

17 December 2015

Hai-O Enterprise Berhad

1H16 Within Expectations

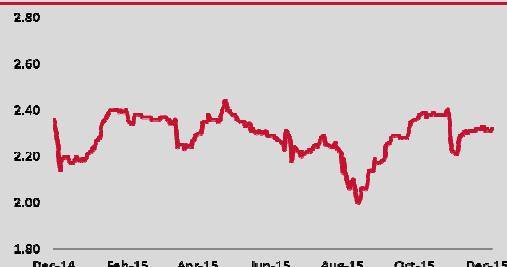
By Soong Wei Siang | soongws@kenanga.com.my

- | | |
|--------------------------------|---|
| Period | <ul style="list-style-type: none"> 2Q16/1H16 |
| Actual vs. Expectations | <ul style="list-style-type: none"> 1H16 net profit of RM15.4m (+14.8% YoY) met expectations, matching 49.2% of our in-house forecast and 48.7% of the consensus. |
| Dividends | <ul style="list-style-type: none"> As expected, DPS of 4.0 sen (1H15: 4.0 sen) was declared. We forecast DPS of 12.0 sen for FY16. |
| Key Results Highlights | <ul style="list-style-type: none"> YoY, 1H16 revenue jumped 20.0% to RM129.0m, mainly driven by strong growth achieved in MLM division (36.4%) as the strategy of focusing on 'small-ticket' items bore fruit, further aided by an aggressive recruitment program. 1H16 operating profit grew 14.1% to RM20.2m, also attributed to the encouraging performance in MLM division, which recorded operating profit of RM13.4m, up 21.9% from 1H15, in line with the higher sales. As a result, 1H15 net profit increased by 14.8% to RM15.4m. QoQ, 2Q16 revenue surged 32.9% to RM73.6m thanks to growth across all operating division on the back of lower base as 1Q16 was negatively affected by the GST implementation. Wholesale division registered overwhelming revenue growth of 81.9% to RM16.8m, driven by the extensive promotion program to mitigate the soft consumer sentiment post-GST implementation. 2Q16 operating profit grew 31.7% to RM11.5m, mainly contributed by the MLM division (+14.3%) on the back of higher sales (+24.0%). As a result, 2Q16 net profit surged 34.9% to RM8.9m, further helped by the normalization in effective tax rate to 24.1% from 25.8% in 1Q16. |
| Outlook | <ul style="list-style-type: none"> Outlook remains challenging with the biggest concern being the wholesales division due to the strong USD against MYR. With the USD remaining strong, the Group might face difficulty in sustaining profits in this division. The strategy of realigning the sales to focus on 'small-ticket' items has gained traction with such items now contributing >60% over total sales while the revenue growth momentum was also seen to be picking up. However, we remain cautious on the outlook in the MLM division in view of the weak local consumer sentiment. Overall, we still maintain our negative stance on HAIO despite the improving MLM division's performance in view of the pedestrian growth forecasted for the next two years (4.0% and 7.3%) and the risk in the wholesale division. |
| Change to Forecasts | <ul style="list-style-type: none"> No changes to our earnings forecasts. |
| Rating | Maintain UNDERPERFORM |
| Valuation | <ul style="list-style-type: none"> Our Target Price was unchanged at RM2.22, based on 12.9x PER FY17E, which is on par with its 5-year mean. The valuation is justified by its generous dividend pay-out (c.75% of net profit) which translates into yield of >5%. |
| Risks | <ul style="list-style-type: none"> Stronger-than-expected MYR recovery against USD. Sector risk: Better-than-expected consumer sentiment. |

UNDERPERFORM ↔

Price: RM2.32
Target Price: RM2.22 ↔

Share Price Performance



KLCI 1,634.13
YTD KLCI chg -7.2%
YTD stock price chg 5.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	450.4
Issued shares	194.1
52-week range (H)	2.45
52-week range (L)	1.89
3-mth avg daily vol:	86,776
Free Float	75%
Beta	0.6

Major Shareholders

KAI HEE TAN	10.0%
AKINTAN SDN BHD	7.8%
SIOW ENG TAN	6.9%

Summary Earnings Table

FY Apr (RM'm)	2015A	2016E	2017E
Turnover	239.9	245.3	252.6
EBIT	42.2	40.8	44.2
PBT	43.0	42.3	45.1
Net Profit (NP)	30.1	31.3	33.6
Consensus (NP)	-	31.6	38.0
Earnings Revision	-	-	-
EPS (sen)	15.4	16.0	17.2
EPS growth (%)	-25.3%	4.0%	7.3%
NDPS (sen)	15.0	12.0	13.0
BV/Share (RM)	1.30	1.34	1.39
PER	15.0	14.5	13.5
Price/BV (x)	1.78	1.73	1.67
Net Gearing (x)	Cash	Cash	Cash
Net Dvd Yield (%)	6.5%	5.2%	5.6%

17 December 2015

Result Highlights

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Apr (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Turnover	73.6	55.4	32.9%	57.7	27.5%	129.0	107.5	20.0%
Operating profit	11.5	8.7	31.7%	9.5	21.0%	20.2	17.7	14.1%
PBT	11.9	8.8	35.1%	9.7	22.8%	20.7	18.1	14.4%
Taxation	-2.9	-2.3	26.1%	-2.2	29.4%	-5.1	-4.4	16.6%
Minority interest	-0.1	0.1	-189.4%	-0.3	-72.4%	0.0	-0.3	-103.3%
Net Profit (NP)	8.9	6.6	34.9%	7.2	24.7%	15.4	13.4	14.8%
EPS (sen)	4.6	3.4	34.9%	3.7	24.7%	7.9	6.8	15.7%
Operating margin	15.6%	15.7%		16.4%		15.6%	16.4%	
PBT margin	16.2%	15.9%		16.8%		16.0%	16.8%	
NP margin	12.1%	12.0%		12.4%		11.9%	12.5%	
Effective tax rate	24.1%	25.8%		22.9%		24.8%	24.4%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Apr (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
- Multi-Level-Marketing	45.5	36.7	24.0%	31.9	42.7%	82.3	60.3	36.4%
- Wholesale	16.8	9.3	81.9%	40.2	-58.1%	26.1	52.0	-49.8%
- Retail	9.5	7.6	25.7%	9.8	-2.5%	17.1	17.5	-2.1%
- Others	1.7	1.8	-	6.1	-	3.5	7.9	-
Group Revenue	73.6	55.4	32.9%	57.7	27.5%	129.0	107.5	20.0%
- Multi-Level-Marketing	7.1	6.2	14.3%	6.4	12.0%	13.4	11.0	21.9%
- Wholesale	1.6	1.8	-8.5%	1.2	34.3%	3.4	3.3	2.9%
- Retail	0.7	-0.2	-	0.9	-	0.5	0.9	-
- Others	2.6	0.3	-	1.4	-	2.9	2.6	-
- Elimination	-0.6	0.5	-	-0.2	-	-0.1	0.0	-
Group EBIT	11.5	8.7	31.7%	9.5	21.0%	20.2	17.7	14.1%
- Multi-Level-Marketing	15.7%	17.0%		19.9%		16.2%	18.2%	
- Wholesale	9.7%	19.2%		3.0%		13.1%	6.4%	
- Retail	7.1%	-2.0%		9.0%		3.1%	5.0%	
- Others	156.0%	18.3%		22.3%		84.6%	32.4%	
Group EBIT Margin	15.6%	15.7%		16.4%		15.6%	16.4%	

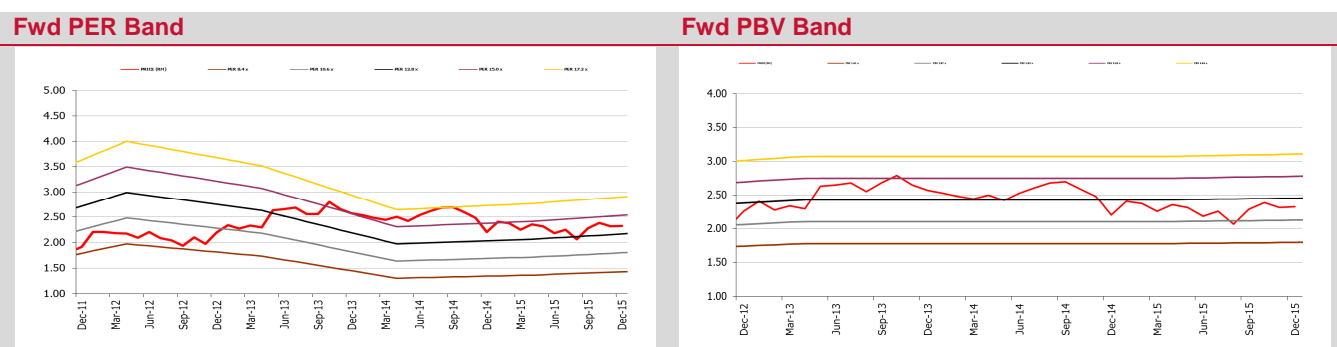
Source: Company, Kenanga Research



17 December 2015

Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2013A	2014A	2015A	2016E	2017E	FY Apr (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	266.5	253.4	239.9	245.3	252.6	Growth (%)					
EBITDA	58.8	53.5	45.4	43.9	47.5	Revenue	11.3%	-4.9%	-5.3%	2.2%	3.0%
Depreciation	-2.7	-3.0	-3.2	-3.1	-3.3	EBITDA	27.9%	-9.1%	-15.2%	-3.2%	8.2%
Operating Profit	56.1	50.5	42.2	40.8	44.2	Operating Profit	29.6%	-10.1%	-16.4%	-3.3%	8.4%
Int Income	1.2	1.6	1.1	1.7	1.1	Pre-tax Income	31.1%	-16.9%	-19.0%	-1.7%	6.6%
PBT	63.9	53.1	43.0	42.3	45.1	Net Income	38.7%	-14.6%	-25.3%	4.0%	7.3%
Taxation	-15.9	-12.3	-12.3	-10.4	-10.8	Profitability (%)					
Minority Interest	-0.9	-0.6	-0.7	-0.7	-0.7	EBITDA Margin	22.1%	21.1%	18.9%	17.9%	18.8%
Net Profit	47.2	40.3	30.1	31.3	33.6	Operating Margin	21.1%	19.9%	17.6%	16.6%	17.5%
						PBT Margin	24.0%	21.0%	17.9%	17.3%	17.9%
						Core Net Margin	17.7%	15.9%	12.5%	12.8%	13.3%
						Effective Tax Rate	-24.9%	-23.1%	-28.5%	-24.5%	-24.0%
						ROE	19.7%	15.9%	11.8%	11.9%	12.4%
						ROA	15.5%	13.0%	9.8%	10.6%	11.0%
						DuPont Analysis					
						Net Margin (%)	17.7%	15.9%	12.5%	12.8%	13.3%
						Assets Turnover (x)	0.87	0.82	0.79	0.83	0.83
						Leverage Factor (x)	1.27	1.22	1.20	1.13	1.13
						ROE (%)	19.7%	15.9%	11.8%	11.9%	12.4%
						Leverage					
						Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
						Net Cash/(Debt)	52.0	54.3	42.3	39.0	39.5
						Net Debt/Equity (x)	Cash	Cash	Cash	Cash	Cash
						Valuations					
						EPS (sen)	23.9	20.5	15.4	16.0	17.2
						NDPS (sen)	14.0	14.0	15.0	12.0	13.0
						BV (RM)	1.22	1.30	1.30	1.34	1.39
						PER (x)	9.6	11.2	14.8	9.7	11.3
						Net Div. Yield (%)	6.0%	6.0%	6.5%	5.2%	5.6%
						P/BV (x)	1.91	1.79	1.78	1.73	1.67
						EV/EBITDA (x)	6.8	7.4	9.0	9.4	8.7

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

17 December 2015

Peer Comparison

NAME	Price (RM)	Mkt Cap (RMm)	PER (x)			Est. Div. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			1Y NP Growth (%)	2Y NP Growth (%)	Target Price (RM)	Rating
			Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd				
CORE COVERAGE															
Consumer - Retail															
AEON CO (M) BHD	2.68	3,762.7	19.3	23.7	22.1	1.4%	9.7%	2.12	212.7	158.8	170.0	-25.3%	7.1%	2.42	Underperform
AMWAY (MALAYSIA) HLDGS BHD	9.65	1,586.3	15.9	19.6	17.7	4.6%	37.2%	6.94	99.8	81.0	89.8	-18.8%	10.9%	9.83	Market Perform
HAI-O ENTERPRISE BHD	2.32	450.4	15.0	14.5	13.5	5.2%	11.8%	1.76	30.1	31.3	33.7	4.0%	7.7%	2.22	Underperform
PADINI HOLDINGS BERHAD	1.88	1,236.9	15.4	12.4	11.4	6.4%	22.7%	3.06	80.2	100.3	108.6	-11.8%	12.2%	1.82	Outperform
PARKSON HOLDINGS BHD	0.99	1,077.3	13.4	16.2	14.6	6.2%	3.0%	0.41	80.7	67.2	74.2	-16.7%	10.4%	1.01	Market Perform
ZHULIAN	1.48	680.80	14.5	13.0	11.9	6.8%	10.3%	1.35	47.1	52.5	57.0	11.5%	8.6%	1.41	Underperform
Consumer - F&B															
DUTCH LADY	47.80	3,059.2	27.9	19.7	17.8	5.0%	75.6%	19.51	109.8	155.5	171.8	41.6%	10.5%	58.51	Outperform
NESTLE (M)	72.62	17,029.4	30.9	28.1	25.7	3.4%	77.1%	21.94	550.4	604.5	661.8	9.8%	9.5%	76.20	Market Perform
OLDTOWN BHD	1.45	654.6	12.9	12.7	11.6	4.1%	15.3%	1.99	47.5	51.9	56.7	9.3%	9.2%	1.76	Outperform
QL RESOURCES BHD	4.25	5,304.1	28.3	26.2	23.5	1.2%	14.2%	3.72	187.5	202.2	225.6	7.8%	11.5%	4.16	Market Perform
Consumer - Sin															
BRITISH AMERICAN TOBACCO BHD	53.70	15,333.0	16.8	16.4	16.1	6.1%	159.2%	29.18	902.0	933.2	950.8	3.5%	1.9%	60.00	Underperform
CARLSBERG BREWERY MALAYSIA B	11.72	3,605.3	17.0	17.2	15.6	6.0%	76.6%	10.95	211.6	210.5	230.7	-0.5%	9.6%	13.86	Outperform
GUINNESS ANCHOR BHD	13.38	4,042.1	18.9	17.4	15.9	5.4%	52.4%	10.70	214.2	231.9	254.2	8.3%	9.6%	15.36	Outperform

Source: Bloomberg, Kenanga Research

17 December 2015

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research