

Hai-O Enterprise Berhad

MLM Anchoring Growth

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We upgrade HAI O to MARKET PERFORM from UNDERPERFORM as we came away feeling more positive on its outlook after a meeting with the key management featuring founder, Mr Tan Kai Hee, Managing Director, Mr Tan Keng Kang and CFO, Mr Hew Von Kin. Its MLM division is expected to continue its steady run with the backing of strong new recruitments and sound product strategy while the other business segments are expected to perform modestly. Post-meeting, we raised FY16E and FY17E net profits by 9.9% and 15.2%, respectively. Correspondingly, our Target Price is nudged higher to RM2.55 (from RM2.22), based on unchanged 12.9x PER FY17E which is on par with its 5-year mean.

Strong drive from MLM. 9M16 MLM EBIT surged 20% to RM23.5m thanks to the switch in sales strategy whereby the Group focused more on 'small-ticket items', which is now contributing 70% of the total sales (from 30% a year ago). Meanwhile, new recruitments were encouraging with latest active distributors of 70k representing a jump of 32% from 57k in FY15 due to its successful recruitment program targeting young Bumiputra group. Moving forward, management is confident that the momentum can be sustained with younger generation of distributors joining the force vying for extra income in amidst of the challenging economy and job market.

Cautious on wholesale and retail segments. Despite the wholesale and retail divisions growing 45% and 127%, respectively, as of 9M16, management is maintaining a conservative stance as both divisions are vulnerable to weak consumer sentiment and attributed the strong performance to seasonality factor. The strengthening of MYR bodes well for the Group as most of the products in its wholesale division are imported and a 10% appreciation in the local currency will boost its net profit by RM2m-RM3m or 5%-8% of FY17E net profit. The operating environment for retail segment remains challenging with no expansion plan, but the Group is not scaling down this division as it complements other segments.

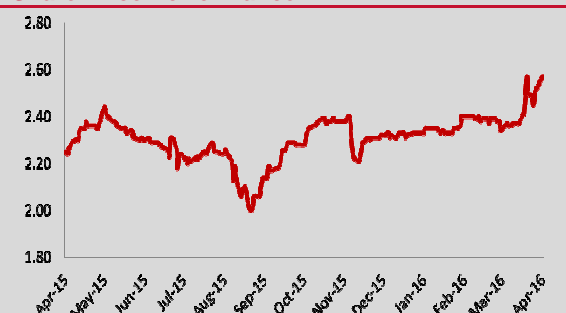
Company in the right hand. New MD (effective February 2016), Mr Tan Keng Kang shared his vision for both short-term and long-term plans for the company. While the latest strategy in its MLM division is already bearing fruits, he aims to build on the current success and viewed the Malaysian market as still full of opportunities. Over the longer-term, HAI O may look beyond Malaysia with Indonesia viewed as a potential market while the modernization in E-Commerce could also be an exciting prospect for the Group to sustain its longer-term growth.

Upgrade to MARKET PERFORM from UNDERPERFORM with higher Target Price of RM2.55 (from RM2.22). We raised FY16E and FY17E net profits by 9.9% and 15.2%, respectively, as we were previously too conservative with the distributor force growth. Correspondingly, our Target Price is nudged higher to RM2.55 (from RM2.22), based on an unchanged FY17E 12.9x PER which is on par with its 5-year mean. We upgrade our rating as we think that the outlook is rosier underpinned by sustainable earnings growth in its MLM division, forecasted to grow 14.4% and 12.5% in the next two years post earnings revision. The stock offers total potential return of 4.4%, including dividend yield and thus justified its 'MARKET PERFORM' rating.

MARKET PERFORM ↑

Price: RM2.57 ↑
Target Price: RM2.55 ↑

Share Price Performance



KLCI	1,718.08
YTD KLCI chg	1.5%
YTD stock price chg	10.3%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAI O MK Equity
Market Cap (RM m)	496.8
Issued shares	193.3
52-week range (H)	2.58
52-week range (L)	1.89
3-mth avg daily vol:	54,758
Free Float	75%
Beta	0.6

Major Shareholders

KAI HEE TAN	10.1%
AKINTAN SDN BHD	7.8%
SIOW ENG TAN	7.0%

Summary Earnings Table

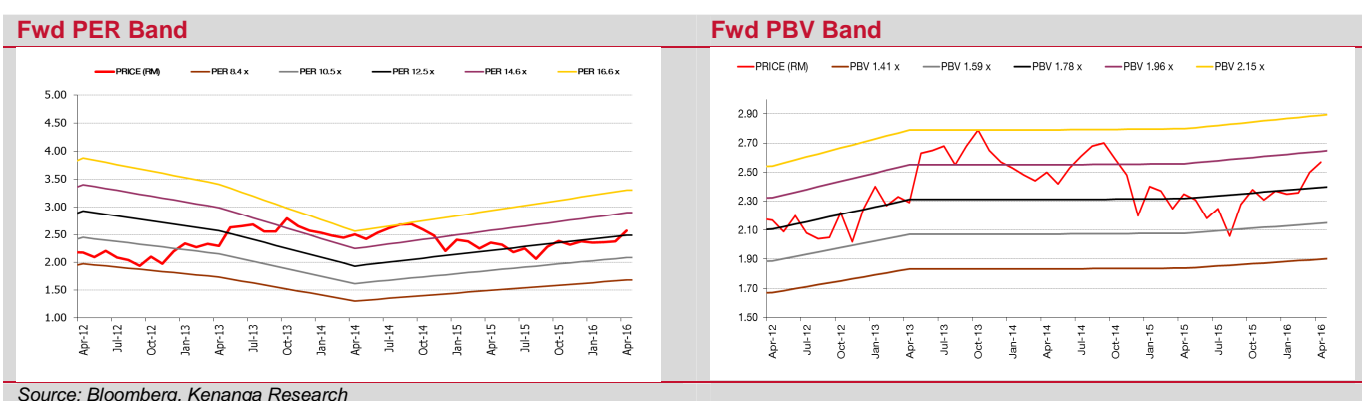
FY Apr (RM'm)	2015A	2016E	2017E
Turnover	239.9	273.7	296.5
EBIT	42.2	45.1	51.3
PBT	43.0	46.5	52.0
Net Profit (NP)	30.1	34.4	38.7
Earnings Revision	-	+9.9%	+15.2%
EPS (sen)	15.4	17.6	19.8
EPS growth (%)	-25.3%	14.4%	12.5%
NDPS (sen)	15.0	13.2	15.0
BV/Share (RM)	1.30	1.35	1.40
PER	16.7	14.6	12.9
Price/BV (x)	1.97	1.91	1.84
Net Gearing (x)	Cash	Cash	Cash
Net Dvd Yield (%)	5.8%	5.1%	5.8%



06 April 2016

Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2013	2014	2015	2016E	2017E	FY Apr (RM m)	2013	2014	2015	2016E	2017E
Revenue	267	253	240	274	297	Revenue	11%	-5%	-5%	14%	8%
EBITDA	59	53	45	48	55	EBITDA	28%	-9%	-15%	6%	13%
Depreciation	-3	-3	-3	-3	-3	EBIT	30%	-10%	-16%	7%	14%
Operating Profit	56	50	42	45	51	PBT	31%	-17%	-19%	8%	12%
Int Income	1	2	1	2	1	Net Profit	39%	-15%	-25%	14%	12%
PBT	64	53	43	47	52						
Taxation	-16	-12	-12	-11	-12	Profitability					
Minority Interest	-1	-1	-1	-1	-1	EBITDA Margin	22%	21%	19%	18%	18%
Net Profit	47	40	30	34	39	EBIT Margin	21%	20%	18%	16%	17%
						PBT Margin	24%	21%	18%	17%	18%
						Net Margin	18%	16%	13%	13%	13%
						Eff. Tax Rate	-25%	-23%	-29%	-25%	-24%
						ROE	20%	16%	12%	13%	14%
						ROA	15%	13%	10%	12%	12%
						DuPont Analysis					
						Net Margin	18%	16%	13%	13%	13%
						Assets T/over (x)	0.87	0.82	0.79	0.92	0.96
						Leverage Factor (x)	1.27	1.22	1.20	1.14	1.14
						ROE (%)	20%	16%	12%	13%	14%
						Leverage					
						Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
						Net Cash/(Debt)	52.0	54.3	42.3	33.2	31.5
						Net Debt/Equity (x)	Cash	Cash	Cash	Cash	Cash
						Valuations					
						EPS (sen)	23.9	20.5	15.4	17.6	19.8
						NDPS (sen)	14.0	14.0	15.0	13.2	15.0
						BV (RM)	1.22	1.30	1.30	1.35	1.40
						PER (x)	9.6	11.2	14.8	10.7	12.5
						Net Div. Yield (%)	5.4%	5.4%	5.8%	5.1%	5.8%
						P/BV (x)	2.11	1.98	1.97	1.91	1.84
						EV/EBITDA (x)	7.6	8.3	10.1	9.7	8.6

Source: Kenanga Research



06 April 2016

Peer Comparison

NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			Net profit growth		Target Price (RM)	Rating
	(RM)	(RMm)	Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd	1Y Fwd (%)	2Y Fwd (%)		
<u>CORE COVERAGE</u>															
<u>Consumer - Retail</u>															
AEON CO (M) BHD	2.78	3,903.1	29.3	25.3	25.0	1.4%	7.4%	2.14	133.4	154.8	155.5	16.0%	0.5%	2.22	Underperform
AMWAY (MALAYSIA) HLDGS BHD	9.65	1,586.3	24.8	20.0	18.5	4.6%	29.3%	7.72	63.9	79.2	84.7	23.9%	6.9%	9.16	Market Perform
HAI-O ENTERPRISE BHD	2.57	496.8	16.7	14.6	13.0	5.1%	13.1%	1.95	30.1	34.4	38.7	14.4%	12.5%	2.55	Market Perform
PADINI HOLDINGS BERHAD	2.04	1,342.1	16.7	12.9	11.9	5.9%	26.3%	3.31	80.2	104.2	112.9	29.9%	8.3%	2.24	Market Perform
PARKSON HOLDINGS BHD	0.99	1,045.4	13.3	39.4	18.9	2.5%	-2.0%	0.41	80.7	27.0	56.4	-66.5%	108.9%	0.82	Underperform
<u>Consumer - F&B</u>															
DUTCH LADY	52.00	3,328.0	23.6	20.8	19.8	4.6%	89.7%	21.14	141.0	159.7	168.3	13.3%	5.4%	56.40	Outperform
NESTLE (M)	74.90	17,564.1	29.7	26.6	25.3	3.6%	79.5%	24.80	590.7	659.3	695.5	11.6%	5.5%	76.20	Market Perform
OLDTOWN BHD	1.51	681.7	13.4	14.0	12.7	4.0%	15.5%	2.07	51.0	48.6	53.7	-4.8%	10.6%	1.72	Outperform
QL RESOURCES BHD	4.50	5,616.1	30.0	27.1	24.9	1.1%	13.6%	3.94	187.5	207.4	225.7	10.6%	8.8%	4.16	Underperform
<u>Consumer - Sin</u>															
BRITISH AMERICAN TOBACCO BHD	54.94	15,687.0	17.2	16.6	16.5	5.9%	170.0%	28.76	910.1	946.0	948.0	4.0%	0.2%	57.78	Market Perform
CARLSBERG BREWERY MALAYSIA B	13.88	4,269.8	18.7	17.7	16.7	5.2%	66.7%	12.46	228.5	241.8	256.4	5.8%	6.0%	13.86	Market Perform
GUINNESS ANCHOR BHD	13.78	4,162.9	19.4	16.5	15.2	7.3%	65.1%	11.02	214.2	251.7	274.6	17.5%	9.1%	16.36	Outperform

Source: Bloomberg, Kenanga Research

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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Published and printed by:

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