

21 March 2016

Hai-O Enterprise Berhad

Boosted by Festive Cheer

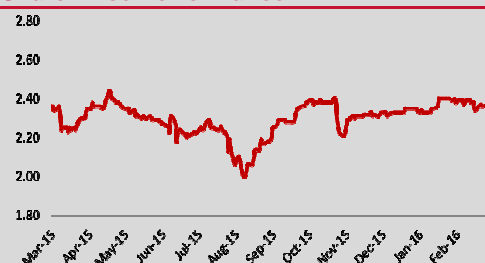
By Kenanga Research Team | research@kenanga.com.my

- Period** ■ 3Q16/9M16
- Actual vs. Expectations** ■ 9M16 net profit of RM25.2m (+21.6% YoY) is broadly within our expectation, accounting for 80.5% of our full-year forecast. As 3Q16 was boosted by the Chinese New Year (CNY) festival, earnings in 4Q16 is expected to soften, coming from a high base.
- Dividends** ■ None, as expected.
- Key Results Highlights** ■ **YoY**, 9M16 revenue surged 23.6% to RM209.5m mainly driven by its MLM division, which recorded revenue growth of 38.4% to RM134.5m on the back of successful marketing strategy and intensive members recruitment. In line with the higher revenue, the MLM division's segmental EBIT was lifted 20.4% to RM23.5m, while the wholesale division grew 45.3% to RM4.9m due to the higher sales in Chinese medicated tonic and tea. As a result, 9M16 net profit grew 21.6% to RM25.2m.
- **QoQ**, 3Q16 revenue rose 9.4% to RM80.5m, thanks to higher sales in MLM division (+14.6%) and retail division (+15.2%) due to the CNY festive season. 3Q16 EBIT grew 14.4% to RM13.1m attributable to solid performance in MLM division (+42.0%) on the back of higher member recruitment. As a result, net profit increased by 9.4% to RM9.8m.
- Outlook** ■ The revenue growth momentum is picking up thanks to members recruitment and incentive reward program. However, the Group expects the weak consumer and business sentiment to persist in the near term, which is in line with our cautious view.
- Overall, we still maintain our negative stance on HAI0 despite the improving MLM division's performance in view of the pedestrian earnings growth forecasted for the next two years (4.0% and 7.3%) and the risk in the wholesale and retail divisions.
- Change to Forecasts** ■ No changes to our earnings forecasts.
- Rating** **Maintain UNDERPERFORM**
- Valuation** ■ Our Target Price is unchanged at RM2.22, based on 12.9x PER FY17E, which is on par with its 5-year mean. The valuation is justified by its generous dividend payout (c.75% of net profit) which translates into yield of >5%.
- Risks to Our Call** ■ Stronger-than-expected MYR recovery against USD.
- Sector risk: Better-than-expected consumer sentiment.

UNDERPERFORM ↔

Price: RM2.37
Target Price: RM2.22 ↔

Share Price Performance



KLCI	1,716.34
YTD KLCI chg	1.4%
YTD stock price chg	1.7%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	HAI0 MK Equity
Market Cap (RM m)	458.3
Issued shares	193.4
52-week range (H)	2.45
52-week range (L)	1.89
3-mth avg daily vol:	40,881
Free Float	75%
Beta	0.6

Major Shareholders

KAI HEE TAN	10.1%
AKINTAN SDN BHD	7.8%
SIOW ENG TAN	7.0%

Summary Earnings Table

FY Apr (RM'm)	2015A	2016E	2017E
Turnover	239.9	245.3	252.6
EBIT	42.2	40.8	44.2
PBT	43.0	42.3	45.1
Net Profit (NP)	30.1	31.3	33.6
Earnings Revision	-	-	-
EPS (sen)	15.4	16.0	17.2
EPS growth (%)	-25.3%	4.0%	7.3%
NDPS (sen)	15.0	12.0	13.0
BV/Share (RM)	1.30	1.34	1.39
PER	15.4	14.8	13.8
Price/BV (x)	1.82	1.76	1.71
Net Gearing (x)	Cash	Cash	Cash
Net Dvd Yield (%)	6.3%	5.1%	5.5%

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Result Highlights								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Turnover	80.5	73.6	9.4%	62.0	29.9%	209.5	169.5	23.6%
Operating profit	13.1	11.5	14.4%	9.2	42.6%	33.3	26.9	23.9%
PBT	13.2	11.9	10.7%	9.5	39.1%	33.9	27.6	22.9%
Taxation	-3.3	-2.9	14.8%	-2.4	37.3%	-8.4	-6.8	23.9%
Net Profit (NP)	9.8	8.9	9.4%	7.3	33.9%	25.2	20.7	21.6%
EPS (sen)	5.1	4.6	9.4%	3.8	33.9%	13.0	10.7	21.6%
Operating margin	16.3%	15.6%		14.9%		15.9%	15.9%	
PBT margin	16.4%	16.2%		15.3%		16.2%	16.3%	
NP margin	12.2%	12.1%		11.8%		12.0%	12.2%	
Effective tax rate	25.0%	24.1%		25.3%		24.9%	24.7%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
- Multi-Level-Marketing	52.2	45.5	14.6%	36.9	41.5%	134.5	97.2	38.4%
- Wholesale	15.6	16.8	-7.6%	14.2	9.6%	41.7	40.3	3.4%
- Retail	11.0	9.5	15.2%	9.0	21.6%	28.1	26.5	6.0%
- Others	1.8	1.7	-	1.9	-	5.2	5.5	-5.3%
Group Revenue	80.5	73.6	9.4%	62.0	29.9%	209.5	169.5	23.6%
- Multi-Level-Marketing	10.1	7.1	42.0%	8.5	18.5%	23.5	19.5	20.4%
- Wholesale	1.5	1.6	-7.1%	0.1	1916.0%	4.9	3.4	45.3%
- Retail	0.2	0.7	-	-0.6	-	0.7	0.3	-
- Others	1.4	2.6	-47.7%	1.3	4.6%	4.3	3.9	11.2%
- Elimination	-0.1	-0.6	-	-0.2	-	-0.1	-0.2	-
Group EBIT	13.1	11.5	14.4%	9.2	42.6%	33.3	26.9	23.9%
- Multi-Level-Marketing	19.4%	15.7%		23.2%		17.5%	20.1%	
- Wholesale	9.7%	9.7%		0.5%		11.8%	8.4%	
- Retail	1.7%	7.1%		-6.2%		2.5%	1.2%	
- Others	76.8%	156.0%		70.2%		81.9%	69.8%	
Group EBIT Margin	16.3%	15.6%		14.9%		15.9%	15.9%	

Source: Company, Kenanga Research

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Income Statement

FY Apr (RM m)	2013	2014	2015	2016E	2017E
Revenue	267	253	240	245	253
EBITDA	59	53	45	44	47
Depreciation	-3	-3	-3	-3	-3
Operating Profit	56	50	42	41	44
Int Income	1	2	1	2	1
PBT	64	53	43	42	45
Taxation	-16	-12	-12	-10	-11
Minority Interest	-1	-1	-1	-1	-1
Net Profit	47	40	30	31	34

Balance Sheet

FY Apr (RM m)	2013	2014	2015	2016E	2017E
Fixed Assets	105	107	115	122	129
Intangible Assets	0	0	0	0	0
Other FA	7	6	5	5	5
Inventories	50	59	58	56	58
Receivables	17	14	25	13	14
Other CA	63	64	56	56	56
Cash	64	60	46	43	43
Total Assets	305	309	305	296	305
Payables	10	13	30	13	13
ST Borrowings	7	3	4	4	4
Other ST Liab.	32	24	5	5	5
LT Borrowings	5	2	0	0	0
Other LT Liab.	0	0	0	0	0
Minorities Int.	11	11	12	12	13
Net Assets	240	254	254	262	270
Share Capital	101	101	101	101	101
Reserves	138	153	153	161	169
Equity	240	254	254	262	270

Cashflow Statement

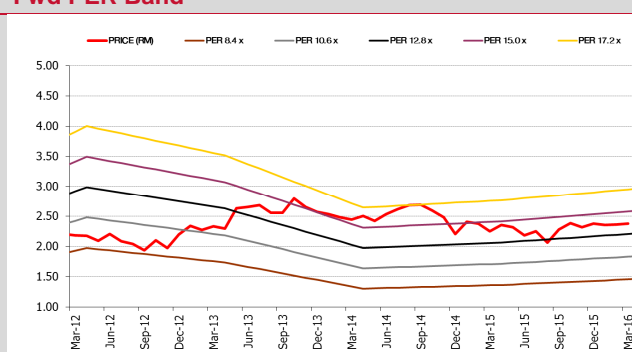
FY Apr (RM m)	2013	2014	2015	2016E	2017E
Operating CF	39	29	28	30	35
Investing CF	3	-1	-9	-12	-10
Financing CF	-30	-32	-32	-21	-24
Change In Cash	12	-4	-14	-3	0
Free CF	44	39	25	30	36

Financial Data & Ratios

FY Apr (RM m)	2013	2014	2015	2016E	2017E
Growth					
Revenue	11%	-5%	-5%	2%	3%
EBITDA	28%	-9%	-15%	-3%	8%
EBIT	30%	-10%	-16%	-3%	8%
PBT	31%	-17%	-19%	-2%	7%
Net Profit	39%	-15%	-25%	4%	7%
Profitability					
EBITDA Margin	22%	21%	19%	18%	19%
EBIT Margin	21%	20%	18%	17%	18%
PBT Margin	24%	21%	18%	17%	18%
Net Margin	18%	16%	13%	13%	13%
Eff. Tax Rate	-25%	-23%	-29%	-25%	-24%
ROE	20%	16%	12%	12%	12%
ROA	15%	13%	10%	11%	11%
DuPont Analysis					
Net Margin	18%	16%	13%	13%	13%
Assets T/over (x)	0.87	0.82	0.79	0.83	0.83
Leverage Factor (x)	1.27	1.22	1.20	1.13	1.13
ROE (%)	20%	16%	12%	12%	12%
Leverage					
Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
Net Cash/(Debt)	52.0	54.3	42.3	39.0	39.5
Net Debt/Equity (x)	Cash	Cash	Cash	Cash	Cash
Valuations					
EPS (sen)	23.9	20.5	15.4	16.0	17.2
NDPS (sen)	14.0	14.0	15.0	12.0	13.0
BV (RM)	1.22	1.30	1.30	1.34	1.39
PER (x)	9.6	11.2	14.8	9.9	11.5
Net Div. Yield (%)	5.9%	5.9%	6.3%	5.1%	5.5%
P/BV (x)	1.95	1.83	1.82	1.76	1.71
EV/EBITDA (x)	7.0	7.6	9.2	9.6	8.9

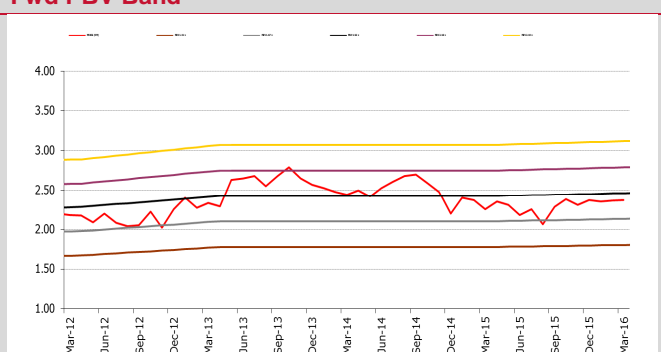
Source: Kenanga Research

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld. (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			Net profit growth		Target Price (RM)	Rating
	(RM)	(RMm)	Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd	1Y Fwd (%)	2Y Fwd (%)		
<u>CORE COVERAGE</u>															
<u>Consumer - Retail</u>															
AEON CO (M) BHD	2.78	3,903.1	20.0	24.6	23.0	1.4%	7.4%	2.20	198.5	158.8	170.0	-20.0%	7.1%	2.42	Underperform
AMWAY (MALAYSIA) HLDGS BHD	9.35	1,537.0	24.0	19.4	17.9	4.7%	29.3%	7.48	63.9	79.2	84.7	23.9%	6.9%	9.16	Market Perform
HAI-O ENTERPRISE BHD	2.37	458.3	15.4	14.8	13.8	5.1%	13.1%	1.80	30.1	31.3	33.7	4.0%	7.7%	2.22	Underperform
PADINI HOLDINGS BERHAD	2.01	1,322.4	16.5	12.7	11.7	6.0%	26.3%	3.26	80.2	104.2	112.9	29.9%	8.3%	2.24	Market Perform
PARKSON HOLDINGS BHD	0.90	953.1	12.1	35.8	17.2	2.8%	-2.0%	0.37	80.7	27.0	56.4	-66.5%	108.9%	0.82	Underperform
<u>Consumer - F&B</u>															
DUTCH LADY	50.52	3,233.3	22.9	20.2	19.2	4.8%	89.7%	20.54	141.0	159.7	168.3	13.3%	5.4%	56.40	Outperform
NESTLE (M)	74.50	17,470.3	29.6	26.5	25.1	3.6%	79.5%	24.67	590.7	659.3	695.5	11.6%	5.5%	76.20	Market Perform
OLDTOWN BHD	1.51	681.7	13.4	14.0	12.7	4.0%	15.5%	2.07	51.0	48.6	53.7	-4.8%	10.6%	1.72	Outperform
QL RESOURCES BHD	4.30	5,366.5	28.7	25.9	23.8	1.1%	13.6%	3.76	187.5	207.4	225.7	10.6%	8.8%	4.16	Underperform
<u>Consumer - Sin</u>															
BRITISH AMERICAN TOBACCO BHD	55.30	15,789.8	17.3	16.7	16.7	5.9%	170.0%	28.95	910.1	946.0	948.0	4.0%	0.2%	57.78	Market Perform
CARLSBERG BREWERY MALAYSIA B	13.58	4,177.5	18.3	17.3	16.3	5.3%	66.7%	12.19	228.5	241.8	256.4	5.8%	6.0%	13.86	Outperform
GUINNESS ANCHOR BHD	13.92	4,205.2	19.6	16.7	15.3	7.2%	65.1%	11.14	214.2	251.7	274.6	17.5%	9.1%	16.36	Outperform

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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