Valuations turn appealing

Hai-O's FY15 results were in line with our and consensus expectations. The group's FY15 revenue and core earnings contracted 5% and 25% respectively due to weaker sales and softer margins. Upgrade to HOLD with a higher TP of RM2.02 (from RM1.80) as valuation turns attractive. Estimated dividend yields of ~5% over the next 3 years should provide a buffer to share price.

FY15 net profit dropped 25.3% yoy, within our expectations

Hai-O's FY15 core earnings of RM30.1m (-25.3% yoy) came in within our expectations but above market, making up 101% and 104% of the full-year forecasts respectively. The decline was mainly due to weaker contributions from all divisions - multi-level-marketing (MLM), retail and wholesale. The group also declared a final DPS of 11 sen this quarter (vs. 4QFY14: 10 sen), bringing its FY15 DPS to 15 sen (FY14: 14 sen). This translates into a dividend payout ratio of 101%, implying a yield of 6.7% for FY15.

Disappointing showing from all divisions

FY15 revenue and PBT for the group's MLM division fell 10.1% and 6.4% yoy, respectively. This was largely attributed to a shift in strategy where the group focused on selling more low margin "small ticket" items vs. "big ticket" items. On a whole, the "small and medium ticket" items contributed >60% of the group's total revenue (vs. 48% in FY14). Meanwhile, FY15 PBT for the wholesale segment plunged 47.2% yoy due to weaker inter-segment sales and lower margins from the weakening of the RM vs. US$. Accordingly, the group's FY15 EBIT margin declined 3.0ppts yoy to 17.6%.

Upgrade to HOLD with higher TP of RM2.02

After updating our model following the release of the group's full-year results, our 2016-17E EPS are bumped up by 0.9-3.3%. Our TP is revised to RM2.02 (from RM1.80) as we roll over our valuation to 11.5x CY16 EPS (in line with the stock's 5-year mean historical PE). We remain cautious on the group's wholesale division (24% of FY15 revenue) as the higher US$ vs. RM will continue to dent margins given the higher import costs. We also do not expect a significant improvement for its retail division as discretionary spending remain frail post-GST. Nevertheless, we believe that dividend yields of ~5% over the next 3 years should provide a buffer to its share price. Thus, we upgrade the stock to a HOLD (from SELL) on valuation grounds. 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	2014	2015	2016E	2017E	2018E
Revenue (RMm)	253.4	239.9	270.0	283.8	303.4
EBITDA (RMm)	58.0	48.5	49.3	53.0	57.0
Pretax profit (RMm)	53.1	43.0	45.8	49.6	53.7
Net profit (RMm)	40.3	30.1	33.6	36.4	39.4
EPS (sen)	19.9	14.8	16.6	18.0	19.4
PER (x)	11.2	15.0	13.4	12.4	11.5
Core net profit (RMm)	40.3	30.1	33.6	36.4	39.4
Core EPS (sen)	19.9	14.8	16.6	18.0	19.4
Core EPS growth (%)	-7.5	-25.3	11.7	8.3	8.2
Core PER (x)	11.2	15.0	13.4	12.4	11.5
Net DPS (sen)	14.0	15.0	10.8	11.7	12.6
Dividend Yield (%)	6.3	6.7	4.8	5.2	5.7
EV/EBITDA (x)	5.9	7.3	7.2	6.5	5.7
Chg in EPS (%)			+3.3	+0.9	-
Affin/Consensus (x)			1.0	0.9	-

Source: Company, Affin Hwang estimates

Results Note

Hai-O

HAIO MK
Sector: Consumer

RM2.23 @ 24 June 2015

HOLD (upgrade)

Downside 9.4%

Price Target: RM2.02

Previous Target: RM1.80

Price Performance

	1M	3M	12M
Absolute	-4.3%	-5.5%	-10.8%
Rel to KLCI	-1.2%	-1.0%	-2.5%

Stock Data

Issued shares (m)	194.9
Mkt cap (RMm)/(US$m)	434.6/115.9
Avg daily vol - 6mth (m)	0.04
52-wk range (RM)	2.14-2.72
Est free float	51.9%
BV per share (RM)	1.26
P/BV (x)	1.77
Net cash/ (debt) (RMm) (4Q15)	42.3
ROE (2016E)	13.2%
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

Research Team
(603) 2145 8158
research@affinhwang.com

(for further enquiries, please contact Kristine Wong; (603) 2142 5815, kristine.wong@affinhwang.com)

Fig 1: Results Comparison

FYE Apr (RMm)	4QFY15	QoQ % chg	YoY % chg	FY15	YoY % chg	Comment
Revenue	70.4	*13.7*	*14.6*	239.9	*(5.3)*	4QFY15 revenue was stronger qoq and yoy on all division thanks to the group's pre-GST and year-end sales campaigns. Cumulative FY15 sales disappointed on all fronts due to an overall weaker consumer spending environment
Op costs	(85.8)	*20.4*	*16.6*	(282.1)	*(7.7)*	
EBIT	15.3	*65.9*	*26.7*	42.2	*(19.0)*	
EBIT margin (%)	*21.7*	*+6.8ppt*	*+2.1ppt*	*17.6*	*-3.0ppt*	FY15 EBIT margins declined on the back of higher A&P costs incurred.
Int expense	(0.1)	*38.7*	*(9.5)*	(0.3)	*(17.9)*	
Int and other inc	0.3	*(10.6)*	*(50.8)*	1.1	*(28.2)*	
Associates	(0.0)	*0.0*	*0.0*	0.0	*0.0*	
Exceptional items	0.0	*0.0*	*0.0*	0.0	*0.0*	
Pretax	**15.5**	*63.4*	*23.5*	**43.0**	***(19.0)***	
Tax	(5.5)	*128.4*	*218.9*	(12.3)	*(0.0)*	
Tax rate (%)	*35.4*	*+10.1ppt*	*-25.3ppt*	*28.5*	*+5.4ppt*	Higher effective tax rate due to certain expenses non-allowable expenses and deferred tax recognised in profit or loss.
MI	(0.6)	*0.0*	*0.0*	(0.7)	*10.8*	
Net profit	**9.4**	*28.5*	*(12.4)*	**30.1**	***(25.3)***	Core earnings came in within our forecast but above market's expectations, comprising 101% and 104% of the full year forecasts respectively.
EPS (sen)	4.6	*28.5*	*(12.3)*	14.9	*(25.3)*	
Core net profit	**9.4**	***28.5***	***(12.4)***	**30.1**	***(25.3)***	

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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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A Participating Organisation of Bursa Malaysia Securities Bhd
Chulan Tower Branch,
3rd Floor, Chulan Tower,
No 3, Jalan Conlay,
50450 Kuala Lumpur.
www.affinhwang.com
Email : affin.research@affinhwang.com
Tel : + 603 2143 8668
Fax : + 603 2145 3005