

26 June 2014

Hai-O Enterprise Bhd

FY14 Within Expectations

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- Period** ■ 4Q14/FY14
- Actual vs. Expectations** ■ Hai-O reported 4Q14 net profit of RM10.8m (+3% QoQ, +9% YoY), which bring its FY14 NP to RM40.5m (-14% YoY). The results were well within expectations, accounted for 98% and 97% of our forecast and consensus estimates, respectively.
- Dividends** ■ A final single tier dividend of 10 sen (2013: 8 sen single tier dividend) has been declared in the current quarter, bringing the full-year dividend to 14 sen per share vs. our earlier projection of 12 sen.
■ The variance in dividend projection was due to a higher-than-expected payout (68% of PATAMI) in the current financial year vs. 60% payout ratio in FY13.
- Key Result Highlights** ■ **QoQ**, 4Q14 revenue declined by 14% due to an unfavourable sales in the wholesale (-26%) and retail (-31%) segments. This was mainly due to the absence of CNY sales boost, which fell in 3Q14 coupled with a more cautious consumer spending environment in the current quarter. In contrast, the group NP grew by 3% QoQ due to lower operating costs incurred in the MLM division and a lower effective tax rate (13.7% vs. 24.9% in 3Q14).
■ **YoY**, FY14 revenue dropped by 5% mainly due to weaker sales performance in the MLM division (-11%). As mentioned earlier, this is the first year where the group is switching its product strategy by focusing on "small ticket" items, which are more affordable. This may have an unfavourable impact to the bottom line as the profit contribution from "small ticket" items is lower as compared to "big ticket" items.
■ The lower revenue coupled with the GP margin erosion (-2.1ppt) on the weakening Ringgit against USD and a higher operating cost environment has caused the group's FY14 NP to fall by 14% YoY.
■ In FY14, HAIO has successfully reduced its over-dependency on "big ticket" items. Revenue contributed by the "big ticket" items was reduced from 72% in FY13 to 52%.
■ Core distributor force (CDF) has also increased by c.22% due to lower initial capital costs required to start up the business.
- Outlook** ■ While we are positive on HAIO's longer-term prospects as its MLM division is intensifying its product strategy by focusing on more "small ticket" items, which are affordable; the rise in operating cost and the weakening Ringgit would continue to affect their margins, going forward.
- Change to Forecasts** ■ No changes to our FY15E estimates.
- Rating** **Maintain MARKET PERFORM**
- Valuation** ■ Our TP remains unchanged at RM2.47 based on a targeted FY15 PER of 11.8x (implies +0.5SD above its 3-year historical average PER).
- Risks to Our Call** ■ Rising operating costs.
■ Further weakening of Ringgit against USD.
■ Slowdown of consumers spending in the domestic market.

MARKET PERFORM ↔

Price: RM 2.53
Target Price: RM 2.47 ↔

Share Price Performance



KLCI	1889.55
YTD KLCI chg	1.2%
YTD stock price chg	-1.6%

Stock Information

Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	495.3
Issued shares	195.8
52-week range (H)	2.85
52-week range (L)	2.36
3-mth avg daily vol:	86,458
Free Float	76%
Beta	0.9

Major Shareholders

KAI HEE TAN	9.9%
AKINTAN SDN BHD	7.7%
SIOU ENG TAN	6.9%

Summary Earnings Table

FY Apr (RM'm)	2013A	2014A	2015E
Turnover	266.5	253.4	297.8
EBIT	63.1	52.0	56.7
PBT	63.9	53.1	57.4
Net Profit (NP)	47.2	40.5	42.3
Consensus (NP)		41.9	45.3
Earnings Revision		-	-
EPS (sen)	23.3	20.0	20.9
EPS growth (%)	39%	-14%	4%
NDPS (sen)	14.0	14.0	14.0
BVPS (RM)	1.2	1.2	1.3
NTA/Share (RM)	1.2	1.2	1.3
PER (X)	10.8	12.6	12.1
Price/NTA (x)	2.1	2.0	1.9
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	5.5%	5.5%	5.5%

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Result Highlight

FY Apr (RM'm)	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	61.5	71.6	-14%	72.3	-15%	253.4	266.5	-5%
PBT	12.5	14.2	-11%	14.6	-14%	53.1	63.9	-17%
Taxation	-1.7	-3.5	-51%	-4.4	-61%	-12.0	-15.9	-24%
Minority interest	-0.1	-0.2	-54%	-0.4	-74%	-0.6	-0.9	-30%
Net Profit (NP)	10.7	10.4	3%	9.8	9%	40.5	47.2	-14%
EPS (sen)	5.3	5.2	3%	4.9	9%	20.0	23.3	-14%
PBT margin	20.4%	19.8%		20.2%		21.0%	24.0%	
NP margin	17.4%	14.5%		13.6%		16.0%	17.7%	
Effective tax rate	13.7%	24.9%		30.1%		22.7%	24.9%	

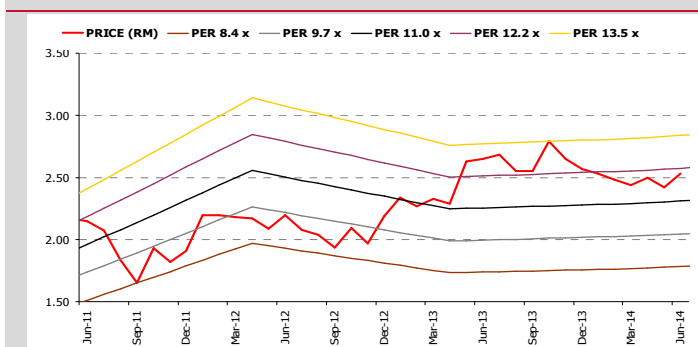
Source: Company, Kenanga Research

Segmental Breakdown

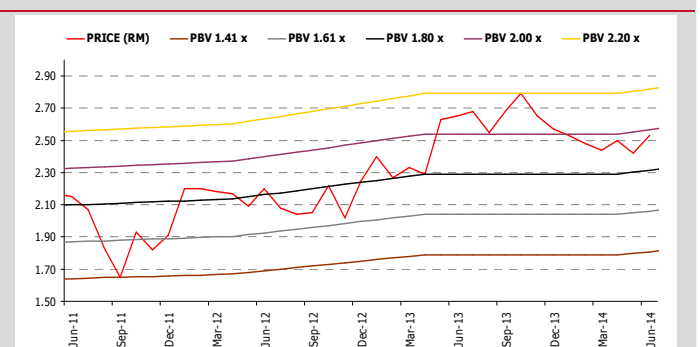
FY Apr (RM'm)	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
- Multi-Level-Marketing	37.7	38.5	-2%	45.5	-17%	149.3	167.0	-11%
- Wholesale	12.8	17.2	-26%	11.7	10%	56.3	50.8	11%
- Retail	9.2	13.3	-31%	12.7	-28%	40.1	42.2	-5%
- Others	1.8	2.6	-33%	1.8	-1%	7.8	7.8	-1%
Group Revenue	61.5	71.6	-14%	72.1	-15%	253.4	267.9	-5%
- Multi-Level-Marketing	8.4	8.5	-1%	8.1	3%	30.1	29.8	1%
- Wholesale	1.3	3.0	-58%	3.3	-62%	12.9	19.5	-34%
- Retail	0.6	0.8	-27%	1.4	-57%	2.3	3.5	-34%
- Others	1.2	1.8	-34%	1.1	8%	6.4	10.7	-41%
- Elimination	0.7	-0.3	-361%	0.4	63%	0.4	0.1	495%
Group EBIT	12.1	13.8	-12%	14.4	-16%	52.0	63.5	-18%
- Multi-Level-Marketing	22.2%	22.0%		17.9%		20.2%	17.8%	
- Wholesale	9.8%	17.5%		28.6%		22.9%	38.3%	
- Retail	6.3%	6.0%		10.7%		5.8%	8.2%	
- Others	65.4%	66.6%		60.1%		82.0%	136.6%	
Group EBIT Margin	19.7%	19.2%		19.9%		20.5%	23.7%	

Source: Company, Kenanga Research

Forward PER



Forward PBV



Source: Bloomberg, Kenanga Research

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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 sector'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 sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector'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.**

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Published and printed by:

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