

Company Result

17 December 2015

Hai-O Enterprise Berhad

Light at the end of the tunnel

HOLD

Upgraded

Share Price	RM2.32
Target Price	RM2.50

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	No
Issued shares (m)	194.15
Par Value (RM)	0.50
Market cap. (RMm)	450.42
52-week price Range	RM1.74– 2.45
Beta (against KLCI)	0.61
3-m Average Daily Volume	0.09m
3-m Average Daily Value [^]	RM0.21m

Share Performance

	1m	3m	12m
Absolute (%)	4.5	1.8	8.4
Relative (%-pts)	6.3	8.5	11.6

Major Shareholders

	%
KAI HEE TAN	10.02
AKINTAN SDN BHD	7.81
SLOW ENG TAN	6.94

Historical Chart



Source: Bloomberg

Team Coverage

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- **Hai-O's 2QFY16 net profit was recorded at RM8.9mill**, which increased 34.9% qoq and 24.7% yoy. Similarly, quarterly revenue posted a positive growth of 32.9% qoq and 27.5% yoy.
- For 1H2016, net profit was registered at RM15.6mill, increased by 16.2% y-o-y. Meanwhile, revenue expanded by 20% y-o-y to RM129mill.
- **Within expectations-** 6MFY16 net profit reached 52% and 50% of our full year net earnings forecast and consensus respectively. The encouraging results were chiefly attributed by better performance from its MLM and wholesales division.

Comment

- **Another quarterly improvement of MLM division.** MLM division's PBT increased both yearly and quarterly bases mainly supported by higher sales from its new marketing strategy which is focusing more on 'small ticket' items. Furthermore, rising new recruited members in this quarter coupled with positive response from the incentive trip promotional campaign also contributed to the inspiring performance of its MLM division.
- Similarly, 6MFY16 PBT for MLM increased by 22% yoy, as the introduction of small ticket items since two years ago has started to bear fruits. In addition, the division has successfully attracted more young entrepreneurs to participate in MLM business backed by its intensive recruitment and member retention programs.
- **Wholesale division snapped back in 2QFY16.** Wholesale segment's PBT posted a positive yoy growth aided by higher sales generated from Chinese medicated tonic coupled with the increase in inter-segment sales contribution. Meanwhile, for 1HFY16, the division's PBT increased by 3% yoy. The positive performance was due to the same reason.
- **Retail division made a comeback.** Retail division managed to register a positive PBT number in 2QFY16 against net loss of RM0.15mill in last quarter in line with positive topline mainly supported by effective members' sales promotional campaign carried out in this quarter.
- However, the PBT of retail division during 1HFY16 declined due to higher one-off personnel costs rewarded to staff in commemoration of Hai-O's 40th year Anniversary coupled with higher business operating costs. Despite the weakening domestic consumption, the continuous support from Hai-O members enabled the division to maintain its

sales volume.

- **Dividend declared** – In view of the better earnings, the Group has declared a net dividend of 4 cent per share. Based on previous dividend payout track record of c. 50%, we expect the total dividend payout of 10 cent per share for FY16F or equivalent to yield of 3.1%. Going forward we foresee the group to declare another 6 cent in 2HFY16.

Earnings Outlook/Revision

- **We maintain our earnings forecast for FY16-17F.**
- **MLM division continues to shine whilst retail and wholesale divisions are in the midst of recovery.** Going forward, we envisage that MLM division will continue to sustain its stellar performance attributable to the positive response for the promotion of its “small ticket” items coupled with the Group’s continuous effort to enhance its product mix, expand marketing channel as well as actively recruiting new MLM members.
- **Meanwhile, we expect the wholesale and retail divisions will continue to grow moderately** as the Group plans to look for new agency line to widen its products portfolio with competitive selling prices. Retail division will be banking on the look-out for high traffic locations for opening of new outlets and refurbishing existing outlets to improve outlet image. In conjunction of Chinese New Year festive season, the wholesale and retail divisions will carry out CNY promotion and hence it will further lift the revenue. In addition, the Group will continue to improve its networking through social media to promote its products and expand its customer base locally and regionally.

Valuation & Recommendation

- **Upgrade to HOLD from SELL with a higher target price of RM2.50 (previous target price: RM1.85)**, as we roll over our valuation to FY17F, pegging at PER of 11x FY17F EPS of 23 cent (previous EPS: 15 cent). Our TP denotes an upside potential of 7.6% from its closing price of RM2.32.
- **Light at the end of the tunnel.** Although there will be a temporary reduction in consumer spending arising from higher cost of living pursuant to implementation of GST and price hikes in tolls, fuel and cigarettes, we reckon that consumer sentiment will slightly recover by 1QCY16 as consumers will finally adapt to the GST and rising cost of living. Furthermore, we are positive on the Group’s initiatives to re-look into product sourcing and product pricing strategy in order to curb the higher import cost problems in view of the slowdown in regional economy and weakening of Ringgit Malaysia against major currencies.

Figure 1: Quarterly Figures

Year to 30 Apr	2QFY16 (RMm)	1QFY16 (RMm)	2QFY15 (RMm)	QoQ % chg	YoY % chg	6MFY16 (RMm)	6MFY15 (RMm)	YoY % chg
Revenue	73.6	55.4	57.7	32.9%	27.5%	129.0	107.5	20.0%
Operating Profit	11.5	8.7	9.5	31.7%	21.0%	20.2	17.7	14.1%
Pre-tax Profit	11.9	8.8	9.7	35.1%	22.8%	20.7	18.1	14.4%
Profit After Tax	9.0	6.5	7.5	38.2%	20.8%	15.6	13.7	13.6%
Net Profit	8.9	6.6	7.2	34.9%	24.7%	15.6	13.4	16.2%
MARGIN (%)								
Operating	15.6%	15.7%	16.4%	-0.1ppt	-0.8 ppt	15.6%	16.4 %	-0.8 ppt
Profit Before Tax	16.2%	15.9%	16.8%	0.3ppt	-0.6 ppt	16.0%	16.8 %	-0.8 ppt
Profit After Tax	12.3%	11.8%	12.9%	0.5ppt	-0.7 ppt	12.1%	12.7 %	-0.7 ppt
Net Profit Margin	12.1%	12.0%	12.4%	0.2ppt	-0.3 ppt	12.1%	12.5 %	-0.4 ppt

Source: Company, JF Apex

Figure 2: Revenue and PBT by divisions

Year to 30 Apr	2QFY16 (RMm)	1QFY16 (RMm)	2QFY15 (RMm)	QoQ % chg	YoY % chg	6MFY16 (RMm)	6MFY15 (RMm)	YoY % chg
Segment Revenue								
MLM	45.55	36.75	31.86	23.95%	42.94%	82.3	60.3	36.5%
Wholesales	16.84	9.26	14.25	81.92%	18.16%	26.1	26.1	0.0%
Retail	9.52	7.58	9.77	25.71%	-2.48%	17.1	17.5	-2.1%
Total Revenue	71.91	53.58	55.88	34.21%	28.68%	125.5	103.8	20.9%
Segment Profit Before Tax								
MLM	7.13	6.24	6.32	14.40%	12.90%	13.4	11.0	22.0%
Wholesales	1.63	1.78	1.20	-8.43%	36.17%	3.4	3.3	3.0%
Retail	0.68	-0.15	0.90	N/A	-24.00%	0.5	0.9	-39.7%
Total Profit Before Tax	9.45	7.87	8.41	20.07%	12.28%	17.3	15.2	14.3%
Segment PBT margin								
MLM	15.66%	16.97%	19.83%	-1.31 ppt	-4.17 ppt	16.2%	18.2%	-1.9 ppt
Wholesales	9.68%	19.23%	8.40%	-9.55 ppt	1.28 ppt	13.1%	12.7%	0.4 ppt
Retail	7.15%	-1.98%	9.17%	9.13 ppt	-2.02 ppt	3.1%	5.0%	-1.9 ppt

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 30 April (RMm)	FY2013	FY2014	FY2015	FY2016F	FY2017F
Revenue	266.6	253.5	239.9	208.0	251.8
Operating profit	63.1	52.1	41.8	48.3	59.2
Net profit	47.2	40.3	29.8	30.0	44.1
EPS (sen)	24.3	20.7	15.3	15.4	22.7
P/E (x)	9.6	11.2	15.1	15.0	10.2
P/BV (x)	1.8	1.7	1.7	1.7	1.6
Dividend yield (%)	4.7%	4.6%	4.8%	3.1%	4.2%
PBT margin (%)	24.0%	21.0%	17.8%	24.2%	24.6%
Net Gearing (%)	-19.4%	-19.3%	-15.0%	-9.9%	-4.5%
ROE (%)	18.8%	15.2%	11.2%	11.1%	16.1%

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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