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## 1HFY11 Results Review

# Hai-O

### As Expected

Hai-O's 1HFY11 results were within our net profit forecast but below consensus' estimates. Revenue and net profit dived 61.8% and 63.9% to RM107.4m and RM13.9m respectively, were mainly impacted by weaker sales (-74.1%) at the MLM division. This was, however, partially offset by better sales from other divisions. In tandem with the weaker sales, 1HFY11 EBIT margin narrowed by 1.1% pts y-o-y. We maintain our earnings forecast and TP at RM1.61. Maintain SELL.

**Within expectation.** Hai-O's 1HFY10 revenue plunged 61.8% y-o-y to RM107.4m while net profit slumped 63.9% y-o-y to RM13.9m, coming in within our full-year earnings forecast of RM27.2m but below consensus estimates of RM45m. The poor numbers were mainly attributed to the MLM division, which contributes >70% of total sales historically but accounted for only 57.7% of the current quarter's total revenue. MLM sales plunged 74.1% y-o-y on slower membership growth, which was partially affected by the more stringent rules on new member recruitment imposed by the authorities since 4QFY10. The weak MLM sales were further aggravated by the fewer number of working days during the Hari Raya festive season as bumiputra members make up 90% of all its members. The contraction in MLM sales was partially offset by the y-o-y sales growth registered by other divisions (wholesaling +17.1%, retail +3.9%, manufacturing +5.4%).

**Q-o-q shrinkage.** On a q-o-q basis, both top and bottom lines fell 2.4% and 15.8% respectively, mainly dragged down by poor MLM sales (-24.1%), although the impact was partially offset by the improvement in retail (+38%) and wholesaling sales (+32.9%). The retail division usually carries out its sales promotions out in 2Q.

**EBIT margin narrow.** In tandem with the poorer sales, 1HFY11 EBIT margin narrowed by 1.1% pts y-o-y due to lower margin recorded by the MLM division (-2% pts y-o-y), wholesaling (-21.9% pts) although the retail division reported wider margins (+2.4% pts).

**Maintain SELL.** Given that the results were within our expectation, we maintain our FY11 and FY12 net profit forecasts at RM27.2m and RM32.1m. Hence, our TP is maintained at RM1.61, which is based on 12x FY11 EPS.

SELL ↔

Target **RM1.61**  
Previous **RM1.61**  
Price **RM2.93**

#### 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 (RMm)	592.4
52 week H L Price (RM)	4.93   2.85
3mth Avg Vol ('000)	444.4
YTD Returns	-17.0
Beta (x)	0.65

#### Major Shareholders (%)

Tan Kai Hee	9.62
Akintan SB	7.23
Excellent Communications	5.13

#### Share Performance (%)

Month	Absolute	Relative
1m	-1.2	-6.9
3m	-5.8	-11.1
6m	-26.5	-38.7
12m	0.5	-20.6

#### 6-month Share Price Performance



FYE Apr (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	373.8	435.2	511.1	205.2	236.6
Net Profit	48.5	52.3	70.9	27.2	32.1
% chg y-o-y	127.0	7.7	35.6	-61.7	18.1
Consensus	-	-	-	45.0	48.4
EPS (sen)	57.5	25.8	35.0	13.4	15.8
DPS (sen)	5.1	5.5	9.4	5.0	5.9
Dividend yield (%)	1.8	1.9	3.2	1.7	2.0
ROE (%)	34.5	31.6	33.9	12.0	13.2
ROA (%)	23.8	21.1	26.1	10.3	11.4
PER (x)	12.2	11.4	8.4	21.9	18.5
BV/share (RM)	0.69	0.82	1.03	1.12	1.20
P/BV (x)	4.2	3.6	2.8	2.6	2.4
EV/ EBITDA (x)	7.6	7.3	5.6	12.4	10.7

**Results Table (RMm)**

<b>FYE Apr</b>	<b>2Q11</b>	<b>1Q11</b>	<b>Q-o-Q chg</b>	<b>YTD FY11</b>	<b>YTD FY10</b>	<b>Y-o-Y chg</b>	<b>Comments</b>
Revenue	52.6	54.8	-3.9	107.4	280.9	-61.8	Poorer sales due to weak MLM sales
EBIT	9.1	10.8	-15.9	19.9	55.0	-63.8	Margin weakness due to lower margin recorded by MLM (-2% pts y-o-y) and wholesaling (-21.9% pts) divisions
Net interest expense	0.0	0.0	1.0	0.0	-0.1	-75.0	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	9.1	10.8	-15.8	19.9	54.9	-63.8	
Tax	-2.5	-2.9	-15.8	-5.4	-16.0	-66.4	
MI	-0.5	-0.1	-	-0.6	-0.3	-	
Net profit	6.1	7.8	-21.4	13.9	38.7	-63.9	In line – 51.3% of OSK's full-year forecast.
EPS (sen)	3.0	3.9	-	6.9	19.1	-	
DPS (sen)	2.0	0.0	-	2.0	3.0	-	First interim dividend tax exempt
EBIT margin	17.3	19.7	-	18.5	19.6	-	
NTA/share (RM)	1.08	1.05	-	1.08	1.00	-	

**EARNINGS FORECAST**

<b>FYE Apr (RMm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11f</b>	<b>FY12f</b>
Turnover	373.8	435.2	511.1	205.2	236.6
EBITDA	69.5	77.0	97.3	41.6	48.7
PBT	67.7	75.9	95.9	37.6	44.1
Net Profit	48.5	52.3	70.9	27.2	32.1
EPS (sen)	57.5	25.8	35.0	13.4	15.8
DPS (sen)	5.1	5.5	9.4	5.0	5.9
<b>Margin</b>					
EBITDA (%)	18.6	17.7	19.0	20.3	20.6
PBT (%)	18.1	17.4	18.8	18.3	18.6
Net Profit (%)	13.0	12.0	13.9	13.2	13.6
<b>ROE (%)</b>	<b>34.5</b>	<b>31.6</b>	<b>33.9</b>	<b>12.0</b>	<b>13.2</b>
<b>ROA (%)</b>	<b>23.8</b>	<b>21.1</b>	<b>26.1</b>	<b>10.3</b>	<b>11.4</b>
<b>Balance Sheet</b>					
Fixed Assets	21.6	59.4	60.9	78.6	88.0
Current Assets	154.0	154.4	184.0	149.5	157.4
Total Assets	204.1	248.3	271.7	263.2	280.5
Current Liabilities	58.0	61.2	49.3	26.5	27.8
Net Current Assets	146.1	187.2	222.4	236.6	252.7
LT Liabilities	0.1	15.7	13.2	10.1	10.1
Shareholders Funds	140.6	165.4	209.2	226.6	242.6
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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