

Company Result

20 September 2013

Hai-O Enterprise Berhad

BUY

A Slow Start

Maintained

Share Price	RM2.74
Target Price	RM3.05

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	Yes
Issued shares (m)	196.89
Par Value (RM)	0.50
Market cap. (RMm)	539.47
52-week price Range	RM1.97– 2.85
Beta (against KLCI)	0.97
3-m Average Daily Volume	0.20m
3-m Average Daily Value [^]	RM0.53m

Share Performance

	1m	3m	12m
Absolute (%)	1.9	3.4	36.1
Relative (%-pts)	1.0	2.2	25.0

Major Shareholders

	%
KAI HEE TAN	9.90
AKINTAN SDN BHD	7.60
EXCELLANT COMMUNICATIONS	5.30

Historical Chart



Source: Bloomberg

Team Coverage

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- **Hai-O's 1QFY2014 net profit recorded at RM8.7mil**, a drop of 15.6% y-o-y which was in tandem with the fall in revenue of 10% y-o-y. Hai-O's net earnings and revenue for the quarter slid 17% and 24% q-o-q respectively.
- **1QFY2014 net profit was within expectations**, albeit currently having met 18% of our and consensus expectations only as we are hopeful of a stronger subsequent quarters buoyed by 1) MLM division introduction of new products in the coming 2Q14; 2) MLM division trip incentive program for distributors and 3) MLM division to reintroduce special price promotion for one of its key product

Comment

- **Tepid result for 1QFY2014** – The group's saw its revenue and pre-tax profit declined 10% and 14% y-o-y respectively. The abatement was predominantly due to lower sales recorded by the MLM division (-17% y-o-y) which is the major contributor for the group at 45% of total revenue. The bottom line was further exacerbated by a marginal pre-tax loss of RM155k from the retail division due to escalating rental and personnel costs.
- **Languid start-off for MLM division.** The chief contributor for the group saw its revenue and pre-tax profit decline by 16% and 29% y-o-y respectively. The contractions were due to last year's special price promotion on foundation garments which boosted the sales to its highest level in FY2013. Hence this has led to lower sales for the current quarter.
- **A weak 1QFY2014 for MLM division on q-o-q basis.** The division's revenue and pre-tax profit eased 27% and 35% respectively. The root of the frail performance was due to incentive trip campaign promotion which ended in 4Q13. While this was further aggravated by fasting month in July which has slowed down some activities of the majority Muslim distributors (c. 80%). Additionally, a total of RM0.4mil translation loss in foreign operations has lowered down the pre-tax profit for the division.
- **Wholesale division foothold for 1QFY2014.** Pre-tax profit for the divisions inched up 45% despite revenue dipped 17% q-o-q. This meritable performance was attributed by higher margin from the Chinese medicated

tonic coupled with supply of duty free products. This has led to an up surged in pre-tax margin for the division which saw improvement by 7.1 ppt q-o-q.

- **No dividend declared for the quarter** – Based on previous payout track record of c. 60%, hence we are expecting total dividend payout of 15.3 sen per share for FY2014F. This translates into a good dividend yield of 5.6% based on current closing price of RM2.74.

Earnings Outlook/Revision

- **We maintained our FY14-FY15F earnings** of RM50mil and RM57mil respectively albeit a slow start. We believe sales momentum will pick up on the subsequent quarters premised on 1) New products introduction for 2QFY2014 for the MLM division; 2) Campaigning trip incentive program for distributors for the MLM division and 3) MLM division to reintroduce special price promotion for one of its key products.

Valuation & Recommendation

- **Maintain BUY with target price of RM3.05** pegged at FY14F PER of 12x, which is close to its 3-year mean PE. This is based on FY14F EPS of 25 sen. Our TP denotes an upside potential of 11.3% from its closing price of RM2.74. Besides, we continue to view that the Group's current PE of 10x was much more attractive than the average industry PE of 19.9x.
- Despite the slow start for the year, we continue to be sanguine that Hai-O's MLM division's sales will bounce back on the subsequent quarters on the back on solid plans to spur the demand.

Figure 1: Quarterly Figures

Year to 30 April	1QFY14	4QFY13	1QFY13	QoQ	YoY
	(RMm)	(RMm)	(RMm)	% chg	% chg
Revenue	54.7	72.0	60.6	-24.1%	-9.8%
Operating Profit	11.6	14.4	13.7	-19.7%	-15.6%
Pre-tax Profit	11.8	14.7	13.8	-19.7%	-14.5%
Net Profit	8.7	10.5	10.3	-16.9%	-15.6%
Operating Margin (%)	21.1%	20.0%	22.6%	+1.1 ppt	-1.5 ppt
Profit Before Tax Margin (%)	21.6%	20.4%	22.8%	+1.2 ppt	-1.2 ppt
Net Profit Margin (%)	16.0%	14.6%	17.1%	+1.4 ppt	-1.1 ppt

Source: Company, JF Apex

Figure 2: MLM and Wholesale Division

	(RMm)	1QFY14	4QFY13	1QFY13	QoQ % chg	YoY % chg	% contribution
MLM	Revenue	33.5	45.9	40.1	-27.1%	-16.6%	45.3
	Pre-tax profit	5.3	8.1	7.4	-34.6%	-28.4%	47.0
	Pre-tax margin	15.8%	17.7%	18.4%	-1.9 ppt	-2.6 ppt	
	(RMm)	1QFY14	4QFY13	1QFY13	QoQ % chg	YoY % chg	% contribution
Wholesale	Revenue	29.3	35.7	24.5	-17.7%	19.7%	40.0
	Pre-tax profit	4.8	3.3	3.8	44.9%	27.4%	43.0
	Pre-tax margin	16.5%	9.4%	15.5%	+7.1 ppt	+1.0 ppt	

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 30 April (Rm'm)	2011	2012	2013	2014F	2015F
Revenue	223.3	239.4	267.9	310.5	335.3
EBITDA	39.3	43.1	48.9	54.6	60.8
Operating profit	41.3	48.7	63.5	67.0	70.0
Net profit	28.4	35.7	47.4	50.0	57.0
EPS (sen)	14.4	17.2	24.1	25.4	28.9
P/E (x)	19.0	15.9	11.4	10.8	9.5
P/BV (x)	2.5	2.19	2.2	2.0	1.9
EV/EBITDA	13.8	9.4	11.2	10.1	9.2
Dividend yield (%)	3.4%	3.3%	5.3%	5.6%	6.3%
PBT margin (%)	18.5%	20.2%	23.0%	20.0%	20.3%
Net profit margin (%)	12.7%	14.1%	17.7%	16.7%	17.0%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	13.3%	14.6%	18.9%	18.9%	20.0%
ROA (%)	11.0%	11.9%	15.5%	15.5%	16.6%

Source: Company, JF Apex

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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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