

Results Note

Hai-O Ent

HAIO MK
RM7.50

BUY (maintain)

Target Price: RM11.06(↑)



Price Performance

	1M	3M	12M
Absolute	+7.1%	+43.4%	+137.3%
Rel to KLCI	+8.0%	+38.7%	+64%

Stock Data

Issued shares (m)	83.2
Mkt cap (RMm)	624.3
Avg daily vol - 6mth (m)	0.12
52-wk range (RM)	8.05-3.10
Est free float	47.7%
NTA per share (RM) (end-Sep 09)	2.4
P/NTA (x)	3.1
Net cash/debt (RMm) (end-Sep 09)	55.8
ROE (FY10F)	44.8
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.7%
Akintan Sdn Bhd	7.3%

Earnings & Valuation Revisions

	10E	11E	12E
Prev EPS (sen)	89.9	106.8	123.9
Curr EPS (sen)	100.1	117.5	131.1
Chg (%)	+11.4%	+10%	+5.8%
Prev target price (RM)		8.10	
Curr target price (RM)		11.06	

Shakira Hatta
(603) 2142 8158
shakira@affinsecurities.com.my

A sterling set of results – 1HFY10 surges +58%

1HFY10 results within expectations

Hai-O reported 1HFY10 net profit of RM38.6m (+57.7% yoy), accounting for 51% and 56.2% of our and consensus estimates, respectively. The surge in bottomline was largely due to: i) stronger revenue from the MLM (+51.9% yoy) and wholesale divisions (+50.8%), and; ii) improvement in 1HFY10 EBIT margin (19.6% vs 17% in 1HFY09), stemming from stronger focus on higher margin product sales in the wholesale division. Hai-O attributed the +40.3% yoy revenue increase to increased consumer spending and the recovery of the domestic market. While we believe that consumer spending will remain modest in 2010, particularly in the first half, we note that Hai-O has generally bucked the trend, despite being a discretionary spending stock. This is largely due to Hai-O's resilient business model (MLM, as well as wholesale and retail).

MLM division loses EBIT share to wholesale and retail

Sequentially, 2QFY10 revenue declined -10.9% to RM132.4m. Despite that, net earnings grew +9.3%, as a result of the focus on higher margin product sales in the retail and wholesale divisions. EBIT contribution from the wholesale division increased to 19% vs 15.7% in 1QFY10 while contribution from the retail division grew to 4.4% (1QFY10: 1.4%) at the expense of the MLM division (75.9% vs 80.6% in 1QFY10). In terms of revenue, the MLM division continues to be the strongest contributor, accounting for over 80% of total revenue. Hai-O also recorded an increase in other operating income from a realisation of exchange fluctuation reserve on disposal of foreign associates, amounting to RM0.6m. The company declared a gross interim dividend of 10 sen, less tax.

Bonus issue, share split, and private placement

Hai-O surprised by simultaneously announcing proposals to carry out a bonus issue, share split and private placement, geared at improving its share trading liquidity and raising proceeds for working capital. Recall that previously, management had remained mum on any bonus issues and/or share splits. Below are the salient terms of the proposals, to be completed by second 2QFY10:

Proposal 1: Bonus issue

The proposed 1-for-5 bonus issue would involve the issuance of up to 16.8m bonus shares, after taking into account the issued and paid-up capital of the company of 84.4m shares and 1.2m treasury shares. The bonus issues would be distributed via Hai-O's share premium and retained earnings.

Earnings and valuation summary

FYE 30 April	2008	2009	2010F	2011F	2012F
Revenue (RMm)	373.8	435.2	627.8	730.4	815.1
EBITDA (RMm)	69.5	84.7	124.6	146.5	162.4
Pretax profit (RMm)	67.7	75.9	122.4	143.7	160.3
Net profit (RMm)	48.5	52.3	84.5	99.2	110.6
EPS (sen)	58.3	61.9	100.1	117.5	131.1
EPS growth (%)	124.2	6.2	61.7	17.3	11.6
PER (x)	12.9	12.1	7.5	6.4	5.7
Core net profit (RMm)	48.5	52.3	84.5	99.2	110.6
Core EPS (sen)	58.3	61.9	100.1	117.5	131.1
Core PER (x)	12.9	12.1	7.5	6.4	5.7
GDPS (sen)	40.0	42.0	54.5	65.0	75.0
Dividend Yield (%)	5.3	5.6	7.3	8.7	10.0
EV/EBITDA (x)	7.8	6.7	4.3	3.3	2.6
Consensus profit (RMm)			68.8	83.9	92.1
Affin/Consensus (x)			1.2	1.2	1.2

Proposal 2: Share split

The share split would involve the subdivision of every one Hai-O share into two subdivided shares, to be implemented concurrently with the bonus issue. Thus, after the bonus issue and share split, share base will expand to 202.7m shares.

Proposal 3: Private placement

Finally, the proposed private placement would take place after the bonus issue and share split. Hai-O plans to issue up to 10% of the enlarged issued and paid-up share capital in different tranches.

Fig 1: Effects of proposals on issued and paid-up share capital

	Par value RM	Minimum Scenario		Maximum Scenario	
		No. of shares	RM	No. of shares	RM
As at 2 December 2009	1.00	84,457,342	84,457,342	84,457,342	84,457,342
To be issued pursuant to the Proposed Bonus Issue	1.00	16,637,800	16,637,800	16,891,469	16,891,469
		101,095,142	101,095,142	101,348,811	101,348,811
To be issued pursuant to the Proposed Share Split	0.50	101,095,142	-	101,348,811	-
		202,190,284	101,095,142	202,697,622	101,348,811
To be issued pursuant to the Proposed Private Placement	0.50	20,219,029	10,109,515	20,269,763	10,134,882
After the Proposed Private Placement	0.50	222,409,313	111,204,657	222,967,385	111,483,693

Source: Company

Fig 2: Utilization of proceeds from private placement

	Proceeds *	
	Minimum (RM)	Maximum (RM)
Working capital	53,906,472	54,728,360
Defray expenses relating to proposals	500,000	500,000
	54,406,472	55,228,360

* Calculated based on illustrative issue price of RM2.70/placement share

Source: Company

Our take

Although we had previously awaited measures from Hai-O to improve its trading liquidity, recent meetings with management had not yielded any indication of such activities. Nevertheless, we welcome the proposals. Given the sharp +31.8% run-up in Hai-O's share price since the release of the 1QFY10 results in Sep 09, the proposals could not have come at a better time. The private placement allows for increased equity participation from institutional investors while the bonus issue and share split increases the 'affordability' of Hai-O's shares.

Maintain BUY, TP: RM11.06

Taking into account the stronger-than-expected margins, we raise our FY10-12 forecasts by 6-11%. Looking ahead, we expect Hai-O to continue its strong earnings track record (we project a 3-year FY08-11 CAGR of 27%). Supplementary income and the company's attractive overseas incentive trips should spur on MLM distributor activity. Furthermore, Chinese New Year festivities in 2HFY10 would also boost contributions from the wholesale and retail divisions. We maintain our **BUY** call, with a higher target price of **RM11.06** (previously RM8.10), based on a higher PE multiple of 10x CY10 EPS (previously 8x) after taking into account: i) our earnings upgrade, and; ii) improvement in liquidity conditions post-proposals.

Fig 3: Quarterly results comparison

FYE April (RMm)	2QFY09	1QFY09	2QFY10	QoQ % chg	YoY % chg	Comment
Revenue	87.3	148.6	132.4	(10.9)	51.6	Driven primarily by revenue growth of: i) +115.3% yoy in the wholesale division, and; ii) +65.3% yoy in the MLM division.
Op costs	(102.8)	(174.9)	(161.1)	(7.9)	56.7	
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
EBIT	15.5	26.3	28.7	9.1	85.1	
<i>EBIT margin (%)</i>	<i>17.8</i>	<i>17.7</i>	<i>21.7</i>	<i>nm</i>	<i>nm</i>	Improved margins due to focus on higher margin product sales in the wholesale division
Int expense	(0.5)	(0.2)	(0.3)	51.5	(34.7)	
Int and other inc	0.3	0.2	0.2	40.7	(19.3)	
Associates	0.0	0.0	0.0	nm	nm	
Pretax	15.3	26.3	28.6	9.0	86.8	
Tax	(4.2)	(7.8)	(8.2)	5.5	95.7	
<i>Tax rate (%)</i>	<i>27.3</i>	<i>29.6</i>	<i>28.6</i>	<i>nm</i>	<i>nm</i>	
MI	(0.2)	(0.1)	(0.3)	371.4	nm	
Net profit	10.9	18.5	20.2	9.3	85.0	Net profit accounts for 26.6% and 30% of our and consensus estimates, respectively
EPS (sen)	13.4	22.2	24.2	9.3	81.2	
Core net profit	10.9	18.5	20.2	9.3	85.0	

Fig 4: Cumulative results comparison

FYE April (RMm)	YTD2009	YTD2010	YTD % chg	Comment
Revenue	200.2	280.9	40.3	Increase in revenue attributed to higher sales and higher rental income
Op costs	(234.3)	(336.0)	43.4	
Exceptional gain/losses	0.0	0.0	nm	
EBIT	34.1	55.0	61.3	
<i>EBIT margin (%)</i>	<i>17.0</i>	<i>19.6</i>	<i>nm</i>	
Int expense	(0.7)	(0.5)	(24.4)	
Int and other inc	0.6	0.4	(34.2)	
Associates	0.0	0.0	nm	
Pretax	34.1	54.9	61.3	
Tax	(9.3)	(16.0)	71.9	
<i>Tax rate (%)</i>	<i>27.3</i>	<i>29.1</i>	<i>nm</i>	
MI	(0.3)	(0.3)	21.7	
Net profit	24.5	38.6	57.7	Accounts for 51% and 56.2% of our and consensus estimates, respectively
EPS (sen)	30.1	46.4	54.3	
Core net profit	24.5	38.6	57.7	

Fig 5: Segmental revenue breakdown

FY April (RMm)	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	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	52.5	115.3
MLM	40.0	59.5	74.7	107.3	91.5	65.9	78.9	112.5	130.3	108.9	(16.4)	65.3
Retail	7.9	10.0	10.5	11.0	8.0	10.0	11.8	9.4	7.9	10.8	36.4	7.4
Manufacturing	1.2	0.7	0.8	1.1	1.2	1.1	1.3	1.7	1.2	1.2	0.4	4.8
Others	(15.3)	(21.4)	(43.4)	(39.1)	(32.5)	(22.6)	(44.2)	(38.8)	(37.1)	(59.1)	59.2	161.7
Total	59.3	80.5	100.5	133.5	112.9	87.3	102.1	132.8	148.6	132.4	(10.9)	51.6
Qoq (%)	4.5	35.8	24.8	32.9	(15.5)	(22.7)	17.0	30.1	11.8	(10.9)		
Yoy (%)	50.6	92.3	95.5	135.5	90.5	8.4	1.6	(0.5)	31.6	51.6		

Contribution (%)

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

Fig 6: Segmental EBIT breakdown

FY April (RMm)	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	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	32.0	39.8
MLM	5.7	9.1	10.8	21.2	14.2	10.1	13.8	20.8	21.2	21.8	2.8	115.4
Retailing	0.2	1.1	0.2	0.6	0.3	0.8	1.1	0.7	0.3	1.3	315.4	58.6
Manufacturing	0.2	0.1	0.1	0.2	0.3	0.1	0.2	0.3	0.2	0.2	15.3	205.1
Others	0.7	0.3	0.4	0.2	(0.1)	1.0	0.6	0.5	0.3	1.4	441.9	49.7
Elimination	(0.1)	0.3	(0.4)	(20.4)	0.3	(0.3)	(0.0)	1.2	0.2	(0.4)	(300.0)	20.6
Total	9.8	12.9	18.4	26.2	18.6	15.5	18.6	23.0	26.3	28.7	9.1	85.1

Contribution (%)

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

Margin (%)

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

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

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

Investors are advised to seek independent financial, legal and other advice and make their own evaluation 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.

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

www.affininvestmentbank.com.my
 Email : research@affinsecurities.com.my
 Tel : 603-2143 8668
 Fax : 603-2145 3005