

25 June 2015

Hai-O Enterprise Berhad

Brief Pre-GST Frontloading Boost

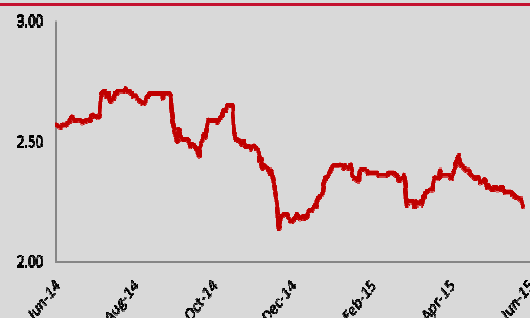
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- Period** ■ 4Q15/FY15
- Actual vs. Expectations** ■ FY15 net profit of RM30.1m (-25.3%) is within expectations by accounting for 101% and 104% of our in-house and consensus forecasts, respectively.
- Dividends** ■ The group has proposed a final single-tier dividend of 11.0 sen/share, lifting FY15 DPS to 15.0 sen/share (FY14:14 sen/share), translating into a payout ratio of 97.4%, which is within our expectation.
- Key Results Highlights** ■ **YoY**, FY15 revenue was 5.3% lower at RM239.9m, dragged down by the lacklustre MLM division which recorded revenue decline of 6.2% to RM135.6m mainly due to the transition period where the Group switched focus to small-ticket items. PBT was lower at RM43m (-19%) due to the weaker performance in the wholesale division, attributable to the strengthening of USD against MYR, which resulted in lower profit margin. Net profit fell at a greater extent, by 25.3%, due to a higher effective tax rate (28.5% vs 23.1%).
- **QoQ**, 4Q15 revenue rose 13.7% to RM70.4m, driven by growth across all divisions with retail registering the biggest jump of 56.8% thanks to the timing of Chinese New Year and pre-GST stock up activities. However, wholesales division was the biggest contributor in terms of profit growth as division's operating profit was higher at RM3.2m from RM0.1m due to the pre-GST sales campaign and the pre-loading activities by the majority of its customers. As a result, net profit increased by 28.5% to RM9.4m.
- Outlook** ■ We are not overly excited on the earnings jump as we think that pre-GST frontloading has a major part in it. Thus, we expect to see weaker quarterly ahead as sales normalizes.
- Outlook remains challenging with the 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.
- The strategy of realigning the sales focuses towards small-ticket items has gained traction with small-ticket items now contributing >60% over total sales but the profit margins ended up being narrowed. Moving forward, we foresee limited growth in MLM division in view of the weak local consumer sentiment.
- The near-100% dividend pay-out ratio might excite investors as FY15 DPS represents 6.7% yield, but we still maintain our negative stance on the company as we are cautious on the negative impact from the strengthening USD and the subdued consumer sentiment.
- Change to Forecasts** ■ We made housekeeping changes to FY16E forecast after updating FY15 numbers, resulting in 2.8% reduction in net profit. We also take this opportunity to introduce FY17E earnings, which implied net profit growth of 7.7%.
- Rating** **Maintain UNDERPERFORM**
- Valuation** ■ We maintain our Target Price of RM2.00, based on higher FY16E PER of 12.9x (from 12.6x) after updating our 5-year moving average PER mean. The valuation remained unchanged at below 5-year mean.
- Risks** ■ Stronger-than-expected MYR against USD
- Sector risk: Better-than-expected consumer sentiment.

UNDERPERFORM ↔

Price: RM2.23
Target Price: RM2.00 ↔

Share Price Performance



KLCI 1,726.73
YTD KLCI chg -1.7%
YTD stock price chg 1.4%

Stock Information

Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	434.6
Issued shares	194.9
52-week range (H)	2.72
52-week range (L)	2.14
3-mth avg daily vol:	49,469
Free Float	75%
Beta	0.7

Major Shareholders

KAI HEE TAN	10.0%
AKINTAN SDN BHD	7.8%
SIOW ENG TAN	6.9%

Summary Earnings Table

FY Apr (RM m)	2015A	2016E	2017E
Turnover	239.9	245.3	252.6
EBIT	42.2	42.2	44.7
PBT	43.0	42.6	45.2
Net Profit (NP)	30.1	31.3	33.7
Consensus (NP)	-	32.7	39.6
Earnings Revision	-	-2.8%	-
EPS (sen)	15.4	15.5	16.7
EPS growth (%)	-25.3%	0.5%	7.7%
NDPS (sen)	15.0	14.0	15.0
BVPS	1.32	1.34	1.36
PER	14.5	14.4	13.4
Price/BV (x)	1.7	1.7	1.6
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	6.7%	6.3%	6.7%

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Result Highlight

	4Q	3Q	QoQ	4Q	YoY			YoY
FY Apr (RM'm)	FY15	FY15	Chg	FY14	Chg	FY15	FY14	Chg
Turnover	70.4	62.0	13.7%	61.5	14.6%	239.9	253.4	-5.3%
Gross Profit	25.6	21.2	20.7%	21.3	20.0%	85.6	93.5	-8.5%
PBT	15.5	9.5	63.4%	12.6	23.1%	43.0	53.1	-19.0%
Taxation	-5.5	-2.4	128.4%	-1.9	181.3%	-12.3	-12.3	0.0%
Minority interest	-0.6	0.2	-353.1%	-0.1	536.8%	-0.7	-0.6	10.8%
Net Profit (NP)	9.4	7.3	28.5%	10.5	-10.8%	30.1	40.3	-25.3%
EPS (sen)	4.8	3.7	28.7%	5.4	-10.3%	15.4	20.5	-24.8%
Gross margin	36.3%	34.2%		34.7%		35.7%	36.9%	
PBT margin	22.0%	15.3%		20.4%		17.9%	21.0%	
NP margin	13.3%	11.8%		17.1%		12.5%	15.9%	
Effective tax rate	-35.4%	-25.3%		-15.5%		-28.5%	-23.1%	

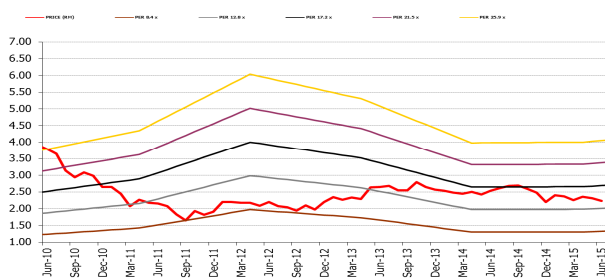
Source: Company, Kenanga Research

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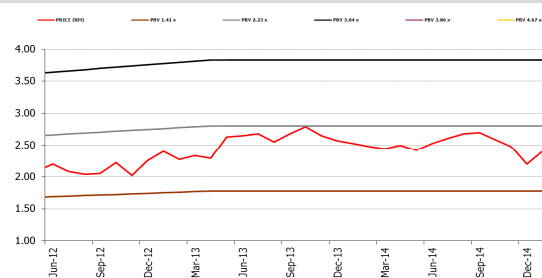
	4Q	3Q	QoQ	4Q	YoY			YoY
FY Apr (RM'm)	FY15	FY15	Chg	FY14	Chg	FY15	FY14	Chg
- Multi-Level-Marketing	38.4	36.9	4.1%	37.7	1.8%	135.6	149.3	-9.2%
- Wholesale	16.4	14.2	15.2%	12.8	27.9%	56.7	56.3	0.6%
- Retail	14.2	9.0	56.8%	9.2	54.0%	40.6	40.1	1.4%
- Others	1.5	1.9	-18.0%	1.8	-14.4%	7.1	7.8	-9.1%
Group Revenue	70.4	62.0	13.6%	61.5	14.5%	239.9	253.4	-5.3%
- Multi-Level-Marketing	8.7	8.5	2.2%	8.4	4.4%	28.2	30.1	-6.2%
- Wholesale	3.2	0.1	4212.0%	1.3	156.9%	6.6	12.9	-48.6%
- Retail	2.1	-0.6	-479.5%	0.6	267.1%	2.4	2.3	6.1%
- Others	1.2	1.3	-4.2%	1.2	7.1%	5.1	6.4	-19.8%
- Elimination	0.0	-0.2	-78.7%	0.7	-106.3%	-0.2	0.4	-161.9%
Group EBIT	15.3	9.2	66.2%	12.1	26.5%	42.2	52.0	-18.9%
- Multi-Level-Marketing	22.7%	23.2%		22.2%		20.8%	20.2%	
- Wholesale	19.8%	0.5%		9.8%		11.7%	22.9%	
- Retail	15.1%	-6.2%		6.3%		6.0%	5.8%	
- Others	81.9%	70.2%		65.4%		72.4%	82.0%	
Group EBIT Margin	21.7%	14.9%		19.7%		17.6%	20.5%	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison															
NAME	Price (RM)	Mkt Cap (RMm)	PER (x)			Est. Div. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY13/14 E NP Growth (%)	FY14/15 E NP Growth (%)	Target Price (RM)	Rating
			Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd				
<u>CORE COVERAGE</u>															
<u>Consumer - Retail</u>															
AEON CO (M) BHD	3.17	4,450.7	20.9	20.7	20.1	1.4%	12.2%	2.51	212.71	214.53	221.56	0.9%	3.3%	3.10	Underperform
AMWAY (MALAYSIA) HLDGS BHD	10.70	1,758.9	17.6	16.9	15.9	5.3%	51.3%	7.70	99.80	104.20	110.60	4.4%	6.1%	11.42	Market Perform
ASIA BRANDS	1.75	138.5	5.9	10.6	8.7	2.9%	6.2%	0.56	23.60	13.10	16.00	-44.5%	22.1%	2.35	Underperform
HAI-O ENTERPRISE BHD	2.23	434.6	14.9	15.9	14.9	6.3%	12.8%	1.69	30.09	31.28	33.67	4.0%	7.7%	2.00	Underperform
PADINI HOLDINGS BERHAD	1.35	888.2	9.8	12.1	9.9	7.4%	18.0%	2.19	90.91	73.20	90.03	-19.5%	23.0%	1.64	Outperform
PARKSON HOLDINGS BHD	1.66	1,813.7	13.2	18.0	16.8	5.5%	5.8%	0.69	138.30	100.90	108.20	-27.0%	7.2%	2.12	Market Perform
ZHULIAN	2.05	943.00	20.1	18.0	16.5	4.9%	8.7%	1.86	47.10	52.50	57.00	11.5%	8.6%	2.00	Underperform
<u>Consumer - F&B</u>															
DUTCH LADY	45.72	2,926.1	26.6	28.2	25.7	4.1%	53.9%	18.66	109.80	103.70	113.90	-5.6%	9.8%	42.16	Underperform
NESTLE (M)	71.80	16,837.1	30.6	27.8	25.4	3.5%	56.6%	21.69	550.38	605.27	663.21	10.0%	9.6%	73.80	Market Perform
OLDTOWN BHD	1.62	716.3	14.5	12.8	12.1	4.0%	15.1%	2.18	51.00	57.70	60.80	13.1%	5.4%	1.79	Outperform
QL RESOURCES BHD	3.99	4,979.6	27.3	23.8	21.3	1.2%	14.0%	3.47	182.20	209.90	233.10	15.2%	11.1%	4.19	Market Perform
<u>Consumer - Sin</u>															
BRITISH AMERICAN TOBACCO BHD	61.18	17,468.7	19.2	17.6	17.5	5.7%	174.7%	33.25	910.00	990.60	996.80	8.9%	0.6%	67.40	Market Perform
CARLSBERG BREWERY MALAYSIA B	12.58	3,869.9	18.3	17.6	16.3	5.7%	60.0%	11.76	211.60	220.30	238.90	4.1%	8.4%	13.23	Market Perform
GUINNESS ANCHOR BHD	14.52	4,386.5	22.1	18.6	18.2	5.2%	56.9%	13.83	198.20	226.50	238.60	14.3%	5.3%	15.80	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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