

25 March 2015

Hai-O Enterprise Berhad

3Q15 Below Expectations

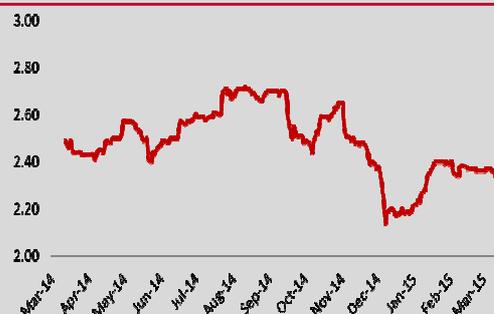
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- Period** ■ 3Q15/9M15
- Actual vs. Expectations** ■ 9M15 net profit of RM20.7m (-30.4%) was below both our and consensus' expectations by accounting for 68.8% and 58.5% of the forecasts, respectively. The negative deviation was due to the worse-than-expected performance in its wholesale division.
- Dividends** ■ None, as expected.
- Key Results Highlights** ■ **YoY**, 9M15 revenue dipped 11.7% to RM169.5m with MLM the biggest culprit as revenue contribution dropped 12.9% due to the lower sales of 'big ticket' items. Meanwhile, operating profit slumped 32.7% to RM26.9m, no thanks to the lacklustre performance of wholesale division (-70.9%), which suffered from the strengthening USD as the majority of its herbs and medicated tonic are imported.
- **QoQ**, 3Q15 revenue surged 7.3%, driven by strong performance of MLM division (+15.8%) on the back of higher purchase before the price increase and aggressive member recruitment activities. These led to a 12.3% increase in total group operating profit but worth noticing is that the wholesale division's operating profit suffered a big slump of 96.5% to RM0.1m due to the higher operating costs and strengthening USD.
- Outlook** ■ Outlook remains challenging with biggest concern on the wholesales division due to the strong USD against MYR. With the USD still staying strong, the Group might face difficulty in sustaining the profitability in this division.
- Meanwhile, its MLM division has rebounded strongly in 3Q15, two years after the strategy of focusing more on 'small ticket items'. The Group guided that 'small and medium ticket' item currently contributed almost 2/3 of the total portfolio as opposed to less than 50% in the previous year.
- Overall, we still maintain our negative stance on HAI0 despite the better performance of its MLM division as we think that the recovery momentum might be affected by the imminent implementation of GST in April 2015.
- Change to Forecasts** ■ We made changes to our forecasts by factoring higher operating costs for the wholesale divisions. As a result, FY15-16E net profits were revised down by 1.7%- 0.6%.
- Rating** **Maintain UNDERPERFORM**
- Valuation** ■ We maintain our TP of RM2.00, based on 12.6x FY16E PER, which is below its 5-year mean. It is trading at PER of c.15x FY16E, above its 5-year mean which we think is unjustifiably rich considering the earnings weakness and further headwinds anticipated in both the wholesale and MLM divisions.
- Risks** ■ Stronger-than-expected MYR against USD
- Sector risk: Better-than-expected consumer sentiment.

UNDERPERFORM ↔

Price: RM2.36
Target Price: RM2.00 ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,814.04 |
| YTD KLCI chg | 3.0% |
| YTD stock price chg | 7.3% |

Stock Information

| | |
|----------------------|----------------|
| Bloomberg Ticker | HAI0 MK Equity |
| Market Cap (RM m) | 460.4 |
| Issued shares | 195.1 |
| 52-week range (H) | 2.72 |
| 52-week range (L) | 2.14 |
| 3-mth avg daily vol: | 36,434 |
| Free Float | 75% |
| Beta | 0.8 |

Major Shareholders

| | |
|-----------------|-------|
| KAI HEE TAN | 10.0% |
| AKINTAN SDN BHD | 7.7% |
| SIOU ENG TAN | 6.9% |

Summary Earnings Table

| FY Apr (RM m) | 2014A | 2015E | 2016E |
|------------------------|-------------|-------------|-------------|
| Turnover | 253.4 | 229.0 | 241.3 |
| EBIT | 52.0 | 39.5 | 43.2 |
| PBT | 53.1 | 40.2 | 43.6 |
| Net Profit (NP) | 40.5 | 29.7 | 32.2 |
| Consensus (NP) | - | 35.4 | 40.4 |
| Earnings Revision | - | -1.7% | -0.6% |
| EPS (sen) | 20.0 | 14.7 | 15.9 |
| EPS growth (%) | -14% | -27% | 8.0% |
| NDPS (sen) | 14.0 | 14.0 | 14.0 |
| BVPS | 1.26 | 1.26 | 1.28 |
| PER | 12.6 | 17.2 | 15.9 |
| Price/NTA (x) | 2.0 | 2.1 | 2.1 |
| Net Gearing (x) | N.Cash | N.Cash | N.Cash |
| Dividend Yield (%) | 5.9% | 5.9% | 5.9% |

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Result Highlights

| | 3Q | 2Q | QoQ | 3Q | YoY | 9M | 9M | YoY |
|------------------------|------------|------------|-------------|-------------|---------------|-------------|-------------|---------------|
| FY Apr (RM'm) | FY15 | FY15 | Chg | FY14 | Chg | FY15 | FY14 | Chg |
| Turnover | 62.0 | 57.7 | 7.3% | 71.6 | -13.5% | 169.5 | 191.9 | -11.7% |
| Gross Profit | 21.2 | 20.2 | 4.8% | 26.4 | -19.7% | 60.0 | 72.2 | -16.9% |
| PBT | 9.5 | 9.7 | -2.3% | 14.2 | -33.1% | 27.6 | 40.6 | -32.1% |
| Taxation | -2.4 | -2.2 | 8.1% | -3.5 | -31.9% | -6.8 | -10.3 | -34.2% |
| Minority interest | 0.2 | -0.3 | -178.6% | -0.2 | -211.2% | -0.1 | -0.5 | -86.1% |
| Net Profit (NP) | 7.3 | 7.2 | 2.0% | 10.4 | -29.8% | 20.7 | 29.7 | -30.4% |
| EPS (sen) | 3.7 | 3.7 | 2.0% | 5.3 | -29.8% | 10.6 | 15.1 | -30.4% |
| Gross margin | 34.2% | 35.1% | | 36.9% | | 35.4% | 37.6% | |
| PBT margin | 15.3% | 16.8% | | 19.8% | | 16.3% | 21.1% | |
| NP margin | 11.8% | 12.4% | | 14.5% | | 12.2% | 15.5% | |
| Effective tax rate | -25.3% | -22.9% | | -24.9% | | -24.7% | -25.5% | |

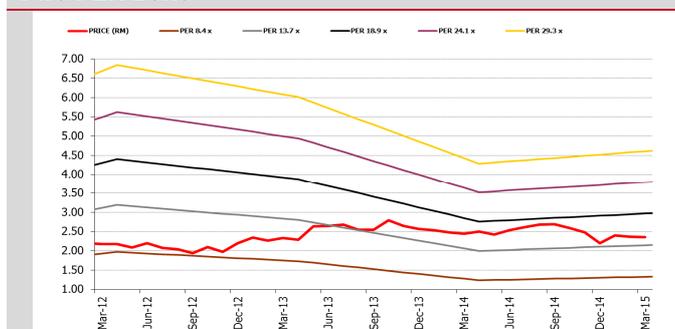
Source: Company, Kenanga Research

Segmental Results

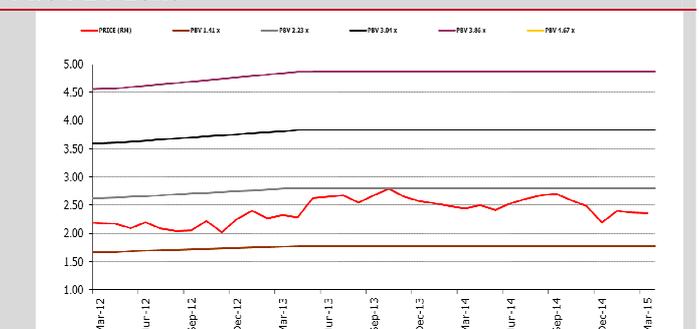
| | 3Q | 2Q | QoQ | 3Q | YoY | 9M | 9M | YoY |
|-------------------------|-------|-------|--------|-------|--------|-------|-------|--------|
| FY Apr (RM'm) | FY15 | FY15 | Chg | FY14 | Chg | FY15 | FY14 | Chg |
| - Multi-Level-Marketing | 36.9 | 31.9 | 15.8% | 38.5 | -4.2% | 97.2 | 111.6 | -12.9% |
| - Wholesale | 14.2 | 14.3 | -0.4% | 17.2 | -17.4% | 40.3 | 43.5 | -7.4% |
| - Retail | 9.0 | 9.8 | -7.6% | 13.3 | -32.2% | 26.5 | 30.9 | -14.2% |
| - Others | 1.9 | 1.8 | 0.5% | 2.6 | -29.8% | 5.5 | 6.0 | -7.6% |
| Group Revenue | 62.0 | 57.7 | 54.1% | 71.6 | 24.2% | 169.5 | 191.9 | -11.7% |
| - Multi-Level-Marketing | 8.5 | 4.6 | 84.1% | 8.5 | 0.7% | 19.5 | 21.7 | -10.2% |
| - Wholesale | 0.1 | 2.1 | -96.5% | 3.0 | -97.5% | 3.4 | 11.6 | -70.9% |
| - Retail | -0.6 | 0.0 | N.M. | 0.8 | N.M. | 0.3 | 1.7 | -81.8% |
| - Others | 1.3 | 1.2 | 7.2% | 1.8 | -26.0% | 3.9 | 5.2 | -25.8% |
| - Elimination | -0.2 | 0.2 | N.M. | -0.3 | -22.6% | -0.2 | -0.4 | -47.5% |
| Group EBIT | 9.2 | 8.2 | 12.3% | 13.8 | -33.1% | 26.9 | 39.9 | -32.7% |
| - Multi-Level-Marketing | 23.2% | 14.6% | | 22.0% | | 20.1% | 19.5% | |
| - Wholesale | 0.5% | 14.8% | | 17.5% | | 8.4% | 26.7% | |
| - Retail | -6.2% | -0.2% | | 6.0% | | 1.2% | 5.6% | |
| - Others | 70.2% | 65.8% | | 66.6% | | 69.8% | 87.0% | |
| Group EBIT Margin | 14.9% | 14.2% | | 19.2% | | 15.9% | 20.8% | |

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

| NAME | Price | Mkt Cap | PER (x) | | | Est. Div. Yld. (%) | Historic al ROE (%) | P/BV (x) | Net Profit (RMm) | | | FY14/15E NP Growth (%) | FY15/16E NP Growth (%) | Target Price (RM) | Rating |
|----------------------------------|-------|----------|------------|--------|--------|--------------------|---------------------|----------|------------------|--------|--------|------------------------|------------------------|-------------------|----------------|
| | (RM) | (RMm) | Historical | 1Y Fwd | 2Y Fwd | | | | Historical | 1Y Fwd | 2Y Fwd | | | | |
| <u>CORE COVERAGE</u> | | | | | | | | | | | | | | | |
| <u>Consumer - Retail</u> | | | | | | | | | | | | | | | |
| AEON CO (M) BHD | 3.06 | 4,240.1 | 20.2 | 20.0 | 19.4 | 1.5% | 12.5% | 2.43 | 212.71 | 214.53 | 221.56 | 0.9% | 3.3% | 3.10 | Market Perform |
| AMWAY (MALAYSIA) HLDGS BHD | 11.00 | 1,808.2 | 18.1 | 17.4 | 16.3 | 5.2% | 42.9% | 7.91 | 99.80 | 104.20 | 110.60 | 4.4% | 6.1% | 11.42 | Market Perform |
| ASIA BRANDS | 2.95 | 233.4 | 9.9 | 17.9 | 14.6 | 1.7% | 10.5% | 0.95 | 23.60 | 13.10 | 16.00 | -44.5% | 22.1% | 2.35 | Underperform |
| HAI-O ENTERPRISE BHD | 2.36 | 456.5 | 11.8 | 16.1 | 14.8 | 5.9% | 13.7% | 1.87 | 40.50 | 29.70 | 32.20 | -26.7% | 8.4% | 2.00 | Underperform |
| PADINI HOLDINGS BERHAD | 1.42 | 901.3 | 10.3 | 12.8 | 10.4 | 7.0% | 18.0% | 2.31 | 90.91 | 73.20 | 90.03 | -19.5% | 23.0% | 1.64 | Outperform |
| PARKSON HOLDINGS BHD | 2.17 | 2,016.0 | 12.1 | 18.1 | 15.7 | 2.4% | 7.6% | 0.90 | 184.30 | 122.80 | 141.40 | -33.4% | 15.1% | 2.26 | Market Perform |
| ZHULIAN | 2.05 | 943.00 | 20.1 | 18.0 | 16.5 | 4.9% | 9.5% | 1.86 | 47.10 | 52.50 | 57.00 | 11.5% | 8.6% | 2.00 | Underperform |
| <u>Consumer - F&B</u> | | | | | | | | | | | | | | | |
| DUTCH LADY | 47.04 | 3,040.0 | 27.4 | 25.1 | 22.9 | 5.1% | 63.7% | 19.20 | 109.80 | 120.10 | 131.40 | 9.4% | 9.4% | 43.52 | Underperform |
| NESTLE (M) | 73.50 | 17,353.0 | 31.3 | 28.5 | 26.0 | 3.4% | 69.1% | 22.21 | 550.38 | 605.27 | 663.21 | 10.0% | 9.6% | 73.80 | Market Perform |
| OLDTOWN BHD | 1.76 | 760.5 | 16.3 | 15.6 | 13.8 | 4.0% | 14.6% | 2.41 | 48.90 | 51.20 | 57.80 | 4.7% | 12.9% | 1.79 | Market Perform |
| QL RESOURCES BHD | 3.85 | 5,129.4 | 30.1 | 25.3 | 22.4 | 1.1% | 15.9% | 3.74 | 159.90 | 189.90 | 215.20 | 18.8% | 13.3% | 3.90 | Market Perform |
| <u>Consumer - Sin</u> | | | | | | | | | | | | | | | |
| BRITISH AMERICAN TOBACCO BHD | 67.80 | 19,587.4 | 21.3 | 19.5 | 19.4 | 5.1% | 174.7% | 36.85 | 910.00 | 990.60 | 996.80 | 8.9% | 0.6% | 69.40 | Market Perform |
| CARLSBERG BREWERY MALAYSIA B | 13.40 | 4,054.4 | 19.5 | 18.8 | 17.3 | 5.3% | 72.2% | 12.52 | 211.60 | 219.70 | 238.50 | 3.8% | 8.6% | 13.23 | Market Perform |
| GUINNESS ANCHOR BHD | 14.44 | 4,356.3 | 22.0 | 18.5 | 18.1 | 4.5% | 62.0% | 13.75 | 198.20 | 204.70 | 212.60 | 3.3% | 3.9% | 15.60 | Outperform |

Source: Bloomberg, Kenanga Research

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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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