

27 June 2013

Hai-O Enterprise Bhd

Sterling earnings growth

OUTPERFORM ↔

Price: RM2.62
Target Price: RM3.00 ↑

- | | |
|--------------------------------|--|
| Period | <ul style="list-style-type: none"> 4Q13/FY13 |
| Actual vs. Expectations | <ul style="list-style-type: none"> The FY13 net profit (NP) of RM47.4m came in slightly above the street's estimate of RM43.9m by 8%. However, it was on the dot of our forecast of RM47.3m. |
| Dividends | <ul style="list-style-type: none"> Hai-O has proposed a final single-tier interim dividend of 8 sen for FY13, which was higher than last year's 7 sen and brought the full-year total DPS to 14 sen. The total DPS was 10.8% higher than our forecast of 12.6 sen, implying an attractive yield of 5.3%. |
| Key Result Highlights | <ul style="list-style-type: none"> QoQ, the 4Q13 revenue edged higher by 2.9%, which was mainly driven by the improved sales from its retail division (+25% QoQ) due to the festive season. The PBT also improved from RM13m to RM15m, which we believe was mainly contributed by a 14% QoQ jump in the PBT of its multi-level marketing (MLM) segment. YoY, the 4Q13 revenue and PBT rose by about 4% and 7% to RM72m and RM15m respectively. The earnings improvement was mainly buoyed by the rise in the MLM and wholesale segments by 14% and 16% respectively. For the YTD, the FY13 revenue registered double-digit growth of 12%. As expected, this was mainly driven by the MLM segment, which recorded a YoY growth of 18%. The better performance was mainly attributable to a sterling membership growth of 15% YoY. This led to higher sales of food and beverage consumable products, wellness and personal care products. Moreover, one of the newly launched products has received a good response and made up 14% of the total revenue of the MLM division as compared to only 5% in 9M13. The PBT and NP moved in line with the revenue and registered admirable YoY growth rates of 31% and 39% respectively. The substantial growth was boosted by the higher PBT numbers of the MLM (+24% YoY) and wholesale (+45% YoY) segments. In addition, its other division also showed a significant improvement, where the PBT increased by two-fold buoyed mainly by the gain on disposal of a freehold vacant land worth RM4.8m and additional contributions from the manufacturing division. |
| Outlook | <ul style="list-style-type: none"> We remain positive on Hai-O's prospect going forward as we anticipate its MLM segment to continue to deliver a decent earnings growth from a lower base through its continuous effort to enhance its product mix and expand new market channels through the recruitment of more new members. |
| Change to Forecasts | <ul style="list-style-type: none"> Due to the low base effect of its MLM segment, we have revised up our FY14E NP estimates by +5% to RM52.2m (from RM49.6m) on the back of a higher membership growth of 12% (vs. previous 6.6%). We are also introducing our FY15E earnings of RM57.1m, representing a 9.5% YoY growth. |
| Rating | Maintain OUTPERFORM |
| Valuation | <ul style="list-style-type: none"> In line with the revision of the earnings, we are upgrading our TP to RM3.00 (from RM2.90) based on an unchanged PER of 11.8x over FY14E EPS of 25.8 sen (24.5 previously). |
| Risks | <ul style="list-style-type: none"> A slowdown in the global economy, which will cut the purchasing power of consumers. |

Share Price Performance



KLCI	1740.76
YTD KLCI chg	3.1%
YTD stock price chg	17.4%

Stock Information

Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	516.0
Issued shares	196.9
52-week range (H)	2.77
52-week range (L)	1.93
3-mth avg daily vol:	228,066
Free Float	77%
Beta	1.0

Major Shareholders

KAI HEE TAN	9.9%
AKINTAN SDN BHD	7.6%
EXCELLANT COMMUNICAT	5.3%

Summary Earnings Table

FY Apr (RM'm)	2013A	2014E	2015E
Turnover	267.9	302.9	335.2
EBIT	63.5	70.3	76.8
PBT	64.1	70.8	77.5
Net Profit (NP)	47.4	52.2	57.1
Consensus (NP)	43.9	48.0	56.3
Earnings Revision	-	+5%	-
EPS (sen)	23.46	25.80	28.24
EPS growth (%)	39.5%	10.0%	9.5%
NDPS (sen)	14.00	14.25	15.84
BVPS (RM)	1.26	1.38	1.51
NTA/Share (RM)	1.20	1.32	1.45
PER (X)	11.17	10.16	9.28
Price/NTA (x)	2.18	1.98	1.81
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	5.3%	5.4%	6.0%

Teo Joo Tse (J.Tse)
jtse@kenanga.com.my
 +603 2713 2292

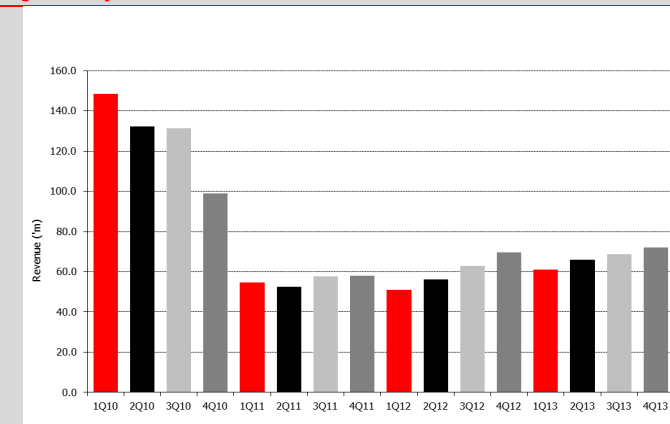
Result Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FY Apr (RM'm)	FY13	FY13	Chg	FY12	Chg	FY13	FY12	Chg
Turnover	72.1	69.0	4%	70.0	4%	267.9	239.5	12%
PBT	14.7	*	*	13.5	7%	64.1	48.8	31%
Taxation	-4.2	*	*	-3.7	13%	-15.8	-13.1	21%
Minority interest	-0.4	*	*	-0.4	-8%	0.9	1.7	-49%
Net Profit (NP)	10.1	*	*	9.3	8%	47.4	34.0	39%
EPS (sen)	5.0	*	*	4.6	8%	23.5	16.8	39%
PBT margin	20%	*		19%		24%	20%	
NP margin	14%	*		13%		18%	14%	
Effective tax rate	29%	*		28%		25%	27%	

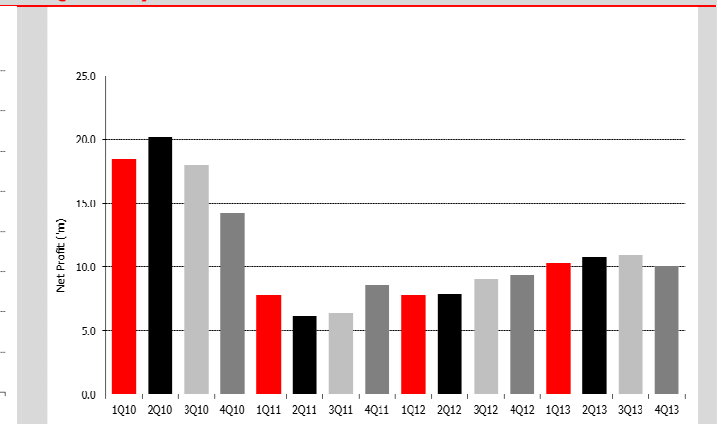
**Due to the big variance in the 9M13 figures, which the company does not disclose in the current results, we are not able to provide the numbers and breakdowns, pending for further clarification with the management.*

Source: Company, Kenanga Research

Quarterly Revenue



Quarterly NP



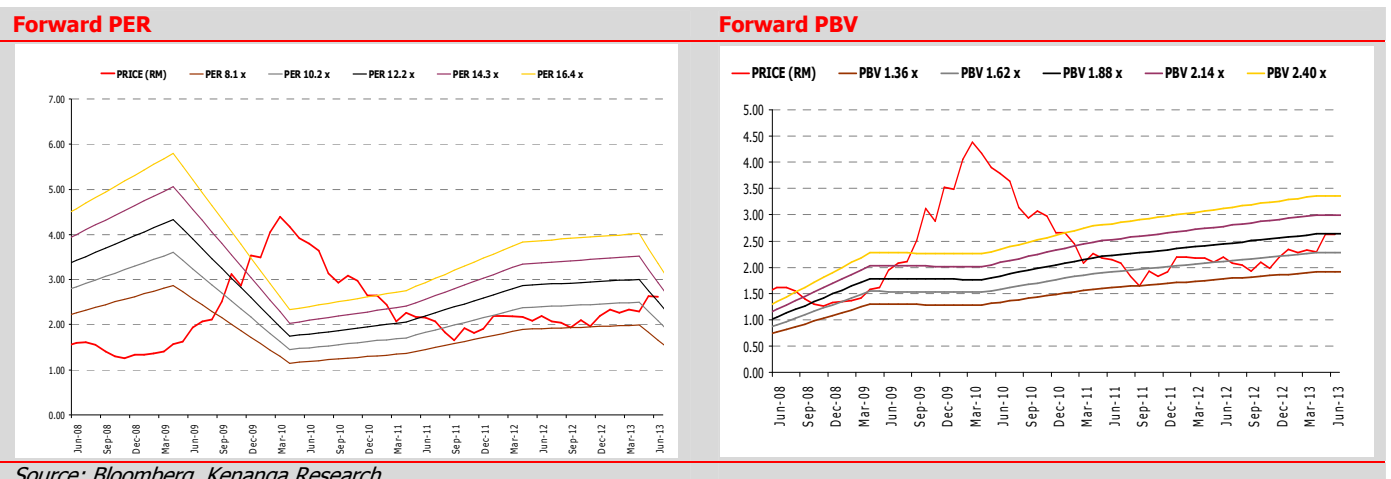
Source: Bloomberg, Kenanga Research

Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E	FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	223.3	239.5	267.9	302.9	335.2	Growth					
EBITDA	44.0	51.4	66.5	73.0	79.7	Turnover (%)	-56.3%	7.3%	11.9%	13.1%	10.7%
Depreciation	2.70	2.75	2.94	2.79	2.92	EBITDA (%)	-55.3%	17.0%	29.2%	9.9%	9.1%
Operating Profit	41.3	48.7	63.5	70.3	76.8	Op. Profit (%)	-56.9%	18.0%	30.5%	10.6%	9.3%
Other Income	0.9	0.8	1.2	1.2	1.3	PBT (%)	-56.8%	18.1%	31.4%	10.4%	9.5%
Interest Exp	-0.8	-0.7	-0.6	-0.6	-0.6	Core Net Profit(%)	-59.8%	19.9%	39.5%	10.0%	9.5%
PBT	41.3	48.8	64.1	70.8	77.5	Profitability (%)					
Taxation	-11.6	-13.1	-15.8	-17.7	-19.4	EBITDA Margin	19.7%	21.5%	24.8%	24.1%	23.8%
Minority Interest	1.3	1.7	0.9	0.9	1.0	Operating Margin	18.5%	20.3%	23.7%	23.2%	22.9%
Net Profit	28.4	34.0	47.4	52.2	57.1	PBT Margin	18.5%	20.4%	23.9%	23.4%	23.1%
						Core Net Margin	13.8%	12.7%	14.2%	17.7%	17.2%
						Effective Tax Rate	28.0%	26.8%	24.7%	25.0%	25.0%
						ROA	11.0%	11.7%	15.5%	15.5%	15.5%
						ROE	13.9%	15.3%	19.8%	19.8%	19.8%
						DuPont Analysis					
						Net Margin (%)	13%	14%	18%	17%	17%
						Assets Turnover(x)	0.87	0.83	0.87	0.90	0.91
						Leverage Factor(x)	1.21	1.25	1.22	1.22	1.22
						ROE (%)	14%	15%	20%	20%	20%
						Leverage					
						Debt/Asset (x)	0.06	0.05	0.04	0.04	0.04
						Debt/Equity (x)	0.08	0.06	0.05	0.05	0.05
						Net Cash/(Debt)	29.64	40.90	51.51	78.03	99.35
						Net Debt/Equity	N.Cash	N.Cash	N.Cash	N.Cash	N.Cash
						Valuations					
						EPS (sen)	14.03	16.82	23.46	25.80	28.24
						NDPS (sen)	7.50	9.00	14.00	14.25	15.84
						NTA/share (RM)	1.02	1.11	1.20	1.32	1.45
						PER (x)	18.67	15.58	11.17	10.16	9.28
						Net Div. Yield (%)	2.9%	3.4%	5.3%	5.4%	6.0%
						P/NTA (x)	2.56	2.35	2.18	1.98	1.81
						EV/EBITDA (x)	11.38	9.50	7.20	6.18	5.40

Balance Sheet					
FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E
Fixed Assets	72.2	62.1	66.7	64.6	65.7
Inv. Properties	33.2	45.2	46.3	46.3	46.3
Other FA	4.7	5.1	4.6	4.6	4.6
Inventories	44.3	37.8	49.9	48.5	53.6
Receivables	19.1	21.9	20.3	27.3	30.2
Other CA	37.4	63.4	53.8	53.8	53.8
Cash	46.1	54.2	64.9	90.9	114.2
Total Assets	257.0	289.6	306.5	336.0	368.5
Payables	22.6	32.5	35.2	40.9	45.3
ST Borrowings	5.7	5.2	7.4	5.0	6.0
Other ST Liability	5.2	12.4	6.9	6.9	6.9
LT Borrowings	10.7	8.1	6.0	7.9	8.9
Other LT Liability	0.1	0.0	0.1	0.1	0.1
Minorities Int.	8.3	9.7	11.1	12.0	13.1
Net Assets	204.4	221.7	239.7	263.1	288.2
Share Capital	101.1	101.1	101.1	101.1	101.1
Treasury Shares	-4.3	-5.9	-9.7	-9.7	-9.7
Reserves	107.6	126.5	148.4	171.7	196.8
Equity	204.4	221.7	239.7	263.1	288.2

Cashflow Statement					
FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E
Operating CF	13.9	50.0	51.0	43.3	44.1
Investing CF	-1.7	-21.4	4.4	-9.2	-9.2
Financing CF	-36.8	-20.5	-30.0	-28.2	-28.7
Change In Cash	-24.6	8.1	25.3	5.8	6.1

Source: Company, 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 stock'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 stock's Expected Total Return is WITHIN the range of 3% to 10%
UNDERWEIGHT : 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 are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com



Chan Ken Yew
Head of Research