

Outthink. Outperform.

MLM business prospers

Hai-O reported a 1H17 core net profit improvement of 63.8% to RM 25.7m, coming above our and consensus expectations. The group's multi-level-marketing (MLM) division drove earnings as Hai-O saw recurring sales as well as additional revenue from the increase in distributors. We increase our TP to RM 3.68 and upgrade to HOLD.

1H17 above expectations

Hai-O recorded an increase in 1H17 revenue by 38.4% to RM 178.4m whereas core net profit increased by 63.8% to RM 25.7m. This was above our and consensus expectations, accounting for 60% of full year estimates (note that 1H has historically been weaker at 43-48% of full year earnings). This is mainly due to higher than expected revenue growth, lower marketing and distribution costs (7.5% of revenue vs forecast of 13.3% of revenue) and lower effective tax rate (23% vs forecast of 25%). The Group declared a DPS of 5 sen (vs 4 sen in 1H16).

MLM division growing strongly among weaker divisions

The Group's 1H17 results continue to be driven by its MLM division (75% of revenue) where turnover and PBT for its MLM segment increased by 62.7% yoy and 88.4% yoy to RM 133.9m and RM 26.0m respectively due to higher recurring sales for most products, especially its "small ticket" items in the personal & household, beverage and healthcare segment. In addition, the group has been actively growing its distributor force, doubling the number of new members yoy and is estimated to reach over 100,000 distributors. The wholesale division (14% of revenue) recorded a decrease in revenue of 1.2% yoy due to the increase in ASP, inclusive of a one-off re-export sale of about RM2m, but saw an EBIT jump by 32.4% yoy. The retail division was weak and posted a drop in revenue by 4.1% yoy and a pre-tax loss of RM 0.06m due to lower demand for high-margin items and higher operating costs.

Upgrade to HOLD with higher TP of RM 3.68

We forecast higher growth in the MLM business and lower operating costs and increase FY17-19E earnings by 30-34%. We increase TP to RM 3.68 (from RM2.78), based on its 5 year historical PE of 12x CY17E and upgrade our call to HOLD. Note that HAI-O has been actively buying back its shares and currently holds close to 4.6% of its total issued and paid-up share capital which brings up the possibility of a share dividend distribution to shareholders. Key upside and downside risks to our call: i) a stronger/weaker upturn in consumer spending; ii) lower growth of members for the MLM business.

Earnings & Valuation Summary

FYE	Apr	2015	2016	2017E	2018E	2019E
Revenue (RMm)		239.9	297.6	399.4	434.4	454.7
EBITDA (RMm)		48.5	51.7	79.2	88.7	92.6
Pretax profit (RMm)		43.0	49.1	75.2	84.8	88.9
Net profit (RMm)		30.1	36.3	55.2	62.3	65.2
EPS (sen)		15.4	18.6	28.2	31.8	33.3
PER (x)		24.5	20.3	13.4	11.8	11.3
Core net profit (RMm)		30.1	36.3	55.2	62.3	65.2
Core EPS (sen)		15.4	18.6	28.2	31.8	33.3
Core EPS growth (%)		-24.8	20.8	51.8	12.8	4.7
Core PER (x)		24.5	20.3	13.4	11.8	11.3
Net DPS (sen)		15.0	15.0	18.3	20.7	21.7
Dividend Yield (%)		4.0	4.0	4.9	5.5	5.7
EV/EBITDA (x)		13.1	12.2	7.9	6.8	6.2
Chg in EPS (%)				+29.8	+33.6	+32.8
Affin/Consensus (x)				1.3	1.3	1.3

Source: Company, Affin Hwang estimates

Results Note

HAI-O

HAIO MK
Sector: Consumer

RM3.77 @ 21 December 2016

HOLD (upgrade)

Downside 2.5%

Price Target: RM3.68

Previous Target: RM2.78



Price Performance

	1M	3M	12M
Absolute	+0.5%	+10.6%	+61.8%
Rel to KLCI	+0.2%	+12.4%	+61.5%

Stock Data

Issued shares (m)	192.9
Mkt cap (RMm)/(US\$m)	727.3/162.4
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	2.3-4
Est free float	50.8%
BV per share (RM)	1.38
P/BV (x)	2.73
Net cash/ (debt) (RMm) (1H17)	67.17
ROE (2017E)	20.4%
Derivatives	Nil
Shariah Compliant	NO

Key Shareholders

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

Source: Affin Hwang, Bloomberg

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Proposed 1-for-2 Bonus issue and ESOS

Separately, Hai-O has proposed a 1-for-2 bonus issue to increase share liquidity. Hai-O has also established an employees' share option scheme (ESOS) of up to 15% of its issued and paid-up share capital. The proposed ESOS is expected to be implemented after the completion of the proposed bonus issue in 2QCY17.

Fig 1: Results Comparison

FYE Apr (RMm)	2Q17	QoQ % chg	YoY % chg	1H17	YoY % chg	Comment
Revenue	99.8	26.8	35.6	178.4	38.4	YoY growth mainly due to higher sales volume from the MLM division, coupled with its increasing distribution force QoQ expansion due to newly launched beverage product and overseas incentive trip promotion campaign
Op costs	(78.7)	20.6	28.4	(143.9)	34.3	
EBITDA	21.1	57.0	71.1	34.6	58.3	
<i>EBITDA margin (%)</i>	21.2	<i>+4.1ppts</i>	<i>+4.4ppts</i>	19.4	<i>+2.4ppts</i>	
Depn and amort	(0.9)	1.4	3.4	(1.8)	8.1	
EBIT	20.2	60.9	76.2	32.8	62.3	
<i>EBIT margin (%)</i>	<i>20.3</i>	<i>+4.3ppts</i>	<i>4.7ppts</i>	<i>18.4</i>	<i>+2.7ppts</i>	EBIT margin expansion due to decrease in selling and distribution expenses
Int expense	(0.0)	(59.6)	76.9	(0.1)	(14.0)	
Int and other inc	0.4	65.9	(11.2)	0.6	3.2	
Associates	(0.3)	0.0	0.0	(0.4)	Nm	
Exceptional items	0.0	0.0	0.0	0.0	0.0	
Pretax	20.3	61.3	70.9	32.9	59.1	
Tax	(4.4)	40.2	53.9	(7.6)	47.0	
<i>Tax rate (%)</i>	<i>21.7</i>	<i>-3.3ppts</i>	<i>-2.4ppts</i>	<i>23.0</i>	<i>-1.9ppts</i>	Certain expenses not deductible for tax purposes
MI	(0.0)	<(100)	(97.6)	0.3	Nm	
Net profit	15.9	63.3	77.9	25.7	64.8	
EPS (sen)	8.2	63.3	77.9	13.3	64.8	
Core net profit	15.9	63.3	77.9	25.7	64.8	Above expectations

Source: Affin Hwang, Company data

	2012	2013	2014	2015	2016
External Revenue					
Wholesale	48.7	50.7	56.3	56.6	54.4
MLM	141.1	167.0	149.3	135.6	198.3
Retail	42.8	42.2	40.1	40.6	38.3
Others	6.9	8.0	7.8	7.1	6.6
Total revenue	239.5	267.9	253.4	239.9	297.6
% contribution to revenue					
Wholesale	20.3%	18.9%	22.2%	23.6%	18.3%
MLM	58.9%	62.3%	58.9%	56.5%	66.6%
Retail	17.9%	15.8%	15.8%	16.9%	12.9%
Others	2.9%	3.0%	3.1%	2.9%	2.2%
	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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