

Company Update

12 November 2012

# Hai-O Enterprise Berhad

**BUY**

Growing From Strength to Strength

Maintained

Share Price	RM2.21
Target Price	RM2.52

## What's New

- **We feel more optimistic on Hai-O's prospect following our company visit** as we understand that the Group's resilient earnings growth is still intact backed by its key revenue driver, Multi-Level Marketing (MLM) business and overwhelming response of its newly launched products, Bamboo Salt and other health related products.
- **The stock has recently garnered some investors' interests** pursuant to the Group's earlier announcement of potential higher dividend payments to shareholders at the AGM.

## 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 / 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)	446.84
52-week price Range	RM1.75– 2.42
Beta (against KLCI)	0.94
3-m Average Daily Volume	0.11m
3-m Average Daily Value <sup>^</sup>	RM0.23m

## Comment

- **Higher dividend in the offing?** We reckon that Hai-O may declare special dividend for this financial year or raise its future dividend payments on the back of: a) the Group's healthy balance sheet of net cash position of RM105m or 52 sen/share; and stellar performance of MLM division which generates more operating cashflow for the Group for FY13F.
- **Attractive dividend play to watch out.** Assuming the Group declares higher dividend payout ratio of 60% (which is line with its peer, Zhulian), we would expect the dividend yield to be increased to 5.1% and 5.8% from current 4.3% and 4.9% for FY13F and FY14F respectively.
- **Stronger 2QFY13F results driven by rebound of Retail and Wholesale divisions.** We expect Hai-O achieve better-than-expected net earnings in coming second quarter result (to be announced in Dec) mainly driven by rebound in top line and bottom line for its both retail and wholesale divisions following these segments' dismay performance in 1QFY2013. We expect the Group's core net profit could slightly top our estimate with 2QFY13F net earnings of c.RM11m (1HFY13F earnings account for 55% of our full-year forecast).
- **Overwhelming response for its Bamboo Salt.** The Group's newly launched healthcare product, Bamboo Salt and its related products are well received among Chinese community. Thus, the Group hopes to boost its Chinese membership recruitment in future, which is currently at 20% (about 80% members are Bumiputras).
- **MLM growth momentum is sustainable.** Hai-O's MLM division posted an encouraging earnings growth of 7.2% yoy in FY12 and continued to perform well with topline and bottomline growth of 38.8% yoy and 68.2%

## Share Performance(as at 09-Nov-12)

	1m	3m	12m
Absolute (%)	8.87	7.80	15.71
Relative (%-pts)	10.34	8.43	5.03

## Major Shareholders

Major Shareholders	%
KAI HEE TAN	9.62
AKINTAN SDN BHD	7.35
EXCELLANT COMMUNICATIONS	5.13

## Historical Chart



Source: Bloomberg

## Team Coverage

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yoy respectively in 1QFY13. Moving forward, the Group targets to recruit 2,500 new members per month adding to its existing 140,000 registered members. Hai-O is also expected to benefit from its market strategy of focusing on selling high margin products, recurring healthcare and consumer items and extensive sales, training and incentive programme to its distributors.

### Earnings Outlook/Revision

- **We maintain our revenue and earnings forecasts** for FY13F-FY15F. Our net profits for FY13F and FY14F represent earnings growth of 11.8% yoy and 13.0% yoy respectively.

### Valuation & Recommendation

- **Maintain BUY with a higher target price of RM2.52 (previous: RM2.34).** Our target price for Hai-O is pegged at 13.5x FY13FPER, which is at its upcycle PE in view of its healthy earnings growth, strong recovery of MLM division and attractive dividend yield.

**Figure 2: Financial Summary**

Year to 30 April (Rm'm)	2010	2011	2012	2013F	2014F	2015F
Revenue	511.07	223.26	239.40	257.11	287.49	316.78
EBITDA	89.98	39.31	43.09	48.85	54.62	60.82
Operating profit	92.19	41.26	48.68	51.42	57.50	64.05
Net profit	70.60	28.37	34.00	37.79	42.69	47.27
EPS (sen)	35.36	14.21	17.21	18.69	21.11	23.38
P/E (x)		13.00	13.15	11.77	10.42	9.41
P/BV (x)	2.11	2.09	1.92	1.84	1.70	1.58
EV/EBITDA	4.56	10.44	9.39	8.44	7.73	7.07
Dividend yield (%)	6.01%	3.37%	3.80%	4.25%	4.80%	5.31%
PBT margin (%)	18.71%	18.49%	20.20%	20.00%	20.00%	20.30%
Net profit margin (%)	13.81%	12.71%	14.13%	14.70%	14.85%	14.92%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	33.54%	13.34%	14.62%	15.66%	16.29%	16.81%
ROA (%)	25.30%	11.04%	11.93%	12.60%	13.37%	13.90%

Source: Company, JF Apex

### JF APEX SECURITIES BERHAD – CONTACT LIST

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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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