

Company Result

27 March 2014

Hai-O Enterprise Berhad

HOLD

9MFY14 : Watered-down

Downgraded

Share Price	RM2.48
Target Price	RM2.60

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)	196.49
Par Value (RM)	0.50
Market cap. (RMm)	487.3
52-week price Range	RM2.21– 2.85
Beta (against KLCI)	0.9
3-m Average Daily Volume	0.09m
3-m Average Daily Value [^]	RM0.23m

Share Performance

	1m	3m	12m
Absolute (%)	1.6	-3.5	6.4
Relative (%-pts)	0.7	-4.4	-4.3

Major Shareholders

	%
KAI HEE TAN	9.9
AKINTAN SDN BHD	7.7
EXCELLANT COMMUNICATIONS	5.3

Historical Chart



Source: Bloomberg

Team Coverage

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Comment

- **Hai-O's 3QFY2014 net profit recorded at RM10.4mil**, eased 5.5% y-o-y and 4.6% q-o-q. However, revenue ticked up by 4.8% y-o-y and 9% q-o-q.
- **9MFY2014 net profit was below expectations**, accounting 60% and 64% of our and consensus expectations respectively. The weak performance was chiefly attributed by lower profit contribution from wholesale division.

- **Missed the mark for 9MFY2014** – The group's pre-tax profit dropped markedly by 6.6% albeit revenue, ticked-up by 4.8%. The languid performance chiefly dragged by the lower margins from the wholesale and retail division.

- **MLM division continued to dominate in 9MFY14.** The change in marketing strategy for the current financial year by promoting more "small-ticket" items in order to neutralize its over dependency on "big-ticket" items proved to be resilient. Albeit revenue decreased by 8%, its pre-tax profit was inched up by 1.5ppt against 9MFY13.

- **Disheartening wholesale division for 9MFY14.** Albeit the sales remained unchanged y-o-y, at RM105mil, the operating profit slumped by 28%. The dismal result was due to higher marketing distribution costs and further eroded by the weakening of MYR against USD currency.

- **No dividend was declared for the quarter** – Based on previous dividend payout track record of c. 50%, hence we are expecting total dividend payout of 12 sen per share for FY2014F. Therefore we foresee the group to declare another 8 sen in the last quarter. This translates into dividend yield of 4% based on current closing price of RM2.48.

Earnings Outlook/Revision

- **We trimmed our FY14F-FY15F earnings from RM50mil and RM57mil to RM40mil (-25%) and RM46mil (-24%) respectively.** We tweaked our operating margin from 20% to 17% as we envisage higher A&P costs for the wholesale and retail divisions which will continue to erode the margins.

Valuation & Recommendation

- **Downgraded to HOLD with target price of RM2.60** as we foresee challenging year for consumer stock due to rising people's cost of living which dampen its sales, whilst margins continue to be under pressure for its Wholesale and Retail divisions pursuant to higher marketing costs. Our target price is pegged at 11x FY15F EPS of 23.4 sen, which is close to its 3-year mean PE.

Figure 1: Quarterly Figures

FYE 30 April RM mil	3QFY14	2QFY14	3QFY13	QoQ % chg	YoY % chg	9MFY14	9MFY13	YoY % chg
Revenue	71.6	65.6	68.3	9.1%	4.8%	191.9	194.3	-1.2%
Operating profit	13.8	14.6	14.9	-5.5%	-7.4%	39.9	48.9	-18.4%
Pre-tax Profit	14.1	14.6	15.1	-3.4%	-6.6%	40.6	49.4	-17.8%
Net Profit	10.4	10.9	11	-4.6%	-5.5%	29.7	37.3	-20.4%
Operating Margin (%)	19.3%	22.3%	21.8%	-3ppt	-2.5ppt	20.8%	25.2%	-4.4ppt
Profit Before Tax Margin (%)	19.7%	22.3%	22.1%	-2.6ppt	-2.4ppt	21.2%	25.4%	-4.2ppt
Net Profit Margin (%)	14.5%	16.6%	16.1%	-2.1ppt	-1.6ppt	15.5%	19.2%	-3.7ppt

Figure 2: MLM & Wholesale divisions

	RM mil	3QFY14	2QFY14	3QFY13	QoQ % chg	YoY % chg	9MFY14	9MFY13	YoY % chg
MLM	Revenue	38.5	39.6	35	-2.8%	10.0%	111.6	121	-7.8%
	Operating Profit	8.7	8	7.4	8.7%	17.6%	21.7	21.7	0.0%
	Operating Profit Margin	22.6%	20.2%	21.1%	+1.6ppt	+1.2ppt	19.4%	17.9%	+1.5ppt
Wholesale	Revenue	31.9	29.3	47	8.9%	-32.1%	105	102.2	2.7%
	Operating Profit	-1.7	3.8	6.6	-144.7%	-125.8%	11.6	16.1	-28.0%
	Operating Profit Margin	n/a	13.0%	14.0%	n/a	-1ppt	11.0%	15.8%	-4.8ppt

Figure 2: Financial Summary

FYE 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	50.9	59.0	64.4
Operating profit	41.3	48.7	63.5	67.0	70.0
Net profit	28.4	35.7	47.4	40.0	46.0
EPS (sen)	14.4	17.2	24.1	20.3	23.4
P/E (x)	18.2	14.4	10.3	12.2	10.6
P/BV (x)	2.3	2.0	2.0	1.9	1.7
EV/EBITDA	12.4	9.4	9.6	8.5	7.9
Dividend yield (%)	3.4%	3.7%	4.9%	4.1%	4.7%
PBT margin (%)	18.5%	20.2%	23.0%	20.0%	20.3%
Net profit margin (%)	12.7%	14.1%	17.7%	12.9%	13.7%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	13.3%	14.6%	19.6%	15.3%	16.4%
ROA (%)	11.0%	11.9%	15.8%	12.5%	13.5%

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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