

Company Result

20 September 2012

Hai-O Enterprise Berhad

BUY

Recovery mode is well on track

Maintained

Share Price	RM2.02
Target Price	RM2.34

Result

Company Description

Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.

- **Within expectation.** Hai-O's 1QFY13 net profit meeting 27.3% of our full year estimates and 27.2% of consensus. The result was well within expectations.
- The net income stood at RM10.2mil, up 12.1% q-o-q and 33.4% y-o-y. However, the revenue was 11.9% lower q-o-q at RM61.15mil but increased 19.97% y-o-y.

Stock Data

Bursa / Bloomberg code	7668 / HAI0 MK
Board / Sector	Industrial / Food & Drug Retailers
Syariah Compliant status	Yes
Issued shares (m)	202.19
Par Value (RM)	0.50
Market cap. (RMm)	408.4
52-week price Range	RM1.55– 2.42
Beta (against KLCI)	0.93
3-m Average Daily Volume	0.09m
3-m Average Daily Value [^]	RM0.18m

Comment

Share Performance

	1m	3m	12m
Absolute (%)	-1.9	-8.2	13.5
Relative (%-pts)	-1.7	-5.8	-2.8

- **Robust y-o-y growth.** The Group's revenue and net earnings recorded at RM61.5mil and RM10.2mil, up 19.97% yoy and 33.4% yoy respectively mainly driven by higher sales in MLM division.
- **Improving margin.** Although the Group recorded lower qoq revenue (-11.9%), the net income inched up strongly (+12.1%) thanks to its better margin achieved (+3.6ppt) following the Group's strategy in focusing its high margin products such as foundation garments.
- **Strong MLM contribution.** MLM division contributed the most revenue for 1QFY13, accounted 66% of total group's topline. The growth was mainly due to the higher sales from its high-margin foundation garments and its key health food product. Although the revenue in MLM was declined 12% q-o-q, we believe the sales campaign and training program implemented by the Group will attract more members hence will further boost its MLM division for the next quarter.
- **Weakening domestic consumption affected wholesale and retail divisions.** Due to the softening economic backdrop, the performance for wholesale and retail division has been discouraging as consumers are more cautious on their spending. The revenue for both divisions dropped by 7% yoy for the former and 8% y-o-y for the latter. Furthermore, the lower earnings from retail division also aggravated by the higher operating cost as revenue generated from the 7 new outlets which opened last year have yet to contribute significantly to the Group.
- **MLM division continues to shine whilst challenging outlook for retail and wholesale divisions.** Going forward, we expect the Group will maintain its earnings momentum for upcoming quarters on the back of continuous effort to enhance its product mix, expand market channel as well actively recruiting new members for its MLM division. Meanwhile, we think that sales for wholesale and retail divisions continue to be under pressure.

Major Shareholders

	%
KAI HEE TAN	9.62
AKINTAN SDN BHD	7.31
EXCELLANT COMMUNICATIONS	5.13

Historical Chart



Source: Bloomberg

Team Coverage

03-87361118, ext. 752

research.dept@jfapex.com.my

Earnings Outlook/Revision

- **We maintain our revenue and earnings forecast** for FY13F-FY14F. We also introduce our FY15F earnings estimate.

Valuation & Recommendation

- **Maintain BUY.** We maintain BUY on Hai-O with unchanged target price RM2.34 pegging at 12.3x FY13PER, which is slightly above its average PE in view of its healthy earnings growth and strong recovery of MLM division.

Figure 1: Quarterly Figures

Year to 30 April	1QFY13 (RMm)	4QFY12 (RMm)	1QFY12 (RMm)	QoQ % chg	YoY % chg
Revenue	61.15	69.44	50.97	-11.94%	19.97%
Operating Profit	13.78	13.15	11.04	4.79%	24.82%
Pre-tax Profit	13.85	13.27	11.06	4.37%	25.23%
Net Profit	10.27	9.16	7.70	12.12%	33.38%
Operating Margin (%)	22.53%	18.94%	21.66%	3.60ppt	0.87ppt
Profit Before Tax Margin (%)	22.65%	19.11%	21.70%	3.54ppt	0.95ppt

Figure 2: Financial Summary

Year to 30 April (RMm)	2011	2012	2013F	2014F	2015F
Revenue	223.26	239.40	257.11	287.49	316.78
EBITDA	89.98	39.31	43.09	48.85	54.62
Operating profit	92.19	38.54	48.37	51.42	57.50
Net profit	70.60	28.37	33.83	37.79	42.69
EPS (sen)	34.92	14.03	16.73	18.69	21.11
P/BV (x)	2.00	1.98	1.82	1.74	1.60
EV/EBITDA	4.56	10.74	9.39	8.44	7.73
Dividend yield (%)	6.01%	3.37%	4.02%	4.49%	5.08%
PBT margin (%)	18.71%	18.49%	20.20%	20.00%	20.00%
Net profit margin (%)	13.81%	12.71%	14.13%	14.70%	14.85%
ROE (%)	33.54%	13.34%	14.62%	15.66%	16.29%
ROA (%)	25.30%	11.04%	11.93%	12.60%	13.37%

Source: Company, JF Apex

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)
Derrick Ng Wei Yee (ext 3239)
Edwin Loh Ming Hon (ext 3236)
Wong Wing Haur, Alvin (ext 3226)
Koh Lie Ching, Ally (ext 3231)
Tew Li Mei (ext 3288)

Institutional Dealing Team:

Lim Teck Seng
Sanusi Bin Mansor (ext 740)
Edy Sukasma (ext 745)
Fathul Rahman Buyong (ext 741)
Ramlee Sulaiman (ext 742)
Ahmad Mansor (ext 744)
Lum Meng Chan (ext 743)

PJ Office:

Mervyn Wong (ext 363)
Mohd Hanif Wan Said (ext 111)
Fong Jia Wen (ext 822)
Farriz Bin Ghazali (ext 812)
Lai Yee Sam (ext 362)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Jessica Low Jze Tieng (ext 756)
Soong Wei Siang (ext 754)
Nur Idayu Binti Marlan (ext 752)
Mohd Shawal Sidek (ext 755)
Gabriela Fang Minn Fern (ext 753)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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