

Results Note

Hai-O Ent

HAIO MK
RM2.08

ADD (maintain)

Target Price: RM2.35 (↔)



Price Performance

	1M	3M	12M
Absolute	-1.4%	-2.3%	-3.3%
Rel to KLCI	-3.2%	-2.9%	-4.4%

Stock Data

Issued shares (m)	202.2
Mkt cap (RMm)	420.6
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-Apr 12)	1.10
P/NTA (x)	1.89
Net cash/debt (RMm) (end-Apr 12)	40.9
ROE (FY13E)	17.0%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.3%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	19.4	22.2	-
Curr EPS (sen)	19.4	22.2	25.3
Chg (%)	-	-	-
Prev target price (RM)		2.35	
Curr target price (RM)		2.35	

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Earnings recovery continues in the MLM division

FY04/12 core net profit of RM33m (+16.4% yoy) - within expectations

Hai-O reported full year FY04/12 revenue of RM239.4m (+7.3% yoy), driven primarily by revenue recovery in the MLM division. Recall that after the amended Direct Sales Act was implemented in April 2010, revenue contribution from the MLM division plunged from over RM100m/quarter to as low as RM26.7m in 2QFY04/11. Since then, management has implemented several measures to arrest the decline, including shifting focus from sales of its big-ticket items (namely the Bio-Aura water filter) to promoting its lower priced but higher margin products (skincare, foundation lingerie, etc). These measures have paid off – FY04/12 revenue contribution from the MLM division grew by +12.7% yoy (FY04/11: -70.1% yoy). EBIT margin was also stronger at 19.9% vs. 18.4% in FY04/11, due to Hai-O's new marketing strategy and lower R&D costs in the technology division. Overall, FY04/12 core net profit grew by +16.4% yoy to RM33m, which was within both our and consensus expectations. Hai-O also declared a final single tier dividend of 7 sen/share. This brings total net DPS for FY04/12 to 9 sen (payout ratio: 55%, yield: 4.3%), slightly below our forecast of 10 sen/share.

4QFY04/12: MLM revenue growth offset declines in retail and wholesale

Given the early timing of Chinese New Year, 4QFY04/12 was a seasonally weaker quarter for the retail and wholesale divisions (revenue contribution declined by -20.9% qoq and -11% qoq, respectively). Revenue from the MLM division, on the other hand, surged by +31.7% qoq due to a successful incentive trip campaign which closed in April 2012. As a result, overall revenue grew by +10.6% qoq to RM69.4m. 4QFY04/12 core net profit, however, declined by -7.7% qoq to RM8.4m (3QFY04/12: RM9.1m). This was mainly attributed to: 1) higher operating costs (+9% qoq), and; 2) a lower EBIT margin (-2.9%-points qoq), due to lower contribution from the higher margin wholesale and retail divisions. Note that during the quarter, Hai-O incurred a one-off gain of RM800,000 from the disposal of some vintage tea in the wholesale division.

Maintain ADD with an unchanged target price of RM2.35

We maintain our FY04/13-14 earnings forecasts and introduce our FY04/15 net profit forecast of RM51.2m (+13.9% yoy). Aside from the revamp in its MLM marketing strategy (which is clearly reaping results), we continue to like Hai-O for its attractive valuations. The stock offers high dividend yields of 5-6% (premised on a minimum 50% dividend payout policy), which looks appealing against its CY13 PE of 9.8x. Maintain ADD, with an unchanged target price of RM2.35 (11x CY13 EPS). Key risk is a slowdown in consumer spending.

Earnings and valuation summary

FYE 30 April	2011	2012	2013E	2014E	2015E
Revenue (RMm)	223.3	239.4	285.3	320.3	356.7
EBITDA (RMm)	44.8	51.3	58.6	66.4	75.2
Pretax profit (RMm)	41.3	48.6	55.0	62.8	71.6
Net profit (RMm)	28.4	33.8	39.4	45.0	51.2
EPS (sen)	14.0	16.7	19.4	22.2	25.3
PER (x)	14.9	12.5	10.7	9.4	8.2
Core net profit (RMm)	28.4	33.0	39.4	45.0	51.2
Core EPS (sen)	14.0	16.3	19.4	22.2	25.3
Core EPS chg (%)	-59.8	16.4	19.3	14.2	13.9
Core PER (x)	14.9	12.8	10.7	9.4	8.2
Net DPS (sen)	7.5	9.0	11.0	12.0	14.0
Net Dividend Yield (%)	3.6	4.3	5.3	5.8	6.7
EV/EBITDA (x)	8.0	6.3	5.6	4.7	3.9
Consensus profit (RMm)			37.1	43.9	-
Affin/Consensus (x)			1.1	1.0	-

Fig 1: Quarterly results comparison

FYE April (RMm)	4QFY11	3QFY12	4QFY12	QoQ % chg	YoY % chg	Comment
Revenue	58.2	62.8	69.4	10.6	19.4	Revenue from the MLM division surged by +30.7% qoq, due to successful incentive trip campaign promotions during the quarter. However, contribution from the retail and wholesale division declined in tandem with slower demand post-Chinese New Year.
Op costs	(70.6)	(75.8)	(81.8)	8.0	15.9	
EBIT	12.4	13.0	12.4	(4.7)	(0.6)	
EBIT margin (%)	21.4	20.7	17.8	nm	nm	Impacted by lower contribution from higher margin wholesale and retail divisions.
Int expense	(0.2)	(0.2)	(0.2)	(22.4)	(20.0)	
Int and other inc	0.3	0.2	0.3	13.0	6.7	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional gain/losses	0.0	0.0	0.8	nm	nm	One off gain from the disposal of vintage tea
Pretax	12.5	13.0	13.3	2.0	6.2	
Tax	(3.5)	(3.5)	(3.7)	5.5	5.3	
Tax rate (%)	28.1	26.9	27.8	nm	nm	
MI	(0.4)	(0.4)	(0.4)	(7.2)	nm	
Net profit	8.5	9.1	9.2	1.1	7.2	
EPS (sen)	4.2	4.5	4.5	1.1	7.2	
Core net profit	8.5	9.1	8.4	(7.7)	(2.2)	Accounts for 24% and 25% of our and total consensus estimates

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE April (RMm)	FY11	FY12	YTD % chg	Comment
Revenue	223.2	239.4	7.3	Driven primarily by the recovery in MLM revenue (+12.7% yoy)
Op costs	(264.3)	(287.0)	8.6	
EBIT	41.1	47.6	15.7	
EBIT margin (%)	18.4	19.9	nm	Stronger margin attributed to sales of higher margin products and lower R&D costs in the technology division
Int expense	(0.8)	(0.7)	(12.3)	
Int and other inc	1.0	1.0	(4.1)	
Associates	0.0	0.0	nm	
Exceptional gain/losses	0.0	0.8	nm	One off gain from the disposal of vintage tea
Pretax	41.3	48.6	17.7	
Tax	(11.6)	(13.1)	12.9	
Tax rate (%)	28.0	26.9	nm	
MI	(1.3)	(1.7)	26.7	
Net profit	28.4	33.8	19.2	
EPS (sen)	14.0	16.7	19.2	
Core net profit	28.4	33.0	16.4	Within expectations

Source: Company, Affin

Fig 3: External revenue breakdown

FY April (RMm)	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	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	11.8	(11.0)		5.4	
MLM	130.3	108.9	106.2	72.6	35.2	26.7	29.0	34.2	28.8	32.0	34.7	45.6	31.7		33.5	
Retailing	7.9	10.8	9.5	13.6	8.2	11.3	13.0	11.2	8.7	10.7	13.1	10.3	(20.9)		(8.0)	
Others	1.5	2.0	2.2	1.7	1.5	1.5	1.3	1.6	1.6	1.6	1.8	1.7	(8.4)		6.8	
Total	148.6	132.4	131.3	98.8	54.8	52.6	57.6	58.2	51.0	56.2	62.8	69.4	10.6		19.4	
Qoq (%)	11.8%	(10.9%)	(0.8%)	(24.7%)	(44.6%)	(3.9%)	9.5%	0.9%	(12.4%)	10.3%	11.7%	10.6%				
Yoy (%)	31.6%	51.6%	28.5%	(25.6%)	(63.1%)	(60.2%)	(56.1%)	(41.2%)	(6.9%)	6.8%	9.0%	19.4%				

Contribution (%)

Wholesale	6.0	8.1	10.2	11.0	18.0	24.9	24.9	19.2	23.5	21.1	21.1	17.0				
MLM	87.7	82.3	80.9	73.4	64.4	50.8	50.4	58.8	56.5	56.9	55.2	65.7				
Retail	5.3	8.1	7.2	13.8	14.9	21.4	22.6	19.3	17.0	19.1	20.8	14.9				
Others	1.0	1.5	1.7	1.8	2.7	2.9	2.2	2.7	3.1	2.8	2.9	2.4				
Total	100.0	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	4Q12	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	2.2	(37.6)		38.6	
MLM	21.2	21.8	20.5	11.8	6.4	3.5	4.4	8.1	4.4	5.5	6.9	7.1	2.7		(11.8)	
Retailing	0.3	1.3	0.6	1.9	0.3	1.8	1.3	1.2	0.7	1.6	1.2	1.4	16.2		16.8	
Others	0.7	0.2	1.2	2.8	1.5	0.2	0.4	1.6	1.6	1.2	1.3	1.6	23.3		4.2	
Total	26.3	28.7	25.2	15.8	10.8	9.1	9.0	12.4	11.0	11.2	13.0	12.4	(4.7)		(0.6)	

Contribution (%)

Wholesale	15.7	19.0	11.7	(4.7)	24.0	39.7	33.6	12.7	39.4	25.9	26.9	17.6				
MLM	80.6	75.9	81.2	74.9	58.9	38.9	48.2	65.0	39.8	48.9	53.5	57.7				
Retailing	1.2	4.4	2.5	12.0	2.8	19.6	14.2	9.8	5.9	14.7	9.4	11.5				
Others	2.6	0.7	4.6	17.9	14.3	1.7	4.1	12.6	14.9	10.5	10.2	13.2				

Margin (%)

Wholesale	46.4%	50.9%	22.1%	-6.8%	26.3%	27.6%	21.2%	14.1%	36.4%	24.4%	26.4%	18.5%				
MLM	16.3%	20.0%	19.3%	16.3%	18.0%	13.2%	15.0%	23.6%	15.3%	17.1%	20.0%	15.6%				
Retailing	3.9%	11.7%	6.6%	13.9%	3.8%	15.8%	9.9%	10.8%	7.5%	15.3%	9.3%	13.7%				
Others	46.7%	9.9%	52.7%	163.0%	103.1%	10.1%	29.2%	100.6%	104.3%	74.0%	73.0%	98.2%				

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

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