

**Company Result** 

20 September 2012

**Maintained** 

# Hai-O Enterprise Berhad

Recovery mode is well on track

	RM2.02
Target Price	RM2.34

# Company Description

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

Stock Data Bursa / Bloomberg code		7668 / H		
Board / Sector		Industrial /		
Syariah Compliant status Issued shares (m) Par Value (RM) Market cap. (RMm) 52-week price Range Beta (against KLCI)	Drug Retailers Yes 202.19 0.50 408.4 RM1.55– 2.42		Yes 202.19 0.50 408.4 55– 2.42	
3-m Average Daily Volume 3-m Average Daily Value <sup>^</sup>		0.09m RM0.18m		
Share Performance	1m	3m	12m	
Absolute (%)	-1.9	-8.2	13.5	

Major Shareholders	%
KAI HEE TAN	9.62
AKINTAN SDN BHD	7.31
EXCELLANT COMMUNICATIONS	5 12

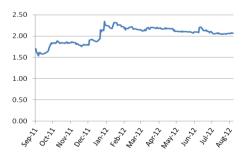
-1.7

-5.8

-2.8

## **Historical Chart**

Relative (%-pts)



Source: Bloomberg

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## Result

- **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 qo-q at RM61.15mil but increased 19.97% y-o-y.

## Comment

- **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.



# **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 slighly 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	4QFY12	1QFY12	QoQ	YoY
	(RMm)	(RMm)	(RMm)	% chg	% 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



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#### 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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