

27 March 2014

Hai-O Enterprise Bhd

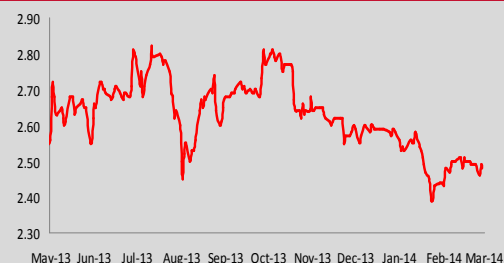
9M14 Results Below Expectations

- 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** ■ 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**
- Further weakening of Ringgit against USD.
 - Slowdown of consumers spending in the domestic market.

MARKET PERFORM

Price: RM2.48
Target Price: RM2.47

Share Price Performance



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								
FY Apr (RM'm)	3Q FY14	2Q FY14	QoQ Chg	3Q FY13	YoY Chg	9M FY14	9M FY13	YoY 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

Segmental Breakdown								
FY Apr (RM'm)	3Q FY14	2Q FY14	QoQ Chg	3Q FY13	YoY Chg	9M FY14	9M FY13	YoY 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%
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- 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	22.0%	20.1%		18.1%		19.5%	17.9%	
- Wholesale	17.5%	26.7%		41.5%		26.7%	41.2%	
- Retail	6.0%	10.7%		3.3%		5.6%	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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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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