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**SELL** ↔

**Fair Value**  
Previous  
Price

**RM1.93**  
**RM1.61**  
**RM2.27**

**CONSUMER**

Hai-O is involved in wholesaling, retailing, multi-level marketing and pharmaceuticals, and also operates modern Chinese medicinal clinics.

**Stock Statistics**

|                          |             |
|--------------------------|-------------|
| Bloomberg Ticker         | HAIO MK     |
| Share Capital (m)        | 202.2       |
| Market Cap (RMm)         | 459.0       |
| 52 week H   L Price (RM) | 4.68   2.23 |
| 3mth Avg Vol ('000)      | 223.2       |
| YTD Returns              | -14.3       |
| Beta (x)                 | 0.70        |

**Major Shareholders (%)**

|                          |      |
|--------------------------|------|
| Tan Kai Hee              | 9.62 |
| Akintan SB               | 7.31 |
| Excellent Communications | 5.13 |

**Share Performance (%)**

| Month | Absolute | Relative |
|-------|----------|----------|
| 1m    | -12.8    | -11.0    |
| 3m    | -10.0    | -11.9    |
| 6m    | -26.6    | -31.8    |
| 12m   | -48.4    | -56.8    |

**6-month Share Price Performance**



**9MFY11 Results Review**

**Hai-O**

**Just as Expected**

Hai-O's 9MFY10 results were within our full year forecast of RM27.2m. Due to its poor MLM results, revenue plunged 60% to RM165m while net profit fell by an even wider 64.2% to RM20.3m. In tandem with the poorer results, YTD EBIT came in at 17.5% versus 19.5% in 9MFY10. Despite the weaker numbers, management says MLM sales have started to pick up. We raise our FY12 earnings forecast by 1.7% to RM32.6m to factor in a stronger RM against USD. Our TP is raised to RM1.93 from RM1.61 previously (based on 12x PE) as we roll over our valuation to FY12. **Maintain SELL.**

**Within expectation.** Hai-O's 9MFY11 revenue sank 60% y-o-y to RM165m while net profit plunged 64.2% y-o-y to RM20.3m, coming in within our full-year earnings forecast of RM27.2m but below consensus estimates of RM32.8m. The poor numbers were mainly attributed to the MLM division, which contributes >70% of total sales historically but accounted for only 55.2% of the current quarter's total revenue. MLM sales were 73.7% lower y-o-y on slower membership growth as well as weaker member sentiment, partially owing to imposition of more stringent rules on new member recruitment by the authorities since 4QFY10. To date, the group has about 60,000 active members. On the other hand, YTD retail sales grew 15% to RM32.4m y-o-y due to the strong sales during the Chinese Lunar New Year festive season while wholesaling revenue rose 13.1%, mainly driven by the 1HFY11 sales.

**Positive growth q-o-q.** On a q-o-q basis, both top- and bottom-line grew 9.5% and 3.5% respectively in the first positive q-o-q growth after a contraction in revenue and net profit q-o-q in the past 4 quarters. The wholesaling and MLM divisions reported 8.6%, 9.4% and 15.5% q-o-q growth respectively.

**EBIT margin narrow.** In tandem with the poorer sales, 9MFY11 EBIT margin narrowed by 2% pts y-o-y due to lower margin recorded by the MLM (-2.7% pts y-o-y) and wholesaling (-13.2% pts) divisions, although the retail division posted wider margins (+2.6% pts).

**Indonesian market improving too.** Apart from improvement on the local MLM side, management guided that its Indonesia MLM sales have started to pick up. Currently, the group has about 400 members and has formed a women's team to promote its slimming sets. To further boost sales, Hai-O is introducing more affordable products in Indonesia.

**Maintain SELL.** While we maintain our FY11 earnings forecast at RM27.2m, we are raising our FY12 earnings forecast by 1.7% to RM32.6m to factor in a stronger in-house forecast for the Ringgit versus the USD. Our TP is raised to RM1.93 from RM1.61 as we roll over our valuation to FY12.

| FYE Apr (RMm)      | FY09  | FY10  | FY11f | FY12f | FY13f |
|--------------------|-------|-------|-------|-------|-------|
| Revenue            | 435.2 | 511.1 | 205.2 | 236.6 | 273.0 |
| Net Profit         | 52.3  | 70.9  | 27.2  | 32.6  | 38.4  |
| % chg y-o-y        | 7.7   | 35.6  | -61.7 | 20.1  | 17.6  |
| Consensus          | -     | -     | 27.8  | 32.8  | 33.8  |
| EPS (sen)          | 25.8  | 35.0  | 13.4  | 16.1  | 18.9  |
| DPS (sen)          | 5.5   | 9.4   | 5.0   | 6.0   | 12.2  |
| Dividend yield (%) | 2.4   | 4.1   | 2.2   | 2.7   | 5.4   |
| ROE (%)            | 31.6  | 33.9  | 12.0  | 13.4  | 14.6  |
| ROA (%)            | 21.1  | 26.1  | 10.3  | 11.6  | 12.7  |
| PER (x)            | 8.8   | 6.5   | 16.9  | 14.1  | 12.0  |
| BV/share (RM)      | 0.82  | 1.03  | 1.12  | 1.20  | 1.29  |
| P/BV (x)           | 2.8   | 2.2   | 2.0   | 1.9   | 1.8   |
| EV/ EBITDA (x)     | 5.6   | 4.2   | 9.2   | 7.8   | 6.7   |

**Results Table (RMm)**

| <b>FYE Apr</b>          | <b>3Q11</b> | <b>2Q11</b> | <b>Q-o-Q<br/>chg</b> | <b>YTD<br/>FY11</b> | <b>YTD<br/>FY10</b> | <b>Y-o-Y<br/>chg</b> | <b>Comments</b>   |
|-------------------------|-------------|-------------|----------------------|---------------------|---------------------|----------------------|---|
| Revenue                 | 57.6        | 52.6        | 9.5                  | 165.0               | 412.2               | -60.0                | Poorer sales due to weak MLM sales  |
| EBIT                    | 9.0         | 9.1         | -0.6                 | 28.9                | 80.2                | -64.0                | Margin weakness due to lower margin recorded by<br>The MLM (-2.7% pts y-o-y) and wholesaling (-13.2%<br>pts)<br>divisions |
| Net interest<br>expense | 0.0         | 0.0         | 1.0                  | 0.0                 | -0.1                | -60.3                |   |
| Associates              | 0.0         | 0.0         | -                    | 0.0                 | 0.0                 | -                    |   |
| PBT                     | 9.0         | 9.1         | -0.6                 | 28.9                | 80.2                | -64.0                |   |
| Tax                     | -2.3        | -2.5        | -4.9                 | -7.7                | -23.0               | -66.5                |   |
| MI                      | -0.4        | -0.5        | 30.4                 | -0.9                | -0.5                | 77.3                 |   |
| Net profit              | 6.3         | 6.1         | 3.5                  | 20.3                | 56.7                | -64.2                | In line – 74.6% of OSK's full-year forecast.  |
| EPS (sen)               | 3.1         | 3.0         | -                    | 10.0                | 28.0                | -                    |   |
| DPS (sen)               | 0.0         | 2.0         | -                    | 2.0                 | 5.8                 | -                    |   |
| EBIT margin             | 15.7        | 17.3        | -                    | 17.5                | 19.5                | -                    |   |
| NTA/share (RM)          | 0.97        | 1.08        | -                    | 0.97                | 1.00                | -                    |   |

**EARNINGS FORECAST**

| <b>FYE Apr (RMm)</b> | <b>FY09</b> | <b>FY10</b> | <b>FY11f</b> | <b>FY12f</b> | <b>FY13f</b> |
|----------------------|-------------|-------------|--------------|--------------|--------------|
| Turnover             | 435.2       | 511.1       | 205.2        | 236.6        | 273.0        |
| EBITDA               | 77.0        | 97.3        | 41.6         | 49.4         | 56.2         |
| PBT                  | 75.9        | 95.9        | 37.6         | 44.8         | 51.2         |
| Net Profit           | 52.3        | 70.9        | 27.2         | 32.6         | 38.4         |
| EPS (sen)            | 25.8        | 35.0        | 13.4         | 16.1         | 18.9         |
| DPS (sen)            | 5.5         | 9.4         | 5.0          | 6.0          | 12.2         |
| <b>Margin</b>        |             |             |              |              |              |
| EBITDA (%)           | 17.7        | 19.0        | 20.3         | 20.9         | 20.6         |
| PBT (%)              | 17.4        | 18.8        | 18.3         | 19.0         | 18.8         |
| Net Profit (%)       | 12.0        | 13.9        | 13.2         | 13.8         | 14.1         |
| <b>ROE (%)</b>       | 31.6        | 33.9        | 12.0         | 13.4         | 14.6         |
| <b>ROA (%)</b>       | 21.1        | 26.1        | 10.3         | 11.6         | 12.7         |
| <b>Balance Sheet</b> |             |             |              |              |              |
| Fixed Assets         | 59.4        | 60.9        | 78.6         | 88.0         | 97.6         |
| Current Assets       | 154.4       | 184.0       | 149.5        | 157.6        | 168.7        |
| Total Assets         | 248.3       | 271.7       | 263.2        | 280.7        | 301.4        |
| Current Liabilities  | 61.2        | 49.3        | 26.5         | 27.8         | 29.3         |
| Net Current Assets   | 187.2       | 222.4       | 236.6        | 253.0        | 272.2        |
| LT Liabilities       | 15.7        | 13.2        | 10.1         | 10.1         | 10.1         |
| Shareholders Funds   | 165.4       | 209.2       | 226.6        | 242.9        | 262.1        |
| Net Gearing (%)      | Net cash    | Net cash    | Net cash     | Net cash     | Net cash     |

**OSK Research Guide to Investment Ratings**

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated (NR):** Stock is not within regular research coverage

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