

## Hai-O (HAIO MK)

Consumer Non-cyclical - Household &amp; Personal Products

Market Cap: USD154m

**Neutral** (Maintained)

Target Price: MYR2.73

Price: MYR2.53

### In Transition

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (MYR/USD)	0.21m/0.06m
Cons. Upside (%)	18.6
Upside (%)	7.9
52-wk Price low/high (MYR)	2.39 - 2.82
Free float (%)	50
Share outstanding (m)	196
<b>Shareholders (%)</b>	
Tan Kai Hee	9.9
Akintan SB	7.7

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.6)	0.0	1.6	(1.9)	(0.8)
Relative	(2.8)	(1.1)	(1.3)	(4.8)	(10.1)

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**Hai-O's FY14 results were within consensus and our forecasts. Sales and core net profit were weaker, due to lower sales across the board. A final single-tier dividend of 10 sen per share was proposed this quarter. We adjust our FV to MYR2.73 from MYR2.60, as we roll over our valuation to CY15. Maintain NEUTRAL.**

- ◆ **FY14 numbers in line.** Hai-O's FY14 revenue and core earnings (excluding a MYR4.8m gain from the disposal of vacant land, and a one-off MYR1.5m cost relating to the company's corporate social responsibility programs in FY13) dropped by 4.9% and 6.5% y-o-y respectively. The softer sales numbers were largely due to a 10.6% y-o-y revenue decline in the multi-level marketing (MLM) division, as the group revised its strategy to focus on small-ticket items instead of big-ticket ones. Turnover from its retail and "others" segments also moderated by 5.1% and 10.9% y-o-y, offsetting the slight revenue improvement in the wholesale division (+0.6% y-o-y). Core earnings were softer, no thanks to: i) weaker EBIT from the wholesale division (-33.9% y-o-y) due to the weakening of the MYR against the USD, and ii) poorer EBIT from the retail segment (-33.5% y-o-y) from higher operating expenses. Compared with 4QFY13, revenue and core earnings dropped by 14.9% and 5.3% y-o-y respectively due to weaker sales in the current quarter.
- ◆ **Better margin for MLM.** FY14 EBIT and PBT margins dropped 1.7 ppts and 3 ppts y-o-y respectively. The better EBIT margin from MLM (20.2% vs 17.8% y-o-y) was dragged down by the lower margins from the wholesale (9.3% vs 14.1% y-o-y), retail (5.8% vs 8.2% y-o-y) and "others" (38.9% vs 58.3% y-o-y) divisions.
- ◆ **Key risks.** Key investment risks are: i) a decline in consumer spending power, ii) intensifying competition, and iii) an inability to pass on higher costs to consumers
- ◆ **Maintain NEUTRAL.** We leave our earnings estimates untouched, given the in-line results. Our FV is revised to MYR2.73 from MYR2.60 as we roll over our valuation to 12x CY15 EPS from CY14. Maintain NEUTRAL, as the stock is currently trading close to its historical P/E of 12x.

Forecasts and Valuations	Apr-12	Apr-13	Apr-14	Apr-15F	Apr-16F
Total turnover (MYRm)	240	267	253	283	295
Reported net profit (MYRm)	32.1	47.2	40.5	44.7	45.8
Recurring net profit (MYRm)	31.3	43.3	40.5	44.7	45.8
Recurring net profit growth (%)	14.3	38.4	(6.5)	10.3	2.4
Recurring EPS (MYR)	0.15	0.21	0.20	0.22	0.23
DPS (MYR)	0.09	0.14	0.10	0.13	0.13
Recurring P/E (x)	16.4	11.8	12.7	11.5	11.2
P/B (x)	2.31	2.14	2.02	1.80	1.68
P/CF (x)	10.8	16.1	19.8	10.3	8.9
Dividend Yield (%)	3.6	5.5	4.0	5.0	5.2
EV/EBITDA (x)	8.03	6.28	7.24	6.24	6.05
Return on average equity (%)	15.1	20.5	16.4	16.6	15.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)				(13.5)	(11.4)

Source: Company data, RHB estimates

Figure 1: Results review

FYE Apr (MYRm)	4QFY13	3QFY14	4QFY14	q-o-q (%)	y-o-y (%)	FY13	FY14	y-o-y (%)	Comments
<b>Revenue</b>	<b>72.3</b>	<b>71.6</b>	<b>61.5</b>	<b>(14.2)</b>	<b>(14.9)</b>	<b>266.5</b>	<b>253.4</b>	<b>(4.9)</b>	Lower due to weaker sales from MLM
<b>EBITDA</b>	16.3	14.5	12.9	(11.5)	(21.1)	61.9	55.0	(11.1)	
<i>EBITDA Margin (%)</i>	22.6	20.3	20.9			23.2	21.7		
Depreciation	(0.6)	(0.8)	(0.8)	(0.1)	38.9	(2.7)	(3.0)	11.9	
<b>EBIT</b>	<b>15.8</b>	<b>13.8</b>	<b>12.1</b>	<b>(12.2)</b>	<b>(23.2)</b>	<b>59.2</b>	<b>52.0</b>	<b>(12.1)</b>	
<i>EBIT Margin (%)</i>	21.8	19.2	19.7			22.2	20.5		
Interest expense	(0.1)	(0.1)	(0.1)	26.7	(22.1)	(0.6)	(0.4)	(34.8)	
Interest income	0.4	0.5	0.5	12.1	21.6	1.2	1.6	30.7	
Associates	(0.0)	(0.0)	(0.0)	nm	nm	0.2	(0.1)	nm	
El/Others	(1.5)	0.0	0.0	nm	nm	3.9	0.0	nm	
<b>Pretax profit</b>	<b>14.6</b>	<b>14.2</b>	<b>12.5</b>	<b>(11.5)</b>	<b>(14.0)</b>	<b>63.9</b>	<b>53.1</b>	<b>(16.9)</b>	
<i>Pretax Margin (%)</i>	20.2	19.8	20.4			24.0	21.0		
Tax	(4.4)	(3.5)	(1.7)	(51.3)	(60.8)	(15.9)	(12.1)	(24.3)	
<i>Effective tax rate (%)</i>	(30.1)	(24.9)	(13.7)			(24.9)	(22.7)		
Minority Interest	(0.4)	(0.2)	(0.1)			(0.9)	(0.6)		
<b>Net Profit</b>	<b>9.8</b>	<b>10.4</b>	<b>10.7</b>	<b>2.8</b>	<b>9.2</b>	<b>47.2</b>	<b>40.5</b>	<b>(14.2)</b>	In line with RHBRI's numbers
<b>Core Profit</b>	<b>11.3</b>	<b>10.4</b>	<b>10.7</b>	<b>2.8</b>	<b>(5.3)</b>	<b>43.3</b>	<b>40.5</b>	<b>(6.5)</b>	
<i>Net Margin (%)</i>	15.6	14.5	17.4			16.2	16.0		

Source: Company

Figure 2: Segmental breakdown

Revenue (MYRm)	4QFY13	3QFY14	4QFY14	q-o-q (%)	y-o-y (%)	FY13	FY14	y-o-y (%)	Comments
<b>MLM</b>	45.9	38.5	37.8	(1.9)	(17.7)	167.0	149.3	(10.6)	Due to strategy of focusing on small ticket items instead of big ticket items
<b>Wholesale</b>	35.6	46.4	33.7	(27.3)	(5.4)	137.9	138.7	0.6	
<b>Retail</b>	12.7	13.3	9.2	(30.9)	(27.7)	42.2	40.1	(5.1)	
<b>Others</b>	4.4	5.0	3.9	(21.8)	(10.7)	18.4	16.4	(10.9)	
EBIT (MYRm)	4QFY13	3QFY14	4QFY14	q-o-q (%)	y-o-y (%)	FY13	FY14	y-o-y (%)	Comments
<b>MLM</b>	8.1	8.5	8.4	(1.4)	2.9	29.8	30.1	1.1	
<b>Wholesale</b>	3.3	3.0	1.3	(58.2)	(62.4)	19.5	12.9	(33.9)	
<b>Retail</b>	1.4	0.8	0.6	(26.7)	(57.2)	3.5	2.3	(33.5)	Due to higher operating expenses
<b>Others</b>	1.1	1.8	1.2	(33.9)	8.1	10.7	6.4	(40.5)	

Source: Company

Figure 3: Assumptions

	FY15	FY16
CDF growth rate (%)	1	1

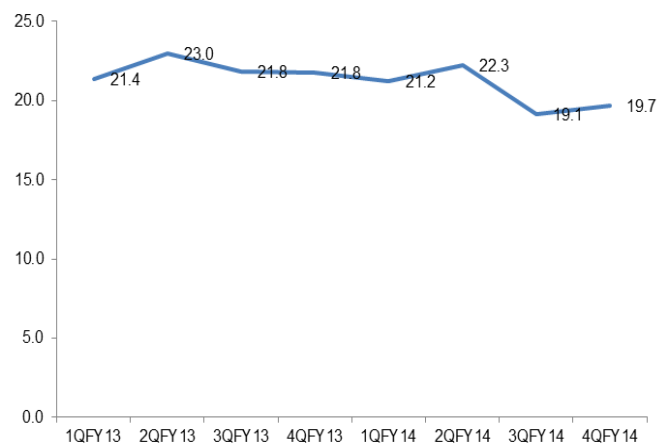
Source: Company data

**Figure 4: HAIO's performance for the past eight quarters**

FYE Apr (MYRm)	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
<b>Revenue</b>	<b>54.7</b>	<b>65.3</b>	<b>68.3</b>	<b>72.3</b>	<b>54.7</b>	<b>65.6</b>	<b>71.6</b>	<b>61.5</b>
Growth q-o-q (%)		19.4	4.6	5.8	-24.3	19.9	9.1	-14.1
Growth y-o-y					0.0	0.5	4.8	-14.9
<b>EBITDA</b>	<b>12.4</b>	<b>15.7</b>	<b>15.6</b>	<b>16.3</b>	<b>12.3</b>	<b>15.4</b>	<b>14.5</b>	<b>12.9</b>
<i>EBITDA Margin (%)</i>	<i>22.7</i>	<i>24.0</i>	<i>22.8</i>	<i>22.6</i>	<i>22.5</i>	<i>23.5</i>	<i>20.3</i>	<i>20.9</i>
Depreciation	(0.7)	(0.7)	(0.7)	(0.6)	(0.7)	(0.8)	(0.8)	(0.8)
<b>EBIT</b>	<b>11.7</b>	<b>15.0</b>	<b>14.9</b>	<b>15.8</b>	<b>11.6</b>	<b>14.6</b>	<b>13.7</b>	<b>12.1</b>
<i>EBIT Margin (%)</i>	<i>21.4</i>	<i>23.0</i>	<i>21.8</i>	<i>21.8</i>	<i>21.2</i>	<i>22.3</i>	<i>19.1</i>	<i>19.7</i>
Interest expense	(0.1)	(0.2)	0.3	(0.1)	(0.1)	(0.1)	0.5	(0.1)
Interest income	0.3	0.3	(0.2)	0.4	0.3	0.2	(0.1)	0.5
Associates	0.0	0.0	0.1	(0.0)	0.0	(0.1)	0.0	(0.0)
EI/Others	0.0	5.4	0.0	(1.5)	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>11.9</b>	<b>20.5</b>	<b>15.1</b>	<b>14.6</b>	<b>11.8</b>	<b>14.6</b>	<b>14.1</b>	<b>12.5</b>
<i>Pretax Margin (%)</i>	<i>21.8</i>	<i>31.4</i>	<i>22.1</i>	<i>20.2</i>	<i>21.6</i>	<i>22.3</i>	<i>19.7</i>	<i>20.4</i>
Tax	(3.1)	(4.0)	(4.1)	(4.4)	(3.1)	(3.7)	(3.5)	(1.7)
<i>Effective tax rate (%)</i>	<i>25.7</i>	<i>19.5</i>	<i>27.2</i>	<i>30.1</i>	<i>26.3</i>	<i>25.3</i>	<i>24.8</i>	<i>13.7</i>
Minority Interest	(0.1)	(0.4)	0.0	(0.4)	0.1	(0.4)	(0.2)	(0.1)
<b>Net Profit</b>	<b>8.8</b>	<b>16.1</b>	<b>11.0</b>	<b>9.8</b>	<b>8.8</b>	<b>10.5</b>	<b>10.4</b>	<b>10.7</b>
<b>Core Profit</b>	<b>8.8</b>	<b>10.7</b>	<b>11.0</b>	<b>11.3</b>	<b>8.8</b>	<b>10.5</b>	<b>10.4</b>	<b>10.7</b>
<i>Net Margin (%)</i>	<i>16.1</i>	<i>17.3</i>	<i>16.1</i>	<i>15.6</i>	<i>16.1</i>	<i>16.0</i>	<i>14.5</i>	<i>17.4</i>

Source: Company

**Figure 5: Evolution of EBIT (%)**



Source: Company data

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Apr-12</b>	<b>Apr-13</b>	<b>Apr-14</b>	<b>Apr-15F</b>	<b>Apr-16F</b>
Total turnover	240	267	253	283	295
Cost of sales	(148)	(162)	(160)	(176)	(183)
<b>Gross profit</b>	<b>91</b>	<b>104</b>	<b>94</b>	<b>107</b>	<b>111</b>
Gen & admin expenses	(23)	(24)	(22)	(26)	(27)
Selling expenses	(26)	(29)	(26)	(31)	(32)
Other operating costs	4	9	6	10	10
<b>Operating profit</b>	<b>46</b>	<b>60</b>	<b>52</b>	<b>60</b>	<b>62</b>
Operating EBITDA	48	62	55	62	64
Depreciation of fixed assets	(2)	(2)	(3)	(2)	(2)
<b>Operating EBIT</b>	<b>46</b>	<b>60</b>	<b>52</b>	<b>60</b>	<b>62</b>
Interest income	1	1	2	-	-
Interest expense	(1)	(1)	(0)	(1)	(1)
Exceptional income - net	1	4	-	-	-
<b>Pre-tax profit</b>	<b>47</b>	<b>64</b>	<b>53</b>	<b>60</b>	<b>61</b>
Taxation	(13)	(16)	(12)	(15)	(16)
Minority interests	(2)	(1)	(1)	-	-
<b>Profit after tax &amp; minorities</b>	<b>32</b>	<b>47</b>	<b>41</b>	<b>45</b>	<b>46</b>
<b>Reported net profit</b>	<b>32</b>	<b>47</b>	<b>41</b>	<b>45</b>	<b>46</b>
<b>Recurring net profit</b>	<b>31</b>	<b>43</b>	<b>41</b>	<b>45</b>	<b>46</b>

Source: Company data, RHB estimates

<b>Cash flow (MYRm)</b>	<b>Apr-12</b>	<b>Apr-13</b>	<b>Apr-14</b>	<b>Apr-15F</b>	<b>Apr-16F</b>
<b>Operating profit</b>	<b>46</b>	<b>60</b>	<b>52</b>	<b>60</b>	<b>62</b>
Depreciation & amortisation	2	2	3	2	2
<b>Change in working capital</b>	<b>12</b>	<b>(7)</b>	<b>(11)</b>	<b>(9)</b>	<b>(2)</b>
Other operating cash flow	1	(6)	(5)	10	10
<b>Operating cash flow</b>	<b>60</b>	<b>49</b>	<b>39</b>	<b>64</b>	<b>72</b>
Interest received	(1)	(1)	(2)	-	-
Interest paid	1	1	0	1	1
Dividends received	(2)	(2)	-	-	-
Tax paid	(11)	(15)	(12)	(15)	(16)
<b>Cash flow from operations</b>	<b>47</b>	<b>32</b>	<b>26</b>	<b>50</b>	<b>58</b>
Capex	-	(9)	(5)	(15)	(15)
Other new investments	(40)	(10)	(4)	18	-
Other investing cash flow	21	28	12	-	-
<b>Cash flow from investing activities</b>	<b>(19)</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>(15)</b>
Dividends paid	(15)	(26)	(20)	(25)	(27)
Shares repurchased	(2)	-	-	-	-
Increase in debt	(3)	0	(4)	7	-
Other financing cash flow	(1)	(4)	(10)	(11)	(11)
<b>Cash flow from financing activities</b>	<b>(21)</b>	<b>(29)</b>	<b>(34)</b>	<b>(29)</b>	<b>(37)</b>
Cash at beginning of period	46	54	65	60	88
<b>Total cash generated</b>	<b>8</b>	<b>12</b>	<b>(6)</b>	<b>24</b>	<b>5</b>
Forex effects	(0)	-	-	-	1
<b>Implied cash at end of period</b>	<b>54</b>	<b>66</b>	<b>59</b>	<b>83</b>	<b>94</b>

Source: Company data, RHB estimates

## Financial Exhibits

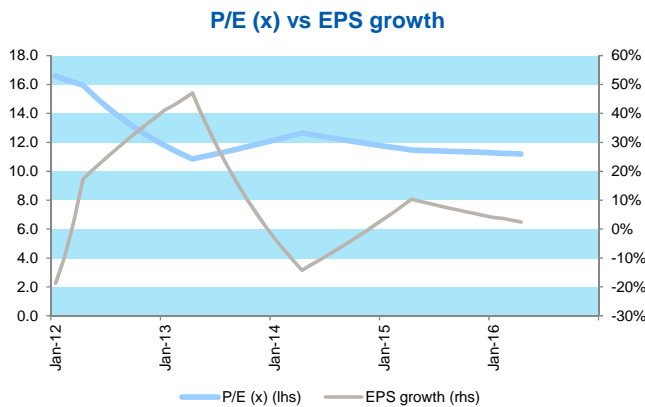
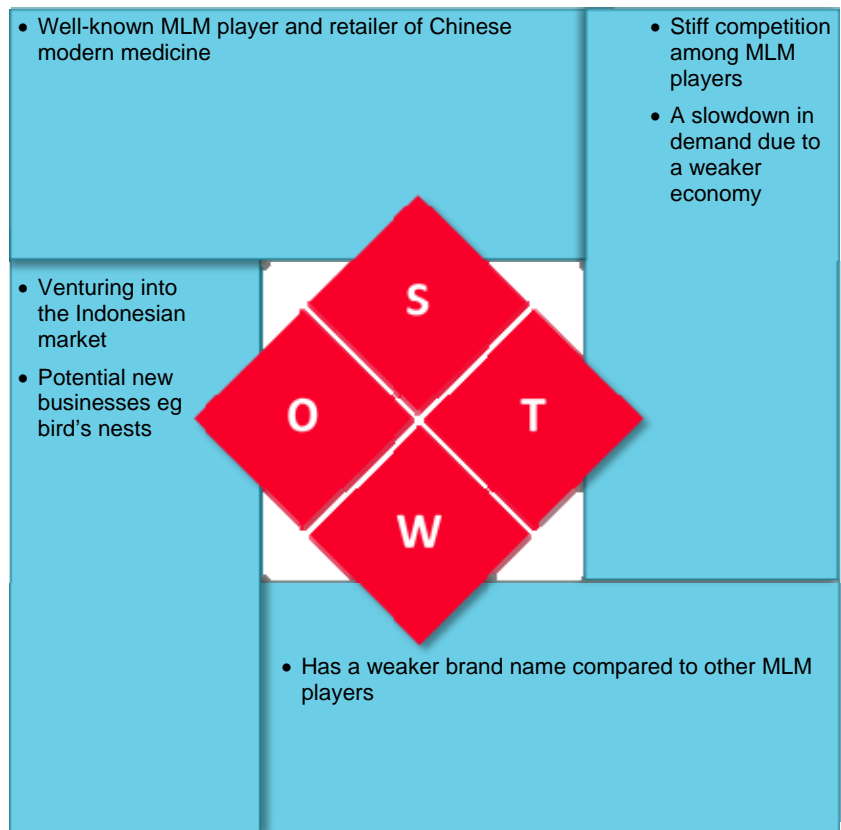
<b>Balance Sheet (MYRm)</b>	<b>Apr-12</b>	<b>Apr-13</b>	<b>Apr-14</b>	<b>Apr-15F</b>	<b>Apr-16F</b>
Total cash and equivalents	54	65	60	88	94
Inventories	38	50	59	43	44
Accounts receivable	20	19	19	37	38
Other current assets	66	61	58	41	42
<b>Total current assets</b>	<b>177</b>	<b>195</b>	<b>195</b>	<b>208</b>	<b>218</b>
Total investments	47	44	41	30	30
Tangible fixed assets	62	65	65	92	105
Intangible assets	0	0	3	-	-
Total other assets	3	3	3	-	-
Total non-current assets	112	112	113	122	135
<b>Total assets</b>	<b>290</b>	<b>306</b>	<b>308</b>	<b>330</b>	<b>353</b>
Short-term debt	5	7	3	3	3
Accounts payable	32	35	33	26	28
Other current liabilities	12	7	4	4	4
<b>Total current liabilities</b>	<b>50</b>	<b>49</b>	<b>39</b>	<b>33</b>	<b>34</b>
Total long-term debt	8	6	3	10	10
Other liabilities	0	0	0	-	-
<b>Total non-current liabilities</b>	<b>8</b>	<b>7</b>	<b>3</b>	<b>10</b>	<b>10</b>
<b>Total liabilities</b>	<b>58</b>	<b>56</b>	<b>42</b>	<b>43</b>	<b>44</b>
Share capital	101	101	101	101	101
Retained earnings reserve	127	148	164	184	204
Other reserves	(6)	(10)	(11)	-	-
<b>Shareholders' equity</b>	<b>222</b>	<b>240</b>	<b>254</b>	<b>285</b>	<b>305</b>
Minority interests	10	11	12	2	4
<b>Total equity</b>	<b>231</b>	<b>251</b>	<b>266</b>	<b>287</b>	<b>309</b>
<b>Total liabilities &amp; equity</b>	<b>290</b>	<b>307</b>	<b>308</b>	<b>330</b>	<b>353</b>

Source: Company data, RHB estimates

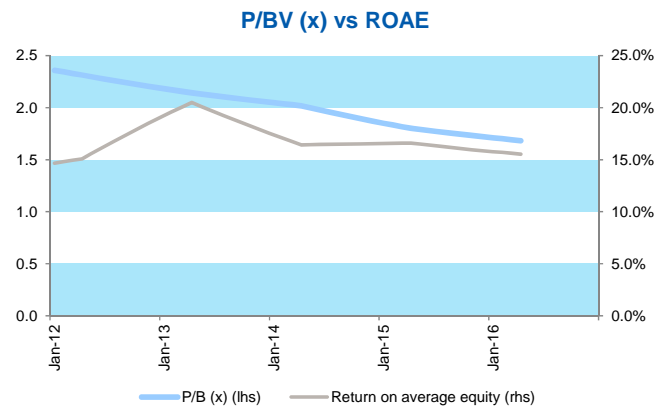
<b>Key Ratios (MYR)</b>	<b>Apr-12</b>	<b>Apr-13</b>	<b>Apr-14</b>	<b>Apr-15F</b>	<b>Apr-16F</b>
Revenue growth (%)	7.3	11.3	(4.9)	11.8	4.0
Operating profit growth (%)	18.1	30.5	(13.3)	16.1	3.0
Net profit growth (%)	17.3	47.1	(14.2)	10.3	2.4
EPS growth (%)	17.3	47.1	(14.2)	10.3	2.4
Bv per share growth (%)	8.5	8.1	6.1	12.1	7.1
Operating margin (%)	19.2	22.5	20.5	21.3	21.1
Net profit margin (%)	13.4	17.7	16.0	15.8	15.5
Return on average assets (%)	11.8	15.8	13.2	14.0	13.4
Return on average equity (%)	15.1	20.5	16.4	16.6	15.5
Net debt to equity (%)	(17.7)	(20.6)	(20.4)	(26.1)	(26.2)
DPS	0.09	0.14	0.10	0.13	0.13
Recurrent cash flow per share	0.23	0.16	0.13	0.24	0.28

Source: Company data, RHB estimates

## SWOT Analysis



Source: Company data, RHB estimates



Source: Company data, RHB estimates

## Company Profile

Hai-O is involved in wholesaling, retailing, multi-level marketing and pharmaceuticals. It also operates modern Chinese medicinal clinics.

## Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2014-03-27	Neutral	2.60	2.45
2013-12-19	Neutral	2.70	2.55
2013-07-23	Buy	3.28	2.71
2013-06-27	Buy	2.91	2.66
2013-03-28	Neutral	2.35	2.40
2012-06-29	Neutral	2.16	2.20
2012-04-20	Neutral	2.03	2.18
2012-03-30	Neutral	1.99	2.18

Source : RHB estimates, Bloomberg

## RHB Guide to Investment Ratings

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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