

## Company Update

# Hai-O Enterprise

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## NEUTRAL

Fair Value

RM2.16

Previous

RM2.16

Price

RM2.04

### 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	HAIO MK
Share Capital (m)	202.2
Market Cap	412.5
52 week H   L Price	2.42   1.60
3mth Avg Vol (000)	77.5
YTD Returns	6.8
Beta (x)	0.93
Shariah Compliant	YES

### Major Shareholders (%)

Tan Kai Hee	9.6
Akintan SB	7.3
Excellent Communications	5.1

### Share Performance (%)

Month	Absolute	Relative
1m	0.5	0.3
3m	-7.2	-9.2
6m	-6.8	-8.9
12m	29.0	3.1

### 6-month Share Price Performance



## Recovery Underway

We gather from our visit to Hai-O last week that its MLM division is on track for recovery, mainly driven by an improved marketing strategy and a more balanced product mix. With its new tie-up in bamboo salt distribution, the potential resumption of bird's nest exports and its Chinese medical centre coming on-stream, the company may be poised for strong expansion. Maintain NEUTRAL, with a FV of RM2.16, based on a 12x FY13 EPS.

**MLM bounces back.** As we highlighted in our previous updates on Hai-O, the multi-level marketing (MLM) division picked up gradually in the last financial year. The better FY12 core net profit was boosted by the encouraging 7.2% y-o-y earnings growth from the MLM division, backed by aggressive strategies to recruit new members and distributors. In Hai-O's latest financial quarter, the MLM business delivered strong turnover (+39.3% y-o-y) and earnings (+68.2% y-o-y) growth, bolstered by better demand for its high-margin foundation garments and health food products. The division has around 140,000 registered members, with around 2,500 new members coming on board each month. We believe that this division's growth momentum is sustainable in view of the company's improved marketing strategy and more balanced product mix.

**New collaborations to spice things up.** Aside from its global distributorship agreement with South Korea's KAEAM Food Corp to market 'bamboo salt' (garam buloh) in early April, Hai-O has also formed a joint venture with a local partner, Yan Zhi Enterprise SB, to set up a new subsidiary Yan Ou Holdings SB (Yan Ou). This unit will source, process, trade and distribute bird's nests and related products. In July last year, China - the main importer of bird's nest - banned Malaysia's bird's nest exports due to the purportedly high levels of nitrates. The Malaysian Government hopes to iron out the issue and resume exports of bird's nest to China in December. Assuming that this makes good progress, we believe the collaboration will provide Hai-O a good opportunity since the Asian bird's nest market, especially in China, is highly lucrative. Some 250 tonnes of Malaysian bird's nests were exported to China before the ban. Together with Tong Ren Tang Chinese Medicine (Tong Ren Tang CM), the group plans to inject RM31m more into Peking Tong Ren Tang (M) SB (PTRT) for the purpose of establishing a "Beijing Tong Ren Tang (M) Chinese Medicine Healthcare and Wellness Centre."

**Maintain NEUTRAL.** Given the MLM recovery and the promising tie-ups, we expect Hai-O to possibly deliver decent future performance. Nonetheless, we maintain NEUTRAL, with our FV unchanged at RM2.16, due to the limited upside to the current share price level.

FYE Apr (RMm)	FY10	FY11	FY12	FY13f	FY14f
Revenue	511.1	223.2	239.4	256.0	276.8
Net Profit	70.6	28.8	33.0	36.4	38.8
% chg y-o-y	35.0	-59.2	17.3	7.8	6.5
Consensus				36.5	40.5
EPS	34.8	14.2	16.3	18.0	19.2
DPS	9.4	7.5	9.0	9.4	10.0
Dividend yield (%)	4.6	3.7	4.4	4.6	4.9
ROE (%)	33.7	14.1	15.3	14.9	14.8
ROA (%)	26.0	11.2	11.9	12.3	12.3
PER (x)	5.9	14.3	12.5	11.3	10.6
BV/share	1.03	1.01	1.09	1.21	1.30
P/BV (x)	2.0	2.0	1.9	1.7	1.6
EV/EBITDA (x)	3.7	9.2	7.6	7.2	6.6

**EARNINGS FORECAST**

<b>FYE Apr (RMm)</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13f</b>	<b>FY14f</b>
Turnover	511.1	223.2	239.4	256.0	276.8
EBITDA	95.7	41.4	47.6	49.4	52.6
PBT	95.6	41.4	47.8	48.6	51.8
Net Profit	70.6	28.8	33.0	36.4	38.8
EPS	34.8	14.2	16.3	18.0	19.2
DPS	9.4	7.5	9.0	9.4	10.0
Margin					
EBITDA (%)	18.7	18.5	19.9	19.3	19.0
PBT (%)	18.7	18.5	20.0	19.0	18.7
Net Profit (%)	13.8	12.9	14.1	14.2	14.0
ROE (%)	33.7	14.1	15.3	14.9	14.8
ROA (%)	26.0	11.2	11.9	12.3	12.3
Balance Sheet					
Fixed Assets	60.9	71.7	62.3	85.9	90.9
Current Assets	184.0	111.8	171.2	175.2	191.0
Total Assets	271.7	257.5	283.6	296.2	316.9
Current Liabilities	49.3	33.4	44.1	41.6	43.7
Net Current Assets	222.4	224.1	239.5	254.6	273.2
LT Liabilities	13.2	10.7	8.1	10.0	10.0
Shareholders Funds	209.2	205.1	221.6	244.6	263.2
Net Gearing (%)					
	Net cash	Net cash	Net cash	Net cash	Net cash

**OSK Research Guide to Investment Ratings****Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated (NR):** Stock is not within regular research coverage

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