

Results Note

Hai-O Ent

HAIO MK
RM4.68

BUY (maintain)

Target Price: RM5.34 (↑)



Price Performance

	1M	3M	12M
Absolute	+18.2%	+49.8%	+253.2%
Rel to KLCI	+15.5%	+45.6%	+133.4%

Stock Data

Issued shares (m)	199.8
Mkt cap (RMm)	935.0
Avg daily vol - 6mth (m)	0.05
52-wk range (RM)	4.93-1.33
Est free float	65.7%
NTA per share (RM) (end-Jan 10)	1.0
P/NTA (x)	4.6
Net cash/debt (RMm) (end-Jan 10)	26.4
ROE (FY10F)	27.7
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.2%

Earnings & Valuation Revisions

	10E	11E	12E
Prev EPS (sen)	41.7	48.9	54.2
Curr EPS (sen)	38.3	47.6	54.2
Chg (%)	-8.2%	-2.6%	-
Prev target price (RM)	4.61		
Curr target price (RM)	5.34		

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Dip in earnings momentum post-sales campaigns

9MFY10 net profit surges +55.2% yoy

Hai-O reported 9MFY10 revenue of RM412.2m (+36.3% yoy), driven primarily by revenue growth of: i) +43.7% yoy in the wholesale division, and; ii) +46.1% yoy in the MLM division. Revenue contribution from the retail division declined -5.1% yoy. However, this is attributed to the later timing of Chinese New Year in 2010, which means pre-CNY sales will only be captured in 4QFY10. EBIT margin expanded to 19.5%, marginally above our full year FY10 forecast of 19.2%. Coupled with a lower effective tax rate of 28.7% vs 29.3% in 9MFY09, net profit grew +55.2% yoy to RM56.7m, accounting for 67.1% and 72.1% of our and consensus forecast. The variance to our forecast was largely due to lower-than-expected revenue in the MLM division in 3QFY10, which we believe was the result of lower sales post-campaign period. Hai-O also declared a second interim dividend of 4 sen/share, bringing YTD gross DPS to 14 sen.

Weaker 3QFY10 earnings due to end of half-yearly sales campaigns

2QFY10 saw the MLM division complete its sales campaign while the retail division carried out its typical half-yearly sales promotion campaign. As a result of the higher base effect, 3QFY10 revenue slipped -0.8% qoq, dragged down by revenue declines of: i) -2.4% qoq in the MLM division, and; ii) -11.2% qoq in the retail division. Higher A&P costs and personnel expenses compressed EBIT margin to 19.2% vs 21.7% in 2QFY10. Altogether, 3QFY10 net profit declined -10.8% qoq to RM18m.

Reducing FY10-11 forecasts by -3-8%

After accounting for the weaker-than-expected 3QFY10 results, our FY10-11 net earnings forecast are lowered by -3-8%. Nevertheless, we believe the company will deliver better earnings in 4QFY10, which will capture the shift in Chinese New Year sales from the third quarter to the fourth. Despite our earnings downgrade, FY10 EPS growth is still projected at a commendable +48.3% yoy (3-year FY09-12 CAGR of 28%).

Maintain BUY, TP: RM5.34

Share price has appreciated 8% since stock began trading ex-all on 16 March 2010. However, valuations are still decent compared to similar high dividend yield stocks under our coverage. FY10-12 average dividend yield of 5.8% and FY09-12 CAGR of 28% looks attractive next to CY10 PER of 10.5x. Furthermore, pursuant to the bonus issue and share split, trading liquidity has significantly improved (share base has increased by 2.4x.) Thus, we raise our target price from RM4.61 to RM5.34, pegged to a PER of 12x (previously 10x) on CY10 EPS. The higher multiple is in line with average industry PER. Maintain BUY.

Earnings and valuation summary

FYE 30 April	2008	2009	2010E	2011E	2012E
Revenue (RMm)	373.8	435.2	557.7	692.1	799.4
EBITDA (RMm)	69.5	84.7	113.3	139.1	158.5
Pretax profit (RMm)	67.7	75.9	109.3	135.9	154.8
Net profit (RMm)	48.5	52.3	77.6	96.5	109.9
EPS (sen)	23.9	25.8	38.3	47.6	54.2
EPS growth (%)	126.6	7.9	48.3	24.4	13.8
PER (x)	19.6	18.1	12.2	9.8	8.6
Core net profit (RMm)	48.5	52.3	77.6	96.5	109.9
Core EPS (sen)	23.9	25.8	38.3	47.6	54.2
Core PER (x)	19.6	18.1	12.2	9.8	8.6
GDPS (sen)	16.4	17.5	23.0	27.0	31.0
Dividend Yield (%)	3.5	3.7	4.9	5.8	6.6
EV/EBITDA (x)	12.5	10.5	7.2	5.3	4.0
Consensus profit (RMm)			78.6	94.8	105.5
Affin/Consensus (x)			1.0	1.0	1.0

Fig 1: Quarterly results comparison

FYE April (RMm)	3QFY09	2QFY10	3QFY10	QoQ % chg	YoY % chg	Comment
Revenue	102.1	132.4	131.3	(0.8)	28.5	Marginally lower revenue due to declines of: i) -2.4% qoq in the MLM division, and; ii) -11.2% qoq in the retail division.
Op costs	(120.8)	(161.1)	(156.5)	(2.9)	29.6	
EBIT	18.6	28.7	25.2	(12.2)	35.3	
EBIT margin (%)	18.2	21.7	19.2	nm	nm	Margin compressed by higher personnel expenses and A&P costs
Int expense	(0.3)	(0.3)	(0.1)	(59.6)	(51.9)	
Int and other inc	0.2	0.2	0.2	(37.2)	(19.1)	
Associates	0.0	0.0	0.0	nm	nm	
Pretax	18.6	28.6	25.2	(11.9)	35.9	
Tax	(6.2)	(8.2)	(7.0)	(14.3)	14.2	
Tax rate (%)	33.1	28.6	27.8	nm	nm	
MI	(0.4)	(0.3)	(0.2)	(24.2)	nm	
Net profit	12.0	20.2	18.0	(10.8)	50.2	Accounts for 21.3% and 23% of our and consensus forecast
EPS (sen)	5.9	10.0	8.9	(10.8)	50.2	
Core net profit	12.0	20.2	18.0	(10.8)	50.2	

Source: Company data, Affin

Fig 2: Cumulative results comparison

FYE April (RMm)	YTD2009	YTD2010	YTD % chg	Comment
Revenue	302.3	412.2	36.3	Driven by revenue growth of: i) +43.7% yoy in the wolesale division, and; ii) +46.1% yoy in the MLM division.
Op costs	(355.1)	(492.5)	38.7	
Exceptional gain/losses	0.0	0.0	nm	
EBIT	52.8	80.2	52.1	
EBIT margin (%)	17.4	19.5	nm	Slightly above our forecast of 19.2%
Int expense	(0.9)	(0.6)	(32.0)	
Int and other inc	0.8	0.6	(30.7)	
Associates	0.0	0.0	nm	
Pretax	52.6	80.2	52.3	
Tax	(15.4)	(23.0)	48.9	
Tax rate (%)	29.3	28.7	nm	
MI	(0.7)	(0.5)	(23.9)	
Net profit	36.5	56.7	55.2	Accounts for 67.1% and 72.1% of our and consensus forecasts
EPS (sen)	18.1	28.0	55.2	
Core net profit	36.5	56.7	55.2	

Source: Company data, Affin

Fig 3: Segmental revenue breakdown

FY April (RMm)	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	QoQ % chg	YoY % chg
Wholesale	25.5	31.6	57.8	53.1	44.7	32.8	54.3	48.0	46.3	70.6	72.5	2.7	33.5
MLM	40.0	59.5	74.7	107.3	91.5	65.9	78.9	112.5	130.3	108.9	106.2	(2.4)	34.6
Retail	7.9	10.0	10.5	11.0	8.0	10.0	11.8	9.4	7.9	10.8	9.6	(11.2)	(18.7)
Manufacturing	1.2	0.7	0.8	1.1	1.2	1.1	1.3	1.7	1.2	1.2	1.4	19.2	9.7
Others	(15.3)	(21.4)	(43.4)	(39.1)	(32.5)	(22.6)	(44.2)	(38.8)	(37.1)	(59.1)	(58.4)	(1.1)	32.3
Total	59.3	80.5	100.5	133.5	112.9	87.3	102.1	132.8	148.6	132.4	131.3	(0.8)	28.5
Qoq (%)	4.5	35.8	24.8	32.9	(15.5)	(22.7)	17.0	30.1	11.8	(10.9)	(0.8)		
Yoy (%)	50.6	92.3	95.5	135.5	90.5	8.4	1.6	(0.5)	31.6	51.6	28.5		

Contribution (%)

Wholesale	43.0	39.3	57.6	39.8	39.6	37.6	53.2	36.2	31.1	53.3	55.2		
MLM	67.6	73.9	74.4	80.3	81.1	75.5	77.3	84.7	87.7	82.3	80.9		
Retail	13.3	12.5	10.5	8.3	7.1	11.5	11.5	7.1	5.3	8.1	7.3		
Manufacturing	2.0	0.9	0.8	0.9	1.1	1.3	1.3	1.3	0.8	0.9	1.1		
Others	(25.9)	(26.5)	(43.2)	(29.2)	(28.8)	(25.9)	(43.3)	(29.2)	(25.0)	(44.6)	(44.5)		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Source: Company data, Affin

Fig 4: Segmental EBIT breakdown

FY April (RMm)	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	QoQ % chg	YoY % chg
Wholesale	3.2	2.1	7.4	24.4	3.6	3.9	2.9	(0.4)	4.1	5.5	3.0	(45.9)	0.6
MLM	5.7	9.1	10.8	21.2	14.2	10.1	13.8	20.8	21.2	21.8	20.5	(6.1)	48.2
Retailing	0.2	1.1	0.2	0.6	0.3	0.8	1.1	0.7	0.3	1.3	0.6	(50.2)	(43.9)
Manufacturing	0.2	0.1	0.1	0.2	0.3	0.1	0.2	0.3	0.2	0.2	0.0	(84.2)	(78.7)
Others	0.7	0.3	0.4	0.2	(0.1)	1.0	0.6	0.5	0.3	1.4	1.6	14.2	176.6
Elimination	(0.1)	0.3	(0.4)	(20.4)	0.3	(0.3)	(0.0)	1.2	0.2	(0.4)	(0.1)	(65.1)	(1,687.5)
Total	9.8	12.9	18.4	26.2	18.6	15.5	18.6	23.0	26.3	28.7	25.2	(12.2)	35.3

Contribution (%)

Wholesale	33.0%	16.1%	40.2%	93.3%	13.8%	30.3%	15.7%	(1.7%)	15.7%	19.0%	11.7%		
MLM	58.0%	70.6%	58.7%	81.1%	76.5%	65.2%	74.1%	90.4%	80.6%	75.9%	81.2%		
Retailing	1.6%	8.3%	0.9%	2.3%	1.1%	6.2%	6.0%	2.9%	1.2%	4.4%	2.5%		
Manufacturing	1.7%	0.4%	0.4%	0.6%	1.0%	0.6%	1.0%	1.5%	0.8%	0.8%	0.2%		
Others	7.1%	2.6%	1.9%	0.7%	(0.5%)	7.4%	3.2%	2.0%	1.0%	5.0%	6.5%		
Elimination	(1.4%)	2.0%	(2.1%)	(78.1%)	1.2%	(2.6%)	(0.0%)	5.1%	0.8%	(1.4%)	(0.6%)		

Margin (%)

Wholesale	12.7%	6.6%	12.8%	46.0%	8.1%	11.9%	5.4%	(0.8%)	8.9%	7.7%	4.1%		
MLM	14.2%	15.3%	14.4%	19.8%	15.6%	15.4%	17.5%	18.5%	16.3%	20.0%	19.3%		
Retailing	2.0%	10.7%	1.6%	5.4%	3.5%	8.0%	9.5%	7.0%	3.9%	11.7%	6.6%		
Manufacturing	14.0%	7.8%	10.5%	13.5%	22.2%	6.9%	13.6%	20.2%	17.5%	20.1%	2.7%		
Others	40.2%	14.6%	13.6%	8.6%	(7.7%)	43.4%	19.4%	16.3%	9.8%	40.8%	55.3%		
Elimination	0.8%	(1.1%)	0.9%	49.5%	(0.9%)	1.4%	0.1%	(1.4%)	(0.5%)	0.7%	0.2%		

Source: Company data, 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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