22 December 2011

AFFIN INVESTMENT BANK
PP 10251/07/2012(030525)

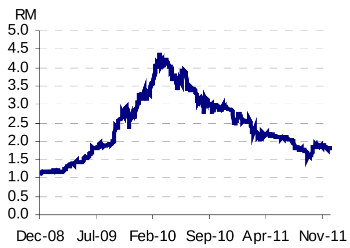
Results Note

Hai-O Ent

HAIO MK
RM1.80

SELL (maintain)

Target Price: RM1.27 (↔)



Price Performance

	1M	3M	12M
Absolute	-6.7%	+4.0%	-28.6%
Rel to KLCI	-9.7%	-2.8%	-27.1%

Stock Data

Issued shares (m)	202.2
Mkt cap (RMm)	363.9
Avg daily vol - 6mth (m)	0.08
52-wk range (RM)	1.55 – 3.26
Est free float	66.4%
NTA per share (RM) (end-Oct 11)	1.08
P/NTA (x)	1.58
Net cash/debt (RMm) (end-Oct 11)	35.8
ROE (FY12E)	15.7%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.2%

Earnings & Valuation Revisions

	12E	13E	14E
Prev EPS (sen)	16.5	19.0	21.8
Curr EPS (sen)	16.5	19.0	21.8
Chg (%)	-	-	-
Prev target price (RM)			1.27
Curr target price (RM)			1.27

Shakira Hatta
(603) 2142 8158
shakira@affininvestmentbank.com.my

Boosted by stronger margins and lower R&D costs

Above expectations

Hai-O's 1HFY04/12 revenue was relatively flat at RM107.2m (-0.2% yoy). Revenue in the wholesale division grew by +4% yoy, but was largely offset by the decline in contribution from the MLM division (-1.9% yoy). The latter accounted for 57% of total revenue (1HFY04/11: 58%). Despite the flat topline growth, 1HFY04/12 headline net profit grew by +12% yoy to RM15.6m, attributed to: 1) higher EBIT margin of 24.5% vs. 18.5% in 1HFY04/11. This was due to lower R&D costs in the technology division and increased sales of higher margin products in the retail division (which ran a members' sales campaign in 2QFY04/12), and; 2) a lower effective tax rate (26.3% vs. 27% in 1HFY04/11). 1HFY04/12 also included an RM4m write off in inventories due to a fire incident at the bonded and general warehouse. Stripping off the EI, 1HFY04/12 core net profit grew by a stronger +40.7% yoy. Results were above expectations, accounting for 57% and 66% of our and consensus full year estimates. Hai-O also declared a first interim dividend of 2 sen/share.

2QFY04/12 net profit surges +54% qoq

Sequentially, 2QFY04/12 revenue grew by +10.3% to RM56.2m, driven by revenue growth of: 1) +11.1% in the MLM division, and; 2) +24% in the retail division. Revenue in the wholesale division fell by -1.1% qoq, due to lower sales of its Chinese Medicated Tonic wine, but was offset by the stronger sales in the other divisions in tandem with the Hari Raya festive season (recall that over 90% of Hai-O's MLM members are Malays). 2QFY04/12 EBIT margin was also stronger at 27.1% (1QFY04/12: 21.7%), lifted by sales of higher margin products in the MLM and retail segments and lower R&D costs in the technology division. Overall, 2QFY04/12 headline net profit was relatively flat at RM7.9m (1QFY04/12: RM7.7m) – however, excluding the RM4m write-off in inventories, 2QFY04/12 net profit surged by a much stronger +53.5% yoy to RM11.9m. On a yoy basis, 2QFY04/12 net profit increased by +93.5% yoy, on the back of a +6.8% yoy increase in revenue and +9.8-ppt expansion in EBIT margin.

Maintain SELL with an unchanged TP of RM1.27 (based on 7x CY12 EPS)

We are keeping our FY12-14 net profit forecasts, recommendation and target price unchanged for now, pending an update with management, particularly on its technology and MLM divisions. Lower R&D costs in the technology division could mean that the higher margins in 1HFY04/12 are sustainable. Key re-rating catalysts for Hai-O would be: 1) a pick-up in new monthly memberships in the MLM division; 2) take-off of its MLM operations in Indonesia, and; 3) increased sales of its higher margin products. We will likely revise our earnings upwards post-meeting with management.

Earnings and valuation summary

FYE 30 April	2010	2011	2012E	2013E	2014E
Revenue (RMm)	511.1	223.3	251.3	285.3	320.3
EBITDA (RMm)	99.1	44.8	50.2	57.4	65.2
Pretax profit (RMm)	95.6	41.3	42.7	53.8	61.6
Net profit (RMm)	70.6	28.4	29.4	38.5	44.1
EPS (sen)	34.8	14.0	14.5	19.0	21.8
PER (x)	5.2	12.9	12.4	9.5	8.3
Core net profit (RMm)	70.6	28.4	33.4	38.5	44.1
Core EPS (sen)	34.8	14.0	16.5	19.0	21.8
EPS growth (%)	35.0	-59.8	17.6	15.4	14.5
Core PER (x)	5.2	12.9	10.9	9.5	8.3
Net DPS (sen)	9.4	7.5	8.0	11.0	12.0
Net Dividend Yield (%)	5.2	4.2	4.4	6.1	6.7
EV/EBITDA (x)	2.7	6.7	5.8	4.8	4.0
Consensus profit (RMm)			29.9	33.8	44.1
Affin/Consensus (x)			1.0	1.1	1.0

Fig 1: Quarterly results comparison

FYE April (RMm)	2QFY12	1QFY12	2QFY12	QoQ % chg	YoY % chg	Comment
Revenue	52.6	51.0	56.2	10.3	6.8	Qoq: Driven by revenue growth of +11.1% and +24% in the MLM and retail divisions, respectively.
Op costs	(61.7)	(62.0)	(71.4)	15.2	15.7	
EBIT	9.1	11.0	15.2	37.8	67.3	
EBIT margin (%)	17.3	21.7	27.1	nm	nm	Boosted by sales of higher margin products in the retail and MLM divisions and lower R&D costs in the technology division.
Int expense	(0.2)	(0.2)	(0.2)	2.0	(9.1)	
Int and other inc	0.2	0.2	0.2	6.7	10.7	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional gain/losses	0.0	0.0	(4.0)	nm	nm	Write-off on inventories after a fire incident at the bonded and general warehouse.
Pretax	**9.1**	**11.1**	**11.3**	1.7	23.8	
Tax	(2.5)	(3.0)	(2.8)	(6.0)	16.1	
Tax rate (%)	27.0	27.3	25.3	nm	nm	
MI	(0.5)	(0.3)	(0.5)	77.0	nm	
Net profit	**6.1**	**7.7**	**7.9**	1.7	28.3	
EPS (sen)	3.0	3.8	3.9	1.7	28.3	
Core net profit	**6.1**	**7.7**	**11.9**	**53.5**	**93.5**	Accounts for 36% and 40% of our and total consensus estimates

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE April (RMm)	1HFY11	1HFY12	YTD % chg	Comment
Revenue	107.4	107.2	(0.2)	Revenue growth of +4% yoy in the wholesale division was largely offset by revenue decline of -1.9% yoy in the MLM division
Op costs	(127.3)	(133.4)	4.8	
EBIT	19.9	26.2	31.9	
EBIT margin (%)	18.5	24.5	nm	Higher margin attributed to lower R&D costs in the technology division and sales of higher margin products.
Int expense	(0.4)	(0.4)	(7.0)	
Int and other inc	0.4	0.5	15.3	
Associates	0.0	0.0	nm	
Exceptional gain/losses	0.0	(4.0)	nm	
Pretax	**19.87**	**22.3**	**12.3**	
Tax	(5.4)	(5.9)	9.5	
Tax rate (%)	27.0	26.3	nm	
MI	(0.6)	(0.8)	46.9	
Net profit	**13.9**	**15.6**	**12.0**	
EPS (sen)	6.9	7.7	12.0	
Core net profit	**13.9**	**19.6**	**40.7**	Above expectations - accounts for 57% and 66% of our and consensus estimates

Source: Company, Affin

Fig 3: Segmental revenue breakdown

FY April (RMm)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	QoQ % chg	YoY % chg
Wholesale	46.3	70.6	72.5	38.6	21.9	23.7	43.9	31.7	23.8	23.6	(1.1)	(0.4)
MLM	130.3	108.9	106.2	72.6	35.2	26.7	29.0	34.2	28.8	32.0	11.1	19.7
Retailing	7.9	10.8	9.6	13.6	8.2	11.3	13.1	11.2	8.7	10.7	24.0	(4.6)
Others	(35.9)	(57.9)	(57.0)	(26.0)	(10.6)	(9.0)	(28.4)	(18.9)	(10.3)	(10.1)	(2.1)	11.8
Total	**148.6**	**132.4**	**131.3**	**98.8**	**54.8**	**52.6**	**57.6**	**58.2**	**51.0**	**56.2**	**10.3**	**6.8**
Qoq (%)	11.8%	(10.9%)	(0.8%)	(24.7%)	(44.6%)	(3.9%)	9.5%	1.0%	(12.4%)	10.3%		
Yoy (%)	31.6%	51.6%	28.5%	(25.6%)	(63.1%)	(60.2%)	(56.1%)	(41.1%)	(6.9%)	6.8%		
Contribution (%)												
Wholesale	31.1	53.3	55.2	39.1	40.1	45.0	76.2	54.4	46.8	41.9		
MLM	87.7	82.3	80.9	73.4	64.4	50.8	50.4	58.7	56.5	56.9		
Retail	5.3	8.1	7.3	13.8	14.9	21.4	22.7	19.3	17.0	19.1		
Others	(24.2)	(43.7)	(43.4)	(26.3)	(19.3)	(17.2)	(49.3)	(32.5)	(20.2)	(18.0)		
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		

Source: Company, Affin

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

Affin Investment Bank Bhd (9999-V)
A Participating Organisation of Bursa Malaysia Securities Bhd

www.affininvestmentbank.com.my
Email : research@affinsecurities.com.my
Tel : 603-2143 8668
Fax : 603-2145 3005