

Outthink. Outperform.

No surprises

Hai-O reported 1QFY16 results that were within our and consensus expectations. The group's 1QFY16 core earnings expanded on higher revenue from its MLM division, which offset the weaker showing from its wholesale and retail segments. We maintain our HOLD call on the stock as we remain wary about the group's outlook given the softer consumer spending environment in the domestic market. Dividend yields of ~5% over FY16-18E should be supportive of the share price.

1QFY16 in line with expectations

Hai-O's 1QFY16 turnover and core net profit increased by 11.2% yoy and 6.6% yoy, respectively. This was mostly because of the better showing from its multi-level-marketing (MLM) division, which offset the disappointing results from its wholesale and retail division. On a whole, the group's 1QFY16 core earnings were within our and consensus expectations, representing 20% of both full-year estimates. We view this as in line with expectations as the group's 1Q has historically made up 20-22% of full-year results.

Post-GST blues

The group's 1QFY16 turnover and operating profit for its MLM segment increased by 29% and 37% yoy, respectively, due to an improved response for the promotion of its "small ticket" items. Meanwhile, operating profit for its wholesale division fell by 16% yoy as the higher US\$ vs. the RM and lower sales volume post-GST affected profitability. Overall, EBIT margins declined by 1ppt to 15.6%.

Maintain HOLD and TP of RM2.02

We maintain our HOLD call and 12-month TP of RM2.02, pegged to an existing 11.5x CY16E EPS (in line with the stock's 5-year historical PE). We do not expect a significant recovery in the group's profitability, particularly in the wholesale segment where import costs may spike due to the higher US\$ and in the retail segment given the weaker domestic purchasing power of consumers. Nonetheless, estimated dividend yields of ~5% should provide a cushion to the share price.

Key risks to our call include: i) a stronger- or lower-than-expected upturn in consumer spending; and ii) a strengthening or weakening of the RM vs. US\$.

Earnings & Valuation Summary

FYE Apr	2014	2015	2016E	2017E	2018E
Revenue (RMm)	253.4	239.9	270.0	283.8	303.4
EBITDA (RMm)	58.0	48.5	49.3	53.0	57.0
Pretax profit (RMm)	53.1	43.0	45.8	49.6	53.7
Net profit (RMm)	40.3	30.1	33.6	36.4	39.4
EPS (sen)	19.9	14.8	16.6	18.0	19.4
PER (x)	11.5	15.4	13.8	12.8	11.8
Core net profit (RMm)	40.3	30.1	33.6	36.4	39.4
Core EPS (sen)	19.9	14.8	16.6	18.0	19.4
Core EPS growth (%)	-7.5	-25.3	11.7	8.3	8.2
Core PER (x)	11.5	15.4	13.8	12.8	11.8
Net DPS (sen)	14.0	15.0	10.8	11.7	12.6
Dividend Yield (%)	6.1	6.6	4.7	5.1	5.5
EV/EBITDA (x)	6.1	7.5	7.5	6.7	6.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Results Note

Hai-O

HAIO MK
Sector: Consumer

RM2.29 @ 23 Sept 2015

HOLD (maintain)

Downside 11.8%

Price Target: RM2.02

Previous Target: RM2.02



Price Performance

	1M	3M	12M
Absolute	+14.5%	-0.9%	-12.6%
Rel to KLCI	+8.7%	+6.4%	-0.3%

Stock Data

Issued shares (m)	194.6
Mkt cap (RMm)/(US\$m)	445.6/101.8
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	1.89-2.66
Est free float	51.1%
BV per share (RM)	1.26
P/BV (x)	1.82
Net cash/ (debt) (RMm) (1Q16)	47.8
ROE (2016E)	13.2%
Derivatives	Nil
Shariah Compliant	YES

Key Shareholders

Tan Kai Hee	10.0%
Akintan SB	7.8%
Tan Siow Eng	6.9%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Apr (RMm)	1QFY16	QoQ % chg	YoY % chg	Comments
Revenue	55.4	(21.4)	11.2	1QFY16 revenue was weaker qoq due to the pull-back in consumer spending across all its divisions.
Op costs	(64.0)	(25.4)	54.0	
EBIT	8.6	(43.8)	4.5	
<i>EBIT margin (%)</i>	<i>15.6</i>	<i>-6.2ppt</i>	<i>-1.0ppt</i>	EBIT margins were down yoy and qoq due to higher operating costs as the result of a higher US\$ as well as increased promotional activities.
Int expense	(0.1)	(7.0)	(17.5)	
Int and other inc	0.2	(37.9)	(39.3)	
Associates	0.1	0.0	0.0	
Exceptional items	0.0	0.0	0.0	
Pretax	8.8	(43.1)	4.7	
Tax	(2.3)	(58.5)	3.7	
<i>Tax rate (%)</i>	<i>25.8</i>	<i>-9.6ppt</i>	<i>-0.2ppt</i>	
MI	0.1	0.0	0.0	
Net profit	6.6	(29.5)	6.6	All in, net profit was within our and consensus expectations.
EPS (sen)	3.3	(29.5)	6.6	
Core net profit	6.6	(29.5)	6.6	

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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