

28 March 2013

# Hai-O Enterprise Bhd

## 3Q13 results beat expectations

**OUTPERFORM** ↔

**Price: RM2.44**
**Target Price: RM2.90** ↔

- |                                |  |
|--------------------------------|--|
| <b>Period</b>                  | <ul style="list-style-type: none"> <li>3Q13/9MFY13</li> </ul>  |
| <b>Actual vs. Expectations</b> | <ul style="list-style-type: none"> <li>The 9M13 net profit (NP) of RM37.3m came in above both the street's estimate and our forecast of RM39.8m, making up 93.7% of the estimates. This was mainly due to the higher-than-expected other income number. However, the revenue was in line with our forecast of RM259.3m, making up 75% of the number.</li> </ul>  |
| <b>Dividends</b>               | <ul style="list-style-type: none"> <li>No dividend was declared for the quarter.</li> </ul>  |
| <b>Key Result Highlights</b>   | <ul style="list-style-type: none"> <li><b>QoQ</b>, the 3Q13 revenue edged higher by 5%, driven mainly by the improved sales from its wholesale division (+31% QoQ). The better performance was attributable to higher sales of Chinese medicated tonic. However, NP only grew by 2% QoQ due to the higher advertising and promotion expenses incurred prior to the Chinese New Year ("CNY") festive season and also higher other operating costs, as well.</li> <li><b>YoY</b>, the 3Q13 revenue and NP rose by 10% and 21%, respectively. This was mainly buoyed by the increase sales from wholesale (+20% YoY) and Multi-Level-Marketing ("MLM", +16% YoY), which mitigated the decline in retail sales (-16% YoY). The decline was due to a timing issue only as the CNY festive season fell in 4Q13 this year as compared to last year when it fell in the company's 3Q12 reporting period.</li> <li><b>YTD</b>, the revenue registered double-digit growth of 15% as compared to 9M12's YoY revenue growth of 3% only. As expected, this was mainly driven by the MLM segment, which recorded a 27% YoY growth. The better performance was mainly attributable to a 27% growth in membership. This led to higher sales of foundation garments, which is a series of health food and wellness products. Moreover, one of the company's newly launched products has received good response and achieved 5% of the total revenue of the MLM division. In addition, the revenue of the company's food and beverage consumable products also jumped by more than threefold YoY. The NP jumped by 51% YoY to RM37.3m, in tandem with the higher revenue and also boosted by the high other income number.</li> </ul> |
| <b>Outlook</b>                 | <ul style="list-style-type: none"> <li>We remain positive on Hai-O's prospect going forward as we anticipate its MLM segment to continue to deliver a decent earnings growth from a lower base through its continuous effort to enhance its product mix and expand new market channels through the recruitment of more new members.</li> </ul>   |
| <b>Change to Forecasts</b>     | <ul style="list-style-type: none"> <li>We have revised up our FY13-14E NP estimates by +18% and +10% to RM47.3-RM49.6m respectively (from RM39.8-RM45.1m) on the back of the higher other income from its investment properties.</li> </ul>  |
| <b>Rating</b>                  | <b>Maintain OUTPERFORM</b>   |
| <b>Valuation</b>               | <ul style="list-style-type: none"> <li>We are maintaining our TP of RM2.90 for now, implying 11.8x Fwd. PER (representing a +1.0 standard deviation level above Hai-O's 2-year average Fwd. PER) on its FY14E EPS of 24.5 sen. The lower implied PER vs. our previous target PER of 12.8x is to reflect (i) normalising trend in its Fwd. PER and (ii) our earnings upgrades are only attributed to non-core business.</li> </ul>  |
| <b>Risks</b>                   | <ul style="list-style-type: none"> <li>A slowdown in the global economy, which will cut the purchasing power of consumers.</li> </ul>  |

**Share Price Performance**


KLCI	1,614.14
YTD KLCI chg	-4.4%
YTD stock price chg	9.4%

**Stock Information**

Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	481.0
Issued shares	197.1
52-week range (H)	2.48
52-week range (L)	1.93
3-mth avg daily vol:	177,275
Free Float	77%
Beta	1.0

**Major Shareholders**

KAI HEE TAN	9.9%
AKINTAN SDN BHD	7.5%
EXCELLANT COMMUNICAT	5.3%

**Summary Earnings Table**

FY Apr (RM'm)	2012A	2013E	2014E
Turnover	239.5	259.3	280.9
EBIT	48.7	65.1	68.3
PBT	48.8	65.3	68.6
<b>Net Profit (NP)</b>	34.0	47.3	49.6
Consensus (NP)		39.8	44.3
Earnings Revision (%)		+18	+10
EPS (sen)	16.82	23.39	24.54
EPS growth (%)	19.9	39.1	4.9
NDPS (sen)	6.75	12.63	13.50
BVPS (RM)	1.16	1.28	1.40
NTA/Share (RM)	1.11	1.22	1.33
PER (X)	14.51	10.43	9.94
Price/NTA (x)	2.19	2.00	1.83
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	2.8%	5.2%	5.5%

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**Result Highlight**

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY13	FY13	Chg	FY12	Chg	FY13	FY12	Chg
Turnover	68.9	65.9	5%	62.8	10%	195.9	170.0	15%
EBIT	15.0	20.4	-26%	13.0	16%	49.2	35.2	40%
PBT	15.1	15.1	0%	13.0	16%	49.4	35.3	40%
Taxation	(4.1)	(4.0)	3%	(3.5)	17%	(11.6)	(9.4)	24%
Minority interest	(0.0)	(0.4)	-95%	(0.4)	-96%	(0.5)	(1.3)	-63%
<b>Net Profit (NP)</b>	<b>11.0</b>	<b>10.7</b>	<b>2%</b>	<b>9.1</b>	<b>21%</b>	<b>37.3</b>	<b>24.7</b>	<b>51%</b>
EPS (sen)	5.4	5.3	2%	4.5	21%	18.5	12.2	51%
EBIT margin	22%	31%		21%		25%	21%	
PBT margin	22%	23%		21%		25%	21%	
NP margin	16%	16%		14%		19%	15%	
Effective tax rate	-27%	-26%		-27%		-23%	-27%	

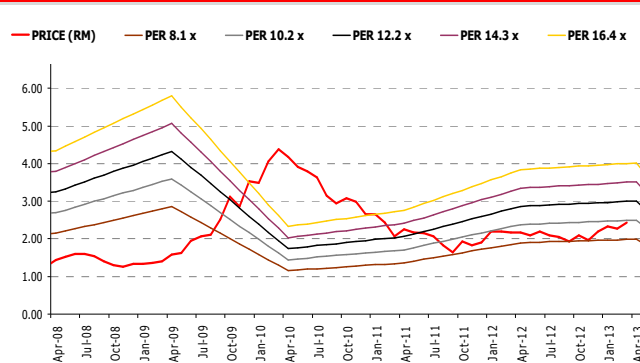
Source: Company, Kenanga Research

**Segmental Breakdown**

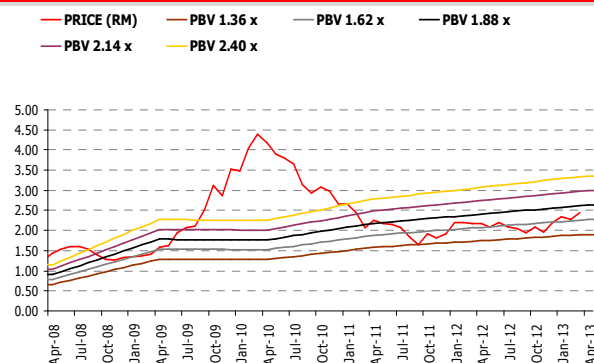
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FY Apr (RM'm)	FY13	FY13	Chg	FY12	Chg	FY13	FY12	Chg
MLM	40.1	40.9	-2%	34.7	16%	121.1	95.4	27%
Wholesale	15.9	12.1	31%	13.2	20%	39.2	37.1	6%
Retail	11.0	10.6	3%	13.1	-16%	29.5	32.5	-9%
Others	1.9	2.2	-14%	1.8	4%	6.1	5.0	21%
<b>Group revenue</b>	<b>68.9</b>	<b>65.9</b>	<b>5%</b>	<b>62.8</b>	<b>10%</b>	<b>195.9</b>	<b>170.0</b>	<b>15%</b>
MLM	7.3	7.0	4%	6.9	5%	21.7	16.8	29%
Wholesale	6.6	5.7	15%	3.5	89%	16.1	10.7	50%
Retail	0.4	1.5	-75%	1.2	-70%	2.1	3.5	-40%
Others	1.0	6.8	-85%	1.5	-31%	9.6	4.1	137%
Elimination	(0.3)	(0.7)	-57%	(0.2)	47%	(0.4)	0.1	-611%
<b>Total EBIT</b>	<b>15.0</b>	<b>20.4</b>	<b>-26%</b>	<b>13.0</b>	<b>16%</b>	<b>49.2</b>	<b>35.2</b>	<b>40%</b>

Source: Company, Kenanga Research

**Forward PER**



**Forward PBV**



Source: Bloomberg, Kenanga Research

**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
(An approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%)  
MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3%  
(An approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate)

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10%  
(An approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%)  
NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%  
UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3%  
(An approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate)

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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