

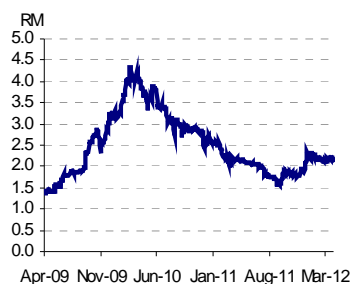
Company Update

Hai-O Ent

HAIO MK
RM2.16

ADD (upgrade)

Target Price: RM2.35 (↑)



Price Performance

	1M	3M	12M
Absolute	+1.4%	-3.6%	-3.6%
Rel to KLCI	+1.6%	-7.0%	-6.8%

Stock Data

Issued shares (m)	202.2
Mkt cap (RMm)	436.7
Avg daily vol - 6mth (m)	0.11
52-wk range (RM)	1.55 – 2.42
Est free float	66.4%
NTA per share (RM) (end-Jan 12)	1.05
P/NTA (x)	2.06
Net cash/debt (RMm) (end-Jan 12)	33.7
ROE (FY12E)	16.6%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.3%

Earnings & Valuation Revisions

	12E	13E	14E
Prev EPS (sen)	17.5	19.4	22.2
Curr EPS (sen)	17.5	19.4	22.2
Chg (%)	-	-	-
Prev target price (RM)		1.80	
Curr target price (RM)		2.35	

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Turning positive on sustainable margins and high yields

Reaping benefits from new strategy

We came away from our recent meeting with management with a more positive outlook on Hai-O. Although quarterly net profit is still far from its heyday of RM18-20m, we note that Hai-O's new strategy of focusing on higher margin products has been paying off. Coupled with the absence of additional investments in the technology division, EBIT margin has held steady above 20% since 4QFY04/11, a trend management believes is sustainable going forward.

KAEAM bamboo salt to be the new star performer

In the MLM division, sales of lower priced but higher margin products have largely replaced sales of the once highly robust Bio-Aura water filters. MLM revenue contribution from the water filter has fallen from >70% to merely 10%, while the remainder is derived from sales of foundation lingerie, cosmetics, skincare, and healthcare products. In the latter category, Hai-O has been actively promoting KAEAM Bamboo Salt, which alone accounts for c. 10% of its MLM revenue. We gather that the salt is particularly popular with the Chinese – consequently, 25% of new membership additions are Chinese, a shift from Hai-O's previous agent demographic of mainly Malays. Hai-O has also recently signed a deal with KAEAM Food Corp of South Korea to become a worldwide distributor for the KAEAM bamboo salt. However, management guided that they would first focus on marketing the bamboo salt in Malaysia, and have no plans yet to venture into other countries. Hai-O's main foreign exposure is its MLM operations in Indonesia, which is still relatively small. Strict regulations, as well as strong competition, have hindered new membership recruitment – consequently, Hai-O is focusing its efforts away from Jakarta and instead in smaller towns such as Pekan Baru and Medan.

Venturing into exports of birds' nest

Going forward, Hai-O plans to add exports of bird's nest to its growing portfolio of products. Its newly-incorporated subsidiary, Yan Ou Holdings, will be sourcing, processing, trading and distributing birds' nest, with the target market being China. That said, Hai-O is still in the process of obtaining the export licence - we do not expect any material contribution within the next 2 years.

A dividend yield play

During the meeting, management also reaffirmed Hai-O's 50% dividend payout policy. Hai-O paid out a net DPS of 7.5 sen in FY04/11 (yield: 3.5%, payout ratio: 54%). We have modeled in a similar payout ratio of 54% in our FY04/12-14 net earnings forecasts. This translates into net dividend yields of 4.6-5.6%, which looks appealing against its CY13 PE of 10.2x.

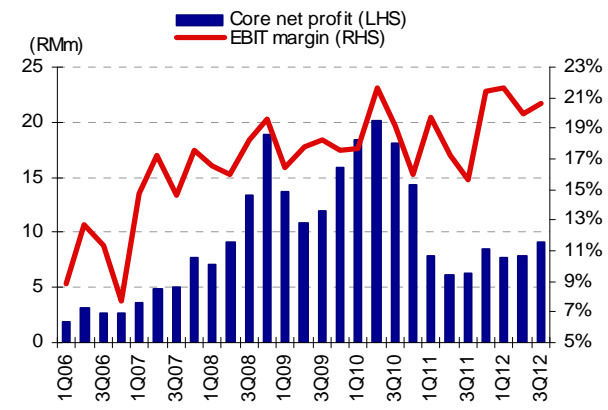
Earnings and valuation summary

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	53.0	58.6	66.4
Pretax profit (RMm)	95.6	41.3	49.5	55.0	62.8
Net profit (RMm)	70.6	28.4	35.4	39.4	45.0
EPS (sen)	34.8	14.0	17.5	19.4	22.2
PER (x)	6.2	15.4	12.4	11.1	9.7
Core net profit (RMm)	70.6	28.4	35.4	39.4	45.0
Core EPS (sen)	34.8	14.0	17.5	19.4	22.2
Core EPS chg (%)	35.0	-59.8	24.9	11.2	14.2
Core PER (x)	6.2	15.4	12.4	11.1	9.7
Net DPS (sen)	4.5	7.5	10.0	11.0	12.0
Net Dividend Yield (%)	2.1	3.5	4.6	5.1	5.6
EV/EBITDA (x)	3.4	8.3	6.8	5.9	5.0
Consensus profit (RMm)			33.0	36.8	45.0
Affin/Consensus (x)			1.1	1.1	1.0

Upgrade to ADD with a higher target price of RM2.35

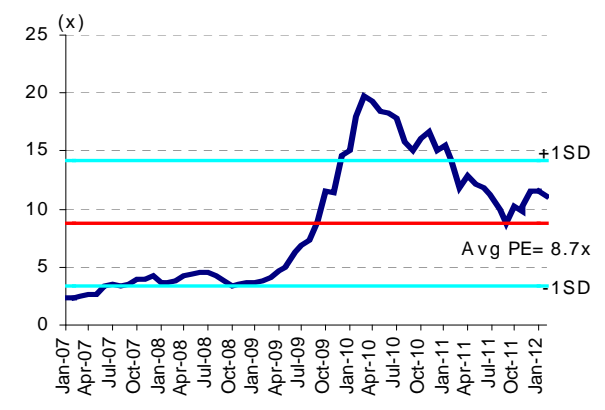
We raise our PE target to 11x (previously, 9x) to reflect more sustainable higher margins and dividend yield appeal. After rolling forward our valuation horizon to CY13, our target price is raised from RM1.80 to RM2.35. Upgrade from REDUCE to ADD. Key risks are: 1) a slowdown in consumer spending should the government resume rollback of subsidies, and; 2) sharp depreciation of RM/US\$, as c. 50% of Hai-O's products are imported (80% of which are denoted in US\$). Re-rating catalysts include take-off of the Indonesian MLM operations and stronger-than-expected sales growth.

Fig 1: EBIT margin and core net profit trend



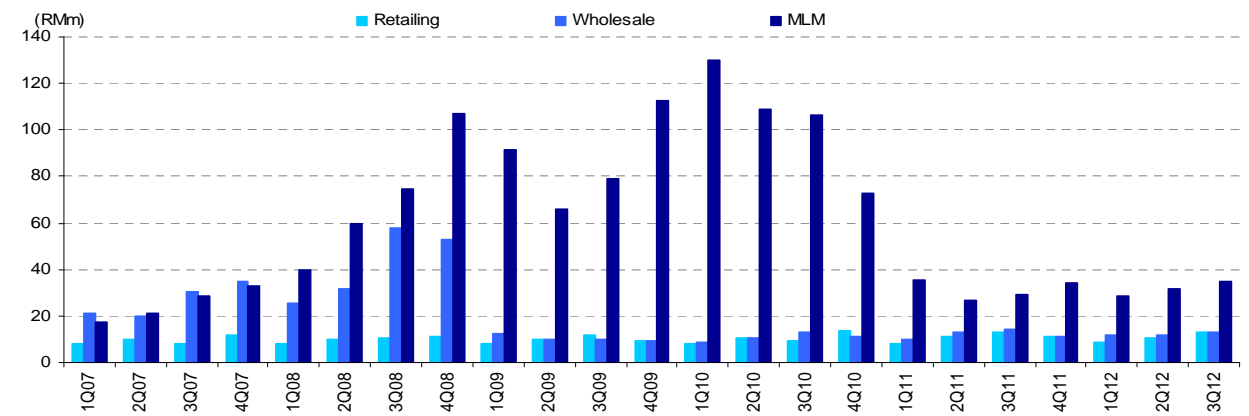
Source: Company, Affin

Fig 2: 1-year forward rolling PE



Source: Affin, Bloomberg

Fig 3: Quarterly revenue contribution



Source: Company

Fig 4: Peers comparison

Stock	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Core PE (x) CY12	Core PE (x) CY13	EPS growth (%) CY12	EPS growth (%) CY13	EV/EBITDA (x)	P/B (x)	ROE (%) FY12	ROE (%) FY13	Net Div. Yield (%) FY12	Net Div. Yield (%) FY13
AEON	BUY	9.44	9.95	3,313	15.6	14.5	14.6	7.8	5.9	2.3	15.6	15.0	1.6	1.7
BAT	REDUCE	55.50	53.55	15,847	20.5	20.1	5.8	1.6	14.1	92.5	140.9	131.4	4.8	4.9
BONIA	BUY	2.43	3.00	490	7.7	7.0	21.2	9.3	4.2	2.2	23.7	21.6	2.5	2.8
CARLSBERG	BUY	11.40	12.50	3,512	20.2	19.1	11.7	6.2	13.9	16.3	27.3	27.0	3.6	3.8
GUINNESS	BUY	13.20	16.00	3,988	19.9	18.8	9.9	6.0	13.8	11.4	44.3	54.9	8.9	4.6
HAI-O	ADD	2.16	2.35	437	11.5	10.1	15.1	13.3	7.1	2.0	14.8	17.2	4.6	5.1
JTI	ADD	6.79	7.90	1,776	13.3	12.6	8.6	6.0	7.8	3.6	28.3	26.6	5.5	3.3
MSM	ADD	5.13	5.15	3,606	13.3	12.9	2.3	2.7	8.1	3.1	14.9	14.2	3.8	3.9
NESTLE	ADD	55.90	60.90	13,109	26.7	24.5	7.4	9.0	18.3	20.2	72.6	72.9	3.7	4.0
PARKSON	BUY	5.22	6.65	5,710	12.5	10.8	19.7	16.2	3.2	2.5	18.4	21.6	3.3	4.0
Simple average					16.1	15.0	11.6	7.8	9.6	15.6	40.1	40.2	4.2	3.8

Source: Bloomberg, Affin

Hai-O – FINANCIAL SUMMARY

Profit & Loss Statement

FYE30 April (RMm)	2010	2011	2012E	2013E	2014E
Revenue	511.1	223.3	251.3	285.3	320.3
Operating expenses	-412.0	-178.4	-198.3	-226.8	-253.9
EBITDA	99.1	44.8	53.0	58.6	66.4
Depreciation	-2.1	-2.2	-2.3	-2.4	-2.5
EBIT	96.5	42.1	50.2	55.7	63.4
Net int income/(expense)	-0.8	-0.8	-0.8	-0.7	-0.6
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Pretax profit	95.6	41.3	49.5	55.0	62.8
Tax	-23.8	-11.6	-12.4	-13.8	-15.7
Minority interest	-1.3	-1.3	-1.7	-1.9	-2.1
Net profit	70.6	28.4	35.4	39.4	45.0

Balance Sheet Statement

FYE30 April (RMm)	2010	2011	2012E	2013E	2014E
Fixed assets	62.2	72.2	74.9	77.5	80.0
Other long term assets	32.7	38.0	37.5	37.0	36.5
Total non-current assets	94.9	110.2	112.4	114.5	116.5
Cash and equivalents	70.9	46.1	57.2	68.2	83.2
Stocks	44.0	44.3	49.8	56.9	64.0
Debtors	19.7	19.1	21.5	24.4	27.4
Other current assets	49.6	37.4	37.4	37.4	37.4
Total current assets	184.1	146.8	165.9	186.8	211.9
Creditors	38.5	22.6	25.4	29.0	32.6
Short term borrowings	4.8	5.7	5.1	4.6	4.1
Other current liabilities	12.1	5.2	5.2	5.2	5.2
Total current liabilities	55.4	33.4	35.7	38.7	41.9
Long term borrowings	13.2	10.7	9.7	8.7	7.8
Other long term liabilities	0.0	0.1	0.1	0.1	0.1
Total long term liabilities	13.2	10.9	9.8	8.8	8.0
Shareholders' Funds	203.1	204.4	222.8	241.9	264.6
Minority interest	7.4	8.3	10.0	11.8	14.0

Cash Flow Statement

FYE30 April (RMm)	2010	2011	2012E	2013E	2014E
EBIT	96.5	42.1	50.2	55.7	63.4
Depreciation & amortisation	2.6	2.6	2.8	2.9	2.9
Working capital changes	-16.0	-10.4	-5.1	-6.4	-6.5
Cash tax paid	-23.8	-11.6	-12.4	-13.8	-15.7
Others	9.9	-8.9	0.2	0.0	0.0
Cashflow from operation	69.2	13.9	35.8	38.5	44.2
Capex	-3.7	-12.3	-5.0	-5.0	-5.0
Others	-16.1	10.6	0.0	0.0	0.0
Cash flow from investing	-19.8	-1.7	-5.0	-5.0	-5.0
Debt raised/(repaid)	-1.5	-1.6	-1.6	-1.5	-1.3
Dividends paid	-26.4	-33.9	-17.2	-20.3	-22.3
Others	-1.2	-1.3	-0.8	-0.7	-0.6
Cash flow from financing	-29.1	-36.8	-19.6	-22.4	-24.2
Free Cash Flow	65.5	1.6	30.8	33.5	39.2

Source: Company data and Affin Investment Bank estimates

Key Financial Ratios and Margins

FYE30 April (RMm)	2010	2011	2012E	2013E	2014E
Growth					
Revenue (%)	17.4	-56.3	12.6	13.5	12.2
EBITDA (%)	24.5	-54.7	18.3	10.5	13.3
Core net profit (%)	35.0	-59.8	24.9	11.2	14.2
Profitability					
EBITDA margin (%)	19.4	20.1	21.1	20.5	20.7
PBT margin (%)	18.7	18.5	19.7	19.3	19.6
Net profit margin (%)	13.8	12.7	14.1	13.8	14.0
Effective tax rate (%)	25	28	25	25	25
ROA (%)	28.7	13.0	14.7	14.9	15.4
Core ROE (%)	38.3	13.9	16.6	17.0	17.8
ROCE (%)	47.5	19.1	21.9	22.6	23.9
Dividend payout ratio (%)	12.9	53.6	53.6	53.6	53.6
Liquidity					
Current ratio (x)	3.3	4.4	4.7	4.8	5.1
Op. cash flow (RMm)	69.2	13.9	35.8	38.5	44.2
Free cashflow (RMm)	65.5	1.6	30.8	33.5	39.2
FCF/share (sen)	32.3	0.8	15.2	16.5	19.3
Asset management					
Debtors turnover (days)	14.1	31.2	31.2	31.2	31.2
Stock turnover (days)	45.0	116.8	116.8	116.8	116.8
Creditors turnover (days)	39.3	59.5	59.5	59.5	59.5
Capital structure					
Net gearing (%)	107.8	107.8	107.8	107.8	107.8
Interest cover (x)	68.9	119.0	52.8	69.4	85.2

Quarterly Profit & Loss

FYE30 April (RMm)	3Q11	4Q11	1Q12	2Q12	3Q12
Revenue	57.6	58.2	51.0	56.2	62.8
Operating expenses	-48.6	-45.7	-39.9	-45.0	-49.8
EBITDA	9.0	12.4	11.0	11.2	13.0
Depreciation	0.0	0.0	0.0	0.0	0.0
EBIT	9.0	12.4	11.0	11.2	13.0
Net int income/(expense)	0.0	0.1	0.0	0.0	0.0
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.0	12.5	11.1	11.3	13.0
Tax	-2.3	-3.5	-3.0	-2.8	-3.5
Minority interest	-0.4	-0.4	-0.3	-0.5	-0.4
Net profit	6.3	8.5	7.7	7.9	9.1
Core net profit	6.3	8.5	7.7	7.9	9.1
Margins (%)					
EBITDA	15.7	21.4	21.7	20.0	20.7
PBT	15.7	21.5	21.7	20.0	20.7
Net profit	11.0	14.7	15.2	14.0	14.4

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

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