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## 1HFY10 Results Review

# Hai-O

### Unbeatable

Hai-O has, once again, reported a solid set of numbers. Revenue and net profit jumped 40.3% and 57.8% y-o-y respectively, mainly due to higher sales from its MLM and retail divisions. 1HFY10 margins expanded by 2.6%-pts y-o-y on higher sales of higher margin products and lower raw material costs. In addition to its excellent results, Hai-O has proposed: (i) a 1-for-5 bonus issue, (ii) 1-into-2 share split, and (iii) a private placement, which we believe would increase the stock's attractiveness and liquidity in its shares. Hai-O remains as one of OSK's 2010 top picks.

**More superb results.** Hai-O posted another stellar performance, with 1HFY10 revenue and net profit leaping 40.3% and 57.8% y-o-y to RM280.9m and RM38.7m respectively, making up 61% of our full year estimates and 56% of consensus'. The solid results stemmed from the strong momentum in MLM (+51.9% in revenue y-o-y) in 1HFY10, spurred mainly by the increase in revenue/distributor and membership by about >40,000 y-o-y. Other than the star performing MLM segment, its second largest revenue contributor – the retail division - also saw positive growth of 3.9% on higher operating floor space by ~4,500 sf. Although sales from the manufacturing and wholesale segments fell 31.6% and 12.4% y-o-y, the negative impact on overall sales is negligible given their minimal cumulative contribution of some 7%. Sales were also fuelled by higher other income, including rental income from leasing of land in Klang and the realization of exchange fluctuation reserves on disposal of foreign associates of RM624,799. Y-o-y EBIT margin was 2.6%-pts higher, fuelled by higher margin products and a stronger RM, which led to lower raw material cost. Q-o-q, despite the lower overall revenue recorded (-10.9%), Hai-O posted better earnings growth (+25.8%) by focusing on higher margin products.

**Improving share liquidity.** Hai-O has proposed (i) a 1-for-5 bonus issue involving the issuance of up to 16.8m shares, (ii) 1-into-2 share split, and (iii) private placement of up to 10% of its enlarged issued and paid-up capital. After the proposed exercises, Hai-O's minimum paid-up capital would be raised to RM111.2m comprising 222.4m RM0.50 shares and the shareholding of the largest shareholder, Mr Tan Kai Hee, would be reduced from 9.73% (not including indirect shareholding) currently to approximately 8.8%. While the exercise is dilutive (with our ex-all fair value at RM3.47 and upside dropping to 11% compared to 19% currently), it would improve the liquidity and attractiveness of Hai-O shares. The proposals are expected to be completed by 2Q10.

**Reiterate BUY.** As we believe there is further share price upside premised on its growth story, decent dividend yield and increased share liquidity, we reiterate our **BUY** recommendation at TP of RM8.95, which is based on 11x CY10 EPS.

**BUY** ↻

**Target** RM8.95  
**Previous Price** RM8.95  
**Price** RM7.50

#### CONSUMER (RETAIL)

Hai-O is involved in wholesaling, retailing, multi-level marketing, pharmaceutical and operates modern Chinese medicinal clinics.

#### Stock Statistics

	HAIO EQUITY
Bloomberg Ticker	HAIO EQUITY
Share Capital (m)	84.46
Market Cap (RMm)	633.43
52 week H L Price (RM)	8.05   3.10
3mth Avg Vol ('000)	163.66
YTD Returns	4.88
Beta (x)	0.72

#### Major Shareholders (%)

Tan Kai Hee	9.73
Akintan SB	7.26
Excellent communication	5.19

#### Share Performance (%)

Month	Absolute	Relative
1m	7.14	8.03
3m	49.78	38.70
6m	86.51	47.98
12m	155.69	64.04

#### 6-month Share Price Performance



FYE Apr (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Revenue	373.8	435.2	505.6	566.3	629.3
Net Profit	48.5	52.0	63.1	71.5	79.2
% chg y-o-y	127.0	7.2	21.3	13.3	10.8
Consensus	-	-	68.8	83.9	92.1
EPS (sen)	57.4	61.6	74.7	84.7	93.8
DPS (sen)	40.0	42.0	50.0	58.0	64.0
Dividend yield (%)	5.3	5.6	6.7	7.7	8.5
ROE (%)	34.5	31.5	34.3	34.6	34.2
ROA (%)	23.8	21.0	24.6	24.9	25.0
PER (x)	13.1	12.2	10.0	8.9	8.0
BV/share (RM)	1.66	1.96	2.18	2.45	2.74
P/BV (x)	4.5	3.8	3.4	3.1	2.7
EV/ EBITDA (x)	8.2	7.5	6.5	5.7	5.3

**Results Table (RMm)**

FYE Apr	2Q10	1Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	132.4	148.6	-10.9	280.9	200.2	40.3	Stronger due to higher revenue/distributor and numbers of members
EBIT	28.7	26.3	9.1	55.0	34.1	61.5	Margin improved on higher contribution from higher margin products and lower raw material costs
Net interest expense	-0.1	0.0	1.0	-0.1	-0.1	85.7	-
Associates	0.0	0.0	-	0.0	0.0	-	-
PBT	28.6	26.3	9.0	54.9	34.0	61.5	-
Tax	-8.2	-7.8	5.5	-16.0	-9.3	71.9	-
MI	-0.3	-0.1	-371.4	-0.3	-0.2	32.8	-
Net profit	20.2	18.5	9.3	38.7	24.5	57.8	In line – 61% of OSK full year forecast.
EPS (sen)	23.9	21.9	-	45.8	29.0	-	-
DPS (sen)	10.0	0.0	-	10.0	10.0	-	First interim gross dividend
EBIT margin	21.7	17.7	-	19.6	17.0	-	-
NTA/share (RM)	2.41	2.18	-	2.41	1.95	-	-

**Figure 1: Proposed bonus issue, share split and private placement**

	Cum basis	Ex-all basis
Share price	7.50	3.13
Target price	8.95	3.47
Shares out*	84.5	222.4 (assuming placing out 10% of the issued and enlarged share capital)
Cash and cash equivalents (FY10)	51.6	114.0
Net profit forecast (FY10)	63.1	64.5
Stake of substantial shareholders (direct stake of Tan Kai Hee)*	9.73	8.85

\*Assuming no ESOS is exercised

Source: OSK

**EARNINGS FORECAST**

<b>FYE Apr (RMm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10f</b>	<b>FY11f</b>	<b>FY12f</b>
Turnover	373.8	435.2	505.6	566.3	629.3
EBIT	67.2	75.7	90.1	101.6	111.2
PBT	67.7	75.5	89.1	100.6	111.2
Net Profit	48.5	52.0	63.1	71.5	79.2
EPS (sen)	57.4	61.6	74.7	84.7	93.8
DPS (sen)	40.0	42.0	50.0	58.0	64.0
<b>Margin</b>					
EBIT (%)	18.0	17.4	17.8	17.9	17.7
PBT (%)	18.1	17.4	17.6	17.8	17.7
Net Profit (%)	13.0	12.0	12.5	12.6	12.6
<b>ROE (%)</b>	<b>34.5</b>	<b>31.5</b>	<b>34.3</b>	<b>34.6</b>	<b>34.2</b>
<b>ROA (%)</b>	<b>23.8</b>	<b>21.0</b>	<b>24.6</b>	<b>24.9</b>	<b>25.0</b>
<b>Balance Sheet</b>					
Fixed Assets	21.6	59.4	64.1	73.7	83.3
Current Assets	154.0	154.4	162.6	178.2	179.2
Total Assets	204.1	248.3	256.8	287.0	317.5
Current Liabilities	58.0	61.2	57.6	65.3	70.6
Net Current Assets	146.2	187.2	199.2	221.7	246.9
LT Liabilities	0.1	15.7	15.1	15.1	15.1
Shareholders Funds	140.6	165.4	184.1	206.6	231.8
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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