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1QFY12 Results Review

Hai-O Enterprise

Dragged by weak MLM sales

Hai-O's 1QFY12 revenue dropped 6.9% y-o-y to RM51m while net profit was down slightly by 0.9% y-o-y to RM7.7m, coming in below our expectations. The drop in revenue was mainly due to lower contribution from the MLM side which recorded 18.3% y-o-y sales decline on slower membership growth and lower average sales per distributor. Despite the weaker sales, EBIT margin improved to 21.7% from 19.7% in 1QFY11 due to increased contribution from higher margin products, lower costs of imported goods on stronger RM against USD and general improvement in operational efficiency and productivity. Net profit however declined due to a higher effective tax rate. Given the below than expected results, we cut our FY12/13 earnings forecast by 11.8% - 18.3% respectively. Our fair value is hence reduced to RM1.70. Nonetheless, after the sharp slide in share price, our FV still offers 2.7% upside and hence we upgrade Hai-O from Sell to Neutral.

Below expectations. Hai-O 1QFY12 results came in below our expectations. Revenue dropped 6.9% y-o-y to RM51m while net profit was down slightly by 0.9% y-o-y to RM7.7m. The drop in revenue was mainly due to lower contribution from the MLM business (accounts for 56.5% of total sales) which recorded 18.3% y-o-y sales decline on slower membership growth and lower average sales per distributor. Wholesaling's revenue, which takes up 23.5% of the sales pie, increased by 21.4% y-o-y to RM4.4m due to aggressive marketing strategy while its retail sales chalked 6.1% y-o-y sales growth to RM8.7m due to 4 new openings. On a q-o-q basis, overall sales dropped 12.4% while net profit decreased 9.5% due to the drop in MLM (-15.8%) and retail (-23%) sales. MLM sales in the last quarter were boosted by the aggressive year end sales in the last quarter whereas retail sales in the previous quarter were spurred by a sales campaign cum year end stock clearance.

Stronger EBIT margin. Despite the weaker sales, EBIT margin improved to 21.7% from 19.7% in 1QFY11 due to the increased contribution from higher margin products, lower costs of imported goods on stronger RM against USD and general improvement in operational efficiency and productivity. Due to a higher effective tax rate, net profit margin declined by 0.9% y-o-y.

Upgrade to Neutral. Given the below than expected results, we cut our FY12 and FY13 earnings forecast by 11.8% - 18.3% to RM28.8m and RM31.4m respectively. Hence, our fair value is reduced from RM1.93 to RM1.70 (based on 12x FY12 EPS). As the stock's share price has retraced by 49% since our sell recommendation and it currently offers 2.7% upside versus our fair value, we upgrade Hai-O to Neutral from Sell.

NEUTRAL ↕

Fair Value **RM1.70**
 Previous **RM1.93**
 Price **RM1.66**

CONSUMER

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	335.6
52 week H L Price	3.26 1.55
3mth Avg Vol (000)	96.2
YTD Returns	-37.4
Beta (x)	0.88

Major Shareholders (%)

Tan Kai Hee	9.62
Akintan SB	7.31
Excellent Communications	5.13

Share Performance (%)

Month	Absolute	Relative
1m	-8.3	-4.3
3m	-21.7	-11.3
6m	-23.9	-14.0
12m	-45.2	-45.7

6-month Share Price Performance



FYE Apr	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	-	-	-	31.2	36.1
EPS	25.8	34.8	14.2	14.2	15.5
DPS	5.5	9.4	7.5	7.1	7.7
Dividend yield (%)	3.3	5.6	4.5	4.3	4.7
ROE (%)	31.6	33.7	14.1	12.9	13.1
ROA (%)	21.1	26.0	11.6	11.1	11.4
PER (x)	6.4	4.8	11.7	11.7	10.7
BV/share	0.82	1.03	1.01	1.10	1.18
P/BV (x)	2.0	1.6	1.6	1.5	1.4
EV/EBITDA (x)	4.0	2.9	7.5	6.5	6.1

Results Table (RMm)

FYE Apr	1QFY12	4QFY11	Q-o-Q chg	YTD FY12	YTD FY11	Y-o-Y chg	Comments
Revenue	51.0	58.2	-12.4	51.0	54.8	-6.9	Weak sales due to weak MLM sales (-18.3% y-o-y) Better margin due to the increased contribution from higher margin products, lower costs of imported goods on stronger RM against USD and general improvement in operational efficiency and productivity.
EBIT	11.0	12.4	-11.2	11.0	10.8	2.1	
Net interest expense	0.0	0.1	1.0	0.0	0.0	-228.6	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	11.1	12.5	-11.4	11.1	10.8	2.6	
Tax	-3.0	-3.5	-13.8	-3.0	-2.9	4.0	
MI	-0.3	-0.4	30.3	-0.3	-0.1	334.3	
Net profit	7.7	8.5	-9.5	7.7	7.8	-0.9	Below expectation- 23.5% of OSK's full year forecast
EPS	3.8	4.2	-	3.8	3.9	-	
DPS	0.0	5.5	-	0.0	0.0	-	
EBIT margin	21.7	21.4	-	21.7	19.7	-	
NTA/Share	1.04	1.01	-	1.04	1.05	-	

EARNINGS FORECAST

FYE Apr	FY09	FY10	FY11	FY12f	FY13f
Turnover	435.2	511.1	223.2	216.1	229.1
EBITDA	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					
EBITDA (%)	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

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