

This has legs

- We forecast a 38% yoy net profit growth for FY18 on a 4k increase in distributor/month and improving revenue/distributor.
- On top of recurring sales from its existing core products, Hai-O has recently moved into fashion and garments, which will help widen its revenue sources.
- We maintain our BUY rating with higher target price of RM6.10.

Recent developments

The MLM division recently successfully moved into fashion and garment products with the launch of its Hijab. Hai-O intends to launch more fashion wear and related products. We view the strategy positively as it expands its product line beyond conventional MLM products, such as skincare, supplements, and F&B. We expect this to contribute positively to its revenue/distributor.

2018 catalysts

Given its successful momentum in the MLM division, we forecast Hai-O to deliver a strong 38% yoy net profit growth in FY18. The MLM division remains the main growth driver where it continues to see a 3-4k increase in the number of distributors per month (150,000 distributors as of 30 July 2017). Besides its "small-ticket" items which continue to generate growing recurring revenue, Hai-O's venture into fashion and garment products will likely increase its revenue/distributor.

Why invest now?

Despite the strong earnings performance in FY17, we still think that Hai-O is able to deliver stellar growth in FY18 as the Group continues to benefit from its strategy of focusing on small ticket and fashion items and the healthy growth in the number of distributors on the back of a rewarding compensation scheme.

Valuation and recommendation

We continue to like Hai-O for its likely strong earnings growth driven by the MLM segment, which accounts for 75% of its 9M17 revenue. We are fairly upbeat that Hai-O's future product launches and the contribution from the fashion segment can sustain its sales momentum going into FY18. We forecast a 38% earnings growth in FY18 and have a Buy rating with a higher TP of RM6.10 (based on 20x CY2018E EPS) from RM5.50 (18x) given the solid outlook.

Earnings & Valuation Summary

FYE 30 April	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)	42.8	26.2	19.0	16.8	15.7
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)	42.8	26.2	19.0	16.8	15.7
Net DPS (sen)	10.0	16.0	18.1	20.6	21.9
Dividend Yield (%)	1.9	3.0	3.4	3.9	4.1
EV/EBITDA (x)	28.0	17.5	12.4	10.7	9.8
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.14	1.05	1.11

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)

Outthink. Outperform.

2018 Top BUY idea

HAI-O

HAIO MK
Sector: Consumer

RM5.34 @ 13 December 2017

BUY (maintain)

Upside: 14.2%

Price Target: RM6.10

Previous Target: RM5.50



Price Performance

	1M	3M	12M
Absolute	-2.9%	+13.6%	+114.2
Rel to KLCI	-2.9%	+16.8%	+102.8

Stock Data

Issued shares (m)	291.4
Mkt cap (RMm)/(US\$m)	1,556.1/380.9
Avg daily vol - 3mth (m)	0.3
52-wk range (RM)	2.45-5.6
Est free float	55.3%
BV per share (RM)	1.06
P/BV (x)	5.06
Net cash/(debt) (RMm)	79.55
ROE (%) (2017E)	12
Beta	-0.01
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Kai Hee Tan	10.1%
Akintan Sdn Bhd	7.8%
Excellent Communication	5.3%

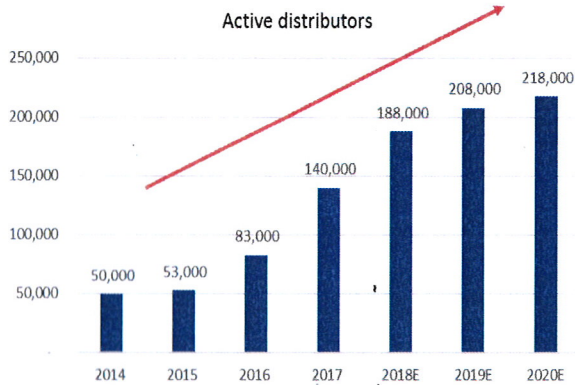
Source: Affin Hwang, Bloomberg

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Out think. Out perform.

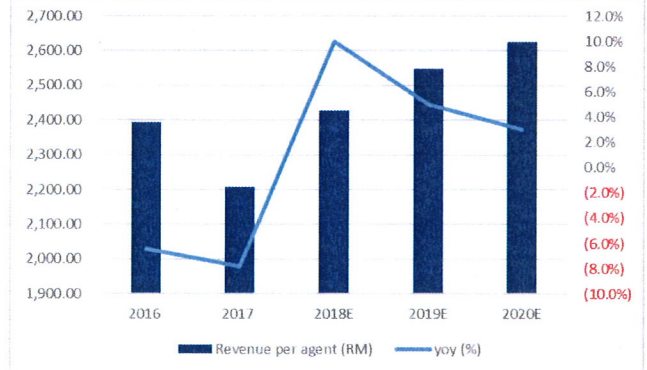
Focus charts

Fig 1: Continued growth in distributors



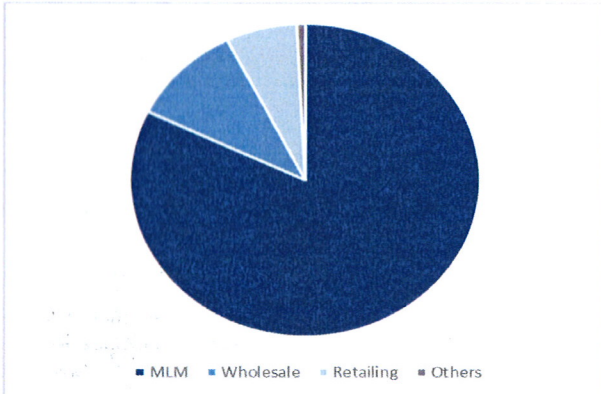
Source: Company, Affin Hwang forecasts

Fig 2: Revenue/distributor is expected to increase driven by more product launches and improved sales productivity



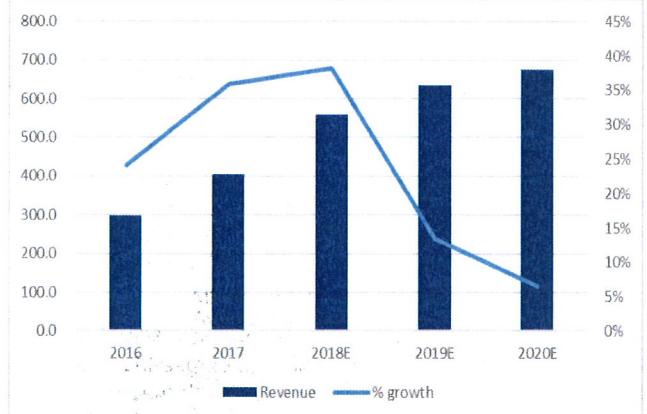
Source: Company, Affin Hwang forecasts

Fig 2: 1QFY18 revenue breakdown: MLM (82%), Wholesale (10%), Retail (7%)



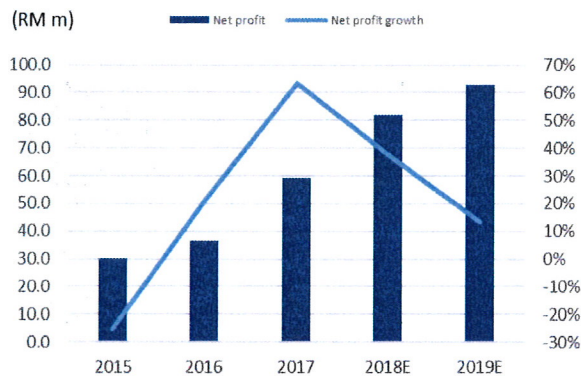
Source: Company, Affin Hwang forecasts

Fig 3: Forecasting 18% revenue CAGR over FY17-20



Source: Company, Affin Hwang forecasts

Fig 5: 20% net profit CAGR over FY17-20



Source: Company, Affin Hwang forecasts

Fig 6: PE valuation



Source: Bloomberg