

25 September 2015

Hai-O Enterprise Berhad

1Q16 Broadly Within Expectations

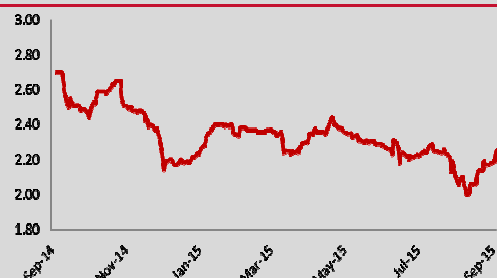
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- Period** ▪ 1Q16
- Actual vs. Expectations** ▪ The 1Q16 net profit of RM6.6m is considered broadly within expectations, matching 21.1% of our full-year forecast and 20.2% of the street's.
- Dividends** ▪ None, as expected.
- Key Results Highlights** ▪ **YoY**, 1Q16 revenue grew 11.2% to RM55.4m thanks to strong performance in MLM division (+29.4%) as the strategy of focusing in 'small-ticket' items bore fruits. However, the wholesale division sale recorded a decline of 21.5% due to the weak consumer sentiment and GST implementation. Operating profit increased by 6.2% to RM8.7m due to the strong performance in MLM division. As a result, a result, net profit grew 6.5% to RM6.6m.
- **QoQ**, 1Q16 revenue slid 21.4% to RM55.4m largely due to the swing in sales of the wholesale division as customers stocked up in anticipation of GST implementation. Sale was also weaker in the MLM division due to the Ramadhan fasting month as well as the incentive trip promotion campaign that boosted sales in 4Q15. As a result, net profit fell 29.5% to RM6.6m due to the higher base effect in the previous quarter.
- Outlook** ▪ 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 focus towards '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 as we foresee limited growth 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% and 7.3%) and the risk in the wholesale division.
- Change to Forecasts** ▪ No changes to our earnings forecasts.
- Rating** **Maintain UNDERPERFORM**
- Valuation** ▪ Our Target Price was upgraded to RM2.22 from RM2.00 after we roll over our valuation to FY17E. TP is based on unchanged 12.9x PER, which is below its 5-year mean.
- Risks** ▪ Stronger-than-expected MYR recovery against USD.
- Sector risk: Better-than-expected consumer sentiment.

UNDERPERFORM ↔

Price: **RM2.29**
Target Price: **RM2.22** ↑

Share Price Performance



KLCI	1,613.17
YTD KLCI chg	-8.4%
YTD stock price chg	4.1%

Stock Information

Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	445.6
Issued shares	194.6
52-week range (H)	2.70
52-week range (L)	1.89
3-mth avg daily vol:	61,116
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)	-	32.7	38.1
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	14.8	14.3	13.3
Price/BV (x)	1.76	1.70	1.65
Net Gearing (x)	Cash	Cash	Cash
Net Dvd Yield (%)	6.5%	5.3%	5.7%

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Result Highlight

	1Q	4Q	QoQ	1Q	YoY
FY Apr (RM'm)	FY16	FY15	Chg	FY15	Chg
Turnover	55.4	70.4	-21.4%	49.8	11.2%
Operating profit	8.7	15.3	-43.1%	8.2	6.2%
PBT	8.8	15.5	-43.1%	8.4	4.7%
Taxation	-2.3	-5.5	-58.5%	-2.2	3.7%
Minority interest	0.1	-0.6	-115.5%	0.0	1780.0%
Net Profit (NP)	6.6	9.4	-29.5%	6.2	6.5%
EPS (sen)	3.4	4.8	-29.5%	3.2	6.5%
Operating margin	15.7%	21.7%		16.5%	
PBT margin	15.9%	22.0%		16.9%	
NP margin	12.0%	13.3%		12.5%	
Effective tax rate	25.8%	35.4%		26.1%	

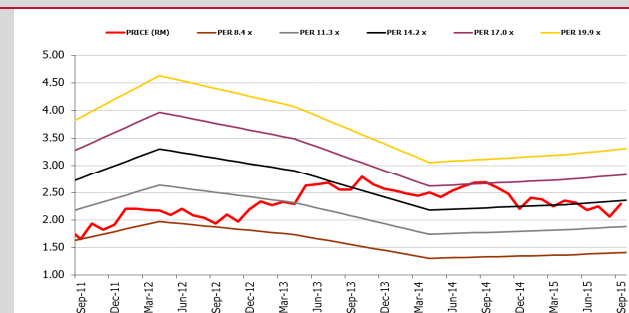
Source: Company, Kenanga Research

Result Highlight

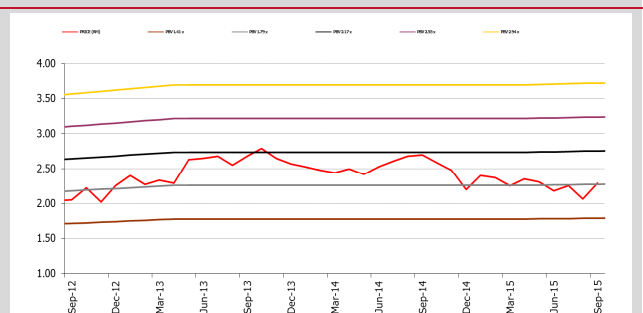
	1Q	4Q	QoQ	1Q	YoY
FY Apr (RM'm)	FY16	FY15	Chg	FY15	Chg
- Multi-Level-Marketing	36.7	38.4	-4.3%	28.4	29.4%
- Wholesale	9.3	16.4	-43.5%	11.8	-21.5%
- Retail	7.6	14.2	-46.6%	7.7	-1.6%
- Others	1.8	1.5	-	1.8	-
Group Revenue	55.4	70.4	-21.3%	49.8	11.2%
- Multi-Level-Marketing	6.2	8.7	-28.3%	4.6	35.6%
- Wholesale	1.8	3.2	-44.4%	2.1	-15.2%
- Retail	-0.2	2.1	-	0.0	-
- Others	0.3	1.2	-	1.2	-
- Elimination	0.5	0.0	-	0.2	-
Group EBIT	8.7	15.3	-43.1%	8.2	6.2%
- Multi-Level-Marketing	17.0%	22.7%		16.2%	
- Wholesale	19.2%	19.5%		17.8%	
- Retail	-2.0%	14.8%		0.0%	
- Others	18.3%	80.0%		66.7%	
Group EBIT Margin	15.7%	21.7%		16.5%	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			1Y NP Growth (%)	2Y NP Growth (%)	Target Price (RM)	Rating
	(RM)	(RMm)	Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd				
<u>CORE COVERAGE</u>															
<u>Consumer - Retail</u>															
AEON CO (M) BHD	2.80	3,931.2	20.1	21.9	21.9	1.4%	10.5%	2.22	198.5	179.1	180.4	-9.8%	0.7%	2.56	Underperform
AMWAY (MALAYSIA) HLDGS BHD	10.00	1,643.9	16.5	17.3	16.3	5.2%	43.6%	7.19	99.8	95.0	101.0	-4.8%	6.3%	11.05	Market Perform
ASIA BRANDS	1.46	115.5	73.0	91.3	13.8	3.4%	0.7%	0.47	5.2	1.2	8.4	-76.9%	600.0%	1.06	Underperform
HAI-O ENTERPRISE BHD	2.29	445.6	14.8	14.3	13.3	5.2%	12.8%	1.73	30.1	31.3	33.7	4.0%	7.3%	2.22	Underperform
PADINI HOLDINGS BERHAD	1.39	914.5	10.1	12.5	10.1	7.2%	19.1%	2.26	90.9	80.2	90.0	-11.8%	12.2%	1.64	Outperform
PARKSON HOLDINGS BHD	1.00	1,092.6	6.0	18.9	13.5	7.4%	1.6%	0.41	184.3	42.8	80.6	-76.8%	88.3%	1.17	Market Perform
ZHULIAN	1.53	703.80	15.0	13.4	12.3	6.5%	9.3%	1.39	47.1	52.5	57.0	11.5%	8.6%	2.00	Underperform
<u>Consumer - F&B</u>															
DUTCH LADY	47.20	3,020.8	27.5	24.4	22.8	4.9%	80.9%	19.27	109.8	123.8	132.6	12.8%	7.1%	48.07	Market Perform
NESTLE (M)	72.74	17,057.5	31.0	28.2	25.7	3.4%	80.2%	21.98	550.4	604.5	661.8	9.8%	9.5%	76.20	Market Perform
OLDTOWN BHD	1.32	596.0	11.8	11.6	10.6	4.5%	15.3%	1.81	47.5	51.9	56.7	9.3%	9.2%	1.65	Outperform
QL RESOURCES BHD	4.01	5,004.6	26.7	24.7	22.2	1.2%	13.8%	3.51	187.5	202.2	225.6	7.8%	11.5%	4.16	Market Perform
<u>Consumer - Sin</u>															
BRITISH AMERICAN TOBACCO BHD	61.50	17,560.1	19.3	17.7	17.4	5.5%	163.6%	33.42	902.0	992.6	1,009.2	10.0%	1.7%	65.75	Market Perform
CARLSBERG BREWERY MALAYSIA B	11.84	3,642.2	17.2	17.3	15.8	5.9%	101.6%	11.07	211.6	210.5	230.7	-0.5%	9.6%	13.86	Outperform
GUINNESS ANCHOR BHD	13.50	4,078.3	19.0	17.6	16.0	5.4%	58.4%	10.80	214.2	231.9	254.2	8.3%	9.6%	15.36	Outperform

Source: Bloomberg, Kenanga Research

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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.**

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