

## Results Note

## Hai-O Ent

HAIO MK  
RM2.27

SELL (maintain)

Target Price: RM1.57 (↔)



## Price Performance

	1M	3M	12M
Absolute	-11.0%	-12.0%	-50.0%
Rel to KLCI	-11.0%	-11.9%	-56.8%

## Stock Data

Issued shares (m)	202.2
Mkt cap (RMm)	459.0
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	2.23 – 4.68
Est free float	66.4%
NTA per share (RM) (end-Jan 11)	0.97
P/NTA (x)	2.34
Net cash/debt (RMm) (end-Jan 11)	26.8
ROE (FY11F)	13.1%
Derivatives	Nil

## Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.2%

## Earnings &amp; Valuation Revisions

	11E	12E	13E
Prev EPS (sen)	14.0	16.5	19.0
Curr EPS (sen)	14.0	16.5	19.0
Chg (%)	-	-	-
Prev target price (RM)		1.57	
Curr target price (RM)		1.57	

Shakira Hatta  
(603) 2142 8158  
[shakira@affininvestmentbank.com.my](mailto:shakira@affininvestmentbank.com.my)

## Earnings decline appears to be bottoming out

## Within expectations

Hai-O's 9MFY04/11 revenue declined by -60% yoy to RM165m, attributed primarily to -74% yoy fall in MLM sales after the implementation of stricter new membership recruitment guidelines. Revenue contribution from the wholesale division also fell by -53% yoy, due to weak inter-segment sales to the MLM division. On a brighter note, Hai-O's retail division posted a positive +15% yoy increase in revenue. Stronger margins (10.4% vs. 7.8% in 9MFY04/10) from increased sales of higher margin house brands also lifted retail EBIT contribution by +53% yoy. Nevertheless, overall 9MFY04/11 EBIT margin shed 1.9-ppt to 17.5% (9MFY04/10: 19.5%), due to weaker margins in the MLM and manufacturing divisions. Coupled with the steep decline in revenue, 9MFY04/11 net profit plunged -64.2% yoy to RM20.3m. Results were within expectations, accounting for 72% and 73% of our and consensus estimates.

## 3QFY04/11 net profit up +3.5% qoq – first qoq growth since 2QFY04/10

Despite the weak 9MFY04/11 earnings, 3QFY04/11 was actually an improved quarter for Hai-O. Revenue climbed +9.5% qoq, bolstered by revenue growth of: 1) +85.5% qoq in the wholesale division; 2) +16.4% qoq in the retail division, and; 3) +8.6% qoq in the MLM division. We gather that the stronger sales were attributed to the Chinese New Year festive season, which fell in early February 2011. Hai-O also carried out product training programs and promotional activities to boost sales in the MLM division. As a result, 3QFY04/11 EBIT margin fell by 1.6-ppt to 15.7% (2QFY04/11: 17.3%). Pretax profit was relatively flat at RM9m (2QFY04/11: RM9.1m). However, a lower effective tax rate (25.8% vs 27% in 2QFY04/11) boosted 3QFY04/11 net profit to RM6.3m (+3.5% qoq).

## Maintain SELL, unchanged TP of RM1.57

3QFY04/11 marks Hai-O's first sequential quarter of growth since the stricter new membership guidelines were implemented in April 2010. The increase in MLM sales implies that Hai-O's earnings decline has now finally bottomed out. Nevertheless, we maintain our SELL recommendation and target price of RM1.57 (pegged to a PE target of 10x on CY11 EPS), as we believe it will take time for: 1) MLM sales to recover, and; 2) Hai-O to rebuild its earnings base with reduced dependency on the MLM division. Key re-rating catalysts for the stock in the near term are: 1) significant increase in new monthly memberships; 2) stronger sales across the board especially in the MLM division, and; 3) faster-than-expected commercialization of the technology under Hai-O Energy.

## Earnings and valuation summary

FYE 30 April	2009	2010	2011E	2012E	2013E
Revenue (RMm)	435.2	511.1	215.6	251.2	285.2
EBITDA (RMm)	77.0	96.8	43.8	50.7	57.7
Pretax profit (RMm)	75.9	95.9	38.5	45.4	52.3
Net profit (RMm)	52.3	70.9	28.4	33.4	38.5
EPS (sen)	25.8	35.0	14.0	16.5	19.0
EPS growth (%)	7.7	35.6	-60.0	17.7	15.2
PER (x)	8.8	6.5	16.1	13.7	11.9
Core net profit (RMm)	52.3	70.9	28.4	33.4	38.5
Core EPS (sen)	25.8	35.0	14.0	16.5	19.0
Core PER (x)	8.8	6.5	16.1	13.7	11.9
Net DPS (sen)	13.1	19.6	8.4	9.9	11.4
Net Dividend Yield (%)	5.8	8.7	3.7	4.4	5.0
EV/EBITDA (x)	5.1	3.7	7.4	6.1	5.1
P/BV (x)	2.8	2.2	2.0	1.9	1.8
Consensus profit (RMm)			45.0	48.4	64.4
Affin/Consensus (x)			0.6	0.7	-

**Fig 1: Quarterly results comparison**

FYE April (RMm)	3QFY10	2QFY10	3QFY11	QoQ % chg	YoY % chg	Comment
Revenue	131.3	52.6	57.6	9.5	(56.1)	Driven by revenue growth of: 1) +85.5% qoq in the wholesale division; 2) +16.4% in the retail division, and; 3) +8.6% in the MLM division
Op costs	(156.5)	(61.7)	(66.7)	8.0	(57.4)	
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
EBIT	25.2	9.1	9.0	(0.6)	(64.2)	
EBIT margin (%)	19.2	17.3	15.7	nm	nm	Lower EBIT margin attributed to increased expenses for MLM product training programs and promotional activities
Int expense	(0.1)	(0.2)	(0.2)	5.5	84.1	
Int and other inc	0.2	0.2	0.2	5.6	49.3	
Associates	0.0	0.0	0.0	nm	nm	
<b>Pretax</b>	<b>25.2</b>	<b>9.1</b>	<b>9.0</b>	<b>(0.6)</b>	<b>(64.2)</b>	
Tax	(7.0)	(2.5)	(2.3)	(4.9)	(66.9)	
Tax rate (%)	27.8	27.0	25.8	nm	nm	
MI	(0.2)	(0.5)	(0.4)	(30.4)	nm	
<b>Net profit</b>	<b>18.0</b>	<b>6.1</b>	<b>6.3</b>	<b>3.5</b>	<b>(64.8)</b>	Accounts for 22% and 23% of our and consensus estimates, respectively
EPS (sen)	8.9	3.0	3.1	3.5	(64.8)	
<b>Core net profit</b>	<b>18.0</b>	<b>6.1</b>	<b>6.3</b>	<b>3.5</b>	<b>(64.8)</b>	

Source: Company, Affin

**Fig 2: Cumulative results comparison**

FYE April (RMm)	YTD2009	YTD2010	YTD % chg	Comment
Revenue	412.2	165.0	(60.0)	Attributed primarily to the sharp drop in revenue contribution from the MLM (-74% yoy) and wholesale (-53% yoy) divisions
Op costs	(492.5)	(193.9)	(60.6)	
Exceptional gain/losses	0.0	0.0	nm	
EBIT	80.2	28.9	(64.0)	
EBIT margin (%)	19.5	17.5	nm	
Int expense	(0.6)	(0.7)	2.2	
Int and other inc	0.6	0.6	10.8	
Associates	0.0	0.0	nm	
<b>Pretax</b>	<b>80.17</b>	<b>28.9</b>	<b>(64.0)</b>	
Tax	(23.0)	(7.7)	(66.5)	
Tax rate (%)	28.7	26.6	nm	
MI	(0.5)	(0.9)	77.5	
<b>Net profit</b>	<b>56.7</b>	<b>20.3</b>	<b>(64.2)</b>	Within expectations - accounts for 72% and 73% of our and consensus estimates
EPS (sen)	28.0	10.0	(64.2)	
<b>Core net profit</b>	<b>56.7</b>	<b>20.3</b>	<b>(64.2)</b>	

Source: Company, Affin

**Fig 3: Segmental revenue breakdown**

FY April (RMm)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	QoQ % chg	YoY % chg
Wholesale	44.7	32.8	54.3	48.0	46.3	70.6	72.5	38.6	21.9	23.7	43.9	85.5	(39.4)
MLM	91.5	65.9	78.9	112.5	130.3	108.9	106.2	72.6	35.2	26.7	29.0	8.6	(72.7)
Retail	8.0	10.0	11.8	9.4	7.9	10.8	9.6	13.6	8.2	11.3	13.1	16.4	36.8
Manufacturing	1.2	1.1	1.3	1.7	1.2	1.2	1.4	1.4	2.0	1.4	1.1	(19.2)	(23.2)
Others	(32.5)	(22.6)	(44.2)	(38.8)	(37.1)	(59.1)	(58.4)	(27.4)	(12.6)	(10.4)	(29.5)	184.0	(49.5)
<b>Total</b>	<b>112.9</b>	<b>87.3</b>	<b>102.1</b>	<b>132.8</b>	<b>148.6</b>	<b>132.4</b>	<b>131.3</b>	<b>98.8</b>	<b>54.8</b>	<b>52.6</b>	<b>57.6</b>	<b>9.5</b>	<b>(56.1)</b>
Qoq (%)	(15.5)	(22.7)	17.0	30.1	11.8	(10.9)	(0.8)	(24.7)	(44.6)	(3.9)	9.5		
Yoy (%)	90.5	8.4	1.6	(0.5)	31.6	51.6	28.5	(25.6)	(63.1)	(60.2)	(56.1)		

**Contribution (%)**

Wholesale	39.6	37.6	53.2	36.2	31.1	53.3	55.2	39.1	40.1	45.0	76.2		
MLM	81.1	75.5	77.3	84.7	87.7	82.3	80.9	73.4	64.4	50.8	50.4		
Retail	7.1	11.5	11.5	7.1	5.3	8.1	7.3	13.8	14.9	21.4	22.7		
Manufacturing	1.1	1.3	1.3	1.3	0.8	0.9	1.1	1.4	3.6	2.6	1.9		
Others	(28.8)	(25.9)	(43.3)	(29.2)	(25.0)	(44.6)	(44.5)	(27.7)	(22.9)	(19.8)	(51.2)		
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		

Source: Company, Affin

**Fig 4: Segmental EBIT breakdown**

FY April (RMm)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	QoQ % chg	YoY % chg
Wholesale	3.6	3.9	2.9	(0.4)	4.1	5.5	3.0	(0.7)	2.6	3.6	3.0	(16.1)	2.7
MLM	14.2	10.1	13.8	20.8	21.2	21.8	20.5	11.8	6.4	3.5	4.4	22.9	(78.7)
Retailing	0.3	0.8	1.1	0.7	0.3	1.3	0.6	1.9	0.3	1.8	1.3	(28.2)	103.0
Manufacturing	0.3	0.1	0.2	0.3	0.2	0.2	0.0	0.2	0.2	0.2	0.0	(81.8)	2.6
Others	(0.1)	1.0	0.6	0.5	0.3	1.4	1.6	1.4	1.1	1.2	1.1	(11.6)	(35.1)
Elimination	0.3	(0.3)	(0.0)	1.2	0.2	(0.4)	(0.1)	1.3	0.8	(0.8)	(0.4)	(46.0)	184.6
<b>Total</b>	<b>18.6</b>	<b>15.5</b>	<b>18.6</b>	<b>23.4</b>	<b>26.3</b>	<b>28.7</b>	<b>25.2</b>	<b>15.8</b>	<b>10.8</b>	<b>9.1</b>	<b>9.0</b>	<b>(0.6)</b>	<b>(64.2)</b>

**Contribution (%)**

Wholesale	19.4%	25.1%	15.7%	(1.7%)	15.7%	19.0%	11.7%	(4.7%)	24.0%	39.7%	33.6%		
MLM	76.5%	65.2%	74.1%	89.0%	80.6%	75.9%	81.2%	74.9%	58.9%	38.9%	48.2%		
Retailing	1.5%	5.1%	6.0%	2.8%	1.2%	4.4%	2.5%	12.0%	2.8%	19.6%	14.2%		
Manufacturing	1.4%	0.5%	1.0%	1.4%	0.8%	0.8%	0.2%	1.4%	2.2%	2.4%	0.4%		
Others	(0.7%)	6.2%	3.2%	2.0%	1.0%	5.0%	6.5%	9.1%	10.1%	13.3%	11.8%		
Elimination	1.7%	(2.2%)	(0.0%)	5.0%	0.8%	(1.4%)	(0.6%)	8.2%	7.3%	(8.3%)	(4.5%)		

**Margin (%)**

Wholesale	8.1%	11.9%	5.4%	(0.8%)	8.9%	7.7%	4.1%	(1.9%)	11.8%	15.3%	6.9%		
MLM	15.6%	15.4%	17.5%	18.5%	16.3%	20.0%	19.3%	16.3%	18.0%	13.2%	15.0%		
Retailing	3.5%	8.0%	9.5%	7.0%	3.9%	11.7%	6.6%	13.9%	3.8%	15.8%	9.8%		
Manufacturing	22.2%	6.9%	13.6%	20.2%	17.5%	20.1%	2.7%	16.0%	12.3%	15.7%	3.5%		
Others	(7.7%)	43.4%	19.4%	16.3%	9.8%	40.8%	55.3%	33.2%	34.5%	41.9%	35.2%		
Elimination	(0.9%)	1.4%	0.0%	(2.8%)	(0.5%)	0.7%	0.2%	(4.1%)	(5.0%)	5.7%	1.3%		

Source: Company, Affin

### Equity Rating Structure and Definitions

---

<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	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
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	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
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

---

This report is intended for information purposes only and has been prepared by Affin Investment Bank Berhad ("Affin Investment Bank") based on sources believed to be reliable. However, such sources have not been independently verified by Affin Investment Bank, and as such Affin Investment Bank does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within Affin Investment Bank, including investment banking personnel. Reports issued by Affin Investment Bank are prepared in accordance with Affin Investment Bank's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall Affin Investment Bank, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of Affin Investment Bank as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. Affin Investment Bank and/or any of its directors and/or employees may have an interest in the securities mentioned therein. Affin Investment Bank may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Affin Investment Bank's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of Affin Investment Bank.

Affin Investment Bank is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

Affin Investment Bank Bhd (9999-V)  
 A Participating Organisation of Bursa Malaysia  
 Securities Bhd

[www.affininvestmentbank.com.my](http://www.affininvestmentbank.com.my)

Email : [research@affininvestmentbank.com.my](mailto:research@affininvestmentbank.com.my)

Tel : 603-2143 8668

Fax : 603-2145 3005