

**Company Result**

**26 June 2014**

**Hai-O Enterprise Berhad**

**HOLD**

*Challenging outlook for FY15F*

**Maintained**

<b>Share Price</b>	<b>RM2.55</b>
<b>Target Price</b>	<b>RM2.57</b>

**Result**

**Company Description**

Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.

**Stock Data**

Bursa / Bloomberg code	7668 / HAI0 MK
Board / Sector	Industrial / Food & Drug Retailers
Syariah Compliant status	No
Issued shares (m)	195.77
Par Value (RM)	0.50
Market cap. (RMm)	499.21
52-week price Range	RM2.36– 2.85
Beta (against KLCI)	0.91
3-m Average Daily Volume	0.09m
3-m Average Daily Value <sup>^</sup>	RM0.22m

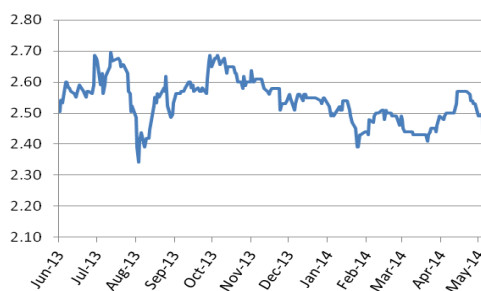
**Share Performance**

	1m	3m	12m
Absolute (%)	-1.9	-8.2	13.5
Relative (%-pts)	-1.7	-5.8	-2.8

**Major Shareholders**

	%
KAI HEE TAN	9.94
AKINTAN SDN BHD	7.68
SLOW ENG TAN	6.88

**Historical Chart**



Source: Bloomberg

**Team Coverage**

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- **Hai-O's 4QFY2014 net profit recorded at RM10.7mil**, increased 9.2% y-o-y and 2.8 % q-o-q. However, revenue declined 14.9% y-o-y and 14.2% q-o-q.
- **FY2014 net profit met expectations**, reached 101.2% and 100% of our and consensus expectations respectively. Overall, the Group recorded 14.2% drop in FY 14 net profit on the back of lower topline of -4.9%.

**Comment**

- **Small ticket items failed to heighten the MLM division for FY14** – The 'small ticket' selling strategy unable to spur the division's revenue. The MLM revenue for FY14 declined by 10% to RM149.7mill as compared to previous year.
- **Disappointing result from wholesale division** – Despite the 10.7% external growth brought by higher sales in Chinese medicated tonic, Chinese tea and value herbs in the consumer market, the division's FY14 PBT slipped by 28.4%. The drop in PBT was mainly due to lower inter-segment sales to MLM division and weakening of Ringgit Malaysia against USD currency which had battered down the profit margin.
- **Cautious consumer sentiment affected the retail division** – Subsidies rationalization coupled with the high cost of living have dented consumer spending. This seems to affect the retail division as its FY 14 PBT recorded a decline of 38.9% to RM2.3mil. Besides, the health food industries are operating under a high cost atmosphere resulted from shortage of labour.

**Earnings Outlook/Revision**

- **We cut our FY15 net earnings forecast by 6.3% to RM43.3m** (previously: RM46.2mill).
- **We foresee that MLM division may improve moderately**, with the group's "small tickets" items strategies as its lower initial capital cost will attract more distributors despite temporary 'blip' on the segment. Having said that, the group's sales will be challenged by the rising cost of living coupled with implementation of GST in 2015, which will lead to lower consumer spending and hence will put some pressure on its wholesale and retail divisions.

## Valuation & Recommendation

- Maintain HOLD call on Hai-O with lower target price of RM2.57 (previous TP: RM2.60).** We pegged our target price at 12x FY2015F PE based on EPS of 22 sen. We maintain our neutral stance on the group's prospects as we currently do not foresee any immediate catalyst to the stock.

**Figure 1: Quarterly Figures**

Year to 31 Dec	4QFY14 (RMm)	3QFY14 (RMm)	4QFY13 (RMm)	QoQ % chg	YoY % chg	12M14 (RMm)	12M13 (RMm)	YoY % chg
<b>Revenue</b>	61.5	71.64	72.3	-14.2%	-14.9%	253.4	266.5	-4.9%
<b>Operating Profit</b>	12.1	13.77	14.3	-12.2%	-15.1%	52.0	63.1	-17.6%
<b>Pre-tax Profit</b>	12.5	14.15	14.6	-11.5%	-14.0%	53.1	63.9	-16.9%
<b>Profit After Tax</b>	10.8	10.63	10.2	1.7%	6.1%	41.1	48.0	-14.5%
<b>Net Profit</b>	10.7	10.42	9.8	2.8%	9.2%	40.5	47.2	-14.2%
<b>Operating Margin (%)</b>	19.7%	19.2%	19.7%	0.4ppt	-0.1 ppt	20.5%	23.7%	-3.2 ppt
<b>Profit Before Tax Margin (%)</b>	20.4%	19.8%	20.2%	0.6ppt	0.2ppt	21.0%	24.0%	-3.0 ppt
<b>Profit After Tax Margin (%)</b>	17.6%	14.8%	14.1%	2.7ppt	3.5 ppt	78.9%	76.1%	2.9ppt
<b>Nat Profit Margin (%)</b>	17.4%	14.5%	13.6%	2.9ppt	3.9 ppt	76.2%	73.8%	2.4ppt

**Figure 2: Revenue and PBT by divisions**

Year to 31 Mar	4QFY14 (RMm)	3QFY14 (RMm)	4QFY13 (RMm)	QoQ % chg	YoY % chg	FY14 (RMm)	FY13 (RMm)	YoY % chg
<b>Segment Revenue</b>								
MLM	38.1	38.5	45.9	-1.0%	-17.0%	149.7	167.0	-10.4%
Wholesales	12.7	17.2	11.7	-26.0%	8.8%	56.2	50.8	10.7%
Retail	9.2	13.3	12.7	-30.8%	-27.6%	40.1	42.3	-5.2%
<b>Total Revenue</b>	<b>60.0</b>	<b>69.0</b>	<b>70.3</b>	<b>-13.0%</b>	<b>-14.6%</b>	<b>246.0</b>	<b>260.1</b>	<b>-5.4%</b>
<b>Segment Profit Before Tax</b>								
MLM	8.7	8.5	8.1	2.4%	7.4%	30.5	29.8	2.3%
Wholesales	2.3	3.0	3.3	-23.3%	-30.3%	13.9	19.4	-28.4%
Retail	0.5	0.8	1.4	-37.5%	-64.3%	2.2	3.6	-38.9%
<b>Total Profit Before Tax</b>	<b>11.5</b>	<b>12.3</b>	<b>12.8</b>	<b>-6.5%</b>	<b>-10.2%</b>	<b>46.6</b>	<b>52.8</b>	<b>-11.7%</b>
<b>Segment PBT margin</b>								
MLM	22.8%	22.1%	17.6%	0.8ppt	4.8ppt	20.37%	17.84%	3.3ppt
Wholesales	6.0%	17.4%	28.2%	-0.4ppt	-3.2ppt	9.29%	11.62%	-1.9ppt
Retail	3.9%	6.0%	11.0%	-4.7ppt	-9.7ppt	3.91%	7.09%	-0.9ppt

**Figure 2: Financial Summary**

Year to 30 April (Rm'm)	2011	2012	2013	2014	2015F
Revenue	223.3	239.4	267.9	253.4	274.0
Operating profit	41.3	48.7	63.4	52.0	57.3
Net profit	28.4	34.0	47.2	40.5	43.3
EPS (sen)	14.0	17.2	24.1	20.0	21.4
P/E (x)	18.7	15.2	10.9	13.1	12.2
P/BV (x)	2.5	2.5	2.5	2.1	2.0
Dividend yield (%)	3.4%	3.2%	5.3%	3.8%	4.1%
PBT margin (%)	18.5%	20.2%	23.0%	20.0%	20.3%
Net profit margin (%)	12.7%	14.1%	17.6%	16.7%	17.0%
Net Gearing (%)	-22.71%	-12.34%	-17.67%	-23.96%	-20.54%
ROE (%)	13.3%	14.6%	18.9%	16.1%	16.3%
ROA (%)	10.2%	11.9%	16.3%	15.0%	14.1%

Source: Company, JF Apex Estimates

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**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

- BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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