

Outthink. Outperform.

Strategy shift taking longer than expected

Hai-O's 1QFY15 results came in below expectations, making up 13% and 14% of our and consensus expectations. We attribute the weaker set of results to lower contributions from both its MLM and wholesale division. In view of this, we cut our FY15-17 estimates by 21-24%. We downgrade the stock to a REDUCE rating with lowered TP of RM2.31.

1QFY15 net profit down 29% yoy...

Hai-O's 1QFY15 revenue and net profit slipped by 9% and 29% to RM49.8m and RM6.2m respectively. This was mainly attributed to weaker contribution from its multi-level-marketing (MLM) and flattish sales from its whole sales division.

...dragged down by lower MLM revenue

MLM revenue contracted 15% yoy due to lower sales from its "big ticket" items which contributed 30% of its 1QFY15 revenue (from 52% in FY14). The better sales volume from its "small ticket" items was not enough to compensate for the drop in "big ticket" items. Group 1QFY15 EBIT margins moderated 4.6ppts yoy to 16.5% due to higher advertising and promotional (A&P) expenses.

Cutting FY15-17E estimates

In view of the disappointing results, we are slashing our FY15-17 estimates by 21-24% to take into account the weaker-than-expected performance from its MLM division. We have also tweaked up our operating expenses due to the growing inflationary pressures as we were overly conservative on our assumptions.

Downgrade to REDUCE (from ADD)

We lower our 12-month TP to RM2.31 (from RM3.01) based on an unchanged target multiple of 11.5x (in-line with its historical 3-year average PE) on CY15 EPS. We are turning cautious on its MLM division which is still grappling with the shift in marketing strategy of promoting "small ticket" items instead of "big ticket" items. We downgrade the stock to a REDUCE (from ADD).

Key risks to our call would include: i) stronger-than-expected upturn in consumer spending and ii) better-than-expected RM against the US\$.

Earnings & Valuation Summary

FYE 30 April	2013	2014	2015E	2016E	2017E
Revenue (RMm)	267.9	253.4	270.9	301.5	339.5
EBITDA (RMm)	67.7	58.0	54.8	62.2	69.6
Pretax profit (RMm)	64.1	54.6	51.5	58.9	66.4
Net profit (RMm)	47.4	42.0	37.1	42.5	47.9
EPS (sen)	23.4	20.7	18.3	21.0	23.6
PER (x)	11.2	12.6	14.2	12.5	11.0
Core net profit (RMm)	43.5	42.0	37.1	42.5	47.9
Core EPS (sen)	21.5	20.7	18.3	21.0	23.6
Core EPS growth (%)	31.1	-3.6	-11.6	14.4	12.7
Core PER (x)	12.2	12.6	14.2	12.5	11.0
Net DPS (sen)	14.0	14.0	11.9	13.7	15.4
Dividend Yield (%)	5.4	5.4	4.6	5.2	5.9
EV/EBITDA (x)	6.3	7.2	7.5	6.3	5.4
Chg in EPS (%)			-24.0	-23.0	-21.0
Affin/Consensus (x)			0.8	0.8	0.7

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

HAI-O

HAIO MK
Sector: Consumer

RM2.63 @ 25 Sept 2014

REDUCE (downgrade)

Downside 12%

Price Target: RM2.31

Previous Target: RM3.01



Price Performance

	1M	3M	12M
Absolute	-2.6%	+4.0%	-0.8%
Rel to KLCI	-1.5%	+6.7%	-3.8%

Stock Data

Issued shares (m)	195.5
Mkt cap (RMm)/(US\$m)	514.2/158.4
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.36-2.84
Est free float	67.3%
BV per share (RM)	1.24
P/BV (x)	2.11
Net cash/ (debt) (RMm) (1Q15)	42.0
ROE (2015F)	19.6%
Derivatives	Nil
Shariah Compliant	NO

Key Shareholders

Tan Kai Hee	10.0%
Akintan SB	7.7%
Tan Siow Eng	6.9%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 30 Apr (RMm)	1QFY15	QoQ % chg	YoY % chg	1QFY15	YoY % chg	Comment
Revenue	49.8	(19.0)	(9.0)	49.8	(9.0)	Revenue fell due to weaker sales from both its MLM division.
Op costs	(41.5)	(15.9)	(3.6)	(41.5)	(3.6)	
EBIT	8.2	(31.9)	(28.9)	8.2	(28.9)	
<i>EBIT margin (%)</i>	<i>16.5</i>	<i>3.1ppt</i>	<i>-4.6ppt</i>	<i>16.5</i>	<i>-4.6ppt</i>	EBIT contracted due to higher A&P expenses.
Int expense	(0.1)	2.1	(21.8)	(0.1)	(21.8)	
Int and other inc	0.3	(49.6)	(20.5)	0.3	(20.5)	
Associates	0.0	0.0	0.0	0.0	0.0	
EI	0.0	0.0	0.0	0.0	0.0	
Pretax profit	8.4	(32.9)	(28.7)	8.4	(28.7)	
Tax	(2.2)	27.7	(28.6)	(2.2)	(28.6)	
<i>Tax rate (%)</i>	<i>26.1</i>	<i>12.4ppt</i>	<i>0.0ppt</i>	<i>26.1</i>	<i>0.0ppt</i>	
MI	(0.0)	0.0	0.0	(0.0)	(107.1)	
Net profit	6.2	(42.0)	(29.4)	6.2	(29.4)	Net profit came in way below our and consensus expectations.
EPS (sen)	3.1	(42.0)	(29.4)	3.1	(29.4)	
Core net profit	6.2	(42.0)	(29.4)	6.2	(29.4)	

Source: Affin Hwang, Company data

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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