

Company Result

21 March 2016

Hai-O Enterprise Berhad

HOLD

Earnings on track

Maintained

Share Price	RM2.37
Target Price	RM2.50

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)	193.36
Par Value (RM)	0.50
Market cap. (RMm)	458.26
52-week price Range	RM1.89– 2.45
Beta (against KLCI)	0.58
3-m Average Daily Volume	0.04m
3-m Average Daily Value [^]	RM0.09m

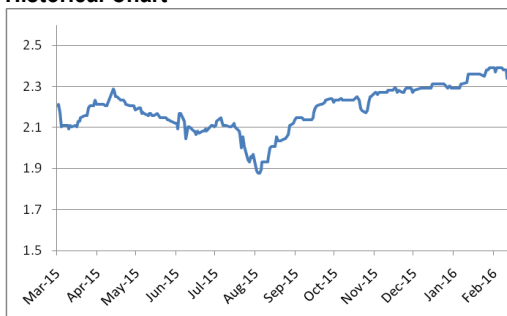
Share Performance

	1m	3m	12m
Absolute (%)	-0.8	1.7	1.3
Relative (%-pts)	-3.2	-3.5	6.4

Major Shareholders

	%
KAI HEE TAN	10.06
AKINTAN SDN BHD	7.84
SIOU ENG TAN	6.97

Historical Chart



Source: Bloomberg

Team Coverage

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- **Hai-O reported net earnings of RM9.8mill in 3QFY16, increased 9.4% qoq and 33.9% yoy.** Similarly, revenue stood at RM80.5mill, rose by 9.4% qoq and 29.9% yoy.
- As for 9MFY16, the group's net earnings stood at RM25.3mill, +22.5% yoy on the back of higher revenue, +23.6% yoy to RM209.5mill.
- **Broadly in line.** The Group's 9MFY16 earnings were within our and consensus expectations accounted for 82% and 80% respectively thanks to stellar performance in its MLM division coupled with continued growth in its retail and wholesale divisions.

Comment

- **MLM's strategy continued to bear fruit.** The Group's strategy for its MLM division to focus more on "small-and-medium ticket" items successfully rendered a positive impact to the Group's earnings. MLM division posted a higher topline and bottomline growth in 3QFY16 for its yearly and quarterly bases. The impressive growth was aided by higher sales volume for most of its products coupled with higher number for new members recruitment especially younger entrepreneurs thanks to continuous aggressive members recruitment program. Furthermore, the positive impact of the incentive trip and promotional campaign in the 2QFY16 also spilled over to this quarter.
- Similarly, during the 9MFY16, the Group's MLM segment recorded a double digit growth in its topline and bottomline as compared to the preceding years. The encouraging result has been sustained since 1QFY16 as we believe the higher sales from 'small-ticket' items continued to support the earnings growth for MLM division. In addition, the continuous efforts by the Group which came out with slew of attractive marketing campaigns also boosted the number of new recruited members by over 50% as compared to 9MFY15.
- **Wholesales division maintained its growth trajectory.** During the 9MFY16, wholesales division posted a positive growth in its revenue and pre-tax profit. The better performance of wholesales division chiefly underpinned by higher revenue generated from Chinese medicated tonic and tea as well as contribution from higher inter-segment sales to MLM division. Similarly, its 3QFY16 topline and bottomline also recorded a positive growth for yearly basis due to the same reason.

- However, during 3QFY16, the wholesales division posted a decline in its sales and PBT for quarterly basis caused by higher operating expenses incurred in the current quarter due to inflationary pressure and dragged down by lower sales from patented medicine and duty free goods.
- **Impressive performance by retail division.** During 9MFY16, retail division managed to post a positive growth in its topline and bottomline mainly supported by effective members' sales promotional campaign carried out in last quarter coupled with mild recovery in consumer sentiment towards retail products as compared to last year.
- In addition, the retail division's 3QFY16 PBT managed to record a positive number on yearly basis, in line with higher growth in topline against net loss of RM0.57mill in 3QFY15, backed by pre-Chinese New Year ("CNY") sales during this quarter as contrast to 4QFY15. Furthermore, the Group's quality products offering with affordable pricing also managed to instil the consumers to spend more during the CNY. Despite higher sales in 3QFY16, PBT was lower as compared to last quarter owing to higher A&P costs incurred in the CNY festive season on top of higher operating costs incurred in this quarter.
- **Continuous efforts to improve retail and wholesale division's growth.** We acknowledge that both divisions would continue to face a challenging operating environment as households continue adjusting to their rising cost of living amidst an uncertain economic outlook. Nevertheless, we remain sanguine on the Group's development plans to carry out its year-end retail loyalty member sale promotion in next quarter which will sustain the divisional performance.

Earnings Outlook/Revision

- **No change to our earnings forecast for FY16-17F as we envisage the Group's 4QFY16 net earnings to normalize to match our full year forecasting net income of RM30m.**

Valuation & Recommendation

- **Our call on Hai-o is kept at HOLD with an unchanged target price of RM2.50.** We pegged our target price at 11x FY2017F PE based on EPS of 23 sen.
- **MLM division continues to shine.** We reckon that MLM division will continue to underpin the Group's bottomline and topline growth since more than 60% of total revenue come from MLM division. The Group will launch an incentive sales campaign in the next quarter to sustain its positive momentum as well as introduce better quality products by enhancing its packaging and re-formulating its star products to its customers. Furthermore, the aggressiveness of new members recruiting will further widen its consumer and distributor base.

Figure 1: Quarterly Figures

Year to 30 Apr	3QFY16 (RMm)	2QFY16 (RMm)	3QFY15 (RMm)	QoQ % chg	YoY % chg	9MFY16 (RMm)	9MFY15 (RMm)	YoY % chg
Revenue	80.5	73.6	62.0	9.4%	29.9%	209.5	169.5	23.6%
Operating Profit	13.1	11.5	9.2	14.4%	42.6%	33.3	26.9	23.9%
Pre-tax Profit	13.2	11.9	9.5	10.7%	39.1%	33.9	27.6	22.9%
Profit After Tax	9.9	9.0	7.1	9.5%	39.7%	25.4	20.8	22.5%
Net Profit	9.8	8.9	7.3	9.4%	33.9%	25.3	20.7	22.5%
MARGIN (%)								
Operating	16.3%	15.6%	14.9%	0.7ppt	1.4ppt	15.9%	15.9%	0.0ppt
Profit Before Tax	16.4%	16.2%	15.3%	0.2ppt	1.1ppt	16.2%	16.3%	-0.1ppt
Profit After Tax	12.3%	12.3%	11.4%	0.0ppt	0.9ppt	12.1%	12.2%	-0.1ppt
Net Profit Margin	12.2%	12.1%	11.8%	0.0ppt	0.4ppt	12.1%	12.2%	-0.1ppt

Source: Company, JF Apex

Figure 2: Revenue and PBT by divisions

Year to 30 Apr	3QFY16 (RMm)	2QFY16 (RMm)	3QFY15 (RMm)	QoQ % chg	YoY % chg	9MFY16 (RMm)	9MFY15 (RMm)	YoY % chg
Segment Revenue								
MLM	52.21	45.55	36.88	14.63%	41.57%	134.5	97.2	38.4%
Wholesales	15.57	16.84	14.20	-7.55%	9.67%	41.7	40.3	3.4%
Retail	10.98	9.52	9.02	15.29%	21.73%	28.1	26.5	6.0%
Total Revenue	78.76	71.91	60.10	9.52%	31.05%	204.3	163.9	24.6%
Segment Profit Before Tax								
MLM	10.12	7.13	8.55	41.86%	18.36%	23.5	19.5	20.4%
Wholesales	1.51	1.63	0.08	-7.36%	1787.50%	4.9	3.4	45.1%
Retail	0.18	0.68	-0.57	-73.72%	N/A	0.7	0.3	125.4%
Total Profit Before Tax	11.81	9.45	8.07	25.03%	46.42%	29.1	23.2	25.4%
Segment PBT margin								
MLM	19.38%	15.66%	23.18%	3.72ppt	-3.80ppt	17.5%	20.1%	-2.6ppt
Wholesales	9.70%	9.68%	0.56%	0.02ppt	9.13ppt	11.8%	8.4%	3.4ppt
Retail	1.63%	7.15%	-6.26%	-5.52ppt	7.89ppt	2.5%	1.2%	1.3ppt

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 30 April (RMm)	FY2013	FY2014	FY2015	FY2016F	FY2017F
Revenue	266.6	253.5	239.9	208.0	251.8
Operating profit	63.1	52.1	41.8	48.3	59.2
Net profit	47.2	40.3	29.8	30.0	44.1
EPS (sen)	24.4	20.8	15.4	15.5	22.8
P/E (x)	9.7	11.4	15.4	15.3	10.4
P/BV (x)	1.8	1.7	1.7	1.7	1.7
Dividend yield (%)	4.6%	4.5%	4.7%	3.0%	4.1%
PBT margin (%)	24.0%	21.0%	17.8%	24.2%	24.6%
Net Gearing (%)	-19.4%	-19.3%	-15.0%	-9.9%	-4.5%
ROE (%)	18.8%	15.2%	11.2%	11.1%	16.1%

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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