

Results Note

Hai-O Ent

HAIO MK
RM2.17

ADD (maintain)

Target Price: RM2.43 (↑)



Price Performance

	1M	3M	12M
Absolute	+3.3%	+6.9%	+19.2%
Rel to KLCI	+0.8%	+4.3%	+4.9%

Stock Data

Issued shares (m)	202.2
Mkt cap (RMm)	438.8
Avg daily vol - 6mth (m)	0.10
52-wk range (RM)	1.78 – 2.42
Est free float	64.8%
NTA per share (RM) (end-Jul 12)	1.21
P/NTA (x)	1.79
Net cash/debt (RMm) (end-Jul 12)	54.0
ROE (FY13E)	17.3%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.3%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	19.4	22.4	25.5
Curr EPS (sen)	19.8	23.2	27.0
Chg (%)	+1.8	+3.8	+5.9
Prev target price (RM)			2.35
Curr target price (RM)			2.43

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Above expectation led by MLM and wholesale division

1HFY04/13 core net profit of RM26.4m (+69% yoy) is above expectations

Hai-O reported a strong 1HFY04/13 revenue of RM127m (+18.5% yoy), mainly driven by the wholesale division and the continued revenue recovery in the MLM division. 1HFY04/13 revenue contribution from the MLM division grew by +33% yoy to RM81.04m. This was mainly attributed by the higher sales from its high-margin foundation garments and key health food products. The group's second biggest revenue contributor, wholesale revenue also surged by >100% to RM54.5m. We attributed this to the improved sales of its high margin products and higher sales from the duty free shops. Overall, 1HFY04/13's EBIT margin improved by +8.5%-points to 29.3% and core net profit grew strongly by +69% yoy to RM26.4m. Results are above both our and consensus expectations, accounting for 67% of our and 71% of consensus full year forecast.

2QFY04/13's core net profit grew 57% to RM16m

On a sequential basis, Hai-O recorded a stronger 2QFY04/13 revenue of RM65.9m compared to 1QFY04/13 of RM61.1m (+7.7% qoq). This was largely due to the higher revenue contribution from the MLM division (+2% qoq) and wholesale division (+290% qoq). Operating profit in wholesale division improved by 53% mainly driven by improved sales in the Chinese medicated tonic medicine. Sales in the retail division was also stronger sequentially, improved by +34% qoq to RM10.6m, due to higher sales from its high margin house brand in conjunction with the successful member's sales promotion. As a result, overall 2QFY04/13 EBIT margin expanded by +8%-points and core net profit grew 57% qoq to RM16m.

Maintain ADD with TP lifted to RM2.43

With strong recovery and improvement in the group's MLM division, we are tweaking up our revenue per agent growth rate assumption by 3% to 5% for FY13-15. With that, our FY13-15 core net profit forecasts are lifted by 2-6% to RM40m, RM47m and RM52m respectively. Note that the group has developed a successful operating strategy for its MLM division and is experiencing strong rebound. (Hai-O's MLM division had experienced slower sales and membership growth as well as weak member sentiment from 4QFY04/10 to 4QFY04/12 owing to the imposition of more stringent rules on new member recruitment by the authorities in 4QFY10) Apart from the recovery in its MLM marketing strategy (which lifted the overall performance), we continue to like Hai-O for its attractive valuations. The stock offers attractive dividend yield of 5-6%, which looks appealing against its CY14 PE of 9.3x. Maintain ADD, with a higher target price of RM2.43 pegged to 11x CY13 EPS. (previous TP: RM2.35)

Earnings and valuation summary

FYE 30 April	2011	2012	2013E	2014E	2015E
Revenue (RMm)	223.3	239.5	290.5	332.4	377.9
EBITDA (RMm)	44.8	52.3	59.7	69.5	80.2
Pretax profit (RMm)	41.3	48.8	56.0	65.8	76.4
Net profit (RMm)	28.4	34.0	40.1	47.1	54.7
EPS (sen)	14.0	16.8	19.8	23.2	27.0
PER (x)	15.5	12.9	11.0	9.3	8.0
Core net profit (RMm)	28.4	33.2	40.1	47.1	54.7
Core EPS (sen)	14.0	16.4	19.8	23.2	27.0
Core EPS chg (%)	-59.8	17.0	20.8	17.4	16.2
Core PER (x)	15.5	13.2	11.0	9.3	8.0
Net DPS (sen)	7.5	9.0	11.0	13.0	15.0
Net Dividend Yield (%)	3.5	4.1	5.1	6.0	6.9
EV/EBITDA (x)	8.4	6.5	5.4	4.4	3.5
Consensus profit (RMm)			37.9	42.2	49.3
Affin/Consensus (x)			1.1	1.1	1.1

Fig 1: Quarterly results comparison

FYE April (RMm)	2QFY12	1QFY13	2QFY13	QoQ % chg	YoY % chg	Comment
Revenue	56.2	61.1	65.9	7.7	17.2	Healthy sequential growth mainly contributed by: 1) Healthy revenue growth (2% qoq) from MLM division; and 2) Strong wholesale division with revenue surged by +290%. Sales from Retail division also grew by +34%
Op costs	(67.4)	(76.5)	(87.7)	14.6	30.1	
EBIT	11.2	15.4	21.8	42.1	94.9	
<i>EBIT margin (%)</i>	20.0	25.1	33.2	8.0	13.2	Contributed by stronger contribution from higher margin, MLM, wholesale and retail divisions.
Int expense	(0.2)	(1.8)	(1.6)	(7.9)	715.0	
Int and other inc	0.2	0.2	0.3	17.0	18.5	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
Pretax	11.3	13.8	20.5	48.0	82.2	
Tax	(2.8)	(3.5)	(4.0)	14.0	40.7	
<i>Tax rate (%)</i>	25.3	25.3	19.5	nm	nm	
MI	(0.5)	(0.1)	(0.4)	510.8	nm	
Net profit	7.9	10.3	16.1	56.7	104.6	
EPS (sen)	3.9	5.1	8.0	56.7	104.6	
Core net profit	7.9	10.3	16.1	56.7	104.6	Accounts for 30% and 32% of our and consensus full year estimates

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE April (RMm)	1HFY12	1HFY13	YTD % chg	Comment
Revenue	107.2	127.0	18.5	Driven primarily by the recovery in MLM revenue (+12.7% yoy) and Wholesale revenue (+33% yoy)
Op costs	(129.4)	(164.2)	26.9	
EBIT	22.2	37.2	67.3	
<i>EBIT margin (%)</i>	20.8	29.3	8.5	Stronger margin attributed to sales of higher margin products
Int expense	(0.4)	(3.4)	758.6	
Int and other inc	0.5	0.5	13.4	
Associates	0.0	0.0	nm	
Exceptional gain/losses	0.0	0.0	nm	
Pretax	22.3	34.3	53.9	
Tax	(5.9)	(7.5)	27.9	
<i>Tax rate (%)</i>	26.3	21.9	nm	
MI	(0.8)	(0.5)	(45.1)	
Net profit	15.6	26.4	69.0	
EPS (sen)	7.7	13.0	69.0	
Core net profit	15.6	26.4	69.0	Above expectations, accounting for 67% of our and 71% of consensus full year forecasts

Source: Company, Affin

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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