Another disappointing quarter

Hai-O's 1HFY15 results came in way below our and consensus expectations. This was mainly attributed to the weaker revenues from its MLM and wholesale divisions. In view of this, we are slashing our FY15-FY17E estimates further by 20-25%. Maintain REDUCE with lower TP of RM1.80 (from RM2.31).

1HFY15 net profit slumped 30.7% yoy...

Hai-O's 1HFY15 turnover and earnings declined by 10.6% and 30.7% yoy to RM107.5m and RM13.4m respectively. This was mainly due to weaker revenue from its multi-level-marketing (MLM) division and flat sales from both its retail and whole sale segment.

…pulled down by its MLM and wholesale divisions

MLM revenue dropped by 18% yoy to RM60.3m, which was mainly, attributed to a significant drop in "big ticket" items sales that had offset the better sales performance from its "small ticket" items. As at 1HFY15, the "small and medium ticket" items contribute >65% of total revenue (from 48% in FY14). While sales from its wholesale division remained flat, PBT fell 60.2% yoy to RM3.3m mainly due to lower inter-segment sales to its MLM division as well as lower sales of its Chinese medicated tonics and teas. Meanwhile, the group's 1HFY15 EBIT margin softened 4.9ppts yoy to 16.8% due to increase in advertising and promotional (A&P) expenses.

Slashing FY15-17E estimates

Given the disappointing set of results, we are cutting our FY15-17E forecasts by 20-25% to factor in the weaker-than-expected showing from its MLM division. We have also assumed higher operating and distribution expenses in view of growing inflationary pressures.

Maintain REDUCE with lowered TP of RM1.80

Following the earnings downgrade, we are lowering our 12-month TP to RM1.80 (from RM2.31) based on an unchanged target multiple of 11.5x (in line with its historical 3-year mean PE) on CY15 EPS. We maintain our cautious stance on the group as its MLM division continues to struggle with the shift in marketing strategy. The group's wholesale division will continue to be dragged down by the MLM division while the weakening of RM vs. US$ would eat into profit margins given higher import costs. We not foresee a significant improvement in its retail division given the overall weaker consumer sentiment. Maintain REDUCE.

Key risks to our call would include: i) stronger-than-expected upturn in consumer spending; and ii) strengthening of RM against the US$.

Earnings & Valuation Summary

FYE 30 April	2013	2014	2015E	2016E	2017E
Revenue (RMm)	267.9	253.4	257.7	270.0	283.8
EBITDA (RMm)	67.7	58.0	44.6	48.4	53.3
Pretax profit (RMm)	64.1	54.6	41.2	45.1	50.0
Net profit (RMm)	47.4	42.0	29.7	32.6	36.1
EPS (sen)	23.4	20.7	14.7	16.1	17.8
PER (x)	9.4	10.6	14.9	13.6	12.3
Core net profit (RMm)	43.5	42.0	29.7	32.6	36.1
Core EPS (sen)	21.5	20.7	14.7	16.1	17.8
Core EPS growth (%)	31.1	-3.6	-29.2	9.5	10.9
Core PER (x)	10.2	10.6	14.9	13.6	12.3
Net DPS (sen)	14.0	14.0	9.5	10.5	11.6
Dividend Yield (%)	6.4	6.4	4.4	4.8	5.3
EV/EBITDA (x)	5.0	5.7	7.4	6.5	5.7
Chg in EPS (%)			-19.8	-23.4	-24.6
Affin/Consensus (x)			0.8	0.7	0.7

Source: Company, Affin Hwang estimates, Bloomberg

Results Note

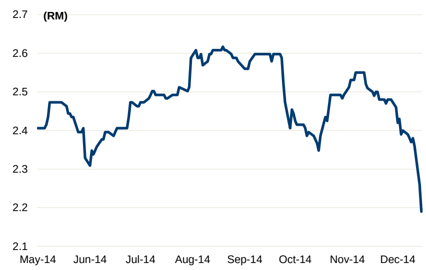
HAI-O

HAIO MK
Sector: Consumer

RM2.19 @ 16 Dec 2014

REDUCE (maintain)
Downside 13.4%

Price Target: RM1.80
Previous Target: RM2.31



Price Performance

	1M	3M	12M
Absolute	-12.4%	-18.9%	-16.4%
Rel to KLCI	-5.5%	-10.7%	-7.6%

Stock Data

Issued shares (m)	195.3
Mkt cap (RMm)/(US$m)	427.6/122.5
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.17-2.72
Est free float	52.2%
BV per share (RM)	1.32
P/BV (x)	1.65
Net cash/ (debt) (RMm) (2Q15)	47.4
ROE (FY15E)	11.7%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

Tan Kai Hee	10.0%
Akintan SB	7.7%
Tan Siow Eng	6.9%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Apr (RMm)	2Q15	QoQ % chg	YoY % chg	1H15	YoY % chg	Comment
Revenue	57.7	*16.0*	*(12.0)*	107.5	*(10.6)*	Revenue fell yoy due to weaker contributions from both its MLM and wholesale division
Op costs	(48.2)	*16.1*	*(5.5)*	(89.5)	*(38.9)*	
EBIT	9.5	*15.1*	*(34.7)*	18.1	*(30.9)*	
EBIT margin (%)	*16.4*	*-0.1ppt*	*-5.7ppt*	*16.8*	*-4.9ppt*	EBIT margin contracted yoy due to higher A&P expenses
Int expense	(0.1)	*(17.5)*	*(27.9)*	(0.2)	*(24.7)*	
Int and other inc	0.3	*6.0*	*2,017.5*	0.2	*(60.1)*	
Associates	0.0	*0.0*	*0.0*	0.0	*0.0*	
Exceptional items	0.0	*0.0*	*0.0*	0.0	*0.0*	
Pretax	**9.7**	*15.2*	*(33.8)*	**18.1**	***(31.5)***	
Tax	(2.2)	*1.1*	*(40.8)*	(4.4)	*(35.3)*	
Tax rate (%)	*22.9*	*-3.2ppt*	*-2.7ppt*	*24.4*	*-1.4ppt*	Lower effective tax rate yoy
MI	(0.3)	*>100.0*	*(14.6)*	(0.3)	*3.1*	
Net profit	**7.2**	*15.4*	*(32.0)*	**13.4**	***(30.7)***	1H15 net profit came in way below our and consensus expectation, making up only 36% and 35% of the full-year forecasts respectively
EPS (sen)	3.5	*15.4*	*(32.0)*	6.6	*(30.7)*	
Core net profit	**7.2**	***15.4***	***(32.0)***	**13.4**	***(30.7)***	

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
(formerly known as HwangDBS Investment Bank Berhad)
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