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1QFY10 Results Review

Hai-O

Another Stellar Quarter

Hai-O reported another impressive quarter as earnings surged 35.7% y-o-y on the back of a 42.4% jump in sales at its MLM division. Margins improved by 1.3%-pts y-o-y on better operating efficiency and contributions from higher margin products. Given the better-than-expected results, we are raising our FY10/11 earnings forecast by 9% to 12%. We also peg Hai-O at a higher valuation of 8.5x PE given its strong and consistent earnings track record, attractive dividend yield and its growth story in Indonesia. Our TP is increased to RM6.92 and we upgrade the stock to BUY from NEUTRAL.

Sparkling numbers. Hai-O posted another good quarter, with revenue rising 31.6% y-o-y to RM148.6m and surging 35.7% y-o-y to RM18.5m, representing 32.8% of our full year forecast and 34.7% of consensus estimates. This is due to better performance by its main business segment of multi-level marketing (MLM), for which the number of members ballooned to >110,000 from 70,000 in 1QFY09, pushing sales 42.4% higher y-o-y. This helped to offset the sales decline in other divisions, namely wholesaling (-27.4% y-o-y), retail (0.6% y-o-y) and manufacturing (-37.1% y-o-y). The better MLM sales was mainly due to higher sales of Bio Aura water filters, skincare products (launched earlier this year), and healthcare supplements (deemed non-discretionary products), while wholesale sales shrank due to the absence of the contribution from *Pu Er tea*.

On a q-o-q basis, although the wholesaling, retailing and manufacturing divisions registered a pullback in sales, overall revenue rose 11.8% y-o-y, again driven by growth in the MLM division (+15.8% y-o-y). In tandem with the higher sales, net earnings grew 25.8% q-o-q, which was also helped by a lower tax rate of 29.6% versus 35.8% in the previous quarter. **Margins improved 1.3%-pts y-o-y** on higher operating efficiency and contribution from higher margin products.

Update on Indon expansion. While Hai-O started to recruit members in Indonesia few months ago, its official business licence to operate MLM was granted in August. The company currently has no intention of opening retail outlets in Indonesia unless there is interest from other parties.

Revised earnings. In view of the better-than-expected results, we are raising our FY10 and FY11 earnings forecast by 9% to 12% to RM63.1m and RM71.5m respectively. Given its consistent earnings record even under tough operating conditions, its attractive dividend yield and growth story in Indonesia, Hai-O deserves a higher valuation. Thus, we are upgrading our target PE from 7x to 8.5x (which is still lower than Amway's target PE of 13x), which translates into a higher TP of RM6.92.

BUY

Target
Previous
Price

RM6.92
RM5.20
RM5.69

CONSUMER

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

Stock Statistics

Bloomberg Ticker	HAIO MK
Share Capital (m)	84.5
Market Cap (RMm)	480.6
52 week H L Price (RM)	5.7 2.9
3mth Avg Vol ('000)	85.5
YTD Returns	2.7
Beta (x)	0.7

Major Shareholders (%)

Tan Kai Hee	9.6
Akintan S/B	7.2
Excellent communication	5.1

Share Performance (%)

Month	Absolute	Relative
1m	6.7	8.9
3m	22.1	12.6
6m	62.3	24.9
12m	85.9	42.9

6-month Share Price Performance



FYE Apr (RMm)	FY08	FY09	FY10f	FY11 f	FY12f
Revenue	373.8	435.2	505.6	566.3	629.3
Net Profit	48.5	52.0	63.1	71.5	79.2
% chg y-o-y	127.0	7.2	21.3	13.3	10.8
Consensus	-	-	53.3	60.3	74.0
EPS (sen)	57.5	61.6	74.8	84.7	93.8
DPS (sen)	40.0	42.0	50.0	58.0	64.0
Dividend yield	7.0	7.4	8.8	10.2	11.2
ROE (%)	34.5	31.5	34.3	34.6	34.2
ROA (%)	23.8	21.0	24.6	24.9	25.0
PER (x)	9.9	9.2	7.6	6.7	6.1
BV/share (RM)	1.7	2.0	2.2	2.4	2.7
P/BV (x)	3.4	2.9	2.6	2.3	2.1
EV/ EBITDA (x)	5.9	5.6	4.9	4.3	4.0

Results Table (RMm)

FYE Apr	1Q10	4Q09	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	148.6	132.8	11.8	148.6	112.9	31.6	Stronger revenue was driven by its MLM division, which registered sales growth of 42.4% y-o-y Margin improved on higher operating efficiency and contribution from higher margin products
EBIT	26.3	23.0	14.3	26.3	18.560	41.8	
Net interest expense	0.0	-0.1	1.0	0.0	0.1	-127.9	-
Associates	0.0	0.0	n.a	0.0	0.0	n.a	-
PBT	26.3	23.0	14.5	26.3	18.7	40.7	Above expectation
Tax	-7.8	-8.2	-5.5	-7.8	-5.1	52.3	-
MI	-0.1	-0.1	6.7	-0.1	0.0	n.m	-
Net profit	18.5	14.7	25.8	18.5	13.6	35.7	Above expectation. Represents 32% of OSK's full year forecast
EPS (sen)	21.9	17.4		21.9	16.1		
DPS (sen)	0.00	32.00		0.00	0.00		
EBIT margin	17.7	17.3		17.7	16.4		
NTA/share (RM)	2.18	1.95		2.18	1.84		

EARNINGS FORECAST

FYE Apr (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Turnover	373.8	435.2	505.6	566.3	629.3
EBIT	67.2	75.7	90.1	101.6	111.2
PBT	67.7	75.5	89.1	100.6	111.2
Net Profit	48.5	52.0	63.1	71.5	79.2
EPS (sen)	57.5	61.6	74.8	84.7	93.8
DPS (sen)	40.0	42.0	50.0	58.0	64.0
Margin					
EBIT (%)	18.0	17.4	17.8	17.9	17.7
PBT (%)	18.1	17.4	17.6	17.8	17.7
Net Profit (%)	13.0	12.0	12.5	12.6	12.6
ROE (%)	34.5	31.5	34.3	34.6	34.2
ROA (%)	23.8	21.0	24.6	24.9	25.0
Balance Sheet					
Fixed Assets	21.6	59.4	64.1	73.7	83.3
Current Assets	154.0	154.4	162.6	178.3	179.3
Total Assets	204.1	248.3	256.8	287.0	317.6
Current Liabilities	58.0	61.2	57.6	65.3	70.6
Net Current Assets	146.2	187.2	199.2	221.8	247.0
LT Liabilities	0.1	15.7	15.1	15.1	15.1
Shareholders Funds	140.6	165.4	184.2	206.7	231.9
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: 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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