

**Company Result**

**25 June 2015**

**Hai-O Enterprise Berhad**

**SELL**

**FY16: Challenging outlook ahead**

**Maintained**

<b>Share Price</b>	<b>RM2.23</b>
<b>Target Price</b>	<b>RM1.90</b>

**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)	194.87
Par Value (RM)	0.50
Market cap. (RMm)	434.56
52-week price Range	RM2.14– 2.72
Beta (against KLCI)	0.70
3-m Average Daily Volume	0.05m
3-m Average Daily Value <sup>^</sup>	RM0.11m

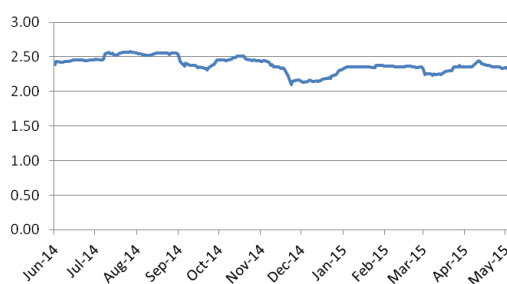
**Share Performance**

	1m	3m	12m
Absolute (%)	-4.7	-0.9	-11.9
Relative (%-pts)	-2.7	1.0	-3.8

**Major Shareholders**

	%
KAI HEE TAN	9.98
AKINTAN SDN BHD	7.75
SLOW ENG TAN	6.91

**Historical Chart**



Source: Bloomberg

**Team Coverage**

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- **Hai-O's 4QFY2015 net profit recorded at RM9.4mill** increased 28.5% q-o-q while declined by 10.8% y-o-y. However, quarterly revenue managed to record a positive growth of 14.5% y-o-y and 13.7% q-o-q.
- **Above expectations-** 12MFY15 net profit of RM30.1mill reached 110% and 104% of our forecast and market consensus respectively. The better-than-expected results were chiefly attributed by strong recovery of retail and wholesale Divisions in 4QFY15 thanks to pre-GST stock up. Overall, the Group recorded 25.3% drop in FY15 net profit on the back of lower topline, -5.3%.

**Comment**

- **Slight improvement of MLM division for 4QFY15.** MLM division reported PBT of RM8.7mill in 4QFY15, increased by 4.4% y-o-y and 2.1% q-o-q. The overall contribution of "small ticket" items surged to over 60% of the total sales. The better performance aided by attractive year-end sales campaign to attract distributors notably the new recruits.
- **Dismay yearly performance.** However, MLM division reported PBT of RM28.2mil in 12MFY15, decreased by 6.2% y-o-y. The change in selling strategy by promoting more 'small ticket' items still failed to spur division's revenue. The higher sales recorded by 'small ticket' items still unable to cushion a larger drop in the "big ticket" items coupled with higher A&P costs.
- **Wholesale division posted positive quarterly performance.....** Wholesale segment's PBT expanded by 156.6% for 4QFY15. The impressive performance was backed by higher intersegment sales and pre-GST promotion which contributed higher revenue from the sales of Chinese medicated tonic and patented medicine to its medical hall customers.
- **.....but failed to boost full year performance.** However, for 12MFY15, the division posted a PBT of RM6.6mil, recorded a decrease of 48.6% y-o-y. The sluggish performance was caused by lower inter-segment sales coupled with higher expenditure on CSR activities and further dented by the weakening of MYR against USD.
- **Turnaround of Retail division.** Retail division registered better performance in 4QFY15 after recording a positive PBT number of RM2.1mill against net loss of RM0.6m in last quarter mainly due to Chinese New Year's sales and followed by year-end Grand members' sales campaign. Furthermore, consumers rushed to stock up before GST

came into effect on 1st April 2015. That lifted the full year segmental PBT by 6.2% yoy amidst stiff competition.

- **Higher dividend declared.** As expected, the Group has declared a dividend of 11 sen/share in 4QFY15 bringing its FY15 total dividend to 15 sen/share translating into yield of 5.1%. The Group generously rewarded its shareholders with 100% dividend payout in conjunction with its 40th year anniversary. Moving forward, we expect the Group's dividend to be normalized to 10 sen/share for FY16 which is equivalent to dividend payout ratio of 60%.

### Earnings Outlook/Revision

- **We maintain our FY16 net earnings forecast of RM 33.2mill,** slightly higher by 1.02% y-o-y amid a challenging outlook for its wholesale division coupled with stiff competition in the retail market.
- **We foresee that MLM division might slightly improve** with its "small ticket" items strategy could boost the sales in a longer term. In addition, the Group will continue to introduce more new products and carry out effective sales campaign to strengthen its MLM business. Also, the Group is planning to recruit more young entrepreneurs to grow the market through their network base.
- **Wholesale and retail divisions continued to be dented by weaker consumer sentiment.** We foresee that consumer sentiment to stay fragile in 2HCY15 as consumers are cautious in their spending mainly due to higher cost of living after the implementation of GST. Furthermore, the strengthening of USD against MYR will increase the import cost of purchase.

### Valuation & Recommendation

- **Maintain SELL call on Hai-O with unchanged target price of RM1.90.** Our target price is pegged at 11x FY2016F PE (EPS of 17 sen). We opine that the share price could be under selling pressure once the dividend goes ex as operating outlook remains challenging whilst its strategy shift of MLM still under transitional period.

Figure 1: Quarterly Figures

Year to 30 Apr	4QFY15 (RMm)	3QFY15 (RMm)	4QFY14 (RMm)	QoQ % chg	YoY % chg	FY15 (RMm)	FY14 (RMm)	YoY % chg
<b>Revenue</b>	70.4	62.0	61.5	13.7%	14.5%	239.9	253.4	-5.3%
<b>Operating Profit</b>	15.9	9.2	12.1	73.0%	31.4%	42.8	52.1	-17.8%
<b>Pre-tax Profit</b>	15.5	9.5	12.6	63.4%	23.1%	43.0	53.1	-19.0%
<b>Profit After Tax</b>	10.0	7.1	10.6	41.4%	-5.9%	30.8	40.9	-24.8%
<b>Net Profit</b>	9.4	7.3	10.5	28.5%	-10.8%	30.1	40.3	-25.3%
<b>MARGIN (%)</b>								
<b>Operating</b>	22.6%	14.9%	19.7%	7.8%	2.9%	17.8%	20.5%	-2.7%
<b>Profit Before Tax</b>	22.0%	15.3%	20.4%	6.7%	1.5%	17.9%	21.0%	-3.0%
<b>Profit After Tax</b>	14.2%	11.4%	17.3%	2.8%	-3.1%	12.8%	16.1%	-3.3%
<b>Net Profit Margin</b>	13.3%	11.8%	17.1%	1.5%	-3.8%	12.5%	15.9%	-3.3%

Source: Company, JF Apex

**Figure 2: Revenue and PBT by divisions**

Year to 30 Apr	4QFY15 (RMm)	3QFY15 (RMm)	4QFY14 (RMm)	QoQ % chg	YoY % chg	FY15 (RMm)	FY14 (RMm)	YoY % chg
<b>Segment Revenue</b>								
MLM	38.4	36.9	37.8	4.1%	1.7%	135.6	149.3	-9.2%
Wholesales	16.4	14.2	12.8	15.2%	27.9%	56.7	56.3	0.6%
Retail	14.2	9.0	9.2	56.9%	54.1%	40.6	40.1	1.4%
<b>Total Revenue</b>	<b>68.92</b>	<b>60.10</b>	<b>59.73</b>	<b>14.7%</b>	<b>15.4%</b>	<b>232.9</b>	<b>245.7</b>	<b>-5.2%</b>
<b>Segment Profit Before Tax</b>								
MLM	8.7	8.6	8.4	2.1%	4.4%	28.2	30.1	-6.2%
Wholesales	3.2	0.1	1.3	3937.5%	156.6%	6.6	12.9	-48.6%
Retail	2.1	-0.6	0.6	N/A	267.5%	2.5	2.3	6.2%
<b>Total Profit Before Tax</b>	<b>14.10</b>	<b>8.07</b>	<b>10.20</b>	<b>74.8%</b>	<b>38.2%</b>	<b>37.3</b>	<b>45.3</b>	<b>-17.6%</b>
<b>Segment PBT margin</b>								
MLM	22.7%	23.2%	22.1%	-0.5ppt	0.6ppt	20.8%	20.2%	0.7ppt
Wholesales	19.7%	0.6%	9.8%	19.2ppt	9.9ppt	11.7%	22.9%	-11.2ppt
Retail	15.1%	-6.3%	6.3%	21.4ppt	8.8ppt	6.0%	5.8%	0.3ppt

Source: Company, JF Apex

**Figure 3: Financial Summary**

Year to 30 April (RMm)	FY2010	FY11	FY2012	FY2013	FY2014	FY2015	FY2016F	FY2017F
Revenue	511.1	223.2	239.3	266.6	253.5	239.9	230.8	251.8
Operating profit	96.5	41.3	48.7	63.1	52.1	42.2	53.6	59.2
Net profit	70.6	28.4	34.0	47.2	40.3	30.1	33.2	44.1
EPS (sen)	36.2	14.6	17.4	24.2	20.7	15.4	17.1	22.6
P/E (x)	6.2	15.3	12.8	9.2	10.8	14.4	13.1	9.9
P/BV (x)	2.1	2.0	1.9	1.7	1.6	1.6	1.6	1.6
Dividend yield (%)	7.7%	3.1%	3.4%	4.9%	4.8%	5.1%	3.3%	4.3%
PBT margin (%)	18.7%	18.5%	20.3%	24.0%	21.0%	17.9%	24.2%	24.6%
Net Gearing (%)	-22.7%	-12.4%	-15.8%	-19.4%	-19.3%	-15.0%	-9.9%	-4.5%
ROE (%)	33.5%	13.3%	14.7%	18.8%	15.2%	11.3%	12.3%	16.1%

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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