>(100)	(0.3)	>100	
<b>Net profit</b>	<b>9.8</b>	<b>9.4</b>	<b>33.9</b>	<b>25.2</b>	<b>21.6</b>	
EPS (sen)	5.1	9.4	33.9	13.0	21.6	
<b>Core net profit</b>	<b>9.8</b>	<b>9.4</b>	<b>33.9</b>	<b>25.2</b>	<b>21.6</b>	Within expectations

Source: Affin Hwang, Company data

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	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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