

## 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 pts yoy to 18.3% as margins improved across all 3 segments (MLM: +1.2 pts yoy to 18.4%, Wholesale: +9.8 pts yoy to 22.7%, and Retail: +1pts 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	
<i>EBITDA margin (%)</i>	19.1	<i>-1.2ppts</i>	<i>2.0ppts</i>	
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.
<i>EBIT margin (%)</i>	18.3	<i>(1.2)</i>	<i>2.4</i>	
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	
<b>Pretax</b>	<b>23.1</b>	<b>(1.7)</b>	<b>83.4</b>	
Tax	(5.5)	3.2	75.1	
<i>Tax rate (%)</i>	<i>23.9</i>	<i>1.2ppts</i>	<i>-1.1ppts</i>	
MI	0.3	267.6	(8.1)	
<b>Net profit</b>	<b>17.9</b>	<b>(2.1)</b>	<b>83.4</b>	
EPS (sen)	6.2	(2.1)	83.4	
<b>Core net profit</b>	<b>17.9</b>	<b>(2.1)</b>	<b>83.4</b>	Above expectation, accounting for 24% of full year forecast. 1 <sup>st</sup> 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
<b>External Revenue</b>						
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
<b>Total revenue</b>	<b>239.5</b>	<b>267.9</b>	<b>253.4</b>	<b>239.9</b>	<b>297.6</b>	<b>404.0</b>
<b>% contribution to revenue</b>						
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%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Affin Hwang, Company data

**Equity Rating Structure and Definitions**


---

<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

---

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

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