

Company Result

30 June 2016

Hai-O Enterprise Berhad

Steady performance by MLM division

HOLD

Maintained

Share Price	RM2.73
Target Price	RM2.85

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 / HAO MK
Board / Sector	Industrial / Food & Drug Retailers
Syariah Compliant status	No
Issued shares (m)	193.02
Par Value (RM)	0.50
Market cap. (RMm)	526.94
52-week price Range	RM1.89– 2.76
Beta (against KLCI)	0.57
3-m Average Daily Volume	0.07m
3-m Average Daily Value ^A	RM0.18m

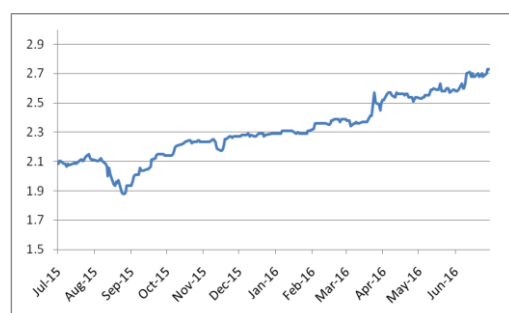
Share Performance

	1m	3m	12m
Absolute (%)	5.4	8.3	25.2
Relative (%-pts)	4.4	13.3	30.1

Major Shareholders

	%
KAI HEE TAN	10.08
AKINTAN SDN BHD	7.85
SIOU ENG TAN	6.98

Historical Chart



Source: Bloomberg

Team Coverage

03-87361118, ext. 752

research.dept@jfapex.com.my

Result

- **Hai-O's 4QFY16 net profit recorded at RM11.2mill**, which increased 14.5% q-o-q and 24.4% y-o-y. Meanwhile, quarterly revenue recorded a positive growth of 10% q-o-q and 25.8% y-o-y.
- For 12MFY16, net profit was registered at RM36.4mill, which expanded by 22.2% y-o-y. Similarly, revenue rose by 24.3% y-o-y to RM298.1mill.
- **Within expectations-** 12MFY16 net profit was within our full year earnings expectations by accounting for 102% while slightly above market consensus by reaching 106%. The impressive performance was attributed by impressive growth in its MLM division.

Comment

- **Robust growth for MLM division in FY16.** MLM division reported PBT of RM36.5mill in FY16, expanded by 25.7% y-o-y. The better performance in MLM division mainly aided by the higher contribution of "small ticket" items thanks to the switch strategy by the group which is well accepted by the entrepreneur distributors mainly due to smaller capital outlay for its networking business. In addition, the higher sales volume from most of the products especially beverage and health supplements products as well the strong growth in new member's recruitment continued to support MLM division for its full year performance in FY16.
- Similarly, as compared to last quarter, MLM division in 4QFY16 managed to post a positive growth in its topline and bottomline. The impressive performance was attributed by the successful year-end incentive sales campaign in 4Q in addition of higher sales from smaller consumer products.
- **Wholesale division hit by softer consumer sentiment.** Wholesale segment posted a negative growth for its topline and bottomline in 12MFY16 owing to weaker consumer sentiment amid uncertain economic outlook as well as weakening ringgit against USD in FY16. Moreover, the lower sales volume from Chinese medicated tonic and patented medicine in addition of the higher CSR costs incurred in commemoration of Hai-O's 40th year Anniversary also affected wholesale division growth in FY16.
- Meanwhile, for 4QFY16, the division's PBT decreased by 45.7% q-o-q. The negative performance was due to the lower sales in 4th quarter as medical halls had cut down orders and reduced stock up due to the uncertainties in

domestic economic outlook.

- **Lackluster performance from retail division.** Retail division registered negative growth in 12MFY16 after recording a PBT number of RM1.6mill, decreasing 33.5% y-o-y. Due to the rising in cost of living, consumers become more cautious in their spending especially on high-end health supplement products. Furthermore, the group failed to achieve better response from consumers during its year end loyalty members' sale promotion as compared to last financial year.
- Besides, 4QFY16 revenue declined by 6.9% q-o-q, mainly due to the quiet months, i.e. post CNY festive sale in last quarter. However, its 4th quarter PBT posted a positive q-o-q growth thanks to lower operating expenses during the quarter.
- **Dividend declared.** The Group has declared a final dividend of 11 sen/share in 4QFY16 bringing its FY16 total dividend to 15 sen/share translating into decent dividend yield of 4.0%.

Earnings Outlook/Revision

- **We maintain our earnings forecast for FY17F.**
- **We also take this opportunity to introduce our FY18F net earnings forecast of RM50.2m.** We envisage the Group's net earnings to grow positively in a longer run mainly underpinned by the impressive performance in MLM division.

Valuation & Recommendation

- **Maintain HOLD call on Hai-O with higher target price of RM2.85 (previous TP: RM2.50).** Our target price is now pegged at 12.4x FY17F EPS (Previous PE: 11x) which is in line with its 3-year mean PER.
- **MLM division will lead the group's earnings.** We foresee that group's MLM division will continue to render better earnings in future amid resilient sales from its 'small ticket' items. Furthermore, we also expect better contribution from its Indonesian venture, which is mainly targeting for low-to-middle income group of end consumers there. Meanwhile, the group's new development plan to improve their delivery system by setting up warehousing facilities in the Southern and Northern region of Peninsular Malaysia as well as in East Malaysia will continue to support its MLM division.
- However, we remain cautious on its retail division as we acknowledge that the growth by this segment mainly depend on seasonality factor such as Chinese New Year festival to boost its sales. We also concern on the volatility of ringgit as most of their products under wholesale division are imported. Nevertheless, we are positive towards the group's action plan to capitalise on its halal status for its newly refurbished manufacturing plant, which caters for halal markets amid prevailing weak consumer demand.

Figure 1: Quarterly Figures

Year to 30 Apr	4QFY16 (RMm)	3QFY16 (RMm)	4QFY15 (RMm)	QoQ % chg	YoY % chg	12MFY16 (RMm)	12MFY15 (RMm)	YoY % chg
Revenue	88.6	80.5	70.4	10.0%	25.8%	298.1	239.9	24.3%
Operating Profit	15.0	13.1	14.9	14.6%	0.7%	48.3	41.8	15.6%
Pre-tax Profit	15.3	13.2	15.1	15.9%	1.0%	49.1	42.7	15.1%
Profit After Tax	11.2	9.9	9.7	12.9%	15.4%	36.6	30.4	20.3%
Net Profit	11.2	9.8	9.0	14.5%	24.4%	36.4	29.8	22.2%
MARGIN (%)								
Operating	17.0%	16.3%	21.2%	0.7ppt	-4.3ppt	16.2%	17.4%	-1. ppt
Profit Before Tax	17.2%	16.4%	21.5%	0.9 ppt	-4.2 ppt	16.5%	17.8%	-1.3 ppt
Profit After Tax	12.6%	12.3%	13.7%	0.3 ppt	-1.1 ppt	12.3%	12.7%	-0.4 ppt
Net Profit Margin	12.6%	12.2%	12.8%	0.5 ppt	-0.1 ppt	12.2%	12.4%	-0.2 ppt

Source: Company, JF Apex

Figure 2: Revenue and PBT by divisions

Year to 30 Apr	4QFY16 (RMm)	3QFY16 (RMm)	4QFY15 (RMm)	QoQ % chg	YoY % chg	12MFY16 (RMm)	12MFY15 (RMm)	YoY % chg
Segment Revenue								
MLM	64.20	52.21	38.41	22.96%	67.14%	198.7	135.6	46.6%
Wholesales	12.73	15.57	16.36	-18.24%	-22.19%	54.4	56.7	-4.0%
Retail	10.22	10.98	14.15	-6.92%	-27.77%	38.3	40.6	-5.8%
Total Revenue	87.15	78.76	68.92	10.65%	26.45%	291.4	232.9	25.1%
Segment Profit Before Tax								
MLM	12.01	10.12	8.73	18.68%	37.57%	36.5	28.8	26.7%
Wholesales	0.82	1.51	3.23	-45.70%	-74.61%	5.7	6.6	-13.3%
Retail	0.92	0.18	2.14	413.97%	-56.91%	1.6	2.5	-33.5%
Total Profit Before Tax	13.75	11.81	14.10	16.44%	-2.45%	42.9	37.3	14.9%
Segment PBT margin								
MLM	18.71%	19.38%	22.73%	-0.68ppt	-4.02ppt	18.4%	21.2%	-2.9ppt
Wholesales	6.44%	9.70%	19.74%	-3.26ppt	-13.30ppt	10.6%	11.7%	-1.1ppt
Retail	9.00%	1.63%	15.09%	7.37ppt	-6.09ppt	4.3%	6.0%	-1.8ppt

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 30 April (RMm)	FY2014	FY2015	FY2016	FY2017F	FY2018F
Revenue	253.5	239.9	298.1	318.7	385.8
Operating profit	52.1	41.8	48.3	60.6	77.2
Net profit	40.3	29.8	36.4	44.3	50.2
EPS (sen)	20.9	15.4	18.8	23.0	26.0
P/E (x)	13.1	17.7	14.5	11.9	10.5
P/BV (x)	2.0	2.0	2.0	1.9	1.9
Dividend yield (%)	3.9%	4.1%	4.0%	4.1%	4.3%
PBT margin (%)	21.0%	17.8%	16.5%	24.6%	25.0%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROE (%)	15.2%	11.2%	13.5%	16.1%	18.0%

Source: Company, JF Apex Estimates

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)

Institutional Dealing Team:

Lim Teck Seng
Sanusi Bin Mansor (ext 740)
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)
Zairul Azman (ext 746)

PJ Office:

Mervyn Wong (ext 363)
Azfar Bin Abdul Aziz (Ext 822)
Tan Heng Cheong (Ext 111)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Norsyafina binti Mohamad Zubir (ext 752)
Low Zy Jing (ext 754)
Nazhatul Shaza binti Shukor (ext 755)

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

JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:
JF Apex Securities Berhad (47680-X)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)