

Company Result

25 March 2015

Hai-O Enterprise Berhad

SELL

Endeavour to survive

Downgraded

Share Price	RM2.36
Target Price	RM1.90

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)	195.08
Par Value (RM)	0.50
Market cap. (RMm)	448.69
52-week price Range	RM2.14– 2.72
Beta (against KLCI)	0.85
3-m Average Daily Volume	0.04m
3-m Average Daily Value [^]	RM0.08m

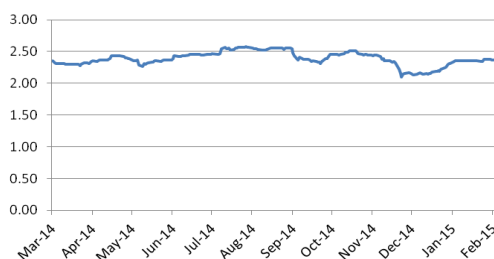
Share Performance

	1m	3m	12m
Absolute (%)	-1.55	1.6	-31.4
Relative (%-pts)	-1.13	-0.87	7.38

Major Shareholders

	%
KAI HEE TAN	9.97
AKINTAN SDN BHD	7.74
SIOU ENG TAN	6.91

Historical Chart



Source: Bloomberg

Team Coverage

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- **Hai-O reported net earnings of RM7.3mill in the 3QFY15, inched up 2.0% qoq but slumped 29.8% yoy.** Simialrly, revenue stood at RM62.0mill, increased by 7.3% qoq, but declined by 13.5% yoy.
- **As for 9MFY15,** the group's net earnings stood at RM20.7mill, tumbled 30.4% yoy. Revenue also fell by 11.7% yoy to RM169.5mill.
- **The Group's 9MFY15 net earnings came below expectations,** only reached 65% and 58.5% of our full year estimate and market consensus.

Comment

- **MLM's strategy has yet to yield desirable result.** The Group's strategy for its MLM division failed to render an immediate effect despite the rising of MLM's membership due to lower initial capital. The higher sales volume of "small-and-medium ticket" items still not capable to mitigate the impact of cutback in "big-ticket" items. During the 9MY15, the group's MLM segment recorded PBT of RM19.5mill, declined by 10.2% yoy.
- **Wholesales division still carried disheartening performance.** The wholesales division posted a PBT of RM3.4mil for the 9MFY15, tumbled 70.8% yoy. The performance of wholesales division was bogged down by lower inter-segment sales coupled with lower revenue generated from Chinese medicated tonic, tea and Chinese herbs. This division was further dented by unfavorable exchange rate as the strengthening of US Dollar battered its profit margin.
- **Retail division was clouted by a weak consumer sentiment.** The cautious consumer sentiments in anticipation of higher cost of living pursuant to GST implementation have dragged down the 9MFY15 performance of retail division. The retail's PBT was stood at RM0.3mil, down 81.8% yoy.
- **A net dividend of 4 sen per share was declared for the quarter.** Based on previous dividend payout track record of c. 50%, we are expecting total dividend payout of 10 sen per share for FY2015F and hence another 2 sen to be declared in last quarter. This translates into dividend yield of 2.9% based on current closing price of RM2.36. Having said that, the Group may reward its shareholders with 100% dividend payout in conjunction with its 40th year anniversary. Thus, we expect shareholders to be rewarded handsomely with DPS of 14 sen or translating into yield of 4.3%.

Earnings Outlook/Revision

- **Due to lower-than-expected earnings achieved in 9MFY15, we trimmed our full year earnings forecast by 14.1% to RM27.3mill (previously: RM31.8mill). As for FY16, we cut our forecast by 12.1% to RM33.2mill (previously: RM37.8mill)**
- **The strategy shift unlikely to yield an immediate impact.** We reckon that the Group's strategy shift to 'small-ticket' item in MLM division, which is its main earnings contributor may take longer time to yield desirable results to compensate the current declining sales in its 'big-ticket' item. Furthermore, the weak consumer sentiment could take a toll on the Group's sales.
- Meanwhile, the Group's retail and wholesale divisions will continue to be dragged down by the tepid consumer sentiment pursuant to GST implementation. Besides, the continuous strengthening in US Dollar against Ringgit will further dent the Group's profit margin, especially on Wholesales division.

Valuation & Recommendation

- **Downgraded to SELL from HOLD with lower target price of RM1.90 (Previous: RM2.10)** as we foresee the Group's operating outlook will remain challenging moving forward. The Group's earnings will continue to be dampened by the weak consumer sentiment due to implementation of GST, coupled with its prolonged transition period of its MLM's strategy. Our revised target price is pegged at 11x 2016F PE based on EPS of 17 sen (previous EPS: 19 Sen).

Figure 1: Quarterly Figures

Year to 31 Jan	3QFY15	2QFY15	3QFY14	QoQ	YoY	9FY15	9FY14	YoY
	(RMm)	(RMm)	(RMm)	% chg	% chg	(RMm)	(RMm)	% chg
Revenue	62.0	57.7	71.6	7.3%	-13.5%	169.5	191.9	-11.7%
Operating Profit	9.2	9.5	13.8	-2.9%	-33.1%	26.9	39.9	-32.7%
Pre-tax Profit	9.5	9.7	14.2	-2.3%	-33.1%	27.6	40.6	-32.1%
Profit After Tax	7.1	7.5	10.6	-5.4%	-33.5%	20.8	30.3	-31.4%
Net Profit	7.3	7.2	10.4	2.0%	-29.8%	20.7	29.7	-30.4%
MARGIN (%)								
Operating	14.9%	16.4%	19.2%	-1.6ppt	-4.4ppt	15.9%	20.8%	-4.9ppt
Profit Before Tax	15.3%	16.8%	19.8%	-1.5ppt	-4.5ppt	16.3%	21.1%	-4.9ppt
Profit After Tax	11.4%	12.9%	14.8%	-1.5ppt	-3.4ppt	12.2%	15.8%	-3.5ppt
Net Profit Margin	11.8%	12.4%	14.5%	-0.6ppt	-2.7ppt	12.2%	15.5%	-3.3ppt

Source: Company, JF Apex

Figure 2: Revenue and PBT by divisions

Year to 31 Jan	3QFY15 (RMm)	2QFY15 (RMm)	3QFY14 (RMm)	QoQ % chg	YoY % chg	9FY15 (RMm)	9FY14 (RMm)	YoY % chg
Segment Revenue								
MLM	36.9	31.9	38.5	15.7%	-4.1%	97.2	111.6	-12.9%
Wholesales	14.2	14.3	17.2	-0.4%	-17.4%	40.3	43.5	-7.4%
Retail	9.0	9.8	13.3	-7.6%	-32.2%	26.5	30.9	-14.2%
Total Revenue	60.10	55.88	68.96	7.5%	-12.8%	245.7	260.1	-5.5%
Segment Profit Before Tax								
MLM	8.6	6.3	9.5	35.3%	-9.8%	19.5	21.7	-10.2%
Wholesales	0.1	1.2	3.5	-93.3%	-97.7%	3.4	11.6	-70.8%
Retail	-0.6	0.9	0.8	-163.1%	-171.2%	0.3	1.7	-81.8%
Total Profit Before Tax	8.07	8.41	13.80	-4.1%	-41.6%	45.3	52.8	-14.2%
Segment PBT margin								
MLM	23.2%	19.8%	24.7%	3.4ppt	-1.5ppt	20.1%	19.5%	0.6ppt
Wholesales	0.6%	8.4%	20.5%	-7.8ppt	-19.9ppt	8.4%	26.7%	-18.3ppt
Retail	-6.3%	9.2%	6.0%	-15.4ppt	-12.2ppt	1.2%	5.6%	-4.4ppt

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 31 Jan (RMm)	2010	2011	2012	2013	2014	2015F	2016F	2017F
Revenue	511.1	223.2	239.3	266.6	253.5	195.2	224.6	245.4
Operating profit	96.5	41.3	48.7	63.1	52.1	39.0	52.1	57.7
Net profit	70.6	28.4	34.0	47.2	40.3	27.3	33.2	43.0
EPS (sen)	36.1	14.5	17.4	24.1	20.6	14.0	17.0	22.0
P/E (x)	6.5	16.2	13.6	9.8	11.4	16.9	13.9	10.7
P/BV (x)	2.2	2.2	2.0	1.8	1.7	1.7	1.7	1.7
Dividend yield (%)	7.2%	2.9%	3.2%	4.6%	4.5%	2.9%	3.1%	3.9%
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%	10.2%	12.2%	15.5%

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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