

Results Note

Hai-O Ent

HAIO MK
RM4.44

BUY (upgrade)

Target Price: RM5.20 (↑)



Price Performance

	1M	3M	12M
Absolute	+11.8%	+32.1%	+18.1%
Rel to KLCI	+9.5%	+8.9%	+32.4%

Stock Data

Issued shares (m)	84.5
Mkt cap (RMm)	375.2
Avg daily vol - 6mth (m)	0.53
52-wk range (RM)	4.44-2.86
Est free float	47.7%
NTA per share (RM) (end-Apr 09)	1.96
P/NTA (x)	2.3
Net cash/debt (RMm) (end-Apr 09)	81.2
ROE (2010F)	32.4
Derivatives	Nil

Key Shareholders

Tan family	25.6%
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Earnings & Valuation Revisions

	10E	11E	12E
Prev EPS (sen)	56.2	60.9	-
Curr EPS (sen)	68.0	74.6	82.2
Chg (%)	+20.4	+21.0	-
Prev target price (RM)			3.70
Curr target price (RM)			5.20

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Positive confirmation of high dividend payout

4QFY09 surpassed expectations, generous dividends

Hai-O's FY09 net earnings of RM52.0m (+7.2% yoy) surpassed our forecast by 18.3% and consensus' net earnings by 6.6%. This is due to a strong 4QFY09 (+22.4% qoq, -22.5% yoy), particularly contribution from the MLM division. The company declared a final GDPS of 32.0 sen, above our estimated 26.5 sen forecast, bringing full year GDPS to 42.0 sen.

Positive results from both the strong MLM growth and dividend angles

We like the 4QFY09 results as the MLM division continues to show strong momentum. At the same time, the company has reaffirmed its high dividend payout policy, which we think is commendable if viewed against the slower economic environment, and the recent trend of dividend cuts by other listed companies. The company indicated that it is looking at net earnings growth of 10.0% FY10. Based on the latest quarterly results, we believe this is achievable and have upgraded our net earnings forecasts by 21.7% FY10 and 23.2% FY11 from our previously conservative low base. We estimate GDPS of 47.2 sen FY10 and 51.8 sen FY11 (assuming dividend payout of 50%) – this gives high GDPS yield of 10.6% FY10 and 11.7%.

Further plans to improve the trading liquidity of the stock

The company is looking at plans to improve the trading liquidity of the stock. This is likely to involve share splits or a bonus issue later. This is positive as this could be one of the first steps to improve the trading liquidity of the stock.

Upgrade to BUY from ADD, with new TP of RM5.20

We maintain a DDM-based valuation, assuming a beta of 1.0x, risk free rate of 4.2%, market risk premium of 6.5%, and terminal growth rate of less than 1%, which gives us RM5.80/share. We continue to peg a 10% discount to this given the illiquid trading volume and smallish market cap, but we would remove this discount upon confirmation of its plans to improve trading liquidity – this should provide further upside to our fair value later. Our new fair value is thus RM5.20. This implies a P/E of 8.0x, which we believe is still low for a growing small cap that is well-supported by strong dividend yield. The company is unique given its growth exposure to all mainstream segments of Malaysia's population (retail: Chinese-based, MLM: mainly Malay based). Main re-rating catalysts are: (a) stronger-than-expected growth in the MLM division; (b) continuing delivery of high dividend yield; and (c) increased stock trading liquidity. Key risks to our positive stance are: (a) unexpected reduction in dividend payout ratio to below 50%; and (b) MLM division's revenue coming in below our expectations.

Earnings and Valuation Summary

FYE 30 April	2008	2009	2010F	2011F	2012F
Revenue (RMm)	373.8	435.2	481.4	528.3	579.5
EBITDA (RMm)	67.3	83.4	83.3	90.9	99.0
Pretax profit (RMm)	67.7	75.5	77.6	85.2	93.9
Net profit (RMm)	48.5	52.0	57.4	63.0	69.4
EPS (sen)	58.1	61.6	68.0	74.6	82.2
EPS growth (%)	123.3	6.1	10.3	9.8	10.2
PER (x)	7.6	7.2	6.5	5.9	5.4
Core net profit (RMm)	48.5	52.0	57.4	63.0	69.4
Core EPS (sen)	58.1	61.6	68.0	74.6	82.2
Core PER (x)	7.6	7.2	6.5	5.9	5.4
GDPS (sen)	40.0	42.0	47.2	51.8	57.0
Dividend Yield (%)	9.0	9.5	10.6	11.7	12.8
EV/EBITDA (x)	5.2	3.8	4.0	3.4	2.9
Consensus profit (RMm)			48.8	48.9	54.5
Affin/Consensus (x)			1.0	1.1	1.2

Maintains generous dividend policy

The company declared a final GDPS of 32.0 sen, above our estimated 26.5 sen forecast. Together with the interim GDPS of 10.0 sen, this takes the total GDPS for FY09 to 42.0 sen, slightly above the GDPS of 40.0 sen in FY08. More importantly, dividend payout ratio is 51.1%, reaffirming the company's dividend payout policy of at least 50% of net earnings. The GDPS of 42.0 sen for FY09 translates into a generous dividend yield of 9.5%.

MLM division regained momentum with a 42.5% qoq revenue growth

The MLM division (80.2% of FY09's revenue) regained growth momentum with a revenue growth of 42.5% qoq. This was attributed to the continued rise in its total distributor force to close to 100,000 currently (from an estimated 80,000 three months ago). New members are still mostly from the government civil service. The growth in 4QFY09 was also contributed by the attraction of its incentive trips. Looking ahead, the company hinted that the growth momentum had been sustained post the April 2009 quarter. Revenue and EBIT from the MLM division came in 17.6% and 38.8% above our estimates respectively.

Wholesale and retail divisions lower while manufacturing boosted by OEM contracts

The wholesale and retail divisions recorded a 11.6% and 20.3% qoq drop in revenue in 4QFY09 due to softer consumer spending. EBIT from both divisions were also lower as these were affected by the weakening of the Ringgit against the US\$ (imports account for 35% of total COGS) as well as inventory write-downs. On the other hand, the manufacturing division's revenue and EBIT were up 28.1% qoq and 89.9% qoq respectively, boosted by contribution from OEM contracts.

Fig 1: Quarterly Results Comparison

FYE April (RMm)	4QFY08	3QFY09	4QFY09	QoQ % chg	YoY % chg	Comment
Revenue	133.5	102.1	132.8	30.1	(0.5)	Higher revenue from MLM and manufacturing division. Partially offset by softer revenue from the wholesale and retail divisions.
Op costs	(159.7)	(120.8)	(155.9)	29.1	(2.4)	
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
EBIT	26.2	18.6	23.0	23.6	(12.0)	
EBIT margin (%)	19.6	18.2	17.3	nm	nm	EBIT margin above our forecast of 16.1%
Int expense	(0.1)	(0.3)	(0.2)	(20.6)	258.6	
Int and other inc	0.3	0.2	0.1	(28.7)	(58.4)	
Associates	0.0	0.0	0.0	nm	nm	
Pretax	26.4	18.6	23.0	23.7	(13.2)	
Tax	(7.3)	(6.2)	(8.2)	33.6	13.2	
Tax rate (%)	27.5	33.1	35.8	nm	nm	
MI	(0.2)	(0.4)	(0.1)	(85.7)	nm	
Net profit	18.9	12.0	14.7	22.4	(22.5)	The quarter's earnings made up 33.4% of our full year estimates and 30.1% of consensus forecasts for FY09
EPS (sen)	22.5	14.2	17.4	22.0	(22.8)	
Core net profit	18.9	12.0	14.7	22.4	(22.5)	

Source: Affin estimates, Company data

Fig 2: Cumulative Results Comparison

FYE April (RMm)	YTD2008	YTD2009	YTD % chg	Comment
Revenue	373.8	435.2	16.4	MLM division is the main contributor (80.2% of group revenue) and generated robust sales growth of 23.9% yoy.
Op costs	(441.1)	(510.9)	15.8	
Exceptional gain/losses	0.0	0.0	nm	
EBIT	67.3	75.7	12.6	
EBITDA margin (%)	18.0	17.4	nm	
Int expense	(0.4)	(1.2)	190.9	
Int and other inc	0.9	1.0	9.3	
Associates	0.0	0.0	nm	
Pretax	67.7	75.5	11.5	
Tax	(18.6)	(22.8)	22.5	
Tax rate (%)	27.5	30.2	nm	
MI	(0.6)	(0.7)	27.4	
Net profit	48.5	52.0	7.2	Net earnings came in 18.3% above our forecasts and 6.6% above consensus' estimates.
EPS (sen)	58.1	61.6	6.0	
Core net profit	48.5	52.0	7.2	

Source: Affin estimates, Company data

Fig 3: Segmental Revenue Breakdown

FY April (RMm)	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	QoQ % chg	YoY % chg
Wholesale	25.5	31.6	57.8	53.1	44.7	32.8	54.3	48.0	(11.6)	(9.6)
MLM	40.0	59.5	74.7	107.3	91.5	65.9	78.9	112.5	42.5	4.9
Retail	7.9	10.0	10.5	11.0	8.0	10.0	11.8	9.4	(20.3)	(14.8)
Manufacturing	1.2	0.7	0.8	1.1	1.2	1.1	1.3	1.7	28.1	46.2
Others	(15.3)	(21.4)	(43.4)	(39.1)	(32.5)	(22.6)	(44.2)	(38.8)	(12.3)	(0.8)
Total	59.3	80.5	100.5	133.5	112.9	87.3	102.1	132.8	30.1	(0.5)
Qoq (%)	4.5	35.8	24.8	32.9	(15.5)	(22.7)	17.0	30.1		
Yoy (%)	50.6	92.3	95.5	135.5	90.5	8.4	1.6	(0.5)		
Contribution (%)										
Wholesale	43.0	39.3	57.6	39.8	39.6	37.6	53.2	36.2		
MLM	67.6	73.9	74.4	80.3	81.1	75.5	77.3	84.7		
Retail	13.3	12.5	10.5	8.3	7.1	11.5	11.5	7.1		
Manufacturing	2.0	0.9	0.8	0.9	1.1	1.3	1.3	1.3		
Others	(25.9)	(26.5)	(43.2)	(29.2)	(28.8)	(25.9)	(43.3)	(29.2)		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Source: Affin estimates, Company data

Fig 4: Segmental EBIT Breakdown

FY April (RMm)	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	QoQ % chg	YoY % chg
Wholesale	3.2	2.1	7.4	24.4	3.6	3.9	2.9	(0.4)	(113.7)	(101.6)
MLM	5.7	9.1	10.8	21.2	14.2	10.1	13.8	20.8	50.6	(2.0)
Retailing	0.2	1.1	0.2	0.6	0.3	0.8	1.1	0.7	(41.2)	11.3
Manufacturing	0.2	0.1	0.1	0.2	0.3	0.1	0.2	0.3	89.9	119.5
Others	0.7	0.3	0.4	0.2	(0.1)	1.0	0.6	0.5	(22.4)	140.8
Elimination	(0.1)	0.3	(0.4)	(20.4)	0.3	(0.3)	(0.0)	1.2	n.m.	(105.7)
Total	9.8	12.9	18.4	26.2	18.6	15.5	18.6	23.0	23.6	(12.0)
Contribution (%)										
Wholesale	33.0%	16.1%	40.2%	93.3%	13.8%	30.3%	22.8%	(1.5%)		
MLM	58.0%	70.6%	58.7%	81.1%	54.4%	78.6%	107.2%	79.5%		
Retailing	1.6%	8.3%	0.9%	2.3%	1.1%	6.2%	8.7%	2.5%		
Manufacturing	1.7%	0.4%	0.4%	0.6%	1.0%	0.6%	1.4%	1.3%		
Others	7.1%	2.6%	1.9%	0.7%	(0.5%)	7.4%	4.6%	1.8%		
Elimination	(1.4%)	2.0%	(2.1%)	(78.1%)	1.2%	(2.6%)	(0.1%)	4.4%		
Margin (%)										
Wholesale	12.7%	6.6%	12.8%	46.0%	8.1%	11.9%	5.4%	(0.8%)		
MLM	14.2%	15.3%	14.4%	19.8%	15.6%	15.4%	17.5%	18.5%		
Retailing	2.0%	10.7%	1.6%	5.4%	3.5%	8.0%	9.5%	7.0%		
Manufacturing	14.0%	7.8%	10.5%	13.5%	22.2%	6.9%	13.6%	20.2%		
Others	40.2%	14.6%	13.6%	8.6%	(7.7%)	43.4%	19.4%	16.3%		
Elimination	0.8%	(1.1%)	0.9%	49.5%	(0.9%)	1.4%	0.1%	(1.4%)		

Source: Affin estimates, Company data

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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