

Hai-O Enterprise Bhd

Painful Transition Period

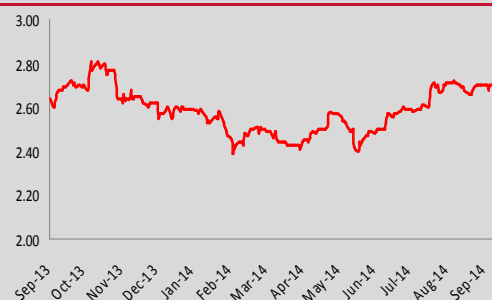
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UNDERPERFORM

Price: RM2.69
Target Price: RM2.29

Period	▪ 1Q15
Actual vs. Expectations	▪ 1Q15 net profit of RM6.2m is below expectation, accounting for 14.7% and 13.8% of our estimate and consensus' respectively. The negative deviation can be attributed by the disappointing performance of its MLM division, which shifted focus to 'small ticket' items which are more affordable, resulting in worse-than-expected loss of revenue due to lower contribution of 'big ticket' items.
Dividends	▪ No dividend was declared, as expected.
Key Results Highlights	<ul style="list-style-type: none"> ▪ YoY, net profit fell 29.2% to RM6.2m on the back of lower revenue due to the weak sales of MLM division due to the reason mentioned above. The lacklustre performance also dragged down the wholesale division, resulting in lower inter-segment sales while the stronger USD against MYR further narrowed its segmental margin substantially from 39.8% to 17.8%, causing a 56% slump in segmental profit to RM2.1m. ▪ QoQ, net profit shrank 41.9% mainly due to the decline in MLM division, with the fasting month during the quarter also slowed down distributors. Meanwhile, the huge fall was also caused by the lower effective tax rate in the previous quarter (of 13.7% vs. 26.1% in 1Q15), as certain incomes were not subjected to tax while the Group also utilised its capital allowance.
Outlook	▪ We are turning negative on the stock as we are disappointed with the set of results as its MLM division continued to struggle with the new product strategy of focusing on 'small ticket' items instead of 'big ticket' items. Wholesale division is dragged down by the MLM division while the stronger USD would further erode its margin. Retail division is not foreseen to record impressive growth in view of the soft consumer sentiments.
Change to Forecasts	▪ We slashed our FY15 earnings forecast to factor in the worse-than-expected performance in MLM division. We also assume higher distribution expenses as we were too optimistic with our assumption previously. As a result, FY15 net profit was revised down by 13%. We also take this opportunity to introduce FY16E earnings, which implies 7% EPS growth.
Rating	Downgrade to UNDERPERFORM (from MARKET PERFORM)
Valuation	▪ Our TP is revised down to RM2.29 (from: RM2.47) correspondingly with the earnings cut, based on 12.6x FY15E PER. We ascribed a lower valuation of 5-year mean PER as compared to +0.5 SD of 3-year mean previously as we turned more cautious on the outlook of Hai-O.
Risks to Our Call	<ul style="list-style-type: none"> ▪ Weaker-than-expected USD against MYR. ▪ Better-than-expected recovery in consumer spending.

Share Price Performance



KLCI	1,840.08
YTD KLCI chg	-1.4%
YTD stock price chg	4.7%

Stock Information

Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	525.9
Issued shares	195.5
52-week range (H)	2.84
52-week range (L)	2.36
3-mth avg daily vol:	106,369
Free Float	75%
Beta	0.9

Major Shareholders

TAN KAI HEE	10.0%
AKINTAN SDN BHD	7.7%
TAN SIOW ENG	6.9%

Summary Earnings Table

FY Apr (RM m)	2014A	2015E	2016E
Turnover	253.4	251.4	265.1
EBIT	52.0	49.2	53.1
PBT	53.1	49.8	53.6
Net Profit (NP)	40.5	36.8	39.6
Consensus (NP)		44.9	55.2
Earnings Revision		-13%	-
EPS (sen)	20.0	18.2	19.5
EPS growth (%)	-14%	-9%	7%
NDPS (sen)	14.0	18.0	14.0
BVPS	1.3	1.3	1.3
NTA/Share (RM)	1.3	1.2	1.3
PER	12.6	13.9	12.9
Price/NTA (x)	2.0	2.0	2.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	5.2%	6.7%	5.2%

25 September 2014

Result Highlight

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FY Apr (RM'm)	FY15	FY14	Chg	FY14	Chg	FY14	FY13	Chg
Turnover	49.8	61.5	-19.0%	54.7	-9.0%	49.8	54.7	-9.0%
Gross Profit	18.5	21.5	-13.9%	22.1	-16.0%	18.5	22.1	-16.0%
PBT	8.4	12.5	-32.9%	11.8	-28.7%	8.4	11.8	-28.7%
Taxation	-2.2	-1.7	27.7%	-3.1	-28.6%	-2.2	-3.1	-28.6%
Minority interest	0.0	-0.1	-94.9%	0.1	-107.6%	0.0	0.1	-107.6%
Net Profit (NP)	6.2	10.7	-41.9%	8.8	-29.2%	6.2	8.8	-29.2%
EPS (sen)	3.1	5.3	-41.9%	4.3	-29.2%	3.1	4.3	-29.2%
Gross margin	37.2%	35.0%		40.3%		37.2%	40.3%	
PBT margin	16.9%	20.4%		21.6%		16.9%	21.6%	
NP margin	12.5%	17.4%		16.1%		12.5%	16.1%	
Effective tax rate	26.1%	13.7%		26.0%		26.1%	26.0%	

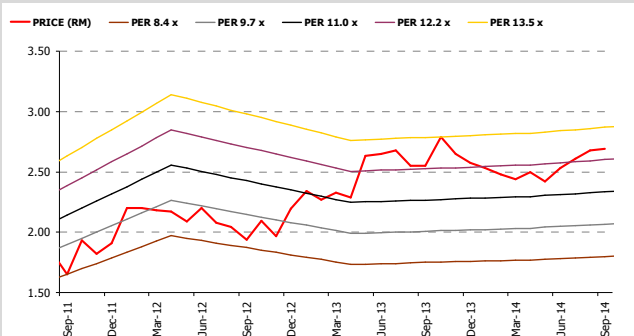
Source: Company, Kenanga Research

Result Highlight

FY Apr (RM'm)	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY15	FY14	Chg	FY14	Chg	FY15	FY14	Chg
- Multi-Level-Marketing	28.4	37.7	-25%	33.5	-15%	28.4	33.5	-15%
- Wholesale	11.8	12.8	-7%	12.2	-3%	11.8	12.2	-3%
- Retail	7.7	9.2	-16%	7.4	4%	7.7	7.4	4%
- Others	1.8	1.8	3%	1.6	12%	1.8	1.6	12%
Group Revenue	49.8	61.5	-19%	54.7	-9%	49.8	54.7	-9%
- Multi-Level-Marketing	4.6	8.4	-44%	5.3	-12%	4.6	5.3	-12%
- Wholesale	2.1	1.3	68%	4.8	-56%	2.1	4.8	-56%
- Retail	0.0	0.6	-103%	-0.2	-90%	0.0	-0.2	-90%
- Others	1.2	1.2	4%	1.3	-4%	1.2	1.3	-4%
- Elimination	0.2	0.7	-66%	0.3	-26%	0.2	0.3	-26%
Group EBIT	8.2	12.1	-32%	11.6	-29%	8.2	11.6	-29%
- Multi-Level-Marketing	16.3%	22.2%		15.8%		15.8%	15.8%	
- Wholesale	17.8%	9.8%		39.8%		39.8%	39.8%	
- Retail	-0.2%	6.3%		-2.1%		-2.1%	-2.1%	
- Others	66.3%	65.4%		77.1%		77.1%	77.1%	
Group EBIT Margin	16.5%	19.7%		21.1%		21.1%	21.1%	

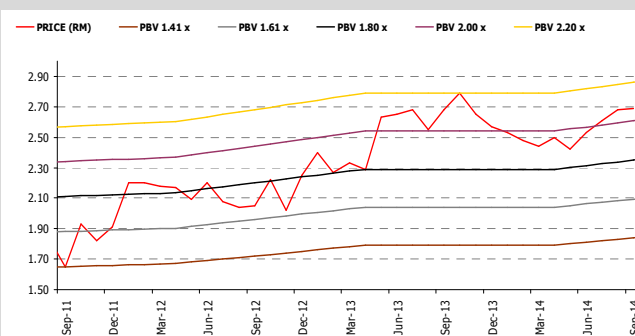
Source: Company, Kenanga Research

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



25 September 2014

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 sector'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 sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector'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.**

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