

Company Update

Hai-O Ent

HAIO MK
RM2.35

BUY (upgrade)

Target Price: RM2.98 (↑)



Price Performance

	1M	3M	12M
Absolute	+4.0%	+3.1%	+9.3%
Rel to KLCI	+0.9%	+3.5%	+3.6%

Stock Data

Issued shares (m)	197.1
Mkt cap (RMm)	463.2
Avg daily vol - 6mth (m)	0.17
52-wk range (RM)	1.93 – 2.48
Est free float	63.9%
NTA per share (RM)	1.24
P/NTA (x)	1.89
Net cash/debt (RMm) (end-Jan 13)	40.0
ROE (FY13E)	17.3%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.3%
Excellent Communications	5.3%

Earnings & Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	19.8	23.2	27.0
Curr EPS (sen)	20.2	23.7	27.7
Chg (%)	+2.0	+2.2	+2.6
Prev target price (RM)		2.55	
Curr target price (RM)		2.98	

Mandy Teh
(603) 2142 5815
steh@affininvestmentbank.com.my

Healthy prospects with lucrative yields

Reaping benefits from new operating strategies

We came away positive from our meeting with management on Hai-O's prospects. Although 3QFY04/13 net profit of RM11m is still far from its heyday of RM15-20m in FY09-10, we note that the company's new strategy of: 1) focusing on higher margin products (eg. foundation garments); and 2) developing new operating structure for its multi-level-marketing (MLM, Hai-O's largest revenue contributor, accounting for 62% of 9MFY04/13's total revenue) division is bearing fruit. Hai-O's 9MFY04/13 net profit had rebounded commendably by +31% yoy to RM32.2m (9MFY04/11: RM20.3m) and we attribute this to the strong recovery from its MLM division, underpinned by the healthy membership growth and higher volume sales recorded in its bigger ticket items such as foundation garments, water filter and food purifier.

Strong membership growth, benefiting its MLM division

To recap, Hai-O's MLM division had experienced poor sales and membership growth (FY11: +2.3%, FY12: +5.3% vs FY10's +30%) over FY11-FY12 (please see figure 2, overleaf) owing to the imposition of more stringent rules on new member recruitment under the new Direct Sales Act by the authorities in 4QFY10. Consequently, the company's net profit plunged -60% yoy in FY11 to RM28m. We understand that management has since developed a successful operating strategy for its MLM division, and is currently experiencing strong rebound in membership growth. With a sizeable membership of c.140k currently, Hai-O is confident of achieving a 15-18% growth in membership (c.2.4-2.6k/month) in FY13-15. This is slightly above our projections of c.2k new members per month.

Bamboo salt is selling strong, 6 new products coming up in FY14

We gathered that its KAEAM bamboo salt launched in 1QFY04/13 is one of the key performers under the healthcare food products, generating c.RM1m/month of revenue, with c.10,000 boxes sold per month. Riding on healthy domestic spending, management highlighted that they are planning to launch another 5 new products and 1 big ticket product (in addition to foundation garments, Bio Auro water filters, food purifier and Bio Velocity matters) in FY14.

Healthy retail expansion; targeting 3-5 new outlets in FY14

The group has opened 7 new retail outlets in FY12, bringing to a total of 72 outlets nationwide (4 owned, 68 leased). We note that the group will continue to expand its footprint, targeting to open another 3-5 outlets in strategic locations by FY14. CAPEX is estimated at RM20-30k per outlet. Besides, the company will also refurbish and consolidate the unprofitable outlets.

Earnings and valuation summary

FYE 30 April	2011	2012	2013E	2014E	2015E
Revenue (RMm)	223.3	239.5	268.7	318.7	364.4
EBITDA (RMm)	44.8	52.3	61.0	70.9	82.2
Pretax profit (RMm)	41.3	48.8	57.2	67.2	78.5
Net profit (RMm)	28.4	34.0	41.0	48.1	56.2
EPS (sen)	14.0	16.8	20.2	23.7	27.7
PER (x)	16.8	14.0	11.6	9.9	8.5
Core net profit (RMm)	28.4	33.2	41.0	48.1	56.2
Core EPS (sen)	14.0	16.4	20.2	23.7	27.7
Core EPS chg (%)	-59.8	17.0	23.5	17.4	16.8
Core PER (x)	16.8	14.3	11.6	9.9	8.5
Net DPS (sen)	7.5	9.0	12.0	14.0	17.0
Net Dividend Yield (%)	3.2	3.8	5.1	6.0	7.2
EV/EBITDA (x)	9.2	7.2	5.9	4.8	3.9
Consensus profit (RMm)			39.8	44.3	51.0
Affin/Consensus (x)			1.0	1.1	1.1

Revising FY13-15 EPS upwards by 2.-2.6%

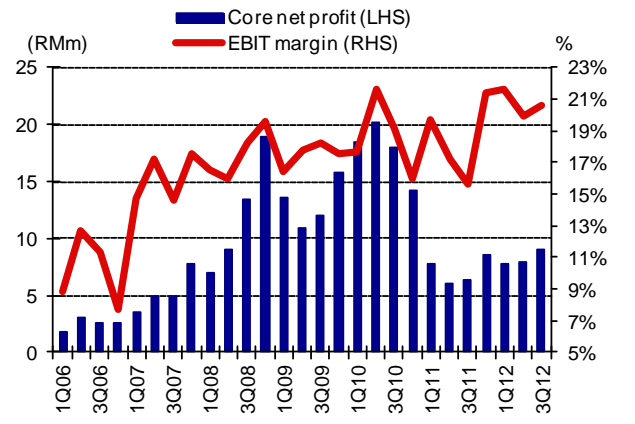
We are revising upwards our FY13-15 EPS forecast by 2-2.6% after incorporating: 1) a higher new membership growth of 16% with an average 2.3k-2.5k new members per month vis-à-vis our previous assumption of 2k per month; 2) a 3%-point increase in revenue per agent, as a result of the stronger sales performance in higher margin products; 3) a higher revenue per retail outlet generated by the group and; 4) a stronger yoy growth in revenue from its wholesale division-forecasting a 8% yoy growth in revenue vs our previous projection of 5%. We note that the company's wholesale division is looking to expand its business network and improve its product mix as well as marketing strategies to capture the younger and newer market (note that Hai-O's wholesale division is currently supplying its products to 100 wholesalers and 2,000 retailers including Chinese Medical Halls, Restaurants, Pharmacies and Modern Trade Channels).

Upgrade to BUY with TP lifted to RM2.98. Yields remain lucrative

Following our EPS upgrade, and rolling forward our valuation horizon to CY14, our target price is raised from RM2.55 to **RM2.98** pegging the stock at an unchanged PER of 11.5x. We are upgrading our recommendation for the stock from ADD to **BUY**. All in, we are positive on Hai-O's prospects and importantly, we like: 1) the stocks' undemanding valuations of only 10x; 2) attractive yield of 6% and 3) attractive growth prospects – a continuation of its strong membership growth and favourable demand for its products. We reckon that Hai-O is a generous company and rewards its shareholders by paying out dividends of at least 50% of its net profit.

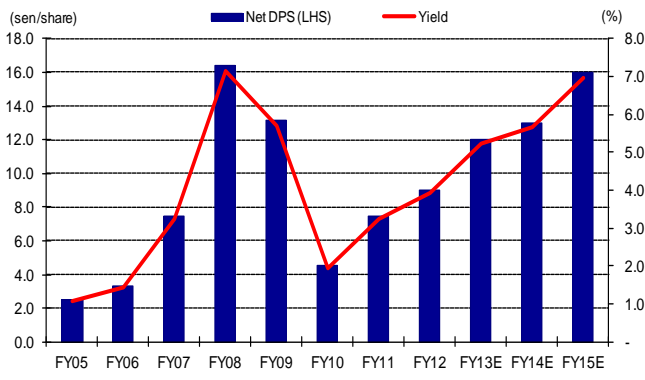
FOCUS CHART

Fig 1: Hai-O's net profit (LHS) and EBIT margin (RHS)



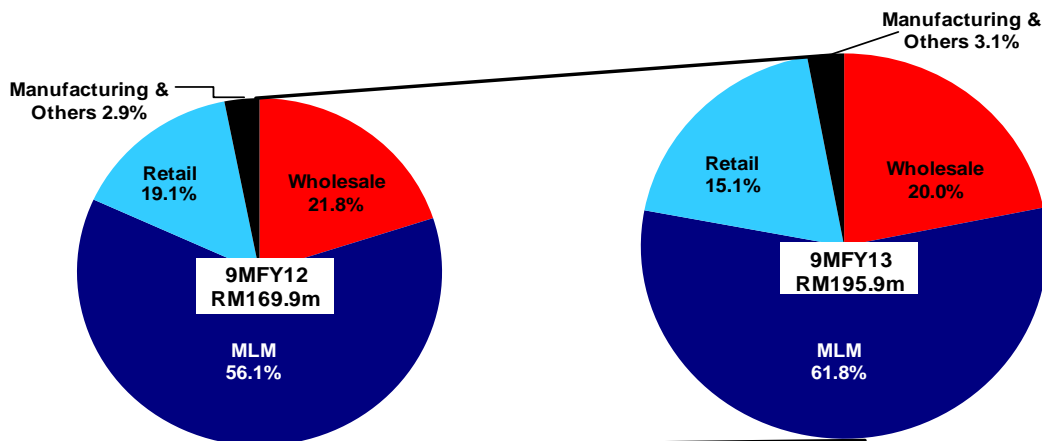
Source: Affin

Fig 3: Net DPS (LHS) and dividend yield (RHS)



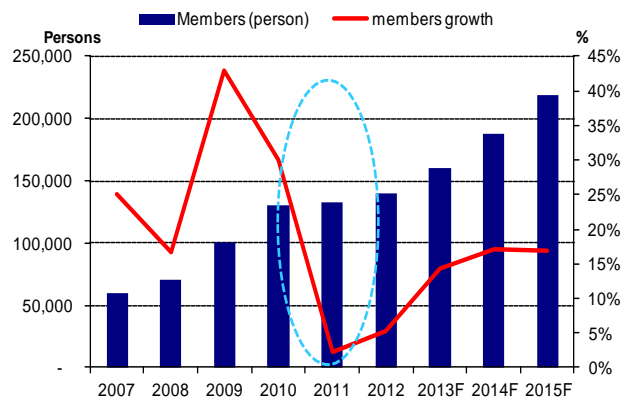
Source: Affin

Fig 5: Revenue breakdown by divisions



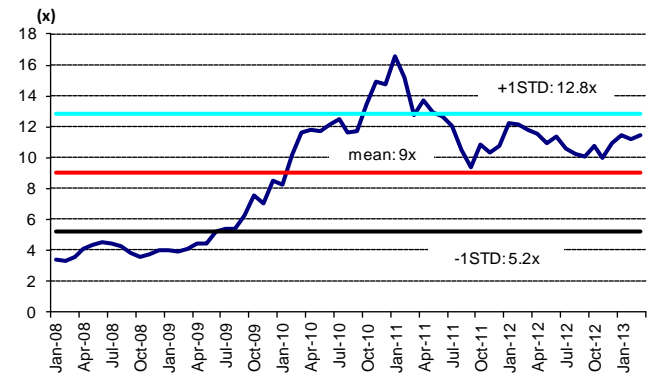
Source: Affin

Fig 2: Hai-O's members and members' growth rate



Source: Company, Affin

Fig 4: 5-yr average PER band



Source: Bloomberg

FINANCIAL SUMMARY

Profit & Loss Statement

FYE 30 April (RMm)	2011	2012	2013E	2014E	2015E
Revenue	223.3	239.5	268.7	318.7	364.4
Operating expenses	-178.4	-187.3	-207.7	-247.8	-282.1
EBITDA	44.8	52.3	61.0	70.9	82.2
Depreciation	-2.2	-2.1	-2.4	-2.5	-2.6
EBIT	42.1	49.5	57.9	67.8	79.0
Net int income/(expense)	-0.8	-0.7	-0.7	-0.6	-0.5
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Pretax profit	41.3	48.8	57.2	67.2	78.5
Tax	-11.6	-13.1	-14.3	-16.8	-19.6
Minority interest	-1.3	-1.7	-1.9	-2.3	-2.7
Net profit	28.4	34.0	41.0	48.1	56.2

Balance Sheet Statement

FYE 30 April (RMm)	2011	2012	2013E	2014E	2015E
Fixed assets	72.2	62.1	64.7	67.2	69.6
Other long term assets	38.0	50.3	49.6	48.9	48.3
Total non-current assets	110.2	112.4	114.3	116.1	117.9
Cash and equivalents	46.1	54.2	72.3	89.6	112.0
Stocks	44.3	37.8	42.7	50.8	58.1
Debtors	19.1	21.9	24.6	29.1	33.3
Other current assets	37.4	63.4	63.4	63.4	63.4
Total current assets	146.8	177.3	203.0	232.9	266.8
Creditors	22.6	32.5	36.7	43.7	49.9
Short term borrowings	5.7	5.2	4.7	4.2	3.8
Other current liabilities	5.2	12.4	12.4	12.4	12.4
Total current liabilities	33.4	50.1	53.8	60.3	66.1
Long term borrowings	10.7	8.1	7.3	6.6	5.9
Other long term liabilities	0.1	0.0	0.2	0.2	0.2
Total long term liabilities	10.9	8.1	7.5	6.8	6.1
Shareholders' Funds	204.4	221.7	244.3	268.1	295.9
Minority interest	8.3	9.7	11.7	13.9	16.6

Cash Flow Statement

FYE 30 April (RMm)	2011	2012	2013E	2014E	2015E
EBIT	42.1	49.5	57.9	67.8	79.0
Depreciation & amortisation	2.6	2.7	3.1	3.1	3.2
Working capital changes	-10.4	-5.1	-3.4	-5.7	-5.2
Cash tax paid	-11.6	-13.1	-14.3	-16.8	-19.6
Others	-8.9	16.1	-0.2	0.0	0.0
Cashflow from operation	13.9	50.2	43.1	48.4	57.4
Capex	-12.3	-2.9	-5.0	-5.0	-5.0
Others	10.6	-18.5	0.0	0.0	0.0
Cash flow from investing	-1.7	-21.5	-5.0	-5.0	-5.0
Debt raised/(repaid)	-1.6	-3.1	-1.3	-1.2	-1.1
Dividends paid	-33.9	-15.0	-18.2	-24.3	-28.4
Others	-1.3	-2.4	-0.5	-0.6	-0.5
Cash flow from financing	-36.8	-20.5	-20.0	-26.1	-30.0
Free Cash Flow	1.6	47.2	38.1	43.4	52.4

Source: Company data and Affin Investment Bank estimates

Key Financial Ratios and Margins

FYE 30 April (RMm)	2011	2012	2013E	2014E	2015E
Growth					
Revenue (%)	-56.3	7.3	12.2	18.6	14.3
EBITDA (%)	-54.7	16.6	16.6	16.4	15.9
Core net profit (%)	-59.8	19.9	20.6	17.4	16.8
Profitability					
EBITDA margin (%)	20.1	21.8	22.7	22.3	22.6
PBT margin (%)	18.5	20.4	21.3	21.1	21.5
Net profit margin (%)	12.7	14.2	15.3	15.1	15.4
Effective tax rate (%)	28	27	25	25	25
ROA (%)	13.0	14.2	15.3	16.0	16.7
Core ROE (%)	13.9	15.6	17.6	18.8	19.9
ROCE (%)	19.1	21.7	23.6	25.3	27.0
Dividend payout ratio (%)	53.6	53.6	56.0	58.0	58.0
Liquidity					
Current ratio (x)	4.4	3.5	3.8	3.9	4.0
Op. cash flow (RMm)	13.9	50.2	43.1	48.4	57.4
Free cashflow (RMm)	1.6	47.2	38.1	43.4	52.4
FCF/share (sen)	0.8	23.3	18.8	21.4	25.9
Asset management					
Debtors turnover (days)	31.2	33.4	33.4	33.4	33.4
Stock turnover (days)	116.8	93.2	93.2	93.2	93.2
Creditors turnover (days)	59.5	80.1	80.1	80.1	80.1
Capital structure					
Net gearing (%)	119.0	52.8	70.3	91.1	117.8
Interest cover (x)	119.0	52.8	70.3	91.1	117.8

Quarterly Profit & Loss

FYE 30 April (RMm)	3Q12	4Q12	1Q13	2Q13	3Q13
Revenue	62.8	69.4	61.1	65.9	68.9
Operating expenses	-49.8	-56.3	-45.8	-48.9	-54.8
EBITDA	13.0	13.2	15.4	16.9	14.0
Depreciation	0.0	0.0	0.0	0.0	0.7
EBIT	13.0	13.2	15.4	16.9	14.8
Net int income/(expense)	0.0	0.1	-1.5	-1.3	0.1
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	4.9	0.2
Pretax profit	13.0	13.3	13.8	20.5	15.1
Tax	-3.5	-3.7	-3.5	-4.0	-4.1
Minority interest	-0.4	-0.4	-0.1	-0.4	0.0
Net profit	9.1	9.2	10.3	16.1	11.0
Core net profit	9.1	9.2	10.3	11.2	10.8
Margins (%)					
EBITDA	20.7	18.9	25.2	25.7	20.4
PBT	20.7	19.1	22.6	31.1	21.9
Net profit	14.4	13.2	16.8	24.4	15.9

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

This report is intended for information purposes only and has been prepared by Affin Investment Bank Berhad ("Affin Investment Bank") based on sources believed to be reliable. However, such sources have not been independently verified by Affin Investment Bank, and as such, Affin Investment Bank does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinions presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within Affin Investment Bank, including investment banking personnel. Reports issued by Affin Investment Bank are prepared in accordance with Affin Investment Bank's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall Affin Investment Bank, its affiliates and related companies, their directors, associates, connected parties and/or employees be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of Affin Investment Bank as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities.

Affin Investment Bank and/or any of its directors and/or employees may have an interest in the securities mentioned therein. Affin Investment Bank may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. Further, Affin Investment Bank, its affiliates and its related companies may do and seek to do business with the company(ies) covered in this research report and may from time to time assume an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entities mentioned in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence, an independent evaluation is essential. In addition, this report is general in nature and it is intended for circulation for Affin Investment Bank and its affiliates' clients generally and does not have regard to the specific investment objectives, financial situations and the particular needs of any specific person who may receive this report. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Simulations or model portfolio are prepared on a hypothetical basis and are for illustrations only.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Affin Investment Bank's research, or any portion thereof may not be reprinted, transmitted to, photocopied or reproduced in any form - sold or redistributed, directly or indirectly in whole or in part without the prior written express consent of Affin Investment Bank.

This report is printed and published by:
Affin Investment Bank Bhd (9999-V)
 A Participating Organisation of Bursa Malaysia Securities Bhd
 Chulan Tower Branch,
 3rd Floor, Chulan Tower,
 No 3, Jalan Conlay,
 50450 Kuala Lumpur.

www.affininvestmentbank.com.my

Email: research@affininvestmentbank.com.my

Tel : + 603 2143 8668

Fax : + 603 2145 3005