Kenanga RESEARCH

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Hai-O Enterprise Bhd

9M14 Results Below Expectations

Period	•	3Q14/9M14
Actual vs. Expectations	•	Hai-O reported 3Q14 net profit of RM10.4m (-1% QoQ, - 5% YoY), bringing its 9M14 NP to RM29.7m (-20% YoY). The results were below expectations, at only 64% of both our forecast and the consensus full year estimates. The main culprit for this earnings miss was largely due to the weaker-than-expected sales in the MLM division.
Dividends	•	No dividend was declared for the quarter, as expected.
Key Result Highlights	•	 YoY, group revenue rose by 5% due to more favourable sales in the wholesale (+8%) and retail (+21%) segments, where the CNY festive season fell in the current reporting quarter, as opposed to the 4th quarter of last financial year. However, the improvement in revenue was eroded by the weakening of Ringgit against USD, and higher operating costs. Consequently, PBT margin was compressed by 2.3ppt, to 19.8% in 3Q14. QoQ, 3Q14 revenue grew by 9% while NP was flat at -1%. Apart from the above-mentioned factors, the revenue in the MLM division decreased marginally by 3% to RM38.5m, as the division has just completed its incentive trip campaign promotion in October 2013. Hence, sale post campaign was slower in the following months. YTD, 9M14 revenue was flat at -1% while NP declined by 20%. This was mainly due to: (i) weaker-than-expected sales for the MLM segment in 1Q14, (ii) GP margin erosion on the weakening Ringgit against USD, and (iii) escalating operating cost and higher A&P spent on the wholesale and retail segments.
Outlook	•	While we are positive on HAIO's longer-term prospects as its MLM division is intensifying its product strategy by focusing on more "small ticket" items, which are affordable, the rise in operating cost and the depreciation of Ringgit would continue to affect their margins, going forward.
Change to Forecasts	•	We have trimmed our FY14-15E revenue forecasts by 5.1% and 4.6%, respectively, to normalise our previous overly aggressive growth assumptions in the MLM segment. At the same time, we have assumed higher operating expenses for FY15. Consequently, our FY14 and FY15 net profit estimates have been lowered by 11% and 16%, respectively.
Rating		Downgraded to MARKET PERFORM
Valuation	1	Our previous TP of RM2.95 has been reduced to RM2.47 following the earnings revision. This implies an unchanged PER valuation of 11.8x over FY15E EPS of 21.0 sen.
Risks to our Call	1	Further weakening of Ringgit against USD. Slowdown of consumers spending in the domestic market.

MARKET PERFORM

Price: **RM2.48 Target Price:**

RM2.47



May-13 Jun-13 Jul-13 Aug-13 Sep-13 Oct-13 Nov-13 Dec-13 Jan-14 Feb-14 Mar-14

KLCI	1839.14
YTD KLCI chg	-1.5%
YTD stock price chg	-3.5%

Stock Information

Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	487.3
Issued shares	196.5
52-week range (H)	2.85
52-week range (L)	2.21
3-mth avg daily vol:	90,715
Free Float	77%
Beta	0.9
Major Shareholders	
KAI HEE TAN	9.9%
AKINTAN SDN BHD	7.7%
EXCELLANT COMMUNICAT	5.3%

Summary Earnings Table

FY Apr (RM'm)	2013A	2014E	2015E
Turnover	267.9	272.0	297.8
EBIT	63.4	55.6	56.7
PBT	64.0	56.3	57.5
Net Profit (NP)	47.2	41.4	42.4
Consensus (NP)		46.5	51.1
Earnings Revision		-11%	-16%
EPS (sen)	23.32	20.50	20.95
EPS growth (%)	39%	-12%	2%
NDPS (sen)	14.00	12.00	12.57
BVPS (RM)	1.18	1.27	1.35
NTA/Share (RM)	1.18	1.27	1.35
PER (X)	10.63	12.10	11.84
Price/NTA (x)	2.09	1.95	1.83
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	5.6%	4.8%	5.1%

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Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	71.6	65.6	9%	68.3	5%	191.9	194.3	-1%
PBT	14.2	14.6	-3%	15.1	-6%	40.6	-49.4	-182%
Taxation	-3.5	-3.7	-6%	-4.1	-14%	-10.3	-11.5	-10%
Minority interest	-0.2	-0.4	-40%	0.0	1032%	-0.5	-0.5	5%
Net Profit (NP)	10.4	10.5	-1%	11.0	-5%	29.7	37.3	-20%
EPS (sen)	5.2	5.2	-1%	5.5	-7%	14.7	18.5	-20%
PBT margin	19.8%	22.3%		22.0%		21.1%	-25.4%	
NP margin	14.5%	16.1%		16.1%		15.5%	19.2%	
Effective tax rate	24.9%	25.6%		27.1%		25.5%	-23.4%	

Source: Company, Kenanga Research

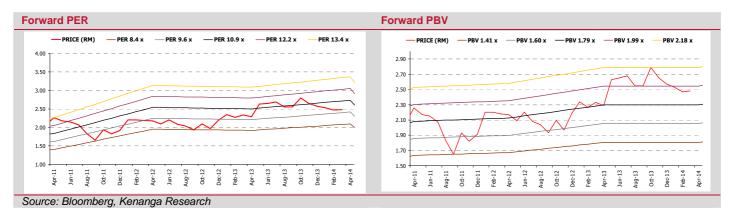
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
- Multi-Level-Marketing	38.5	39.6	-3%	40.1	-4%	111.6	121.1	-8%
- Wholesale	17.2	14.1	22%	15.9	8%	43.5	39.2	11%
- Retail	13.3	10.2	31%	11.0	21%	30.9	29.5	5%
- Others	2.6	1.7	55%	1.9	40%	6.0	6.1	-1%
Group Revenue	71.6	65.6	9%	68.9	4%	191.9	195.9	-2%
		0.0						
- Multi-Level-Marketing	8.5	8.0	6%	7.3	17%	21.7	21.7	0%
- Wholesale	3.0	3.8	-20%	6.6	-54%	11.6	16.1	-28%
- Retail	0.8	1.1	-27%	0.4	118%	1.7	2.1	-18%
- Others	1.8	2.2	-20%	1.0	68%	5.2	9.6	-46%
- Elimination	-0.3	-0.4	-32%	-0.3	0%	-0.4	-0.4	-8%
Group EBIT	13.8	14.6	-6%	15.0	-8%	39.9	49.2	-19%
- Multi-Level-Marketing - Wholesale - Retail	22.0% 17.5% 6.0%	20.1% 26.7% 10.7%		18.1% 41.5% 3.3%		19.5% 26.7% 5.6%	17.9% 41.2% 7.2%	
- Others	66.6%	128.0%		55.4%		87.0%	159.2%	
Group EBIT Margin	19.2%	22.3%		21.8%		20.8%	25.1%	

Source: Company, Kenanga Research

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Income Statement						Financial Data & Rat	ios				
FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E	FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	223.3	239.5	267.9	272.0	297.8	Growth					
EBITDA	44.0	51.4	66.2	58.6	59.9	Turnover (%)	(56.3)	7.3	11.9	1.5	9.5
Depreciation	2.7	2.8	2.7	3.0	3.3	EBITDA (%)	(55.6)	17.0	28.6	(11.5)	2.3
Operating Profit	41.3	48.7	63.4	55.6	56.7	Operating Profit (%)	(57.2)	18.0	30.3	(12.4)	2.0
Other Income	0.9	0.8	1.2	1.3	1.5	PBT (%)	(56.8)	18.1	31.2	(12.1)	2.2
Interest Exp	-0.8	-0.7	-0.6	-0.6	-0.6	Net Profit (%)	(59.8)	19.9	38.7	(12.1)	2.2
PBT	41.3	48.8	64.0	56.3	57.5						
Taxation	-11.6	-13.1	-16.0	-14.1	-14.4	Profitability (%)					
Minority Interest	1.3	1.7	0.9	0.8	0.8	EBITDA Margin	19.7	21.5	24.7	21.5	20.1
Net Profit	28.4	34.0	47.2	41.4	42.4	Operating Margin	18.5	20.3	23.7	20.4	19.0
						PBT Margin	18.5	20.4	23.9	20.7	19.3
Balance Sheet						Net Margin	12.7	12.7	14.2	17.6	15.2
FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E	Effective Tax Rate	28.0	26.8	25.0	25.0	25.0
Fixed Assets	72.2	62.1	64.9	74.9	84.9	ROA	11.0	11.7	15.4	12.7	12.2
Inv. Properties	33.2	45.2	42.4	42.4	42.4	ROE	13.3	14.7	18.8	15.4	14.8
Intangible Assets	0.1	0.1	0.1	0.1	0.1						
Other FA	4.6	5.0	4.5	4.5	4.5	DuPont Analysis					
Inventories	44.3	37.8	49.9	46.8	51.3	Net Margin (%)	12.7	14.2	17.6	15.2	14.2
Receivables	16.9	19.7	18.7	20.7	22.6	Assets Turnover(x)	1.2	1.2	1.1	1.2	1.2
Other CA	39.5	65.6	61.0	58.0	54.8	Leverage Factor(x)	1.3	1.3	1.3	1.3	1.3
Cash	46.1	54.2	64.9	78.1	86.1	ROE (%)	13.3	14.7	18.8	15.4	14.8
Total Assets	257.0	289.6	306.5	325.6	346.7						
						Leverage					
Payables	22.6	32.5	35.2	36.3	39.7	Debt/Asset (x)	0.1	0.0	0.0	0.0	0.0
ST Borrowings	5.7	5.2	7.0	7.0	7.0	Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0
Other ST Liability	5.2	12.4	7.1	7.1	7.1	Net Cash/(Debt)	29.6	40.9	51.5	64.7	72.7
LT Borrowings	10.7	8.1	6.4	6.4	6.4	Net Debt/Equity	N.Cash	N.Cash	N.Cash	N.Cash	N.Cash
Other LT Liability	0.1	0.0	0.1	0.1	0.1						
Minorities Int.	8.3	9.7	11.1	11.8	12.6	Valuations					
Net Assets	204.4	221.7	239.6	256.7	273.7	EPS (sen)	14.03	16.82	23.32	20.50	20.95
						NDPS (sen)	7.50	9.00	14.00	12.00	12.57
Share Capital	101.1	101.1	101.1	101.1	101.1	NTA/share (RM)	1.01	1.10	1.18	1.27	1.35
Treasury Shares	-4.3	-5.9	-9.7	-9.7	-9.7	PER (x)	17.68	14.75	10.63	12.10	11.84
Reserves	107.6	126.5	148.2	165.4	182.3	Net Div. Yield (%)	3.0%	3.6%	5.6%	4.8%	5.1%
Equity	204.4	221.7	239.6	256.8	273.7	P/NTA (x)	2.45	2.26	2.09	1.95	1.83
						EV/EBITDA (x)	10.44	8.70	6.60	7.23	6.94
Cashflow Statemen	t										
FY Apr (RM m)	2011A	2012A	2013A	2014E	2015E						
Operating CF	15.3	51.7	39.2	46.8	42.6						
Investing CF	-4.0	-23.7	0.8	-10.0	-10.0						
Financing CF	-36.2	-19.8	-29.3	-23.6	-24.6						
Change In Cash	-24.9	8.1	10.7	13.2	8.0						
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Source: Company, Kenanga Research



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 stock'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 stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: 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 are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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