

Outthink. Outperform.

## Dull 9MFY15 due to weaker consumer spending

Hai-O's annualized 9M15 results came largely in line our estimates but below market expectations. Its revenue and core earnings moderated due to weaker sales and softer margins. We reaffirm our **SELL** rating as we believe that the stock lacks any immediate re-rating catalysts. Our TP of RM1.80 remains unchanged.

### Hai-O's annualized 9MFY15 net profit fell 30.4% yoy...

Hai-O's annualized 9MFY15 earnings of RM20.7m (-30.4% yoy) came in largely in line with our (70% of FY15E) but below market expectations (only 58%). This was mainly attributed to weaker contributions from all segments which include the multi-level-marketing (MLM), retail and wholesale divisions.

### ...as revenue declined across all segments

9M15 revenue and PBT for its MLM division dropped 13% and 10.1% yoy respectively. This was mainly due to a drop in its "big-ticket items" which offset the improved sales from its "small ticket items". As of 9MFY15, the group's "small- and-medium-ticket items" contributed >65% of the group's total revenue (vs. 48% in FY14). While 9MFY15 wholesale revenue dropped 7% yoy, PBT fell by a sharper 70.6% yoy due to lower inter-segment sales and decreased external sales to Chinese medicated tonics and teas. As a result, the group's 9MFY15 EBIT margins contracted 4.9ppts yoy to 15.9% owing to higher sales of lower margined products.

### Reaffirm SELL and TP of RM1.80

We are keeping our earnings forecasts as we believe the upcoming goods and sales tax (GST) potentially dampens sales in the coming quarters as consumers cut back on their spending. We also believe that the group's wholesale division will continue to be affected by the weakening of the RM vs. US\$, which would crimp margins given higher import costs. Meanwhile, we do not expect a significant improvement for its retail division in view of the overall weaker consumer spending environment. While the stock offers FY16-17E dividend yields of 4-5%, we believe that this may not be enough to compensate investors for the potential downside risks to earnings in view of the overall weaker domestic market. We reaffirm our SELL call and 12-month TP of RM1.80 based on 11.5x CY15E EPS (which is line with its 3-year historical mean PE).

Key risks to our call include: i) stronger-than-expected upturn in consumer spending; and ii) strengthening of the RM vs. US\$.

### Earnings & Valuation Summary

FYE Apr	2013	2014	2015E	2016E	2017E
Revenue (RMm)	267.9	253.4	257.7	270.0	283.8
EBITDA (RMm)	67.7	58.0	44.6	48.4	53.3
Pretax profit (RMm)	64.1	54.6	41.2	45.1	50.0
Net profit (RMm)	47.4	42.0	29.7	32.6	36.1
EPS (sen)	23.4	20.7	14.7	16.1	17.8
PER (x)	10.1	11.4	16.1	14.7	13.3
Core net profit (RMm)	43.5	42.0	29.7	32.6	36.1
Core EPS (sen)	21.5	20.7	14.7	16.1	17.8
Core EPS growth (%)	31.1	-3.6	-29.2	9.5	10.9
Core PER (x)	11.0	11.4	16.1	14.7	13.3
Net DPS (sen)	14.0	14.0	9.5	10.5	11.6
Dividend Yield (%)	5.9	5.9	4.0	4.4	4.9
EV/EBITDA (x)	5.5	6.3	8.2	7.2	6.3
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			0.8	0.8	0.8

Source: Company, Affin Hwang estimates, Bloomberg

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

## Results Note

# Hai-O

HAIO MK  
Sector: Consumer

**RM2.36 @ 24 March 2015**

**SELL (maintain)**

Downside 24.0%

**Price Target: RM1.80**

Previous Target: RM1.80



## Price Performance

	1M	3M	12M
Absolute	-0.4%	+7.8%	-5.2%
Rel to KLCI	-0.3%	+3.9%	-4.0%

## Stock Data

Issued shares (m)	195.1
Mkt cap (RMm)/(US\$m)	460.4/126.2
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	2.14-2.72
Est free float	52.0%
BV per share (RM)	1.26
P/BV (x)	1.87
Net cash/ (debt) (RMm) (3Q15)	40.2
ROE (2015E)	11.7%
Derivatives	Nil
Shariah Compliant	YES

## Key Shareholders

Tan Kai Hee	9.9%
Akintan SB	7.7%
Tan Siow Eng	6.9%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Apr (RMm)	3QFY15	QoQ % chg	YoY % chg	9MFY15	YoY % chg	Comment
Revenue	62.0	7.3	(13.5)	169.5	(11.7)	9MFY15 revenue fell as all of the group's divisions recorded lower sales.
Op costs	(52.7)	9.3	(8.9)	(142.6)	(6.2)	
EBIT	9.2	(2.6)	(32.9)	26.9	(32.7)	9MFY15 EBIT margins contracted due to the higher sale of lower-margin products
<i>EBIT margin (%)</i>	<i>14.9</i>	<i>-1.5ppt</i>	<i>-4.3ppt</i>	<i>15.9</i>	<i>-4.9ppt</i>	
Int expense	(0.1)	(22.5)	(17.3)	(0.2)	(22.9)	
Int and other inc	0.3	3.2	989.1	0.8	(18.4)	
Associates	0.0	0.0	0.0	0.1	0.0	
Exceptional items	0.0	0.0	0.0	0.0	0.0	
<b>Pretax</b>	<b>9.5</b>	<b>(2.3)</b>	<b>(33.1)</b>	<b>27.6</b>	<b>(32.1)</b>	
Tax	(2.4)	8.1	(31.9)	(6.8)	(34.3)	
<i>Tax rate (%)</i>	<i>25.3</i>	<i>+2.4ppt</i>	<i>+0.4ppt</i>	<i>24.7</i>	<i>-0.8ppt</i>	
MI	0.2	(178.6)	(211.2)	(0.1)	(88.1)	
<b>Net profit</b>	<b>7.3</b>	<b>2.0</b>	<b>(29.8)</b>	<b>20.7</b>	<b>(30.4)</b>	Net profit came largely in line with our expectations but below the market's.
EPS (sen)	3.6	2.0	(29.8)	10.2	(30.4)	
<b>Core net profit</b>	<b>7.3</b>	<b>2.0</b>	<b>(29.8)</b>	<b>20.7</b>	<b>(30.4)</b>	

Source: Affin Hwang, Company data

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	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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