

Hai-O (HAIO MK)

Consumer Non-cyclical - Household & Personal Products

Market Cap: USD147m

Neutral (Maintained)

Target Price: MYR2.60

Price: MYR2.48

Weaker Sales And Margins

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	0.21m/0.06m
Cons. Upside (%)	21.0
Upside (%)	4.7
52-wk Price low/high (MYR)	2.22 - 2.82
Free float (%)	50
Shareholders (%)	
Tan Kai Hee	9.9
Akintan SB	7.7
Excellent Communications	5.3

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Hai-O's 9MFY14 results were below our and street's estimates. Its revenue and core earnings contracted due to softer sales and weaker margins. Our FV is revised lower to MYR2.60 (from MYR2.70), as we trim our FY14-15 numbers on the back of weaker margins. Maintain NEUTRAL, as the stock lacks immediate re-rating catalysts.

- ◆ **Below expectations.** Hai-O's 9MFY14 sales and core net profit (excluding a one-off MYR4.8m gain in 9MFY13 and a one-off MYR0.6m gain in 9MFY14 on its property disposal) weakened by 1.2% and 10.4% y-o-y respectively. The lower turnover was due to: i) a 7.9% y-o-y revenue decline in the multi-level marketing (MLM) division, as the group changed its strategy to focus on small-ticket items instead of big-ticket items, ii) other division's revenue contracted by 11% y-o-y due to lower sales volume, offsetting the healthy sales growth from wholesale (+2.7% y-o-y) and retail (+4.6% y-o-y) divisions. Core earnings were softer due to: i) weaker EBIT from the wholesale division (-28% y-o-y) on the back of higher marketing costs and the weakening of MYR against USD, and ii) lower EBIT from the retail segment (-18.3% y-o-y) given higher rental and personnel expenses. MLM's EBIT improved only marginally by 0.4% y-o-y, weighed by lower sales and marketing costs incurred. Vis-à-vis 3QFY13, sales increased by 4.8% y-o-y in 3QFY14 while net profit moderated by 5% y-o-y due to lower margins in the current quarter.
- ◆ **Lower margins.** 9MFY14 EBIT and PBT margins dropped 2.1ppts and 4.3ppts y-o-y respectively, as the stronger EBIT margin from MLM (19.5% vs 17.9% y-o-y) was mitigated by thinner margins from the wholesale (11.1% vs 15.8% y-o-y), retail (5.6% vs 7.2% y-o-y) and "others" (41.8% vs 68.9% y-o-y) divisions.
- ◆ **Maintain NEUTRAL.** We trim our FY14-15 earnings forecasts by 3-5% to factor in lower margins for the company's products. Our FV is adjusted lower to MYR2.60 from MYR2.70, based on 12x CY14 EPS. Maintain NEUTRAL, as the stock is currently trading at its historical P/E of 12x. Its dividend yield remains decent at >4% at the current share price level.

Forecasts and Valuations	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Total turnover (MYRm)	223	240	268	272	283
Reported net profit (MYRm)	27.4	33.8	47.4	42.1	44.7
Recurring net profit (MYRm)	27.4	33.0	43.5	42.1	44.7
Recurring net profit growth (%)	(61.3)	20.5	31.7	(3.2)	6.2
Recurring EPS (MYR)	0.14	0.16	0.21	0.21	0.22
DPS (MYR)	0.08	0.09	0.14	0.11	0.13
Recurring P/E (x)	18.3	15.2	11.6	11.9	11.2
P/B (x)	2.46	2.27	2.10	1.87	1.75
P/CF (x)	45.2	10.6	16.3	8.4	9.0
Dividend Yield (%)	3.0	3.6	5.6	4.6	5.1
EV/EBITDA (x)	9.91	7.85	6.22	6.34	5.99
Return on average equity (%)	13.4	15.9	20.5	16.6	16.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)				(9.7)	(13.5)

Source: Company data, RHB estimates

Figure 1: Results table

FYE Apr (MYRm)	3QFY13	2QFY14	3QFY14	q-o-q (%)	y-o-y (%)	9MFY13	9MFY14	y-o-y (%)	Comments
Revenue	68.3	65.6	71.6	9.2	4.8	194.3	191.9	(1.2)	Due to lower MLM sales
EBITDA	15.5	15.4	14.5	(5.4)	(6.5)	46.2	41.6	(10.0)	
<i>EBITDA Margin (%)</i>	22.7	23.4	20.3			23.8	21.7		
Depreciation	(0.7)	(0.8)	(0.8)	(0.1)	6.4	(2.1)	(2.2)	4.9	
EBIT	14.8	14.6	13.8	(5.7)	(7.1)	44.1	39.3	(10.7)	
<i>EBIT Margin (%)</i>	21.7	22.3	19.2			22.7	20.5		
Interest expense	0.3	(0.1)	0.5	(530.0)	79.2	0.8	1.0	36.0	
Interest income	(0.2)	0.2	(0.1)	(133.6)	(52.8)	(0.5)	(0.3)	(37.9)	
Associates	0.1	(0.1)	(0.0)	nm	nm	0.2	(0.1)	nm	
El/Others				nm	nm	4.8	0.6	nm	
Pretax profit	15.0	14.6	14.2	(3.3)	(5.9)	49.4	40.6	(17.8)	
<i>Pretax Margin (%)</i>	22.0	22.3	19.8			25.4	21.1		
Tax	(4.1)	(3.7)	(3.5)	(6.0)	(13.7)	(11.5)	(10.3)	(10.4)	
<i>Effective tax rate (%)</i>	(27.1)	(25.6)	(24.9)			(23.4)	(25.5)		
Minority Interest	0.0	(0.4)	(0.2)			(0.5)	(0.5)		
Net Profit	11.0	10.5	10.4	(1.1)	(5.0)	37.3	29.7	(20.4)	Below RHBRI and consensus numbers
Core Profit	11.0	10.5	10.4	(1.1)	(5.0)	32.5	29.1	(10.4)	
<i>Net Margin (%)</i>	16.1	16.1	14.5			16.8	15.2		

Source: Company

Figure 2: Segmental breakdown

Revenue (MYRm)	3QFY13	2QFY14	3QFY14	q-o-q (%)	y-o-y (%)	9MFY13	9MFY14	y-o-y (%)	Comments
MLM	40.1	33.5	38.5	15.0	(3.9)	121.1	111.6	(7.9)	Lower due to a shift in product strategy from big-ticket to small-ticket items
Wholesale	47.7	29.3	46.4	58.1	(2.9)	102.2	105.0	2.7	
Retail	11.0	7.4	13.3	79.6	21.4	29.5	30.9	4.6	
Others	5.2	3.6	5.0	38.5	(3.6)	14.0	12.5	(11.0)	
EBIT (MYRm)	3QFY13	2QFY14	3QFY14	q-o-q (%)	y-o-y (%)	9MFY13	9MFY14	y-o-y (%)	Comments
MLM	7.3	8.0	8.5	6.4	16.9	21.7	21.7	0.4	Higher due to lower A&P expenses
Wholesale	6.6	3.8	3.0	(20.1)	(54.4)	16.1	11.6	(28.0)	
Retail	0.4	1.1	0.8	(27.2)	117.9	2.1	1.7	(18.3)	
Others	1.0	2.2	1.8	(19.5)	67.9	9.6	5.2	(46.0)	

Source: Company

Figure 3: Assumptions

	FY14	FY15
CDF growth rate (%)	1	1

Source: Company

Financial Exhibits

Profit & Loss (MYRm)	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Total turnover	223	240	268	272	283
Cost of sales	(138)	(148)	(165)	(171)	(176)
Gross profit	85	91	102	102	107
Gen & admin expenses	(21)	(23)	(24)	(25)	(26)
Selling expenses	(27)	(26)	(29)	(30)	(31)
Other operating costs	2	4	10	9	10
Operating profit	39	46	59	57	60
Operating EBITDA	41	48	61	58	62
Depreciation of fixed assets	(2)	(2)	(2)	(1)	(2)
Operating EBIT	39	46	59	57	60
Interest income	1	1	1	-	-
Interest expense	(1)	(1)	(1)	(1)	(1)
Exceptional income - net	-	1	4	-	-
Pre-tax profit	39	47	63	56	60
Taxation	(12)	(13)	(16)	(14)	(15)
Profit after tax & minorities	27	34	47	42	45
Reported net profit	27	34	47	42	45
Recurring net profit	27	33	43	42	45

Source: Company data, RHB estimates

Cash flow (MYRm)	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Operating profit	39	46	59	57	60
Depreciation & amortisation	2	2	2	1	2
Change in working capital	(9)	12	(7)	(17)	(2)
Other operating cash flow	(2)	1	(6)	32	10
Operating cash flow	30	60	48	73	70
Interest received	(1)	(1)	(1)	-	-
Interest paid	1	1	1	1	1
Dividends received	(1)	(2)	(2)	-	-
Tax paid	(17)	(11)	(15)	(14)	(15)
Cash flow from operations	11	47	31	60	56
Capex	-	-	(9)	(15)	(15)
Other new investments	(45)	(40)	(10)	14	-
Other investing cash flow	46	21	28	-	-
Cash flow from investing activities	1	(19)	9	(1)	(15)
Dividends paid	(34)	(15)	(26)	(23)	(25)
Shares repurchased	(0)	(2)	-	-	-
Increase in debt	(2)	(3)	0	4	-
Other financing cash flow	(1)	(1)	(4)	(11)	(11)
Cash flow from financing activities	(37)	(21)	(29)	(30)	(36)
Cash at beginning of period	71	46	54	65	93
Total cash generated	(25)	8	11	28	5
Forex effects	(0)	(0)	-	-	-
Implied cash at end of period	46	54	65	93	98

Source: Company data, RHB estimates

Financial Exhibits

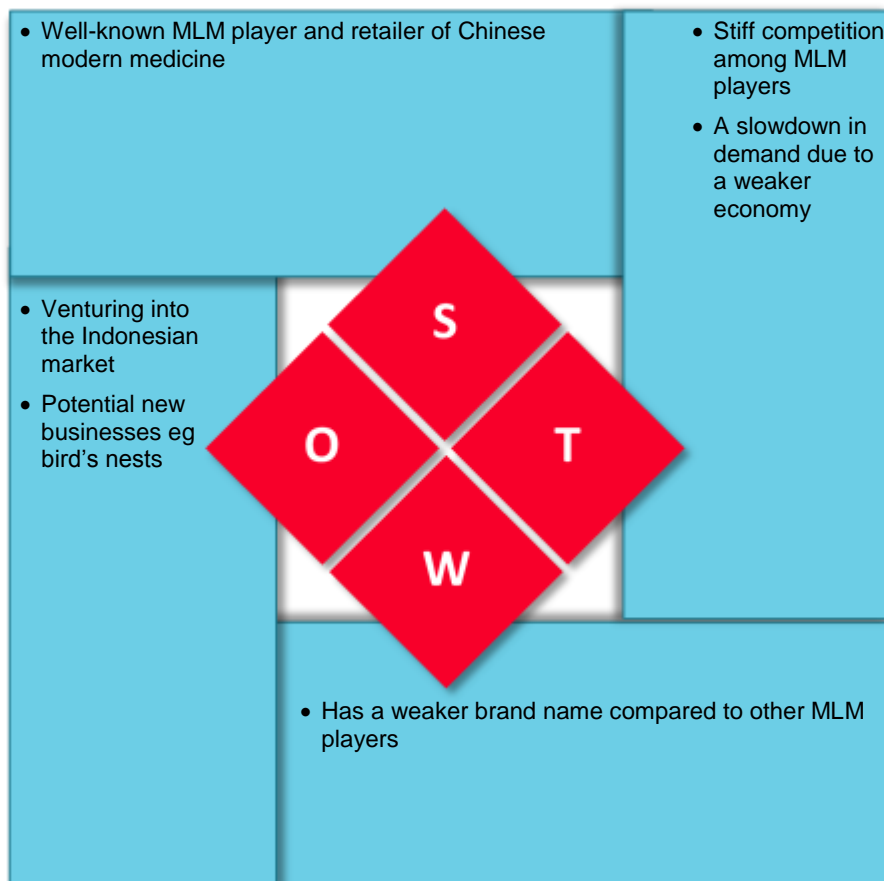
Balance Sheet (MYRm)	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Total cash and equivalents	46	54	65	93	98
Inventories	44	38	50	41	43
Accounts receivable	17	20	19	35	37
Other current assets	40	66	61	40	41
Total current assets	147	177	195	210	218
Total investments	35	47	44	30	30
Tangible fixed assets	72	62	65	78	92
Intangible assets	0	0	0	-	-
Total other assets	3	3	3	-	-
Total non-current assets	110	112	112	108	122
Total assets	257	290	306	318	340
Short-term debt	6	5	7	7	7
Accounts payable	23	32	35	26	26
Other current liabilities	5	12	7	7	7
Total current liabilities	33	50	49	40	40
Total long-term debt	11	8	6	10	10
Other liabilities	0	0	0	-	-
Total non-current liabilities	11	8	7	10	10
Total liabilities	44	58	56	50	50
Share capital	101	101	101	101	101
Retained earnings reserve	108	127	148	167	187
Other reserves	(4)	(6)	(10)	-	-
Shareholders' equity	204	222	240	268	288
Minority interests	8	10	11	-	2
Total equity	213	231	251	268	290
Total liabilities & equity	257	290	307	318	340

Source: Company data, RHB estimates

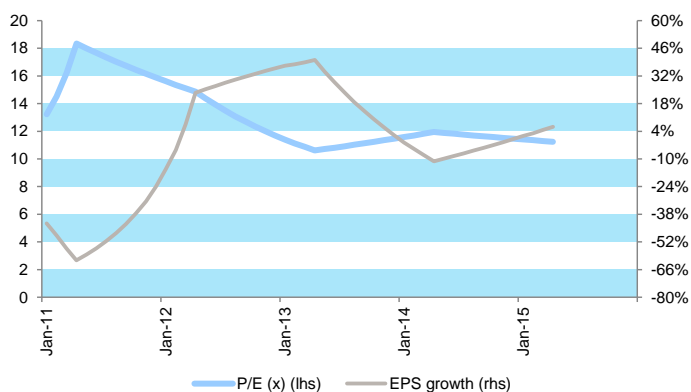
Key Ratios (MYR)	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Revenue growth (%)	(56.3)	7.3	11.9	1.7	4.0
Operating profit growth (%)	(58.9)	18.1	28.5	(3.7)	6.2
Net profit growth (%)	(61.3)	23.5	40.1	(11.2)	6.2
EPS growth (%)	(61.3)	23.5	40.1	(11.2)	6.2
Bv per share growth (%)	0.6	8.5	8.1	12.1	7.2
Operating margin (%)	17.5	19.2	22.1	20.9	21.3
Net profit margin (%)	12.3	14.1	17.7	15.4	15.8
Return on average assets (%)	10.2	12.4	15.9	13.5	13.6
Return on average equity (%)	13.4	15.9	20.5	16.6	16.1
Net debt to equity (%)	(13.9)	(17.7)	(20.6)	(28.5)	(28.0)
DPS	0.08	0.09	0.14	0.11	0.13
Recurrent cash flow per share	0.05	0.23	0.15	0.30	0.28

Source: Company data, RHB estimates

SWOT Analysis

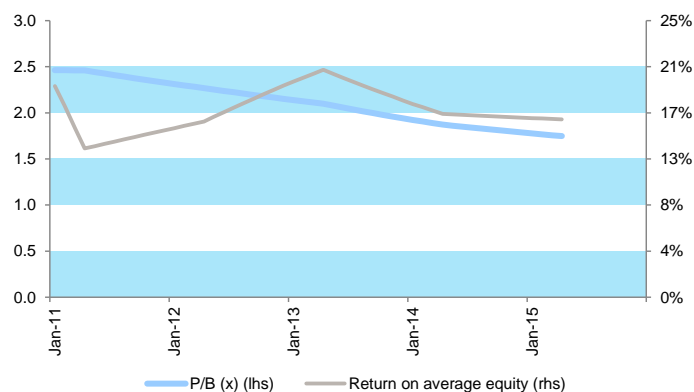


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

Hai-O is involved in wholesaling, retailing and multi-level marketing of complementary medicines, medicated tonic, wellness, beauty and healthcare products as well as pharmaceuticals. The company also operates modern Chinese medicinal clinics.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-12-19	Neutral	2.70	2.55
2013-07-23	Buy	3.28	2.71
2013-06-27	Buy	2.91	2.66
2013-03-28	Neutral	2.35	2.40
2012-06-29	Neutral	2.16	2.20
2012-04-20	Neutral	2.03	2.18
2012-03-30	Neutral	1.99	2.18

Source: RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months
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