

Company Result

17 December 2014

Hai-O Enterprise Berhad

HOLD

2QFY15: Another letdown

Maintained

Share Price	RM2.19
Target Price	RM2.10

Result

Company Description

Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.

Stock Data

Bursa / Bloomberg code	7668 / HAI0 MK
Board / Sector	Industrial / Food & Drug Retailers
Syariah Compliant status	No
Issued shares (m)	195.26
Par Value (RM)	0.50
Market cap. (RMm)	435.42
52-week price Range	RM2.15– 2.72
Beta (against KLCI)	0.92
3-m Average Daily Volume	0.10m
3-m Average Daily Value [^]	RM0.25m

Share Performance

	1m	3m	12m
Absolute (%)	-10.8	-12.5	-14.9
Relative (%-pts)	-4.1	-9.4	-6.3

Major Shareholders

	%
KAI HEE TAN	10.0
AKINTAN SDN BHD	7.7
SIOU ENG TAN	6.9

Historical Chart



Source: Bloomberg

Team Coverage

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- **Hai-O's 2QFY2015 net profit recorded at RM7.2mill, increased by 15.2% qoq. However, on yoy basis, the earnings dropped by 32%.** Meanwhile, revenue stood at RM57.7mill, jumps by 16% qoq, but declined by 12% yoy.
- **As for 1HFY15,** the group net earnings stood at RM13.4mill, which is 30.7% lower as compared to 1H last year. Revenue also fell by 10.6% to RM107.5mill yoy.
- **The Group's 1HFY15 net earnings were below expectations,** only reached 33.8% and 35.4% of our estimate and market consensus.

Comment

- **"Small ticket" item still unable to compensate the drop in "big ticket" items–** The MLM division continued to suffer with the long term effect of strategy shift. The higher sales volume of "small ticket" items still unable to cushion the impact of reduction in "big ticket" items. During the 1HFY15, the group's MLM recorded PBT of RM11mill, declining by 10.5% as compared to 1H last year.
- **Disappointment in wholesale division** - Similar trend also recorded by wholesale division as the PBT for 1HFY15 tumbled by 59.1% to RM3.3mill compared to 1H last year. The disheartening performance by wholesale division was mainly due to lower inter-segment sales couple with lower revenue generated from Chinese medicated tonic and tea. The division also suffered by unfavorable exchange rate as Ringgit weakening against US Dollar, which had eroded the profit margin.
- **Retail division took a hit by higher cost of living –** The PBT of retail division during 1HFY15 has declined by 5.8% yoy as the divisional performance continuously hit by weak consumer sentiment in anticipation of higher cost of living in relation to reduction in subsidies, coupled with implementation of GST in April'15.
- **A net dividend of 4 sen per share was declared for the quarter** - With the dividend policy of minimum 50% payout, we expect the Group will distribute a dividend of 11 sen per share for 2015F, which translates into dividend yield of 3.2%. Having said that, the Group may lift up its dividend payout to 100% for FY15 in conjunction with its 40th year anniversary, we expect shareholders to be rewarded handsomely with DPS of 16 sen or translating into yield of 4.7%.

Earnings Outlook/Revision

- **Due to lower-than-expected earnings achieved in 1HFY15, we trimmed our full year earnings forecast by 19.7% to RM31.8mill (previously: RM39.6mill). As for FY16, we cut our forecast by 23.1% to RM37.8mill (previously: RM49.13mill)**
- **Timing hiccup for MLM division** – We foresee that the strategy shift to ‘small ticket’ item in MLM division, which is targeted to sustain the Group’s future earnings may take longer time to yield desirable results to compensate the current declining sales in its ‘big ticket’ item. Thus, this will continue to affect the Group’s earnings.
- Meanwhile, the weak consumer sentiment in anticipation of higher cost of living will continue to hit the Group’s wholesale and retail division.

Valuation & Recommendation

- **Maintain HOLD call on Hai-O with lower target price of RM2.10 (previous TP: RM2.35).** We pegged our target price at 11x FY2016F PE based on EPS of 19 sen.
- Despite the current slump in its earnings, coupled with the possibility of longer-than-expected effect from the strategy shift, we foresee that the Group’s attractive dividend will be the main catalyst for the stock.

Figure 1: Quarterly Figures

Year to 31 Oct	2QFY15 (RMm)	1QFY15 (RMm)	2QFY14 (RMm)	QoQ % chg	YoY % chg	6FY15 (RMm)	6FY14 (RMm)	YoY % chg
Revenue	57.7	49.8	65.6	16.0%	-12.0%	107.5	120.3	-10.6%
Operating Profit	9.5	8.2	14.6	15.6%	-35.1%	17.7	26.2	-32.4%
Pre-tax Profit	9.7	8.4	14.6	15.2%	-33.8%	18.1	26.4	-31.5%
Profit After Tax	7.5	6.2	10.9	20.2%	-31.4%	13.7	19.6	-30.2%
Net Profit	7.2	6.2	10.5	15.2%	-32.0%	13.4	19.3	-30.7%
Operating Margin (%)	16.4%	16.5%	22.3%	0.0ppt	-5.8ppt	16.4%	21.8%	-5.3ppt
Profit Before Tax Margin (%)	16.8%	16.9%	22.3%	-0.1ppt	-5.5ppt	16.8%	22.0%	-5.1ppt
Profit After Tax Margin (%)	12.9%	12.5%	16.6%	0.5ppt	-3.7ppt	77.4%	75.0%	2.4ppt
Nat Profit Margin (%)	12.4%	12.5%	16.1%	-0.1ppt	-3.6ppt	74.0%	73.1%	0.9ppt

Figure 2: Revenue and PBT by divisions

Year to 31 July	2QFY15 (RMm)	1QFY15 (RMm)	2QFY14 (RMm)	QoQ % chg	YoY % chg	6FY15 (RMm)	6FY14 (RMm)	YoY % chg
Segment Revenue								
MLM	31.9	28.4	39.6	12.2%	-19.5%	60.3	73.1	-17.6%
Wholesales	14.3	11.8	14.1	20.4%	0.8%	26.1	26.3	-0.8%
Retail	9.8	7.7	10.2	26.8%	-4.0%	17.5	17.6	-0.6%
Total Revenue	55.88	47.95	63.91	16.5%	-12.6%	245.7	260.1	-5.5%
Segment Profit Before Tax								
MLM	6.3	4.6	7.0	36.2%	-9.1%	11.0	12.3	-10.5%
Wholesales	1.2	2.1	3.3	-43.4%	-63.7%	3.3	8.1	-59.1%
Retail	0.9	0.0	1.1	N/A	-21.0%	0.9	0.9	-5.8%
Total Profit Before Tax	8.41	6.74	11.39	24.8%	-26.1%	45.3	52.8	-14.2%
Segment PBT margin								
MLM	19.8%	16.3%	17.6%	3.5ppt	2.3ppt	18.2%	16.8%	1.4ppt
Wholesales	3.8%	17.8%	23.3%	-14.1ppt	-19.6ppt	5.5%	11.1%	-5.6ppt
Retail	6.3%	-0.2%	11.1%	6.5ppt	-4.9ppt	3.4%	3.5%	-0.2ppt

Figure 3: Financial Summary

Year to 31 March (RMm)	2010	2011	2012	2013	2014	2015F	2016F	2017F
Revenue	511.1	223.2	239.3	266.6	253.5	227.3	255.6	284.6
Operating profit	96.5	41.3	48.7	63.1	52.1	45.5	59.3	66.9
Net profit	70.6	28.4	34.0	47.2	40.3	31.8	37.8	49.8
EPS (sen)	36.1	14.5	17.4	24.1	20.6	16.3	19.4	25.5
P/E (x)	6.9	17.3	14.4	10.4	12.2	15.4	13.0	9.8
P/BV (x)	2.3	2.3	2.1	2.0	1.8	1.8	1.8	1.8
Dividend yield (%)	6.8%	2.8%	3.0%	4.3%	4.2%	3.2%	3.3%	4.3%
PBT margin (%)	18.7%	18.5%	20.3%	24.0%	21.0%	21.0%	24.2%	24.6%
Net Gearing (%)	-22.7%	-12.4%	-15.8%	-19.4%	-19.3%	-18.1%	-18.8%	-18.9%
ROE (%)	33.5%	13.3%	14.7%	18.8%	15.2%	11.8%	13.9%	18.0%

Source: Company, JF Apex Estimates

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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