

Company Result

19 December 2013

Hai-O Enterprise Berhad
Getting in Shape

BUY
Maintained

Share Price	RM2.62
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)	507.75
52-week price Range	RM2.09– 2.85
Beta (against KLCI)	0.94
3-m Average Daily Volume	0.14m
3-m Average Daily Value [^]	RM0.37m

Share Performance

	1m	3m	12m
Absolute (%)	-1.5	-3.7	19.9
Relative (%-pts)	-3.8	-8.7	8.0

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 2QFY2014 net profit recorded at RM10.9m**, slid 33% y-o-y, but inched up 25% q-o-q. Meanwhile revenue increased 0.5% y-o-y and 20% q-o-q.
- **1HFY2014 net profit was within expectations**, albeit accounted for 40% of our and consensus expectations as we are buoyant of a stronger 2HFY2014 to meet our full year earnings forecasts, mainly underpinned by MLM division: 1) introduction of new products, which are the "small tickets" items; and 2) Festive season, i.e. Chinese New Year in Feb 14, hence expecting higher uptake in wholesale and retail divisions.

Comment

- **Getting in shape for 2QFY2014** – The group's pre-tax profit recorded a markedly up-tick by 24% in tandem with higher revenue, up by 20%. The pulled back from a tepid start in 1QFY14 was chiefly attributed by rebounds from MLM and retail divisions.
- **MLM division snapped back in 2QFY14**. On q-o-q basis, the chief division's revenue and operating profit improved by 18% and 51% respectively. The strong rebounds for the quarter was attributed by the efficacious incentive trip campaign promotion which boosted the top and bottom line. The sales of "small ticket" items received overwhelming response from existing distributors and new members. Besides, the new recruited members which had grown by almost 17% for 2QFY14 vis-à-vis previous quarter also aided in the snap back of the sales.
- **Subdued wholesale division for the quarter**. Albeit the sales remained unchanged q-o-q, at RM29.3mil, the pre-tax profit slumped by 20%. The dismal result was due to lower contribution from inter-segment sales and was further exacerbated by the weakening of MYR against USD and higher operating costs for the quarter. Hence the operating profit margin q-o-q decreased by 3.4ppt.
- **6MFY2014 taken a back seat vis-à-vis 6MFY2013** The pre-tax profit and revenue eased by 23% and 5% respectively. The ebb was chiefly attributed by its MLM division, which is also the group's major contributor for the group's top and bottomline, at c.50%. The division's

revenue and pre-tax profit tapered off by 10% and 8% respectively. The abatement was due to 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.

- **A single tier dividend of 4 sen per share 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. Hence we foresee the group to declare another 8 sen in 2HFY2014. This translates a attractive dividend yield of 4.8% based on current closing price of RM2.62.

Earnings Outlook/Revision

- **We maintained our FY14-FY15F earnings** of RM50mil and RM57mil respectively. We are upbeat on the sales momentum to be continued on the 2HFY2014 premised on 1) New products to be introduced, which are the “small tickets” items sales momentum to be stronger for the MLM division bolstered by the group’s enlarged members ; 2) Festive season, i.e. Chinese New Year in Feb 14, hence expecting higher uptake in wholesale and retail divisions.

Valuation & Recommendation

- **Maintain BUY with target price of RM3.05** pegged at 12x of FY14F PER, 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 16% from its closing price of RM2.62. 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.
- **MLM membership is expected to increase amidst tepid consumer sentiment.** We reckon that current consumer sentiment is heading south, after recent Budget 2014 announcement and subsidy rationalization implemented by government. However, we remain rosy for the group’s outlook premised on the agility’s of the group to revise its strategy to sell “small ticket” items which require lower initial costs for MLM entrepreneur. Hence this has attracted more new members to join the MLM business. This translate into an enlarge members base which will aid to sustain Hai-O’s sales momentum.

Figure 1: Quarterly Figures

Year to 30 April	2QFY14	1QFY14	2QFY13	QoQ	YoY	6MFY14	6MFY13	YoY
	(RMm)	(RMm)	(RMm)	% chg	% chg	(RMm)	(RMm)	% chg
Revenue	65.6	54.7	65.3	19.9%	0.5%	120.3	127.0	-5.3%
Operating Profit	14.6	11.6	20.3	25.9%	-28.1%	26.2	34.2	-23.4%
Pre-tax Profit	14.6	11.8	20.5	23.7%	-28.8%	26.4	34.4	-23.3%
Net Profit	10.9	8.7	16.5	25.3%	-33.9%	19.6	26.4	-25.8%
Operating Margin (%)	22.3%	21.2%	31.1%	+1.1 ppt	-1.5 ppt	21.8%	26.9%	-5.1ppt
Profit Before Tax Margin (%)	22.3%	21.6%	31.4%	+1.2 ppt	-1.2 ppt	21.9%	27.1%	-5.2ppt
Net Profit Margin (%)	16.6%	15.9%	25.3%	+1.4 ppt	-1.1 ppt	16.3%	20.8%	-4.5ppt

Figure 2: MLM and Wholesale Division

	(RMm)	2QFY14	1QFY14	2QFY13	QoQ % chg	YoY % chg	6MFY14	6MFY13	YoY% chg
MLM	Revenue	39.6	33.5	41.0	18.2%	-3.4%	73.1	81	-9.8%
	Operating Profit	8.0	5.3	7.0	50.9%	14.3%	13.3	14.4	-7.6%
	Operating Profit Margin	20.2%	15.8%	17.1%	+4.4 ppt	-2.6 ppt	18.2%	17.8%	+0.4ppt
	(RMm)	2QFY14	1QFY14	1QFY13	QoQ % chg	YoY % chg	6MFY14	6MFY13	YoY% chg
Wholesale	Revenue	29.3	29.3	24.5	0.0%	19.7%	58.6	54.5	7.5%
	Operating Profit	3.8	4.8	3.8	-20.8%	0.0%	8.6	9.5	-9.5%
	Operating Profit Margin	13.0%	16.4%	15.5%	-3.4ppt	-2.5ppt	14.7%	17.4%	-2.7ppt

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	29.0
P/E (x)	18.2	15.2	10.9	10.3	9.0
P/BV (x)	2.4	2.09	2.1	1.9	1.8
EV/EBITDA	13.2	9.4	10.7	9.7	8.8
Dividend yield (%)	3.4%	3.5%	5.5%	4.8%	5.5%
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 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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