

Company Result

20 December 2012

Hai-O Enterprise Berhad

BUY

Impressive Feat

Maintained

Share Price	RM2.17
Target Price	RM2.52

Result

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)	438.75
52-week price Range	RM1.78– 2.42
Beta (against KLCI)	0.97
3-m Average Daily Volume	0.12m
3-m Average Daily Value [^]	RM0.25m

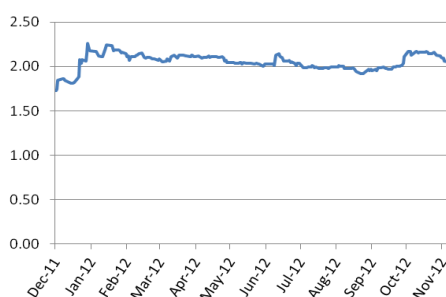
Share Performance

	1m	3m	12m
Absolute (%)	2.36	5.85	19.89
Relative (%-pts)	-0.24	6.17	6.37

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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- **Above expectation.** Hai-O's 6MFY13 core net profit of RM11.3m (ex-land sales of RM4.8m) meeting 56% of our and consensus full year estimates. The commendable result was above expectations. Meanwhile, the 6MFY13 revenue of RM127m was well within our forecasts, reaching 49% of our full year estimates.
- The 2QFY13 core net income increased to RM11.3mil (ex land sales of RM4.8mil) up 10% q-o-q and 34.4% y-o-y.

Comment

- **Robust y-o-y growth.** The Group's revenue and net earnings recorded at RM127m and core net profit RM21m, up 17.8% yoy and 35% yoy respectively mainly driven by higher sales and better margin in MLM and wholesale division.
- **Awesome margin increment.** The Group managed to chalk up higher PBT margin of 27%, up +6.4ppt yoy (6M12 vs 6M11). This was bolstered by its sale of high-margin foundation garments, series of health food products and a newly launched health wellness product. The burgeoning MLM division remained the key driver for the total Group's revenue and pre-tax profit, contributed at 64% and 42% respectively.
- **Wholesale division striding ahead** with commendable improvement in both revenue and EBIT, up 15% and 32% yoy respectively, coupled with segment margin up 2.2ppt yoy. The improvement was underpinned by higher sales from patented medicines products and more goods supplied to duty free shops due higher tourist arrival rate in Malaysia.
- **On a quarterly review,** the Group's revenue and core net profit increased 7.93% and 4.48% qoq. The robust increment was on the back of its higher sales from its wholesale division in respect of Chinese medicated tonic. This was further fuelled by its retail segment with members' sales promotion and contribution by its high margin house products.
- **Attractive dividend yield of 5.5%.** The Group has declared an interim dividend of 4 sen per share topped with a special dividend of 2 sen per share which summed up to total of 6 sen. We foresee they will declare another 6 sen per share in 4QFY13. This translates into dividend yield of 5.5% for FY2013F.

- **Bright prospect for MLM division.** We envisage this division will further excel in years ahead on the back of government's road map plan to further boost this industry to double its turnover to RM20bil by year 2020. Besides, the Group's consistent yearly members' increment and new products launches will continue to keep the momentum going on.

Earnings Outlook/Revision

- **We maintain our revenue forecast for FY13F with a slight tweak to the core earnings** for FY13F by 5% upward (from previous RM37.8mil to RM39.7mil) while maintaining earnings estimates for FY14-FY15F. Our core net profits for FY13F and FY14F represent earnings growth of 16.7% yoy and 7.6% respectively.

Valuation & Recommendation

- **Maintain BUY with unchanged target price of RM2.52.** Our target price for Hai-O is pegged at 13x FY13F PER, which is at its upcycle PE in view of its healthy earnings growth and attractive dividend yield.

Figure 1: Quarterly Figures

Year to 30 April	2QFY13 (RMm)	1QFY13 (RMm)	2QFY12 (RMm)	QoQ % chg	YoY % chg	6MFY13 (RMm)	6MFY12 (RMm)	YoY % chg
Revenue	66.00	61.15	56.20	7.93%	17.44%	127.00	107.80	17.81%
Operating Profit	20.38	13.78	11.20	47.90%	81.96%	34.20	22.20	54.05%
Pre-tax Profit	20.50	13.85	11.25	48.01%	82.22%	34.35	22.30	54.04%
Net Profit	16.10	10.27	8.41	56.77%	91.44%	26.40	15.60	69.23%
Core Net Profit	11.30	10.27	8.41	10.03%	34.36%	21.60	15.60	34.81%
Operating Margin (%)	30.88%	22.53%	19.93%	8.35ppt	10.95ppt	26.93%	20.59%	6.34ppt
Profit Before Tax Margin (%)	31.06%	22.65%	20.02%	8.41ppt	11.04ppt	27.05%	20.69%	6.36ppt

Source: Company, JF Apex

Figure 3: MLM and Wholesale Division

	(RMm)	2QFY13	1QFY13	2QFY12	QoQ % chg	YoY % chg	6MFY13	6MFY12	YoY % chg
MLM	Revenue	40.92	40.12	32.00	1.99%	27.88%	81.04	60.78	33.33%
	Operating Profit	7.00	7.40	5.50	-5.41%	27.27%	14.40	9.89	45.60%
	Operating Margin	17.11%	18.44%	17.19%	-1.33ppt	-0.08ppt	17.77%	16.27%	1.5ppt
Wholesale	Revenue	30.00	24.50	23.56	22.45%	27.33%	54.5	47.4	14.98%
	Operating Profit	5.74	3.80	2.90	51.05%	97.93%	9.54	7.25	31.59%
	Operating Margin	19.13%	15.51%	12.31%	3.62ppt	6.82ppt	17.50%	15.30%	2.2ppt

Source: Company, JF Apex

Figure 2: Financial Summary

Year to 30 April (Rm'm)	2011	2012	2013F	2014F	2015F
Revenue	223.26	239.4	257.11	287.49	316.78
EBITDA	39.31	43.09	48.85	54.62	60.82
Operating profit	41.30	48.68	51.42	57.50	64.05
Net profit	28.37	34	39.68	42.69	47.27
EPS (sen)	14.03	17.21	19.63	21.11	23.38
P/E (x)	15.47	12.61	11.06	10.28	9.28
P/BV (x)	2.06	1.82	1.82	1.67	1.56
EV/EBITDA	10.44	9.39	9.06	8.28	7.57
Dividend yield (%)	3.37%	3.87%	5.5%	4.86%	5.39%
PBT margin (%)	18.49%	20.20%	23.00%	20.00%	20.30%
Net profit margin (%)	12.71%	14.13%	15.44%	14.85%	14.92%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	13.34%	14.62%	16.44%	16.29%	16.81%
ROA (%)	11.04%	11.93%	13.23%	13.37%	13.90%

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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