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NEUTRAL ↔

Fair Value **RM1.70**
Previous Price **RM1.70**
Price **RM1.80**

CONSUMER

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

Stock Statistics

Bloomberg Ticker	HAI0 MK
Share Capital (m)	202.2
Market Cap	363.9
52 week H L Price	2.86 1.55
3mth Avg Vol (000)	72.9
YTD Returns	-32.1
Beta (x)	0.89

Shariah Compliant YES

Major Shareholders (%)

Tan Kai Hee	9.62
Akintan SB	7.31
Excellent Communications	5.13

Share Performance (%)

Month	Absolute	Relative
1m	-1.9	-9.5
3m	5.2	-2.8
6m	-12.5	-12.0
12m	-33.1	-29.8

6-month Share Price Performance

1HFY12 Results Review
Hai-O Enterprise
Bouncing Back After 8 Dismal Quarters

Hai-O's 1HFY12 results were in line with our forecast. After struggling for 8 consecutive quarters, the group finally posted positive top- and bottom-line growth y-o-y. 1HFY12 revenue grew 6.8% y-o-y to RM107.2m on a significant MLM sales improvement (+19.7% y-o-y in 2QFY12) due to higher revenue per distributor while net profit jumped 12% to RM15.6m. EBIT margin expanded by 2.3% pts y-o-y to 20.8%, mainly boosted by higher contribution from MLM and the wholesale division, which commands higher margins. Given the inline results, we maintain our earnings forecast and FV at RM1.70. We believe the group is on the road to recovery and may see stronger numbers in 2H driven by festive sales. **Maintain NEUTRAL.**

Results as anticipated. Hai-O's 1HFY12 results were within our expectation. After 8 consecutive quarters of y-o-y contraction, the company's 2QFY11 top- and bottom-line finally grew by 6.8% and 28.3% y-o-y to RM56.2m and RM7.9m respectively. However, 1HFY12 revenue contracted slightly by 0.2% to RM107.2m due to the weaker sales in 1QFY12, while net profit jumped by a robust 12% y-o-y growth to RM15.6m, representing 54.2% of our full-year forecast.

MLM division makes marked recovery. The MLM division, contributing 56.9% of total sales, made a marked 19.7% improvement in sales to RM32m in 2QFY12, but on a 1HFY12 basis, sales still declined by 1.9% y-o-y to RM60.8m, no thanks to weak MLM sales in 1QFY12. The strong MLM sales in the current quarter were mainly driven by the higher revenue per distributor. In 1HFY12, the retail and wholesaling divisions reported a flat and 3.9% y-o-y growth to RM19.4m and RM23.8m respectively on the back of the good numbers in 1QFY12. In the current quarter, the wholesale division experienced lower sales of its Chinese Medicated Tonic wine, since the higher retail sales last year were boosted by the successful launch of a key product. On a q-o-q basis, overall sales increased 10.3%, mainly driven by the MLM (+11.1%) and retail divisions (+24%). Net profit grew at a smaller quantum of 1.7%, mainly weighed down by the wholesale division.

Stronger EBIT margin. 1HFY12 EBIT margin improved 2.3% pts y-o-y to 20.8% due to (i) higher contribution from MLM products (eg. skin care and health food) and the higher margins from the wholesale division; (ii) lower R&D costs incurred in other divisions, and (iii) higher sales to fixed cost in the retail division.

Maintain NEUTRAL at a FV of RM1.70. Given that the results were in line, we are maintaining our FY12/13 earnings forecasts. As can be seen from the results, the group appears to be on the road to recovery and may achieve stronger results in 2H, spurred by the upcoming festive season sales. Hai-O declared a 2 sen single-tier interim dividend.

FYE Apr (RM m)	FY09	FY10	FY11	FY12f	FY13f
Revenue	435.2	511.1	223.2	216.1	229.1
Net Profit	52.3	70.6	28.8	28.8	31.4
% chg y-o-y	7.7	35.0	-59.2	-0.1	9.0
Consensus	-	-	-	29.9	33.8
EPS	25.8	34.8	14.2	14.2	15.5
DPS	5.5	9.4	7.5	7.1	7.7
Dividend yield (%)	3.0	5.2	4.2	3.9	4.3
ROE (%)	31.6	33.7	14.1	12.9	13.1
ROA (%)	21.1	26.0	11.6	11.1	11.4
PER (x)	7.0	5.2	12.7	12.7	11.6
BV/share	0.82	1.03	1.01	1.10	1.18
P/BV (x)	2.2	1.7	1.8	1.6	1.5
EV/EBITDA (x)	4.3	3.2	8.1	7.2	6.7

Results Table (RMm)

FYE Apr	2Q12	1Q12	Q-o-Q chg	YTD FY12	YTD FY11	Y-o-Y chg	Comments
Revenue	56.2	51.0	10.3	107.2	107.4	-0.2	Weaker sales due to the poor results reported in 1QFY12. 2QFY12 sales improved 6.8%.
EBIT	11.2	11.0	1.6	22.2	19.9	11.8	Fatter margins mainly driven by: (i) higher contribution from MLM products (eg. skin care and health food) and wholesale division, which commands higher margin (ii) lower R&D cost incurred in other divisions, and (iii) higher sales to fixed cost in the retail division.
Net interest expense	0.0	0.0	1.0	0.1	0.0	-353.8	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	11.3	11.1	1.7	22.3	19.9	12.3	
Tax	-2.8	-3.0	-6.0	-5.9	-5.4	9.4	
MI	-0.5	-0.3	-77.0	-0.8	-0.6	47.3	
Net profit	7.9	7.7	1.7	15.6	13.9	12.0	Within expectation – 54.2% of OSK’s full-year forecast
EPS	3.9	3.8	-	7.7	6.9	-	
DPS	2.0	0.0	-	2.0	2.0	-	First interim single-tier dividend
EBIT margin	20.0	21.7	-	20.8	18.5	-	
NTA/Share	1.08	1.04	-	1.08	1.08	-	

EARNINGS FORECAST

FYE Apr (RM m)	FY09	FY10	FY11	FY12f	FY13f
Turnover	435.2	511.1	223.2	216.1	229.1
EBIT	76.1	95.7	41.4	40.5	42.6
PBT	75.9	95.6	41.4	39.7	41.8
Net Profit	52.3	70.6	28.8	28.8	31.4
EPS	25.8	34.8	14.2	14.2	15.5
DPS	5.5	9.4	7.5	7.1	7.7
Margin					
EBIT (%)	17.5	18.7	18.5	18.7	18.6
PBT (%)	17.4	18.7	18.5	18.4	18.3
Net Profit (%)	12.0	13.8	12.9	13.3	13.7
ROE (%)	31.6	33.7	14.1	12.9	13.1
ROA (%)	21.1	26.0	11.6	11.1	11.4
Balance Sheet					
Fixed Assets	59.4	60.9	71.7	81.1	90.9
Current Assets	154.4	184.0	111.8	143.7	150.1
Total Assets	248.3	271.7	249.2	259.8	276.1
Current Liabilities	61.2	49.3	33.4	26.5	27.1
Net Current Assets	187.2	222.4	215.8	233.3	249.0
LT Liabilities	15.7	13.2	10.7	10.1	10.1
Shareholders Funds	165.4	209.2	205.1	223.3	238.9
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 (NR): Stock is not within regular research coverage

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Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur
Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

OSK RESEARCH SDN. BHD. (206591-V)

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