1Q18 earnings soar

1Q18 core net profit of RM18m came in above expectations driven by stronger contribution from the multi-level marketing (MLM) segment spurred by a strong membership drive and contribution from fashion wear. We believe the MLM segment still has further room for growth and reiterate our BUY call with a higher TP of RM5.50 as we increase earnings by 11%, to assume higher growth in MLM sales.

1Q18 started off strongly

Hai-O's 1Q18 revenue and core net profit increased by 58.3% and 83% yoy to RM124.5m and RM17.9m respectively. 1Q18 EBIT margin increased by 2.4 ppts yoy to 18.3% as margins improved across all 3 segments (MLM: +1.2 ppts yoy to 18.4%, Wholesale: +9.8 ppts yoy to 22.7%, and Retail: +1ppts yoy to -6.5%). Core net profit was ahead of expectations, accounting for 24% and 25% of our and consensus FY18E estimates. Traditionally 1Q is the weakest quarter contributing only to 15%-20% of full year earnings, but it came as a pleasant surprise that 40% yoy increase in the number of distributors in 1Q18 negated the seasonality effect.

MLM division's strong momentum continues

Hai-O's strong earnings growth continues to be underpinned by its growing distributor force, which is currently growing at an average of 5,000 distributors/mth. Sales per distributor have also increased due to higher recurring sales of "small ticket" items (F&B, personal care products and skincare series). "Big ticket" items - fashion & garments (such as Hijabs) which were introduced early this year also contributed to higher sales. Wholesale division (10% of revenue) recorded a decrease in revenue of 8% yoy due to higher one-off export sales of RM2m of Chinese liquor in 1Q17, but PBT rose strongly by 60% due to higher sales margin from patented medicines and Chinese medicated tonics.

Maintain BUY with higher TP of RM5.50

We revise up Hai-O's core net profit by 11% for FY18-20E, assuming higher distributors of 188,000 in FY18 (vs 159,000 previously). We are fairly positive that more of Hai-O's product launches and contributions from fashion wear can sustain its sales momentum. TP is raised to RM5.50 (from RM4.92) based on an unchanged PE of 18x on 2018E EPS. We like Hai-O's management quality and its ability to deliver growth going forward, and we reiterate our BUY call on the stock. Key risks to our call: i) loss of distributors in the MLM division; ii) lack of new exciting products to enhance growth; and iii) further weakness in the wholesale/retail division.

Earnings & Valuation Summary

FYE Apr	2016	2017	2018E	2019E	2020E
Revenue (RMm)	297.6	404.2	558.5	633.6	674.8
EBITDA (RMm)	51.7	81.1	113.3	128.1	136.2
Pretax profit (RMm)	49.1	78.3	109.1	123.8	131.9
Net profit (RMm)	36.3	59.4	81.8	92.8	98.8
EPS (sen)*	12.4	20.2	27.9	31.6	33.7
PER (x)	37.9	23.2	16.9	14.9	13.9
Core net profit (RMm)	36.3	59.4	81.8	92.8	98.8
Core EPS (sen)*	12.4	20.2	27.9	31.6	33.7
Core EPS growth (%)	20.8	63.3	37.8	13.5	6.5
Core PER (x)	37.9	23.2	16.9	14.9	13.9
Net DPS (sen)	10.0	16.0	18.1	20.6	21.9
Dividend Yield (%)	2.1	3.4	3.9	4.4	4.7
EV/EBITDA (x)	24.6	15.4	10.8	9.4	8.6
Chg in EPS (%)			10.9	11.2	10.7
Affin/Consensus (x)			1.14	1.05	1.11

Source: Company, Bloomberg, Affin Hwang forecast

Results Note

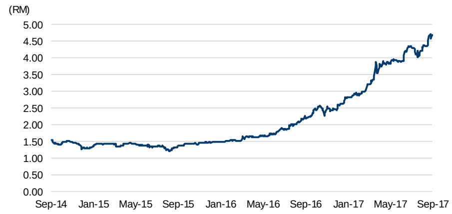
HAI-O

HAIO MK
Sector: Consumer

RM4.70 @ 20 Sept 2017

BUY (maintain)
Upside 17%

Price Target: RM5.50
Previous Target: RM4.92



Price Performance

	1M	3M	12M
Absolute	11.4%	20.5%	102.6%
Rel to KLCI	11.5%	21.0%	89.1%

Stock Data

Issued shares (m)	289.4
Mkt cap (RMm)/(US$m)	1136.8/325.2
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	2.21-4.74
Est free float	54.0%
BV per share (RM)	0.95
P/BV (x)	4.93
Net cash/ (debt) (RMm) (1QFY18)	79.5
ROE (2018E)	26.0%
Derivatives	Nil
Shariah Compliant	NO

Key Shareholders

Kai Hee Tan	10.1%
Akintan Sdn Bhd	7.9%
Excellent Communicat.	5.4%

Source: Affin Hwang, Bloomberg

Tan Jun Zhang, CFA
(603) 2146 7487
junzhang.tan@affinhwang.com

Fig 1: Results Comparison

FYE Apr (RMm)	1Q18	QoQ % chg	YoY % chg	Comments
Revenue	124.5	5.2	58.3	Higher YoY mainly due to growth in distributors from the MLM division, coupled with launch of new fashion wear that has higher ASPs, such as Hijab.
Op costs	(100.7)	6.9	54.5	
EBITDA	23.8	(1.2)	77.1	
EBITDA margin (%)	19.1	*-1.2ppts*	*2.0ppts*	
Depn and amort	(1.0)	0.1	9.1	
EBIT	22.8	(1.3)	81.8	Margin improvement helped by MLM and Wholesale divisions. MLM's margin improved by 1.2 ppts yoy due to higher sales of most products and additional sales from newly recruited members. Whole sale division's margin improved due to higher sales of higher margin patented medicine.
EBIT margin (%)	*18.3*	*(1.2)*	*2.4*	
Int expense	(0.1)	172.7	5.3	
Int and other inc	0.3	(19.2)	39.7	
Associates	0.0	0.0	0.0	
Exceptional items	0.0	0.0	0.0	
Pretax	**23.1**	**(1.7)**	**83.4**	
Tax	(5.5)	3.2	75.1	
Tax rate (%)	*23.9*	*1.2ppts*	*-1.1ppts*	
MI	0.3	267.6	(8.1)	
Net profit	**17.9**	**(2.1)**	**83.4**	
EPS (sen)	6.2	(2.1)	83.4	
Core net profit	**17.9**	**(2.1)**	**83.4**	Above expectation, accounting for 24% of full year forecast. 1st quarter usually sees decline of 15%-35% qoq due to seasonality after the annual incentive trip in May.

Source: Affin Hwang, Company data

	2012	2013	2014	2015	2016	2017
External Revenue						
Wholesale	48.7	50.7	56.3	56.6	54.4	52.6
MLM	141.1	167.0	149.3	135.6	198.3	308.7
Retail	42.8	42.2	40.1	40.6	38.3	38.1
Others	6.9	8.0	7.8	7.1	6.6	4.5
Total revenue	**239.5**	**267.9**	**253.4**	**239.9**	**297.6**	**404.0**
% contribution to revenue						
Wholesale	20.3%	18.9%	22.2%	23.6%	18.3%	13.0%
MLM	58.9%	62.3%	58.9%	56.5%	66.6%	76.4%
Retail	17.9%	15.8%	15.8%	16.9%	12.9%	9.4%
Others	2.9%	3.0%	3.1%	2.9%	2.2%	1.1%
	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

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com