

Results Note

Hai-O Ent

HAIO MK
RM2.13

REDUCE (maintain)

Target Price: RM1.80 (↔)



Price Performance

	1M	3M	12M
Absolute	-3.2%	+11.5%	+1.9%
Rel to KLCI	-4.1%	+7.7%	-1.5%

Stock Data

Issued shares (m)	202.2
Mkt cap (RMm)	430.7
Avg daily vol - 6mth (m)	0.12
52-wk range (RM)	1.55 – 2.42
Est free float	66.4%
NTA per share (RM) (end-Jan 12)	1.05
P/NTA (x)	2.03
Net cash/debt (RMm) (end-Jan 12)	33.7
ROE (FY12E)	16.6%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.2%

Earnings & Valuation Revisions

	12E	13E	14E
Prev EPS (sen)	17.5	19.4	22.2
Curr EPS (sen)	17.5	19.4	22.2
Chg (%)	-	-	-
Prev target price (RM)		1.80	
Curr target price (RM)		1.80	

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

Higher margin product strategy paying off

Within expectations

Hai-O's 9MFY04/12 revenue growth of +3% yoy to RM170m was driven primarily by revenue growth of +4.9% yoy from the MLM division. Recall that after the implementation of the revised Direct Selling Act in 2010, revenue from the MLM division plunged from RM72.6m in 4QFY04/10 to as low as RM26.7m in 2QFY04/11. To arrest the revenue decline and rebuild its earnings base, Hai-O has focused on promoting its higher margin but lower priced products (namely the skincare and foundation lingerie products). Coupled with a similar high margin product strategy in its wholesale and retail divisions, as well as lower R&D costs in the technology division, 9MFY04/12 EBIT margin expanded by +3.2-ppt to 20.7% (9MFY04/11: 17.5%). This led to a strong 9MFY04/12 net profit growth of +21.6% yoy (9MFY04/12: RM24.7m, 9MFY04/11: RM20.3m). Results were broadly within both our and consensus expectations. No dividend was declared for the quarter.

3QFY04/12 marks a second sequential quarter of growth

On a sequential basis, revenue growth of: 1) +21.7% in the retail division; 2) +11.6% in the wholesale division, and; 3) +8.3% in the MLM division boosted overall 3QFY04/12 revenue by +11.7% to RM62.8m. EBIT margin was stable at 20.7% vs. 20% in 2QFY04/12. Compared to 3QFY04/11, however, 3QFY04/12 EBIT margin was higher by 5-ppt. Again, we attribute this to management's strategy of promoting its higher margin products, which resulted in EBIT margin expansion for both the wholesale (+1.9-ppt qoq, +5.2-ppt yoy) and MLM divisions (+2.9-ppt qoq, +5-ppt yoy). The stronger performance of the MLM division was also due to effective incentive trip campaigns. Overall, 3QFY04/12 net profit grew by +15.2% qoq to RM9.1m. On a yoy basis, 3QFY04/12 net profit surged by +42.8%, largely due to the +9% yoy increase in revenue and stronger margins.

Maintain REDUCE with an unchanged target price of RM1.80

No change to our FY04/12-14 net earnings forecasts. Hai-O's sequential earnings improvement indicates that management's new strategy of focusing on higher margin but lower priced products is paying off, both in the wholesale and MLM divisions. However, we note that revenue contribution from the MLM division is still far from its heyday of over RM100m/quarter and recovery remains slow. Maintain REDUCE, with an unchanged target price of RM1.80, pegged to a PE target of 9x on CY12 EPS. Key risk to our view is a significant surge in sales or a stronger-than-expected pick up in new memberships in the MLM division (in both Indonesia and Malaysia).

Earnings and valuation summary

FYE 30 April	2010	2011	2012E	2013E	2014E
Revenue (RMm)	511.1	223.3	251.3	285.3	320.3
EBITDA (RMm)	99.1	44.8	53.0	58.6	66.4
Pretax profit (RMm)	95.6	41.3	49.5	55.0	62.8
Net profit (RMm)	70.6	28.4	35.4	39.4	45.0
EPS (sen)	34.8	14.0	17.5	19.4	22.2
PER (x)	6.1	15.2	12.2	11.0	9.6
Core net profit (RMm)	70.6	28.4	35.4	39.4	45.0
Core EPS (sen)	34.8	14.0	17.5	19.4	22.2
Core EPS chg (%)	35.0	-59.8	24.9	11.2	14.2
Core PER (x)	6.1	15.2	12.2	11.0	9.6
Net DPS (sen)	9.4	7.5	10.0	11.0	12.0
Net Dividend Yield (%)	4.4	3.5	4.7	5.2	5.6
EV/EBITDA (x)	3.3	8.2	6.7	5.8	4.9
Consensus profit (RMm)			32.1	35.4	45.0
Affin/Consensus (x)			1.1	1.1	1.0

Fig 1: Quarterly results comparison

FYE April (RMm)	3QFY11	2QFY12	3QFY12	QoQ % chg	YoY % chg	Comment
Revenue	57.6	56.2	62.8	11.7	9.0	Qoq: Driven by revenue growth of +11.6% and +21.7% in the wholesale and retail divisions, respectively.
Op costs	(66.7)	(67.4)	(75.8)	12.4	13.7	
EBIT	9.0	11.2	13.0	15.7	43.6	
EBIT margin (%)	15.7	20.0	20.7	nm	nm	Stable margin
Int expense	(0.2)	(0.2)	(0.2)	(2.0)	(15.5)	
Int and other inc	0.2	0.2	0.2	0.0	4.8	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
Pretax	9.0	11.3	13.0	15.6	44.1	
Tax	(2.3)	(2.8)	(3.5)	23.2	50.4	
Tax rate (%)	25.8	25.3	26.9	nm	nm	
MI	(0.4)	(0.5)	(0.4)	(17.5)	nm	
Net profit	6.3	7.9	9.1	15.2	42.8	
EPS (sen)	3.1	3.9	4.5	15.2	42.8	
Core net profit	6.3	7.9	9.1	15.2	42.8	Accounts for 26% and 28% of our and total consensus estimates

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE April (RMm)	9MFY11	9MFY12	YTD % chg	Comment
Revenue	165.0	170.0	3.0	Driven primarily by revenue growth of +4.9% yoy in the MLM division
Op costs	(193.9)	(205.2)	5.8	
EBIT	28.9	35.2	21.7	
EBIT margin (%)	17.5	20.7	nm	Stronger margin attributed to sales of higher margin products and lower R&D costs in the technology division
Int expense	(0.7)	(0.6)	(10.0)	
Int and other inc	0.6	0.7	11.5	
Associates	0.0	0.0	nm	
Exceptional gain/losses	0.0	0.0	nm	
Pretax	28.90	35.3	22.2	
Tax	(7.7)	(9.4)	21.9	
Tax rate (%)	26.6	26.5	nm	
MI	(0.9)	(1.3)	39.3	
Net profit	20.3	24.7	21.6	
EPS (sen)	10.0	12.2	21.6	
Core net profit	20.3	24.7	21.6	Accounts for 70% and 77% of our and consensus estimates

Source: Company, Affin

Fig 3: External revenue breakdown

FY April (RMm)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	QoQ	% chg	YoY	% chg
Wholesale	8.9	10.7	13.3	10.9	9.9	13.1	14.3	11.2	12.0	11.9	13.2	11.6		(7.5)	
MLM	130.3	108.9	106.2	72.6	35.2	26.7	29.0	34.2	28.8	32.0	34.7	8.3		19.4	
Retailing	7.9	10.8	9.5	13.6	8.2	11.3	13.0	11.2	8.7	10.7	13.1	21.7		0.5	
Others	1.5	2.0	2.2	1.7	1.5	1.5	1.3	1.6	1.6	1.6	1.8	13.8		44.2	
Total	148.6	132.4	131.3	98.8	54.8	52.6	57.6	58.2	51.0	56.2	62.8	11.7		9.0	
Qoq (%)	11.8%	(10.9%)	(0.8%)	(24.7%)	(44.6%)	(3.9%)	9.5%	0.9%	(12.4%)	10.3%	11.7%				
Yoy (%)	31.6%	51.6%	28.5%	(25.6%)	(63.1%)	(60.2%)	(56.1%)	(41.2%)	(6.9%)	6.8%	9.0%				
Contribution (%)															
Wholesale	6.0	8.1	10.2	11.0	18.0	24.9	24.9	19.2	23.5	21.1	21.1				
MLM	87.7	82.3	80.9	73.4	64.4	50.8	50.4	58.8	56.5	56.9	55.2				
Retail	5.3	8.1	7.2	13.8	14.9	21.4	22.6	19.3	17.0	19.1	20.8				
Others	1.0	1.5	1.7	1.8	2.7	2.9	2.2	2.7	3.1	2.8	2.9				
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, Affin

Fig 4: EBIT breakdown

FY April (RMm)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	QoQ	% chg YoY	% chg
Wholesale	4.1	5.5	3.0	(0.7)	2.6	3.6	3.0	1.6	4.4	2.9	3.5	20.4	15.2	
MLM	21.2	21.8	20.5	11.8	6.4	3.5	4.4	8.1	4.4	5.5	6.9	26.4	59.3	
Retailing	0.3	1.3	0.6	1.9	0.3	1.8	1.3	1.2	0.7	1.6	1.2	(25.9)	(4.8)	
Others	0.7	0.2	1.2	2.8	1.5	0.2	0.4	1.6	1.6	1.2	1.3	12.3	260.3	
Total	26.3	28.7	25.2	15.8	10.8	9.1	9.0	12.4	11.0	11.2	13.0	15.7	43.6	
Contribution (%)														
Wholesale	15.7	19.0	11.7	(4.7)	24.0	39.7	33.6	12.7	39.4	25.9	26.9			
MLM	80.6	75.9	81.2	74.9	58.9	38.9	48.2	65.0	39.8	48.9	53.5			
Retailing	1.2	4.4	2.5	12.0	2.8	19.6	14.2	9.8	5.9	14.7	9.4			
Others	2.6	0.7	4.6	17.9	14.3	1.7	4.1	12.6	14.9	10.5	10.2			
Margin (%)														
Wholesale	46.4%	50.9%	22.1%	-6.8%	26.3%	27.6%	21.2%	14.1%	36.4%	24.4%	26.4%			
MLM	16.3%	20.0%	19.3%	16.3%	18.0%	13.2%	15.0%	23.6%	15.3%	17.1%	20.0%			
Retailing	3.9%	11.7%	6.6%	13.9%	3.8%	15.8%	9.9%	10.8%	7.5%	15.3%	9.3%			
Others	46.7%	9.9%	52.7%	163.0%	103.1%	10.1%	29.2%	100.6%	104.3%	74.0%	73.0%			

Source: Company, 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

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. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within Affin Investment Bank, including investment banking personnel. Reports issued by Affin Investment Bank are prepared in accordance with Affin Investment Bank's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. 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 may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice 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.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Affin Investment Bank's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of Affin Investment Bank.

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

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

www.affininvestmentbank.com.my

Email : research@affinsecurities.com.my

Tel : 603-2143 8668

Fax : 603-2145 3005