

Results Note

Hai-O Ent

HAIO MK
RM2.93

SELL (maintain)

Target Price: RM1.57 (↓)



Price Performance

	1M	3M	12M
Absolute	-7.3%	-10.1%	-6.0%
Rel to KLCI	-6.9%	-11.9%	-20.6%

Stock Data

Issued shares (m)	202.2
Mkt cap (RMm)	592.4
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	2.85 – 4.93
Est free float	66.4%
NTA per share (RM) (end-Oct 10)	1.08
P/NTA (x)	2.71
Net cash/debt (RMm) (end-Oct 10)	34.1
ROE (FY11F)	13.1%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.2%

Earnings & Valuation Revisions

	11E	12E	13E
Prev EPS (sen)	25.4	27.9	31.8
Curr EPS (sen)	14.0	16.5	19.0
Chg (%)	-44.8%	-41.0%	-40.2%
Prev target price (RM)		2.71	
Curr target price (RM)		1.57	

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Recovery still far off

Below expectations – 1HFY04/11 bottomline plunges –64% yoy

Hai-O reported 1HFY04/11 revenue of RM107.4m, down –61.8% yoy. Revenue from the retail division grew +4%, but was overwhelmed by revenue declines of: 1) –61% yoy in the wholesale division, and; 2) –74% yoy in its core MLM division. The MLM division contributed 58% of revenue, followed by the wholesale division (21%), the retail division (18%) and manufacturing and others (3%). The sharp drop in revenue in the MLM division was attributed to the implementation of stricter new membership recruitment guidelines, which led to a drop in monthly new memberships. Furthermore, we gather that MLM operations in Indonesia have been slow to take off, particularly in Jakarta. EBIT margin slipped by –1.1-ppt to 18.5% (1HFY04/10: 19.6%) – however, it was primarily the sharp drop in revenue that resulted in 1HFY04/11 net profit plunging –64% yoy to RM13.9m. Results were grossly below expectations, accounting for only 27% and 33% of our and consensus estimates, respectively. Probably to compensate for the weaker earnings, Hai-O declared a first interim single tier dividend of 2 sen/share.

2QFY04/11 net profit fell –21.4% qoq

Sequentially, Hai-O continued to exhibit the impact of the amendments from the Direct Sales Act. 2QFY04/11 revenue from the MLM division slid –24% qoq, eclipsing revenue gains of +7.9% qoq and +38% qoq in the wholesale and retail divisions. Overall, topline declined –3.9% qoq to RM52.6m. Hai-O's retail division carried out promotional activities and member sales during 2QFY04/11 – we suspect the higher A&P expenses contributed to the –2.4-ppt qoq drop in EBIT margin (2QFY04/11: 17.3%, 1QFY04/11: 19.7%). As a result, 2QFY04/11 net profit fell –21.4% qoq to RM6.1m. On a yoy basis, 2QFY04/11 net profit plunged by –70%, on the back of a –60% decline in revenue.

Maintain SELL, lower TP of RM1.57

Taking into account the weaker-than-expected 1HFY04/11 results, coupled with continued weakness in the MLM division, we slashed our FY11-13 net earnings forecasts by –40-45%. Our target price is hence lowered to RM1.57 (previously, RM2.71), pegged to an unchanged target PE multiple of 10x on CY11 EPS. Maintain SELL. Going forward, a recovery in earnings will only occur once Hai-O's core MLM division picks up again (the MLM division remains Hai-O's main contributor, accounting for 47% of 1HFY04/11 EBIT). Although earlier guidance for the adjustment period was 6 months, we believe impact on earnings, share price and investor sentiment will be seen for much longer. We will gather further details at the analyst briefing later today.

Earnings and valuation summary

FYE 30 April	2009	2010	2011F	2012F	2013F
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)	11.4	8.4	20.9	17.8	15.4
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)	11.4	8.4	20.9	17.8	15.4
Net DPS (sen)	13.1	19.6	8.4	9.9	11.4
Net Dividend Yield (%)	4.5	6.7	2.9	3.4	3.9
EV/EBITDA (x)	6.9	5.1	10.3	8.5	7.1
P/BV (x)	3.6	2.8	2.6	2.5	2.3
Consensus profit (RMm)			45.0	48.4	64.4
Affin/Consensus (x)			0.6	0.7	-

Fig 1: Quarterly results comparison

FYE April (RMm)	2QFY10	1QFY10	2QFY11	QoQ % chg	YoY % chg	Comment
Revenue	132.4	54.8	52.6	(3.9)	(60.2)	Revenue gains of +7.9% qoq and +38% qoq in the wholesale and retail division, respectively, were not enough to offset the -24% revenue decline in Hai-O's core MLM division
Op costs	(161.1)	(65.6)	(61.7)	(5.9)	(61.7)	
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
EBIT	28.7	10.8	9.1	(15.9)	(68.3)	
<i>EBIT margin (%)</i>	<i>21.7</i>	<i>19.7</i>	<i>17.3</i>	<i>nm</i>	<i>nm</i>	Margin compression likely due to higher A&P expenses for promotions in the retail division
Int expense	(0.3)	(0.2)	(0.2)	6.8	(29.5)	
Int and other inc	0.2	0.2	0.2	16.2	(11.2)	
Associates	0.0	0.0	0.0	nm	nm	
Pretax	28.6	10.8	9.1	(15.8)	(68.3)	
Tax	(8.2)	(2.9)	(2.5)	(15.8)	(70.1)	
<i>Tax rate (%)</i>	<i>28.6</i>	<i>27.0</i>	<i>27.0</i>	<i>nm</i>	<i>nm</i>	
MI	(0.3)	(0.1)	(0.5)	618.6	nm	
Net profit	20.2	7.8	6.1	(21.4)	(69.6)	Accounts for 12% and 15% of our and consensus estimates, respectively
EPS (sen)	10.0	3.9	3.0	(21.4)	(69.6)	
Core net profit	20.2	7.8	6.1	(21.4)	(69.6)	

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE April (RMm)	YTD2009	YTD2010	YTD % chg	Comment
Revenue	280.9	107.4	(61.8)	Dragged down by revenue declines of: 1) -61% in the wholesale division, and; 2) -74% in the MLM division.
Op costs	(336.0)	(127.3)	(62.1)	
Exceptional gain/losses	0.0	0.0	nm	
EBIT	55.0	19.9	(63.8)	
<i>EBIT margin (%)</i>	<i>19.6</i>	<i>18.5</i>	<i>nm</i>	
Int expense	(0.5)	(0.4)	(17.8)	
Int and other inc	0.4	0.4	(3.4)	
Associates	0.0	0.0	nm	
Pretax	54.93	19.9	(63.8)	
Tax	(16.0)	(5.4)	(66.4)	
<i>Tax rate (%)</i>	<i>29.1</i>	<i>27.0</i>	<i>nm</i>	
MI	(0.3)	(0.6)	79.1	
Net profit	38.7	13.9	(63.9)	Grossly below expectations - accounts for merely 27% and 33% of our and consensus estimates
EPS (sen)	19.1	6.9	(63.9)	
Core net profit	38.7	13.9	(63.9)	

Source: Company, Affin

Fig 3: Segmental revenue breakdown

FY April (RMm)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	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	7.9	(66.5)
MLM	91.5	65.9	78.9	112.5	130.3	108.9	106.2	72.6	35.2	26.7	(24.1)	(75.5)
Retail	8.0	10.0	11.8	9.4	7.9	10.8	9.6	13.6	8.2	11.3	38.0	4.4
Manufacturing	1.2	1.1	1.3	1.7	1.2	1.2	1.4	1.4	2.0	1.4	(30.8)	13.2
Others	(32.5)	(22.6)	(44.2)	(38.8)	(37.1)	(59.1)	(58.4)	(27.4)	(12.6)	(10.4)	(17.2)	(82.4)
Total	112.9	87.3	102.1	132.8	148.6	132.4	131.3	98.8	54.8	52.6	(3.9)	(60.2)
Qoq (%)	(15.5)	(22.7)	17.0	30.1	11.8	(10.9)	(0.8)	(24.7)	(44.6)	(3.9)		
Yoy (%)	90.5	8.4	1.6	(0.5)	31.6	51.6	28.5	(25.6)	(63.1)	(60.2)		
Contribution (%)												
Wholesale	39.6	37.6	53.2	36.2	31.1	53.3	55.2	39.1	40.1	45.0		
MLM	81.1	75.5	77.3	84.7	87.7	82.3	80.9	73.4	64.4	50.8		
Retail	7.1	11.5	11.5	7.1	5.3	8.1	7.3	13.8	14.9	21.4		
Manufacturing	1.1	1.3	1.3	1.3	0.8	0.9	1.1	1.4	3.6	2.6		
Others	(28.8)	(25.9)	(43.3)	(29.2)	(25.0)	(44.6)	(44.5)	(27.7)	(22.9)	(19.8)		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Source: Company, Affin

Fig 4: Segmental EBIT breakdown

FY April (RMm)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	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	39.4	(33.7)
MLM	14.2	10.1	13.8	20.8	21.2	21.8	20.5	11.8	6.4	3.5	(44.3)	(83.8)
Retailing	0.3	0.8	1.1	0.7	0.3	1.3	0.6	1.9	0.3	1.8	480.8	40.7
Manufacturing	0.3	0.1	0.2	0.3	0.2	0.2	0.0	0.2	0.2	0.2	(11.2)	(11.2)
Others	(0.1)	1.0	0.6	0.5	0.3	1.4	1.6	1.4	1.1	1.2	10.9	(16.1)
Elimination	0.3	(0.3)	(0.0)	1.2	0.2	(0.4)	(0.1)	1.3	0.8	(0.8)	(195.4)	83.9
Total	18.6	15.5	18.6	23.4	26.3	28.7	25.2	15.8	10.8	9.1	(15.9)	(68.3)
Contribution (%)												
Wholesale	19.4%	25.1%	15.7%	(1.7%)	15.7%	19.0%	11.7%	(4.7%)	24.0%	39.7%		
MLM	76.5%	65.2%	74.1%	89.0%	80.6%	75.9%	81.2%	74.9%	58.9%	38.9%		
Retailing	1.5%	5.1%	6.0%	2.8%	1.2%	4.4%	2.5%	12.0%	2.8%	19.6%		
Manufacturing	1.4%	0.5%	1.0%	1.4%	0.8%	0.8%	0.2%	1.4%	2.2%	2.4%		
Others	(0.7%)	6.2%	3.2%	2.0%	1.0%	5.0%	6.5%	9.1%	10.1%	13.3%		
Elimination	1.7%	(2.2%)	(0.0%)	5.0%	0.8%	(1.4%)	(0.6%)	8.2%	7.3%	(8.3%)		
Margin (%)												
Wholesale	8.1%	11.9%	5.4%	(0.8%)	8.9%	7.7%	4.1%	(1.9%)	11.8%	15.3%		
MLM	15.6%	15.4%	17.5%	18.5%	16.3%	20.0%	19.3%	16.3%	18.0%	13.2%		
Retailing	3.5%	8.0%	9.5%	7.0%	3.9%	11.7%	6.6%	13.9%	3.8%	15.8%		
Manufacturing	22.2%	6.9%	13.6%	20.2%	17.5%	20.1%	2.7%	16.0%	12.3%	15.7%		
Others	(7.7%)	43.4%	19.4%	16.3%	9.8%	40.8%	55.3%	33.2%	34.5%	41.9%		
Elimination	(0.9%)	1.4%	0.0%	(2.8%)	(0.5%)	0.7%	0.2%	(4.1%)	(5.0%)	5.7%		

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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