

Results Note

Hai-O Ent

HAIO MK
RM2.74

ADD (downgrade)

Target Price: RM3.15 (↓)



Price Performance

	1M	3M	12M
Absolute	+1.9%	+3.4%	+36.1%
Rel to KLCI	-0.8%	+1.6%	+23.4%

Stock Data

Issued shares (m)	196.9
Mkt cap (RMm)	539.5
Avg daily vol - 6mth (m)	0.21
52-wk range (RM)	1.97 – 2.85
Est free float	63.7%
NTA per share (RM)	1.32
P/NTA (x)	2.08
Net cash/debt (RMm) (1Q14)	52.34
ROE (FY14E)	19.4%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.3%
Excellent Communications	5.3%

Earnings & Valuation Revisions

	14E	14E	15E
Prev EPS (sen)	25.2	29.0	33.6
Curr EPS (sen)	24.5	27.4	31.0
Chg (%)	-2.8	-5.5	-7.7
Prev target price (RM)			3.20
Curr target price (RM)			3.15

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A slow start, expect better performance ahead

1QFY04/14 core earnings fell -15.8% yoy due to high base effect

Hai-O's 1QFY04/14 revenue contracted by -9.8% yoy to RM54.7m owing to the lower revenue contribution (-16.5% yoy to RM33.5m) from its core Multi-level-marketing (MLM) division. (MLM accounted for 62.5% of the group's total revenue in FY04/13) We attribute this to the high base effect, of which 1QFY04/13 sales were boosted by special price promotions for its best selling foundation garment products. As a result of the tapering of foundation garments sales in 1QFY04/14, EBIT margins from the MLM division fell by -2.7%-points to 15.8%. On a positive note, Hai-O's second biggest revenue contributor, wholesale division had managed to chalk up a +10% yoy growth in revenue to RM12m, brought by the continuous improvement in sales orders from medical halls for its patented Chinese medicated tonic products. Overall, Hai-O's 1QFY04/14 EBIT margin fell by -4%-points yoy to 21.3% whilst core net profit fell by -15.8% yoy to RM8.7m. Results were below expectation, accounting for 18% of ours and street' expectations.

1QFY04/14 core earnings grew marginally qoq due to lower expenses

On a sequential basis, Hai-O's revenue fell by -24% to RM54.7m also mainly on lower revenue (-27% qoq) contribution from its MLM division. Hai-O's MLM division undertook an incentive trip campaign promotion in 4QFY04/13, which had helped to boost sales. Therefore, the post sales campaign quarter is usually softer. Coupled with the Ramadhan celebration in July, sales activities has slow down as most of the group's distributors are Muslims. The same goes to Hai-O's retail division, of which revenue had declined by -40% qoq due to seasonal factors. The year-end members' sales coupled with the CNY festive season had boosted sales in 4QFY04/13. Notwithstanding the contraction in topline revenue, Hai-O had managed to chalk up a marginal +0.7% qoq growth in core earnings as expenses had fallen sharply in promotional activities.

Cutting FY14-16 EPS forecast by -3%/-7.7% on slower consumption trend

In light of the softer consumer spending which have been dampened by higher fuel prices and escalating property prices, we see higher demand risk for Hai-O's products going forward. (Affin's economist expects private consumption growth to moderate further in 2014 to 6.7% from 7% in 2013. Malaysia's private consumption growth was at +7.7% in 2012). As such, we have lowered our revenue per agent assumption from a growth of 12% to 9% in FY14-16 (FY04/13: 15%). As a result, our FY14-16 EPS forecast were trimmed by -3%/-7.7%.

Downgrade to ADD with TP lowered to RM3.15

Following our EPS downgrade, our TP for Hai-O has been trimmed to **RM3.15**, pegged at an unchanged PER target of 12x FY14 EPS. (RM3.20 previously) Since we upgraded Hai-O from ADD to BUY on 4 April 2013, share price has appreciated by +20%. In view of the strong share price performance and also lower TP, we downgrade the company to an **ADD** rating. Nonetheless, we remain positive on Hai-O due to: 1) the company's healthy fundamentals; 2) high dividend yield; and 3) appealing valuations (11x FY14 PER). We believe that Hai-O's MLM division will continue to improve spurred by the government's strong support to instil entrepreneur skills among the Bumiputeras through MLM activities.

Earnings and valuation summary

FYE 30 April	2012	2013	2014E	2015E	2016E
Revenue (RMm)	239.5	267.9	328.5	360.5	406.4
EBITDA (RMm)	52.3	67.7	73.0	81.4	91.5
Pretax profit (RMm)	48.8	64.1	69.3	77.6	87.8
Net profit (RMm)	34.0	47.4	49.6	55.6	62.9
EPS (sen)	16.8	23.4	24.5	27.4	31.0
PER (x)	16.3	11.7	11.2	10.0	8.8
Core net profit (RMm)	33.2	43.5	49.6	55.6	62.9
Core EPS (sen)	16.4	21.5	24.5	27.4	31.0
Core EPS chg (%)	17.0	31.1	14.0	12.0	13.1
Core PER (x)	16.7	12.8	11.2	10.0	8.8
Net DPS (sen)	9.0	14.0	14.2	15.9	18.0
Net Dividend Yield (%)	3.3	5.1	5.2	5.8	6.6
EV/EBITDA (x)	8.7	6.5	5.8	4.9	4.0
Consensus profit (RMm)			51.2	57.6	68.2
Affin/Consensus (x)			1.0	1.0	0.9

Fig 1: Quarterly results comparison

FYE April (RMm)	1QFY13	4QFY13	1QFY14	QoQ % chg	YoY % chg	Comment
Revenue	60.6	72.1	54.7	(24.1)	(9.8)	Impacted by lower MLM sales due to lower promotional and marketing activities for its best selling foundation garment products. Qoq lower was seasonal due to: Ramadhan celebration and the absence of CNY sales
Op costs	(76.0)	(84.9)	(66.3)	(21.9)	(12.7)	Lower marketing & promotional activities
EBIT	15.4	12.9	11.7	(9.3)	(24.1)	
EBIT margin (%)	25.4	17.8	21.3	3.5	(4.0)	Yoy impacted by lower sales for its high margin foundation garment products
Int expense	(1.8)	(0.1)	(0.1)	(9.5)	(93.0)	
Int and other inc	0.2	0.4	0.3	(24.8)	42.4	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional gain/losses	0.0	1.5	(0.1)	nm	nm	4QFY04/13 EI: Provision of RM1.5m donations under CRS programme, 1QFY04.14 EI: Gain on disposal of PPE
Pretax	13.8	14.7	11.8	(19.5)	(14.7)	Lower qoq impacted by higher operating cost in the retail division & advertising divisions
Tax	(3.5)	(4.2)	(3.1)	(26.9)	(12.1)	
Tax rate (%)	25.2	28.6	26.0	nm	nm	
MI	(0.1)	(0.4)	0.0	nm	nm	
Net profit	10.3	10.1	8.7	(13.5)	(15.1)	
EPS (sen)	5.1	5.0	4.3	(13.5)	(15.1)	
Core net profit	10.3	8.6	8.7	0.7	(15.8)	Below expectation, accounts for 17% of our and 18% total consensus estimates

Source: Affin

Fig 2: Segmental revenue breakdown

FY April (RMm)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Wholesale	8.9	10.7	13.3	10.9	9.9	13.1	14.3	11.2	12.0	11.9	13.2	11.8	11.1	43.4	47.7	35.6	12.2
MLM	130.3	108.9	106.2	72.6	35.2	26.7	29.0	34.2	28.8	32.0	34.7	45.6	40.1	40.9	40.1	45.9	33.5
Retailing	7.9	10.8	9.5	13.6	8.2	11.3	13.0	11.2	8.7	10.7	13.1	10.3	8.0	10.6	11.0	12.7	7.4
Others	1.5	2.0	2.2	1.7	1.5	1.5	1.3	1.6	1.6	1.6	1.8	1.7	1.4	(29.1)	(29.9)	(22.2)	1.6
Total	148.6	132.4	131.3	98.8	54.8	52.6	57.6	58.2	51.0	56.2	62.8	69.4	60.6	65.9	68.9	72.1	54.7

Source: Affin

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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