AFFIN INVESTMENT BANK
INVESTMENT BANKING • INVESTMENT MANAGEMENT • MARKET TRADING & RESEARCH
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RESULTS NOTE

26 June 2014

HAI-O

Sector: Consumer

HAIO MK
RM2.53 @ 25 June 2014

ADD (maintain)

Price Target: RM3.01 (↑)

Price Performance

	1M	3M	12M
Absolute	+1.6%	+2.0%	-3.4%
Rel to KLCI	+0.2%	-0.7%	-11.0%

Stock Data

Issued shares (m)	195.8
Mkt cap (RMm)/(US$m)	495.3/153.6
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.36-2.85
Est free float	50%
BV per share (RM)	1.24
P/BV (x)	2.03
Net cash/ (debt) (RMm) (4Q14)	54.1
ROE (2015F)	18.5%
Derivatives	Nil
Shariah Compliant	NO

Key Shareholders

Tan Kai Hee	9.9%
Akintan Sdn Bhd	7.6%
Siow Eng Tan	6.8%

Earnings & Valuation Revisions

	15E	16E	17E
Prev EPS (sen)	23.8	27.2	29.9
Curr EPS (sen)	24.2	27.2	29.9
Chg (%)	+1.6	-	-
Prev target price (RM)			2.97
Curr target price (RM)			3.01

Source: Affin, Bloomberg

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Long-term prospects remain intact

FY14 core net profit down 6.5% yoy, slightly below expectations

Hai-O's FY14 revenue declined 5% yoy to RM253.4m due to lower revenue contribution from its multi-level-marketing (MLM) division, which dropped 10% yoy to RM150m. Likewise, EBIT margins slipped to 21% from 22.2% a year ago, attributed to higher sales of lower margin products as the company promoted more of its smaller-ticket items as opposed to its "big ticket" items. Its “big ticket” items currently make up 52% of the revenue for FY14 vs. 72% in FY13. As a result, FY14 core earnings slipped 6.5% to RM40.5m despite a lower effective tax rate. On a whole, Hai-O’s FY14 core net profit was slightly below ours but within consensus expectations, accounting for 92% and 97% of the full-year estimates respectively. The company also announced a final DPS of 10 sen, bringing its total FY14 DPS to 14 sen, for a payout ratio of 68% (vs. 60% for FY13). This translates into a yield of 5.5%.

4Q14 core profit lifted by lower effective tax rate

On a sequential basis, Hai-O’s 4Q FY14 revenue of RM61.5m (-14.2% qoq) was dragged down by lower sales contribution from both its wholesale (-26% qoq) and retail (-44% qoq) division as consumers have cut down orders for the quarter, post CNY festivities. Despite the weaker revenue, EBIT margins improved by 0.5ppts to 19.7% likely due to better cost management efforts. A lower effective tax rate of 13.7% (vs 3QFY14: 24.9%) helped to boost its core earnings by 3.8% qoq to RM10.7m. On a yoy comparison, both its 4Q FY14 revenue and core earnings dropped 14.7% and 7.5% thanks to lower sales from its MLM division (-17% yoy). A key reason for the weaker MLM performance was attributed to a shift in marketing strategy. While waiting for the launch of its latest range of its foundation garments, which comparatively rakes in higher margins, the company took the opportunity to engage in promoting "small ticket" items. This garnered good response from both its existing and new members.

Maintain ADD, with slightly tweaked TP to RM3.01

Overall, we make no major changes to our core assumptions, but tweak our FY15 estimates slightly higher by 1.6% after updating our model for the FY14 financial statements. Also, we introduce our FY17 EPS forecast of 29.9 sen (+9.9% yoy). Pending a meeting with management next week, we reiterate our ADD rating on Hai-O with a slightly higher TP of RM3.01 (from RM2.97) based on an unchanged target multiple of 11.5x (in-line with its historical 3-year mean trading band) on CY15 EPS. We continue to like Hai-O given its: i) solid long-term fundamentals, ii) attractive dividend yields of 6-7% over the next three years and iii) appealing valuations at 10.5x CY15 PER. Key risks would include: i) a sharp slowdown in consumer spending, which would dampen distributors’ sales and ii) stiffer-than-expected competition from other MLM companies.

Earnings & Valuation Summary

FYE 30 April	2013	2014	2015E	2016E	2017E
Revenue (RMm)	267.9	253.4	284.0	309.4	339.6
EBITDA (RMm)	67.7	58.0	71.3	79.8	87.3
Pretax profit (RMm)	64.1	54.6	67.9	76.5	84.1
Net profit (RMm)	47.4	42.0	49.0	55.2	60.7
EPS (sen)	23.4	20.7	24.2	27.2	29.9
PER (x)	10.8	12.2	10.5	9.3	8.5
Core net profit (RMm)	43.5	42.0	49.0	55.2	60.7
Core EPS (sen)	21.5	20.7	24.2	27.2	29.9
Core EPS growth (%)	31.1	-3.6	16.7	12.7	9.9
Core PER (x)	11.8	12.2	10.5	9.3	8.5
Net DPS (sen)	14.0	14.0	15.7	17.8	19.5
Dividend Yield (%)	5.5	5.5	6.2	7.0	7.7
EV/EBITDA (x)	5.9	6.9	5.5	4.6	3.9
Consensus profit (RMm)	-	-	45.3	54.4	-
Affin/Consensus (x)	-	-	1.1	1.0	-

Source: Affin

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Fig 1: Quarterly Results Comparison

FYE April (RMm)	4QFY13	3QFY14	4QFY14	QoQ % chg	YoY % chg	Comment
Revenue	72.1	71.6	61.5	*(14.2)*	*(14.7)*	Lower qoq and yoy dragged down by lower revenue growth ifrom its wholesale and retail division.
Op costs	(59.2)	(57.9)	(49.4)	*(14.7)*	*(16.6)*	
EBIT	12.9	13.8	12.1	*(12.1)*	*(5.9)*	
EBIT margin (%)	*17.8*	*19.2*	*19.7*	*0.5*	*1.8*	Despite lower sales for its high margin foundation garment products. Hai-O promoted and had encouraged its distributors to sell more "small ticket" items. Margin improvement likely due to better cost management efforts.
Int expense	(0.1)	(0.1)	(0.1)	*26.7*	*(30.7)*	
Int and other inc	0.4	0.5	0.5	*12.1*	*18.6*	
Associates	0.0	0.0	0.0	*nm*	*nm*	
Exceptional gain/losses	1.5	0.0	0.0	*nm*	*nm*	
Pretax	**14.7**	**14.2**	**12.5**	*(11.5)*	*(14.6)*	Lower yoy impacted by lower sales of "big ticket" items
Tax	(4.2)	(3.5)	(1.7)	*(51.3)*	*(59.1)*	
Tax rate (%)	*28.6*	*24.9*	*13.7*	*nm*	*nm*	Lower effective tax rate
MI	(0.4)	(0.2)	(0.1)	*nm*	*nm*	
Net profit	**10.1**	**10.4**	**10.7**	*2.8*	*6.2*	
EPS (sen)	5.0	5.2	5.3	*2.8*	*6.2*	
Core net profit	**11.6**	**10.4**	**10.7**	***2.8***	***(7.5)***	

Source: Affin

Fig 2: Cumulative Results Comparison

FYE April (RMm)	FY13	FY14	YTD % chg	Comment
Revenue	266.5	253.4	*(4.9)*	The sales slowdown in its "bigger ticket items" were the key factor in lower revenue
Op costs	(207.3)	(200.2)	*(3.4)*	
EBIT	59.2	53.2	*(10.2)*	
EBIT margin (%)	*22.2*	*21.0*	*(1.2)*	Margin squeeze attributed to lower sales of higher margin products
Int expense	(0.6)	(0.4)	*(34.8)*	Lower borrowings (-106% yoy)
Int and other inc	1.2	0.4	*(63.5)*	
Associates	0.2	(0.1)	*nm*	
Exceptional gain/losses	3.9	0.0	*nm*	
Pretax	**63.9**	**53.1**	***(16.9)***	
Tax	(15.9)	(12.1)	*(24.3)*	
Tax rate (%)	*24.9*	*22.7*	*nm*	Lower effective tax rate yoy
MI	(0.9)	(0.6)	*(29.8)*	
Net profit	**47.2**	**40.5**	***(14.2)***	
EPS (sen)	23.3	20.0	*(14.2)*	
Core net profit	**43.3**	**40.5**	***(6.5)***	Slightly below expectations, accounting for 92% of our and 97% of consensus full year forecasts

Source: Affin

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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