

19 December 2013

Hai-O Enterprise Bhd

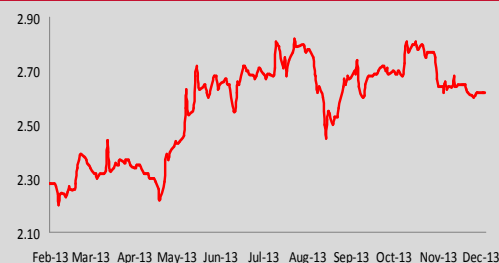
Weaker Sales and Currency Woes

Period	▪ 2Q14/1H14
Actual vs. Expectations	▪ Below expectations. Hai-O reported 2Q14 net profit of RM10.5m (+20% QoQ, -35% YoY), bringing its 1H14 NP to RM19.3m (-27% YoY) which made up 37% and 38% of our and the consensus full year estimates, respectively. The key culprits were: (i) lower-than-expected sales growth and (ii) margins erosion due to the weakening of Ringgit against USD.
Dividends	▪ 4 sen interim single tier were declared in the quarter which is slightly lower than last year payout of a total 6 sen dividend due to the absent of 2 sen special single tier dividend.
Key Result Highlights	<ul style="list-style-type: none"> ▪ YoY, the 2Q14 net profit dropped by 35% YoY on the back of flattish revenue. MLM segment saw a slight decline in revenue (-3% YoY) due to the tightening of household credit by the government which has caused a drop in the sales of big ticket items. The huge decline in net profit was mainly attributed to the higher costs of goods sold and margin erosion. ▪ YoY, PBT margins declined by 9 ppt (from 31.3% to 22.3%) due to the fluctuation of USD/MYR rate. As 40% of their products are imported, a weakening of Ringgit against USD would lead to higher imported cost of goods sold. In the reporting quarter, USD strengthened by 4.8% YoY (3.23 in 2Q14 vs. 3.08 in 2Q13). ▪ QoQ, the group recorded higher revenue and net profit (+20% YoY), mainly attributable to the higher contribution from MLM and retail division. The change of marketing strategy in the MLM division received good response from existing distributors and new members which spur higher sales of "small ticket" items in the corresponding quarter. The retail segment is also starting to turn around from a loss in the previous quarter, underpinned by higher sales generated from members' sales promotion.
Outlook	<ul style="list-style-type: none"> ▪ We remain positive on Hai-O's prospect as we anticipate its MLM segment will continue to deliver decent earnings growth from a lower base through its continuous effort to enhance its product mix and expand market channels through the recruitment of more new members. ▪ The focus on small ticket items will attract more new members as it requires lower initial capital costs. ▪ The attractive net dividend yield backed by the company's strong balance sheet should limit the downside risk of the stock.
Change to Forecasts	<ul style="list-style-type: none"> ▪ We have slashed our revenue assumption by 6.0% and 7.6% in FY14E and FY15E respectively to factor in the lower sales forecast of its MLM and retail segments. ▪ We also trimmed down our GP margin assumptions by 2.5 ppt, taking account the rising USD/MYR outlook. ▪ Consequently, both of our FY14 and FY15 net profit forecasts have been lowered by 11%.
Rating	Maintain OUTPERFORM
Valuation	▪ Post result, we have lowered our TP to RM2.95 (from RM3.00 previously) after rolling forward our valuation base year to FY15 with unchanged targeted PER of 11.8x.
Risks to our Call	<ul style="list-style-type: none"> ▪ Further weakening of Ringgit against USD ▪ Slowdown of consumers spending in the domestic market

OUTPERFORM ↔

Price: RM2.62
Target Price: RM2.95 ↓

Share Price Performance



KLCI	1847.5
YTD KLCI chg	9.4%
YTD stock price chg	17.4%

Stock Information

Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	515.6
Issued shares	196.8
52-week range (H)	2.85
52-week range (L)	2.09
3-mth avg daily vol:	135,810
Free Float	77%
Beta	0.9

Major Shareholders

KAI HEE TAN	9.9%
AKINTAN SDN BHD	7.6%
EXCELLANT COMMUNICAT	5.3%

Summary Earnings Table

FY Apr (RM'm)	2013A	2014E	2015E
Turnover	267.9	285.9	311.4
EBIT	63.4	62.3	67.8
PBT	64.0	63.0	68.8
Net Profit (NP)	47.2	46.4	50.7
Consensus (NP)		50.7	56.7
Earnings Revision		-11%	-11%
EPS (sen)	23.32	22.94	25.06
EPS growth (%)	39	-2	9
NDPS (sen)	14.00	13.37	14.60
BVPS (RM)	1.18	1.28	1.39
NTA/Share (RM)	1.18	1.28	1.38
PER (X)	11.23	11.42	10.46
Price/NTA (x)	2.21	2.05	1.89
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	5.3	5.1	5.6

The Research Team
research@kenanga.com.my
 Tel: 603-2166 6822

Result Highlight								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Apr (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	65.6	54.7	20%	65.9	0%	120.3	125.9	-4%
PBT	14.6	11.8	24%	20.5	-28%	26.4	34.3	-23%
Taxation	-3.7	-3.1	22%	-4.0	-6%	-6.8	-7.5	-9%
Minority interest	-0.4	0.1	-639%	-0.4	-10%	-0.3	-0.5	-37%
Net Profit (NP)	10.5	8.8	20%	16.1	-35%	19.3	26.4	-27%
EPS (sen)	5.4	4.5	20%	8.1	-33%	9.8	13.3	-26%
PBT margin	22.3%	21.6%		31.3%		22.0%	27.2%	
NP margin	16.1%	16.1%		24.7%		16.1%	20.9%	
Effective tax rate	25.6%	26.0%		19.4%		25.8%	21.7%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY Apr (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
- Multi-Level-Marketing	39.6	33.5	18%	40.9	-3%	73.1	81.0	-10%
- Wholesale	14.1	12.2	16%	12.1	17%	26.3	23.2	13%
- Retail	10.2	7.4	37%	10.6	-4%	17.6	18.6	-5%
- Others	1.7	1.6	5%	2.2	-22%	3.3	3.1	-20%
Group Revenue	65.6	54.7	20%	65.9	0%	120.3	125.9	-4%
- Multi-Level-Marketing	8.0	5.3	51%	7.0	14%	13.3	14.4	-8%
- Wholesale	3.8	4.8	-22%	5.7	-34%	8.6	9.5	-10%
- Retail	1.1	-0.2	-803%	1.5	-26%	0.9	1.8	-47%
- Others	2.2	1.3	74%	6.8	-68%	3.4	8.6	-60%
- Elimination	-0.4	0.3	-222%	-0.7	-37%	-0.1	-0.1	-28%
Group EBIT	14.6	11.6	26%	20.4	-28%	26.2	34.2	-23%
- Multi-Level-Marketing	20.1%	15.8%		17.1%		18.1%	17.8%	
- Wholesale	26.7%	39.8%		47.3%		32.7%	41.1%	
- Retail	10.7%	-2.1%		13.8%		5.3%	9.4%	
- Others	128.0%	77.1%		311.9%		103.1%	206.3%	
Group EBIT Margin	22.3%	21.1%		30.9%		21.8%	26.9%	

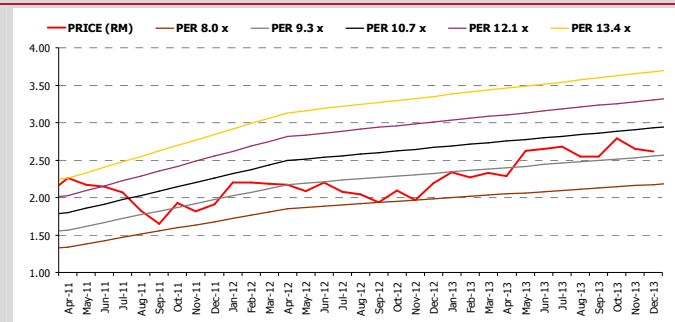
Source: Company, Kenanga Research

This section is intentionally left blank

Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E	FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	223.3	239.5	267.9	285.9	311.4	Growth					
EBITDA	44.0	51.4	66.2	65.3	71.1	Turnover (%)	(56.3)	7.3	11.9	6.7	8.9
Depreciation	2.7	2.8	2.7	3.0	3.3	EBITDA (%)	(55.6)	17.0	28.6	(1.4)	8.9
Operating Profit	41.3	48.7	63.4	62.3	67.8	Operating Profit (%)	(57.2)	18.0	30.3	(1.8)	9.0
Other Income	0.9	0.8	1.2	1.4	1.6	PBT (%)	(56.8)	18.1	31.2	(1.6)	9.2
Interest Exp	-0.8	-0.7	-0.6	-0.6	-0.6	Net Profit (%)	(59.8)	19.9	38.7	(1.6)	9.2
PBT	41.3	48.8	64.0	63.0	68.8	Profitability (%)					
Taxation	-11.6	-13.1	-16.0	-15.7	-17.2	EBITDA Margin	19.7	21.5	24.7	22.8	22.8
Minority Interest	1.3	1.7	0.9	0.8	0.9	Operating Margin	18.5	20.3	23.7	21.8	21.8
Net Profit	28.4	34.0	47.2	46.4	50.7	PBT Margin	18.5	20.4	23.9	22.0	22.1
						Net Margin	12.7	14.2	17.6	16.2	16.3
						Effective Tax Rate	28.0	26.8	25.0	25.0	25.0
						ROA	11.0	11.7	15.4	14.1	14.3
						ROE	13.3	14.7	18.8	17.1	17.3
						DuPont Analysis					
						Net Margin (%)	12.7	14.2	17.6	16.2	16.3
						Assets Turnover(x)	1.2	1.2	1.1	1.2	1.1
						Leverage Factor(x)	1.3	1.3	1.3	1.3	1.3
						ROE (%)	13.3	14.7	18.8	17.1	17.3
						Leverage					
						Debt/Asset (x)	0.1	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0
						Net Cash/(Debt)	29.6	40.9	51.5	65.4	77.8
						Net Debt/Equity	N.Cash	N.Cash	N.Cash	N.Cash	N.Cash
						Valuations					
						EPS (sen)	14.03	16.82	23.32	22.94	25.06
						NDPS (sen)	7.50	9.00	14.00	13.37	14.60
						NTA/share (RM)	1.01	1.10	1.18	1.28	1.38
						PER (x)	18.67	15.58	11.23	11.42	10.46
						Net Div. Yield (%)	2.9	3.4	5.3	5.1	5.6
						P/NTA (x)	2.59	2.39	2.21	2.05	1.89
						EV/EBITDA (x)	11.06	9.23	7.02	6.90	6.16

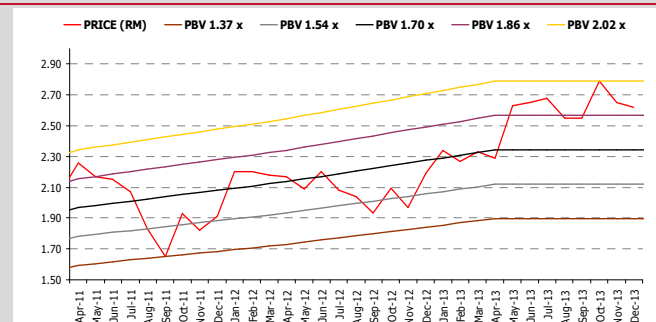
Source: Company, Kenanga Research

Forward PER



Source: Bloomberg, Kenanga Research

Forward PBV



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 stock'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 stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : 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 are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research