



Eing Kar Mei
+60 (3) 9207 7620
karmeieing@my.oskgroup.com

1QFY11 Results Review

Hai-O

SELL

Target
Previous
Price

RM1.61
RM3.57
RM3.26

CONSUMER (RETAIL)

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)	659.1
52 week H L Price (RM)	4.93 2.40
3mth Avg Vol ('000)	635.2
YTD Returns	-7.6
Beta (x)	0.72

Major Shareholders (%)

Tan Kai Hee	9.61
Akintan SB	7.17
Excellent communication	5.13

Share Performance (%)

Month	Absolute	Relative
1m	0.9	1.0
3m	-11.7	-22.7
6m	-26.2	-32.9
12m	46.4	6.7

6-month Share Price Performance



Weak Numbers from MLM Unit

Hai-O's 1QFY11 were below our and consensus estimates, with revenue and net profit diving 63.1% and 57.7% y-o-y respectively. The poor results were mainly attributed to its MLM division, which reported a sales contraction of 73% amid slower membership growth. This is, however, partially offset by the sales improvement at other divisions. Despite the weak results, EBIT margin improved by 2%-pts on higher operating efficiency, sales of higher margin products, and the weakening of USD against RM, which has reduced import costs. Given that the results were substantially below our expectation, we cut our FY11/12 earnings forecast by 52%-55%. Our TP is hence reduced to RM1.61. Downgrade to SELL.

Below expectation. Hai-O registered a contraction in revenue and net profit of -63.3% and -57.7.0% to RM54.8m and RM7.8m respectively. While the contraction is expected, its annualized profits were much lower than our and consensus estimates of RM60.4m and RM73.9m respectively. The poor numbers were mainly attributed to the MLM division, which contributes >70% of total sales historically but only 64% of the current quarter's total revenue. MLM sales plunged 73% y-o-y due to slower membership growth, which was partially affected by the more stringent rules on new member recruitment imposed by the authorities since 4QFY10. We believe the weak MLM sales were also further impacted by the fewer working days due to the Hari Raya Festive season as bumiputra members make up 90% of all members. The contraction in MLM sales was partially offset by the y-o-y sales growth registered by other divisions (wholesaling +10.8%, retail +3.2%, manufacturing +0.7%).

Q-o-q shrinkage. On a q-o-q basis, both top and bottom lines fell 44.6% and 45.3% respectively, mainly dragged down by poor MLM sales (-51.4%), due to the reasons mentioned above. Retail sales also dived (-40%) owing to the strong Chinese New Year festive sales in the previous quarter.

EBIT margin better. Despite the poor results, EBIT margin improved by 2% pts on higher operating efficiency, higher sales of high margin products and a weakening USD against RM, which trimmed import costs.

Downgrade to SELL. Hai-O has set up a task force to beef up the performance of its MLM division and management believes that this unit and its distributors needs at least 6 months to realign their business strategies. Given that the results were substantially below our estimates, which were already 22% below consensus forecast, we are cutting our FY11 and FY12 earnings forecasts further by 52%-55%. Our TP is hence reduced to RM1.61 (based on 12x FY11 EPS). Downgrade to SELL from NEUTRAL.

FYE Apr (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	373.8	435.2	511.1	205.2	236.6
Net Profit	48.5	52.3	70.9	27.2	32.1
% chg y-o-y	127.0	7.7	35.6	-61.7	18.1
Consensus	-	-	-	73.9	66.5
EPS (sen)	57.5	25.8	35.0	13.4	15.8
DPS (sen)	16.7	17.5	21.8	10.0	17.0
Dividend yield (%)	5.1	5.4	6.7	3.1	5.2
ROE (%)	34.5	31.6	33.9	12.4	14.7
ROA (%)	23.8	21.1	26.1	10.6	12.6
PER (x)	13.6	12.6	9.3	24.3	20.6
BV/share (RM)	0.69	0.82	1.03	1.08	1.07
P/BV (x)	4.7	4.0	3.2	3.0	3.0
EV/ EBITDA (x)	8.5	8.2	6.2	14.2	12.6

Results Table (RMm)

FYE Apr	1Q11	4Q10	Q-o-Q chg	YTD FY11	YTD FY10	Y-o-Y chg	Comments
Revenue	54.8	98.8	-44.6	54.8	148.6	-63.1	Poorer sales due to weak MLM sales
EBIT	10.8	15.8	-31.5	10.8	26.3	-58.9	Higher margin due to higher operating efficiency, higher margin products' sales and weakening of USD against RM, which have reduced importation costs
Net interest expense	0.0	0.0	1.0	0.0	0.0	-38.2	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	10.8	15.8	-31.6	10.8	26.3	-59.0	
Tax	-2.9	-0.8	277.1	-2.9	-7.8	-62.5	
MI	-0.1	-0.7	90.6	-0.1	-0.1	25.0	
Net profit	7.8	14.3	-45.3	7.8	18.5	-57.7	Below expectation
EPS (sen)	3.9	7.0	-	3.9	9.1	-	
DPS (sen)	0.0	16.0	-	0.0	0.0	-	
EBIT margin	19.7	16.0	-	19.7	17.7	-	
NTA/share (RM)	1.05	1.03	-	1.05	0.91	-	

EARNINGS FORECAST

FYE Apr (RMm)	FY08	FY09	FY10	FY11f	FY12f
Turnover	373.8	435.2	511.1	205.2	236.6
EBIT	67.2	76.1	96.0	38.6	45.1
PBT	67.7	75.9	95.9	37.6	44.1
Net Profit	48.5	52.3	70.9	27.2	32.1
EPS (sen)	57.5	25.8	35.0	13.4	15.8
DPS (sen)	16.7	17.5	21.8	10.0	17.0
Margin					
EBIT (%)	18.0	17.5	18.8	18.8	19.1
PBT (%)	18.1	17.4	18.8	18.3	18.6
Net Profit (%)	13.0	12.0	13.9	13.2	13.6
ROE (%)	34.5	31.6	33.9	12.4	14.7
ROA (%)	23.8	21.1	26.1	10.6	12.6
Balance Sheet					
Fixed Assets	21.6	59.4	60.9	78.6	88.0
Current Assets	154.0	154.4	184.0	142.9	132.2
Total Assets	204.1	248.3	271.7	256.5	255.4
Current Liabilities	58.0	61.2	49.3	26.5	27.8
Net Current Assets	146.1	187.2	222.4	230.0	227.6
LT Liabilities	0.1	15.7	13.2	10.1	10.1
Shareholders Funds	140.6	165.4	209.2	219.9	217.5
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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Published and printed by :-

OSK RESEARCH SDN. BHD. (206591-V)

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Chris Eng

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	Hong Kong Office OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	Singapore Office DMG & Partners Securities Pte. Ltd. 20 Raffles Place #22-01 Ocean Towers Singapore 048620 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211	Jakarta Office PT OSK Nusadana Securities Indonesia Plaza Lippo, 14 th Floor, Jln. Jend. Sudirman Kav 25, Jakarta 12920 Indonesia Tel : +(6221) 520 4599 Fax : +(6221) 520 4598	Shanghai Office OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633