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**NEUTRAL** ↔

Fair Value **RM2.35**  
Previous Price **RM2.16**  
Price **RM2.17**

**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	HAI0 MK
Share Capital (m)	202.2
Market Cap (RMm)	438.8
52 week H   L Price (RM)	2.42   1.78
Average Volume (3m) '000	120.6
YTD Returns (%)	13.6
Beta (x)	0.97

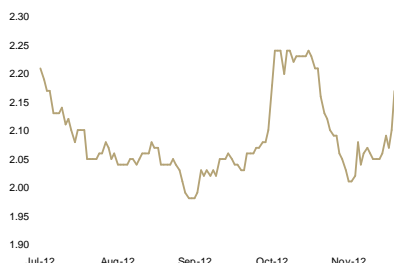
Shariah Compliant YES

**Major Shareholders (%)**

Tan Kai Hee	9.62
Akintan SB	7.31
Excellent Communications	5.13

**Share Performance (%)**

Month	Absolute	Relative
1m	2.4	0.8
3m	10.9	4.3
6m	7.7	0.0
12m	24.9	4.9

**6-month Share Price Performance**

**1HFY13 Results Review**
**Hai-O Enterprise**
**MLM Firmly on Growth Track**

Hai-O's 1HFY13 results beat consensus and our estimates. Revenue and core earnings were 18.5% and 34.5% higher y-o-y, boosted by the recovery of its MLM division. EBIT margin expanded due to healthy topline growth and better sales of higher margin products. We are revising upward our FY13 and FY14 numbers in view of stronger-than-expected earnings. Maintain NEUTRAL, but with a new FV of RM2.35, based on 12x FY13 EPS.

**Above consensus.** Sales and core net profit (excluding a one-off compensation of RM0.57m received by the manufacturing division and a RM4.8m gain from disposal of vacant land) climbed 18.5% and 34.6% y-o-y to RM127m and RM21m, respectively. The good set of results were mainly driven by the strong recovery in its multi-level marketing (MLM) division, which contributed 64% and 42% of group revenue and PBT respectively. This reaffirms our view that the company's MLM division is on the mend. Vis-à-vis the preceding quarter, the company's revenue and earnings grew 7.9% and 16.5% q-o-q, buoyed by improved performance from the MLM division as well as wider margins.

**MLM springs back.** The MLM division's revenue and pre-tax profit (PBT) surged 33% and 40% y-o-y to RM81m and RM14m respectively, bolstered by sales of its high-margin foundation garments, health food products and a newly-launched wellness product. Meanwhile, turnover in the wholesale division dipped by a marginal 2.5% as weakening conditions in the domestic market dampened orders, while the retail division reported weaker top- and bottom-lines due to tepid domestic consumption and higher operating costs. That said, the new outlets which Hai-O opened in the last financial year have yet to bear fruit. Other divisions, in the meantime, generated a PBT of RM8.6m vs RM2.6m y-o-y, largely attributed by one-off RM4.8m gain from the disposal of a piece of freehold vacant land and a one-off compensation amounting to RM0.57m, which arose from the early termination of a sales contract by a customer. EBIT margin ticked up 2ppt y-o-y to 22.7%.

**Maintain NEUTRAL.** We are adjusting our FY13 and FY14 earnings 8.8% and 9.1% higher respectively by incorporating better margins due to the company's improving product portfolio. Hence, we lift our FV to RM2.35. Maintain NEUTRAL.

FYE Apr (RMm)	FY10	FY11	FY12	FY13f	FY14f
Revenue	511.1	223.2	239.5	256.0	276.8
Net Profit	70.6	28.4	33.0	39.7	42.4
% chg y-o-y	35.0	-59.8	19.2	17.3	6.8
Consensus				37.9	42.2
EPS (sen)	34.8	14.0	16.3	19.6	20.9
DPS (sen)	9.4	7.5	9.0	11.7	12.5
Dividend yield (%)	4.3	3.5	4.1	5.4	5.8
ROE (%)	33.7	13.9	15.3	16.3	16.3
ROA (%)	26.0	11.0	11.7	13.5	13.5
PER (x)	6.2	15.5	13.3	11.1	10.4
BV/share	1.03	1.01	1.09	1.20	1.28
P/BV (x)	2.1	2.2	2.0	1.8	1.7
EV/EBITDA (x)	4.1	10.0	8.2	6.7	6.3

**Results Table (RMm)**

<b>FYE Apr</b>	<b>2Q13</b>	<b>1Q13</b>	<b>Q-o-Q chg</b>	<b>YTD FY13</b>	<b>YTD FY12</b>	<b>Y-o-Y chg</b>	<b>Comments</b>
Revenue	65.9	61.1	7.9	127.0	107.2	18.5	Higher due to better sales from MLM division
EBIT	15.6	13.2	18.2	28.8	22.2	29.7	
Net interest expense	0.1	0.0	>100	0.2	0.0	>100	
Associates	0.0	0.0	n.m	0.0	0.0	n.m	
PBT	15.7	13.2	18.9	29.0	22.3	30.0	Excluding RM4.8m vacant land disposal gain + RM0.57m compensation of contract termination
Tax	-4.0	-3.5	14.3	-7.5	-5.9	27.1	
MI	-0.4	0.0	>100	-0.5	-0.8	-37.5	
Core Net profit	11.3	9.7	16.5	21.0	15.6	34.6	Above expectations
EPS	8.1	5.2		13.3	7.8		
DPS	6.0	0.0		6.0	2.0		
EBIT margin	23.7	21.6		22.7	20.7		

**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	239.5	256.0	276.8
EBIT	95.7	41.3	46.9	53.7	57.3
PBT	95.6	41.3	48.6	52.9	56.5
Net Profit	70.6	28.4	33.0	39.7	42.4
EPS (sen)	34.8	14.0	16.3	19.6	20.9
DPS (sen)	9.4	7.5	9.0	11.7	12.5
Margin					
EBIT (%)	18.7	18.5	19.6	21.0	20.7
PBT (%)	18.7	18.5	20.3	20.7	20.4
Net Profit (%)	13.8	12.7	14.1	15.5	15.3
ROE (%)	33.7	13.9	15.3	16.3	16.3
ROA (%)	26.0	11.0	11.7	13.5	13.5
Balance Sheet					
Fixed Assets	60.9	72.2	62.1	65.8	79.3
Current Assets	176.6	146.8	177.3	198.8	204.3
Total Assets	271.7	257.0	289.6	294.6	313.6
Current Liabilities	49.3	33.4	50.1	41.1	43.1
Net Current Assets	222.4	223.6	239.5	253.5	270.4
LT Liabilities	13.2	10.9	8.1	10.0	10.0
Shareholders Funds	209.2	204.4	221.7	243.5	260.4
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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