

**Company Result**

**28 March 2013**

**Hai-O Enterprise Berhad**

**BUY**

*The Juggernaut Rolls On*

*Maintained*

<b>Share Price</b>	<b>RM2.44</b>
<b>Target Price</b>	<b>RM2.86</b>

**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)	197.13
Par Value (RM)	0.50
Market cap. (RMm)	480.99
52-week price Range	RM1.93– 2.48
Beta (against KLCI)	1.03
3-m Average Daily Volume	0.18m
3-m Average Daily Value <sup>^</sup>	RM0.42m

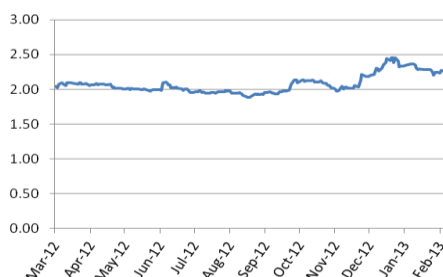
**Share Performance**

	1m	3m	12m
Absolute (%)	8.44	9.38	14.47
Relative (%-pts)	5.62	10.80	9.01

**Major Shareholders**

	%
KAI HEE TAN	9.87
AKINTAN SDN BHD	7.54
EXCELLANT COMMUNICATIONS	5.26

**Historical Chart**



Source: Bloomberg

**Team Coverage**

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- **Above expectations. Impressive 9MFY13 core net profit of RM33mil** (excluded RM4.8mil and RM0.57mil from the sale of land and one-off compensation) exceeded our and consensus expectations by reaching 83% of the full year estimates.
- **Meanwhile, 9MFY13 revenue of RM195.9mil was well within our and consensus forecasts**, reaching 76% of the full year estimates.
- **The 3QFY13 net income arrived at RM11mil or a jump of 16% versus 3QFY12.** This was well supported by MLM and wholesale divisions.

**Comment**

- **The Group recorded commendable net profit of RM33mil for 9MFY13** vis a vis RM26mil in the same corresponding year. This marked a magnificent performance for Hai-O which saw its topline and bottom line ballooned by 15% and 25% yoy respectively. This was mainly boosted by its strong sales for MLM and wholesale divisions coupled with improved pre-tax margins growth for both MLM (+0.3 pts) and wholesale (+3 ppt) divisions.
- **Growth momentum continued in 3QFY13 with topline growth of 4%.** Meanwhile the bottom line eased slightly, -2.7% as the quarter was dragged down by the retail division with higher A&P cost which incurred prior to CNY festive season. However, we concurred that the healthy pre-tax margins in MLM and wholesale division were more than sufficient to offset this mild decline. Hence the quarter was again, chiefly driven by raging momentum of the MLM and wholesale divisions.
- **MLM division steering the wheel with stupendous membership growth of 27%.** This catapulted the revenue and pre-tax profit to swell by 28% and 29% respectively in 9MFY13 versus 9MFY12. The hot selling item such as the undergarment sales continued to spur the division while the sales from food and beverage consumable products also increased by more than three fold vis-à-vis previous year.
- **Wholesale division registered a breathtaking growth in revenue** by raking in RM102mil for 9MFY13 vis-à-vis RM83mil in the same preceding year or a growth of 23%. The praiseworthy efforts were attributable to higher sales of Chinese health food, Chinese medicated tonic and patented medicine products.

- **Blazing potentials for MLM division.** Going forward, we envisage the momentum of this segment will only get better driven by strong bumi memberships which comprise more than 80% ytd and commendable double-digit margin achieved for most of its healthcare products.

### Earnings Outlook/Revision

- **We revised upward our FY13-FY15F core earnings** by 8%, 14%, 16% respectively (from previous earnings of FY13F: RM39.7mil, FY14F: RM43mil, FY15F: RM47mil to FY13F: RM43mil, FY14F: RM49mil, FY15F: RM54mil). This is following our adjustment on pre-tax margins from 20% to 23% in view of Hai-O's improving margins for the MLM and wholesale divisions.

### Valuation & Recommendation

- **Maintain BUY with a higher target price of RM2.86 (Previous TP: RM2.52)** after we roll over our valuation to FY14F by pegging at 11.5x FY14F PER. Our TP denotes an upside potential of 17% from its closing price of RM2.44.
- The share price has gained 12.5% since our target price upgrade in Dec last year. We are optimistic that Hai-O's MLM division will capture a sizable market share going forward whilst the Group has started to move into full swing to nurture the wholesale division to further boost its earnings.

**Figure 1: Quarterly Figures**

Year to 30 April	3QFY13	2QFY13	3QFY12	QoQ	YoY	9MFY13	9MFY12	YoY
	(RMm)	(RMm)	(RMm)	% chg	% chg	(RMm)	(RMm)	% chg
<b>Revenue</b>	68.9	66.0	62.8	4.32%	9.65%	195.9	170.0	15.2%
<b>Operating Profit</b>	15.0	20.4	13.0	-26.3%	15.8%	49.2	35.2	39.6%
<b>Pre-tax Profit</b>	15.1	20.5	13.0	-26.3%	16.1%	49.4	35.3	40.0%
<b>Net Profit</b>	11.0	11.3	9.51	-2.74%	15.6%	37.8	26.0	45.8%
<b>Core Net Profit</b>	11.0	11.3	8.41	-2.74%	30.7%	32.5	25.9	25.1%
<b>Operating Margin (%)</b>	21.8%	30.9%	20.7%	-9.1ppt	+1.2ppt	25.1%	20.7%	+4.4ppt
<b>Profit Before Tax Margin (%)</b>	21.9%	31.1%	20.7%	-9.1ppt	+1.2ppt	25.2%	20.8%	+4.5ppt
<b>Net Profit Margin (%)</b>	16.0%	17.1%	15.2%	-1.2ppt	+0.8ppt	19.3%	15.3%	+4.1ppt

Source: Company, JF Apex

**Figure 2: MLM and Wholesale Division**

	(RMm)	3QFY13	2QFY13	3QFY12	QoQ %	YoY %	9MFY13	9MFY12	YoY %	%
					chg	chg			chg	contribution
<b>MLM</b>	Revenue	40.1	40.9	34.6	-2.1%	15.7%	121.1	95.4	26.9%	62.0%
	Pre-tax Profit	7.3	7	6.9	3.6%	4.6%	21.7	16.8	28.8%	44.0%
	PBT Margin	18.1%	17.1%	20.1%	+1.0ppt	-1.9ppt	17.9%	17.6%	+0.3ppt	
<b>Wholesale</b>	(RMm)	3QFY13	2QFY13	3QFY12	QoQ %	YoY %	9MFY13	9MFY12	YoY %	%
	Revenue	47.7	30.0	35.9	59.1%	33.1%	102.2	83.3	22.8%	37.4%
	Pre-Tax Profit	6.6	5.7	3.5	15.2%	89.4%	16.2	10.7	50.4%	30.6%
	PBT Margin	13.9%	19.1%	9.7%	-5.3ppt	+4.1ppt	15.8%	12.9%	+2.9ppt	

Source: Company, JF Apex

**Figure 3: Financial Summary**

Year to 30 April (Rm'm)	2011	2012	2013F	2014F	2015F
Revenue	223.3	239.4	257.1	287.5	316.8
EBITDA	39.3	43.1	48.9	54.6	60.8
Operating profit	41.3	48.7	51.4	57.5	64.1
Net profit	28.4	34.0	42.5	49.1	53.6
EPS (sen)	14.4	17.2	21.6	24.9	27.2
P/E (x)	17.0	14.2	11.3	9.8	9.0
P/BV (x)	2.3	2.0	2.0	1.8	1.71
EV/EBITDA	10.4	9.4	9.9	9.1	8.3
Dividend yield (%)	3.4%	3.5%	4.4%	5.1%	5.6%
PBT margin (%)	18.5%	20.2%	23.0%	23.0%	23.0%
Net profit margin (%)	12.7%	14.1%	16.5%	17.1%	16.9%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	13.3%	14.6%	17.6%	18.7%	19.0%
ROA (%)	11.0%	11.9%	14.2%	15.4%	15.7%

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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