

Results Note

Hai-O Ent

 HAIO MK
 RM2.08

ADD (maintain)

Target Price: RM2.35 (↔)



Price Performance

	1M	3M	12M
Absolute	-1.9%	-2.9%	+12.8%
Rel to KLCI	-1.7%	-5.9%	-3.1%

Stock Data

Issued shares (m)	199.6
Mkt cap (RMm)	403.2
Avg daily vol - 6mth (m)	0.08
52-wk range (RM)	1.55 – 2.42
Est free float	65.6%
NTA per share (RM) (end-Jul 12)	1.16
P/NTA (x)	1.74
Net cash/debt (RMm) (end-Jul 12)	47.2
ROE (FY13E)	17.0%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.3%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	19.4	22.2	25.3
Curr EPS (sen)	19.4	22.2	25.3
Chg (%)	-	-	-
Prev target price (RM)		2.35	
Curr target price (RM)		2.35	

 Andy Ong
 (603) 2145 3078
andy.ong@affininvestmentbank.com.my

Continued recovery in the MLM division

1QFY04/13 core net profit of RM10m (+25.5% yoy) - within expectations

Hai-O reported a 1QFY04/13 revenue of RM61.1m (+20.0% yoy), mainly driven by the continued revenue recovery in the MLM division. 1QFY04/13 revenue contribution from the MLM division grew by +39.4% yoy (1QFY04/12: -18.3% yoy), which accounts for approximately 66% and 54% of total revenue and PBT respectively. This was mainly attributed to the higher sales from its high-margin foundation garments and key health food products. EBIT margin was also stronger at qoq 21.6% vs. 17.8% in 4QFY04/12, but flat yoy (21.7% in 1QFY04/12). Overall, 1QFY04/13 core net profit grew by +25.5% yoy to RM9.7m, which was within both our and consensus expectations. There is no dividend declared for the quarter.

1QFY04/13: MLM revenue growth offset declines in retail and wholesale

On a sequential basis, Hai-O recorded a lower 1QFY04/13 revenue of RM61.1m compared to 4QFY04/12 of RM69.4m (-11.9% qoq). This was largely due to the lower revenue contribution from the MLM division and retail division. Generally, sales in the retail division was seasonally weaker in the 1Q due to year-end stock clearance sales coupled with slower domestic consumption. As a result, overall revenue fell by -11.9% qoq to RM61.1m. However, 1QFY04/13 core net profit grew by +16.0% qoq to RM9.7m (4QFY04/12: RM8.4m). This was mainly attributed to: 1) lower operating costs incurred (-9.1% qoq), and; 2) a higher EBIT margin (+3.8%-points qoq), which in addition to the lower operating costs incurred, has also been lifted by higher sales of patented medicine products and duty free goods in the wholesale division. Note that during the quarter, Hai-O incurred a one-off gain of RM570,000 from the early termination of a sales contract by one of its customers.

Maintain ADD with an unchanged target price of RM2.35

We maintain our FY04/13-14 earnings forecasts and FY04/15 net profit forecast of RM51.2m (+13.7% yoy). Apart from the recovery in its MLM marketing strategy (which lifted the overall performance), we continue to like Hai-O for its attractive valuations. The stock offers a high dividend yield of 5-6% (premised on a minimum 50% dividend payout policy), which looks appealing against its CY13 PE of 9.5x. Maintain ADD, with an unchanged target price of RM2.35 (11x CY13 EPS). Key risk lies in a slowdown in consumer spending.

Earnings and valuation summary

FYE 30 April	2011	2012	2013E	2014E	2015E
Revenue (RMm)	223.3	239.4	285.3	320.3	356.7
EBITDA (RMm)	44.8	51.3	58.7	66.6	75.3
Pretax profit (RMm)	41.3	48.6	55.0	62.8	71.6
Net profit (RMm)	28.4	33.8	39.4	45.0	51.2
EPS (sen)	14.0	16.7	19.4	22.2	25.3
PER (x)	14.4	12.1	10.4	9.1	8.0
Core net profit (RMm)	28.4	33.0	39.4	45.0	51.2
Core EPS (sen)	14.0	16.3	19.4	22.2	25.3
Core EPS chg (%)	-59.8	16.4	19.3	14.2	13.9
Core PER (x)	14.4	12.4	10.4	9.1	8.0
Net DPS (sen)	7.5	9.0	11.0	12.0	14.0
Net Dividend Yield (%)	3.7	4.5	5.4	5.9	6.9
EV/EBITDA (x)	7.7	6.1	5.0	4.2	3.4
Consensus profit (RMm)			37.9	42.2	51.2
Affin/Consensus (x)			1.0	1.1	1.0

Fig 1: Quarterly results comparison

FYE April (RMm)	1QFY12	4QFY12	1QFY13	QoQ % chg	YoY % chg	Comment
Revenue	51.0	69.4	61.1	(11.9)	20.0	Revenue from the MLM division surged by +39.4% qoq, due to higher sales from high-margins products (key health food products & foundation lingerie). However, contribution from the retail and wholesale division declined in tandem with slow-down in the general economy
Op costs	(62.0)	(81.8)	(74.4)	(9.1)	19.9	
EBIT	11.0	12.4	13.2	7.0	19.7	
EBIT margin (%)	21.7	17.8	21.6	nm	nm	
Int expense	(0.2)	(0.2)	(0.2)	16.4	(9.7)	
Int and other inc	0.2	0.3	0.2	(10.4)	8.1	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional gain/losses	0.0	0.8	0.6	nm	nm	One off gain arise from early termination of a sales contract by one of its customers
Pretax	11.1	13.3	13.8	4.3	25.2	
Tax	(3.0)	(3.7)	(3.5)	(5.0)	16.0	
Tax rate (%)	27.3	27.8	25.3	nm	nm	
MI	(0.3)	(0.4)	(0.1)	(84.2)	nm	
Net profit	7.7	9.2	10.3	12.1	32.8	
EPS (sen)	3.9	4.6	5.2	12.1	33.3	
Core net profit	7.7	8.4	9.7	16.0	25.5	Accounts for 25% and 26% of our and total consensus estimates

Source: Company, Affin

Fig 2: External revenue breakdown

FY April (RMm)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	QoQ % chg	YoY % chg
Wholesale	8.9	10.7	13.3	10.9	9.9	13.1	14.3	11.2	12.0	11.9	13.2	11.8	11.1	(5.8)	(7.2)
MLM	130.3	108.9	106.2	72.6	35.2	26.7	29.0	34.2	28.8	32.0	34.7	45.6	40.1	(12.1)	39.4
Retailing	7.9	10.8	9.5	13.6	8.2	11.3	13.0	11.2	8.7	10.7	13.1	10.3	8.0	(23.1)	(8.2)
Others	1.5	2.0	2.2	1.7	1.5	1.5	1.3	1.6	1.6	1.6	1.8	1.7	2.0	18.2	25.2
Total	148.6	132.4	131.3	98.8	54.8	52.6	57.6	58.2	51.0	56.2	62.8	69.4	61.1	(11.9)	20.0
Qoq (%)	11.8%	(10.9%)	(0.8%)	(24.7%)	(44.6%)	(3.9%)	9.5%	0.9%	(12.4%)	10.3%	11.7%	10.6%	(11.9%)		
YoY (%)	31.6%	51.6%	28.5%	(25.6%)	(63.1%)	(60.2%)	(56.1%)	(41.2%)	(6.9%)	6.8%	9.0%	19.4%	20.0%		
Contribution (%)															
Wholesale	6.0	8.1	10.2	11.0	18.0	24.9	24.9	19.2	23.5	21.1	21.1	17.0	18.2		
MLM	87.7	82.3	80.9	73.4	64.4	50.8	50.4	58.8	56.5	56.9	55.2	65.7	65.6		
Retail	5.3	8.1	7.2	13.8	14.9	21.4	22.6	19.3	17.0	19.1	20.8	14.9	13.0		
Others	1.0	1.5	1.7	1.8	2.7	2.9	2.2	2.7	3.1	2.8	2.9	2.4	3.2		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Source: Company, Affin

Fig 3: EBIT breakdown

FY April (RMm)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	QoQ % chg	YoY % chg
Wholesale	4.1	5.5	3.0	(0.7)	2.6	3.6	3.0	1.6	4.4	2.9	3.5	2.2	3.8	74.4	(12.6)
MLM	21.2	21.8	20.5	11.8	6.4	3.5	4.4	8.1	4.4	5.5	6.9	7.1	7.4	3.9	68.3
Retailing	0.3	1.3	0.6	1.9	0.3	1.8	1.3	1.2	0.7	1.6	1.2	1.4	0.3	(79.7)	(55.8)
Others	0.7	0.2	1.2	2.8	1.5	0.2	0.4	1.6	1.6	1.2	1.3	0.8	0.6	(29.9)	(64.3)
Total	26.3	28.7	25.2	15.8	10.8	9.1	9.0	12.4	11.0	11.2	13.0	11.6	12.6	9.4	14.6
Contribution (%)															
Wholesale	15.7	19.0	11.7	(4.7)	24.0	39.7	33.6	12.7	39.4	25.9	26.9	18.9	30.1		
MLM	80.6	75.9	81.2	74.9	58.9	38.9	48.2	65.0	39.8	48.9	53.5	61.6	58.5		
Retailing	1.2	4.4	2.5	12.0	2.8	19.6	14.2	9.8	5.9	14.7	9.4	12.3	2.3		
Others	2.6	0.7	4.6	17.9	14.3	1.7	4.1	12.6	14.9	10.5	10.2	7.2	4.6		
Margin (%)															
Wholesale	46.4%	50.9%	22.1%	-6.8%	26.3%	27.6%	21.2%	14.1%	36.4%	24.4%	26.4%	18.5%	34.2%		
MLM	16.3%	20.0%	19.3%	16.3%	18.0%	13.2%	15.0%	23.6%	15.3%	17.1%	20.0%	15.6%	18.4%		
Retailing	3.9%	11.7%	6.6%	13.9%	3.8%	15.8%	9.9%	10.8%	7.5%	15.3%	9.3%	13.7%	3.6%		
Others	46.7%	9.9%	52.7%	163.0%	103.1%	10.1%	29.2%	100.6%	104.3%	74.0%	73.0%	50.2%	29.7%		

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

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Affin Investment Bank Bhd (9999-V)
 A Participating Organisation of Bursa Malaysia Securities Bhd
 Chulan Tower Branch,
 3rd Floor, Chulan Tower,
 No 3, Jalan Conlay,
 50450 Kuala Lumpur.

www.affininvestmentbank.com.my

Email: research@affininvestmentbank.com.my

Tel : + 603 2143 8668

Fax : + 603 2145 3005