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**NEUTRAL** ↔

Fair Value **RM1.99**  
Previous **RM1.70**  
Price **RM2.12**

**CONSUMER /RETAIL**

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

**Stock Statistics**

Bloomberg Ticker	HAI0 MK
Share Capital (m)	202.2
Market Cap	430.7
52 week H   L Price	2.42   1.55
3mth Avg Vol (000)	161.3
YTD Returns	11.5
Beta (x)	0.95
Shariah Compliant	YES

**Major Shareholders (%)**

Tan Kai Hee	9.6
Akintan SB	7.3
Excellent Communications	5.1

**Share Performance (%)**

Month	Absolute	Relative
1m	-1.8	-4.1
3m	11.3	5.4
6m	33.9	11.6
12m	2.0	-4.6

**6-month Share Price Performance**

**9MFY12 Results Review**
**Hai-O Enterprise**
**On a Healthy Growth Path**

Hai-O's 9MFY12 results were in line with consensus but above our forecasts. Revenue and net profit increased by 3% and 21.7% respectively on the back of better performance in the MLM division. EBIT margin improved from 17.5% to 20.7%, thanks to better MLM sales and enhanced margins from the wholesale division. We raise our FY12 and FY13 estimates given the better results, which bump up our FV to RM1.99. Maintain NEUTRAL.

**Stronger than expected.** Hai-O's revenue and net profit came in stronger at RM170m and RM24.7m, registering a decent y-o-y growth of 3% and 21.7% respectively. The better results were largely underpinned by stronger performance at its MLM division (revenue +4.9% y-o-y), coupled with lower R&D costs in the technology division. On q-o-q basis, revenue stood at RM62.8m, 11.7% higher versus RM56.2m in the preceding quarter, while earnings improved from RM7.9m to RM9.1m (+15.2%).

**MLM still the pillar.** The MLM division's profit surged 18%, propelled by robust sales of its main products as well as new products, coupled with effective incentive trip campaigns for its MLM members. We believe the growth momentum in the MLM division, which contributes 56.1% of total revenue, should be sustainable moving forward in view of the company's enhanced marketing strategies and aggressive recruitment drive for members. The wholesale division's revenue trended lower by 8.5% but registered a PBT growth of 16% owing to its high margin products. The revenue and profit generated by the retail division were flattish as it rationalized its unprofitable outlets while at the same time opened more new outlets.

**EBIT margin expands.** The company's EBIT margin widened 3.2% from 17.5% to 20.7%, mainly driven by higher sales from the MLM division, better margins from wholesale products, higher rental income and lower R&D costs in other divisions.

**Maintain NEUTRAL.** We revise up our FY12 and FY13 forecasts by 6.2% and 7.1% respectively in light of the better reported results. Our FV is raised to RM1.99 as we roll over our valuation from FY12 to FY13 based on 12x PER. Maintain NEUTRAL given the limited upside in the share price.

FYE Apr (RM m)	FY09	FY10	FY11	FY12f	FY13f
Revenue	435.2	511.1	223.2	216.1	229.1
Net Profit	52.3	70.6	28.8	30.6	33.6
% chg y-o-y	7.7	35.0	-59.2	6.1	9.9
Consensus	-	-	-	32.1	35.4
EPS	25.8	34.8	14.2	15.1	16.6
DPS	5.5	9.4	7.5	7.5	8.3
Dividend yield (%)	2.6	4.4	3.5	3.6	3.9
ROE (%)	31.6	33.7	14.1	13.6	14.0
ROA (%)	21.1	26.0	11.6	11.7	12.1
PER (x)	8.2	6.1	14.9	14.1	12.8
BV/share	0.82	1.03	1.01	1.11	1.19
P/BV (x)	2.6	2.1	2.1	1.9	1.8
EV/EBITDA (x)	5.2	3.9	9.7	8.3	7.6

**Results Table (RMm)**

<b>FYE Apr</b>	<b>3Q12</b>	<b>2Q12</b>	<b>Q-o-Q chg</b>	<b>YTD FY12</b>	<b>YTD FY11</b>	<b>Y-o-Y chg</b>	<b>Comments</b>
Revenue	62.8	56.2	11.7	170.0	165.0	3.0	In line
EBIT	13.0	11.2	16.1	35.2	28.9	21.8	Better margins due to higher revenue from MLM, higher margins from wholesale products and lower R&D costs
Net interest expense	0.0	0.0	-	0.1	0.0	-	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	13.0	11.3	15.0	35.3	28.9	22.1	
Tax	-3.5	-2.8	25.0	-9.4	-7.7	-22.1	
MI	-0.4	-0.5	-20.0	-1.3	-0.9	44.4	
Net profit	9.1	7.9	15.2	24.7	20.3	21.7	Above estimates
EPS	4.6	3.9		12.4	10.2		
DPS	0.0	2.0		2.0	2.0		
EBIT margin	20.7	20.0		20.7	17.5		

**EARNINGS FORECAST**

<b>FYE Apr (RM m)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12f</b>	<b>FY13f</b>
Turnover	435.2	511.1	223.2	216.1	229.1
EBIT	76.1	95.7	41.4	42.9	45.6
PBT	75.9	95.6	41.4	42.1	44.8
Net Profit	52.3	70.6	28.8	30.6	33.6
EPS	25.8	34.8	14.2	15.1	16.6
DPS	5.5	9.4	7.5	7.5	8.3
Margin					
EBIT (%)	17.5	18.7	18.5	19.9	19.9
PBT (%)	17.4	18.7	18.5	19.5	19.6
Net Profit (%)	12.0	13.8	12.9	14.2	14.7
ROE (%)	31.6	33.7	14.1	13.6	14.0
ROA (%)	21.1	26.0	11.6	11.7	12.1
Balance Sheet					
Fixed Assets	59.4	60.9	71.7	81.1	90.9
Current Assets	154.4	184.0	111.8	144.5	151.9
Total Assets	248.3	271.7	249.2	260.6	277.9
Current Liabilities	61.2	49.3	33.4	26.4	26.9
Net Current Assets	187.2	222.4	215.8	234.2	251.0
LT Liabilities	15.7	13.2	10.7	10.1	10.1
Shareholders Funds	165.4	209.2	205.1	224.2	241.0
Net Gearing (%)					
	Net cash	Net cash	Net cash	Net cash	Net cash

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Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur  
Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

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