

Event

Initiation

Preview

Results

Strategy

Update

Hai-O (HAIO MK)

Consumer Non-cyclical - Pharmaceuticals

Market Cap: USD161m

Buy (from Neutral)

Target Price: MYR2.91

Price: MYR2.62

Bouncing Back

Macro

Risks

Growth

Value



Source: Bloomberg

Avg Turnover (MYR/USD)	0.55m/0.18m
Cons. Upside (%)	3.1
Upside (%)	11.1
52-wk Price low/high (MYR)	1.98 - 2.72
Free float (%)	50
Shareholders (%)	
Tan Kai Hee	9.6
Akintan SB	7.3
Excellent Communications	5.1

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Hai-O's FY13 results were in line with consensus estimates but above our forecasts. Its top- and bottomline grew 11.9% and 31% y-o-y as the MLM and wholesale divisions recovered. The company proposed a single-tier final DPS of 8 sen for the quarter under review. We upgrade the stock to a BUY, with a higher MYR2.91 FV, as we roll over our valuation to FY14.

- ◆ **Better all round.** Hai-O (HAIO)'s revenue and core earnings expanded 11.9% and 31% y-o-y respectively, largely supported by better performance from its multi-level marketing (MLM) and wholesale divisions. The numbers did not include a one-off compensation of MYR0.57m received by the manufacturing division, a MYR4.8m gain from the disposal of vacant land, and a one-off MYR1.5m cost relating to the company's corporate social responsibility programs. Meanwhile, revenue from the MLM segment rose 18.4% y-o-y while that in its wholesale business soared 182% y-o-y. Elsewhere, core earnings were lifted by an EBIT growth of 24% y-o-y in the MLM division and 45% in the wholesale segment. Vis-à-vis the preceding quarter, turnover and net profit rose 4.6% and 5.5% respectively, spurred by the Chinese New Year festive season.
- ◆ **Margins improve.** The Group's gross profit margin widened to 39.4% from 38.2% y-o-y while EBIT margin rose from 20.3% to 23.7% due to encouraging sales. The Group has declared a final single-tier dividend of 8 sen/share, translating into a decent dividend yield of 5.3% for FY13.
- ◆ **Upgrade to BUY.** The MLM division will focus on new product developments, effective product training for distributors, as well as growing its membership base. The wholesale segment, meanwhile, has secured exclusive agency rights for a number of Chinese medicated tonic products and will roll out advertising & promotion programs to boost sales. HAIO is also re-examining its product portfolio and refurbishing its existing outlets to strengthen the retail division. We are lifting our FY14 forecast by 16% on better showing at its MLM and wholesale segments. We also raise our FV to MYR2.91 as we roll over our valuation from FY13 to FY14, based on 12x FY14 EPS. Upgrade to BUY.

Forecasts and Valuations	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Total turnover (MYRm)	223	240	268	286	307
Reported net profit (MYRm)	27.4	32.8	47.4	49.2	53.8
Recurring net profit (MYRm)	27.4	33.4	43.5	49.2	53.8
Recurring net profit growth (%)	(61.3)	21.9	30.1	13.2	9.5
Core EPS (MYR)	0.14	0.16	0.21	0.24	0.27
DPS (MYR)	0.07	0.09	0.14	0.15	0.16
Dividend Yield (%)	2.9	3.4	5.3	5.6	6.2
Core P/E (x)	19.4	15.9	12.2	10.8	9.9
Return on average equity (%)	13.4	15.4	20.5	19.3	19.2
P/B (x)	2.60	2.40	2.22	1.97	1.82
P/CF (x)	na	51.8	13.4	18.3	15.0
EV/EBITDA (x)	12.9	10.9	8.5	7.8	7.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)				0.0	0.0

Source: Company data, RHB estimates

Figure 1: Results table

FYE April	4Q13	3Q13	% chg	FY13	FY12	% chg	Comments
Revenue	72.1	68.9	4.6	267.9	239.5	11.9	Higher due to better revenue from MLM and wholesale divisions
EBIT	14.4	15.0	-4.0	63.5	48.7	30.4	
Net interest expense	0.3	0.1	200.0	0.6	0.1	500.0	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	14.7	15.1	-2.6	64.1	48.8	31.4	
Tax	-4.2	-4.1	2.4	-15.8	-13.1	20.6	
MI	-0.4	0.0	-	-0.9	-1.7	-47.1	
Net profit	10.1	11.0	-8.2	47.4	34.0	39.4	
Exceptional Item	1.5	0.0	-	-3.9	-0.8	387.5	
Core Net profit	11.6	11.0	5.5	43.5	33.2	31.0	Above RHB's forecast
EPS	5.7	5.4		21.5	16.4		
DPS	8.0	0.0		14.0	9.0		
EBIT margin	20.0	21.8		23.7	20.3		

Source: Company data, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Total turnover	223	240	268	286	307
Cost of sales	(138)	(148)	(163)	(175)	(186)
Gross profit	85	91	105	112	121
Gen & admin expenses	(21)	(23)	(21)	(23)	(25)
Selling expenses	(27)	(26)	(29)	(31)	(34)
Other operating costs	2	4	5	9	10
Operating profit	39	47	60	66	73
Operating EBITDA	41	49	62	68	74
Depreciation of fixed assets	(2)	(2)	(3)	(1)	(2)
Operating EBIT	39	47	60	66	73
Interest income	1	1	-	-	-
Interest expense	(1)	(1)	1	(1)	(1)
Exceptional income - net	-	(1)	4	-	-
Pre-tax profit	39	46	64	66	72
Taxation	(12)	(13)	(16)	(16)	(18)
Minority interests	-	-	(1)	-	-
Profit after tax & minorities	27	33	47	49	54
Reported net profit	27	33	47	49	54
Recurring net profit	27	33	43	49	54

Source: Company data, RHB estimates

Cash flow (MYRm)	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Operating profit	39	47	60	66	73
Depreciation & amortisation	2	2	3	1	2
Change in working capital	(9)	12	(10)	(28)	(5)
Other operating cash flow	(44)	(37)	5	5	(17)
Operating cash flow	(12)	23	58	45	53
Interest received	(1)	(1)	-	-	-
Interest paid	1	1	(1)	1	1
Dividends received	(1)	(2)	(2)	-	-
Tax paid	(17)	(11)	(16)	(16)	(18)
Cash flow from operations	(31)	10	40	29	35
Capex	-	-	(11)	15	15
Other investing cash flow	43	18	11	1	1
Cash flow from investing activities	43	18	1	16	16
Dividends paid	(34)	(15)	(24)	(30)	(33)
Shares repurchased	(0)	(2)	-	-	-
Increase in debt	(2)	(3)	(2)	4	-
Other financing cash flow	(1)	(1)	(2)	(3)	(13)
Cash flow from financing activities	(37)	(21)	(28)	(28)	(46)
Cash at beginning of period	71	46	54	65	81
Total cash generated	(25)	8	12	16	5
Implied cash at end of period	46	54	67	81	86

Source: Company data, RHB estimates

Financial Exhibits

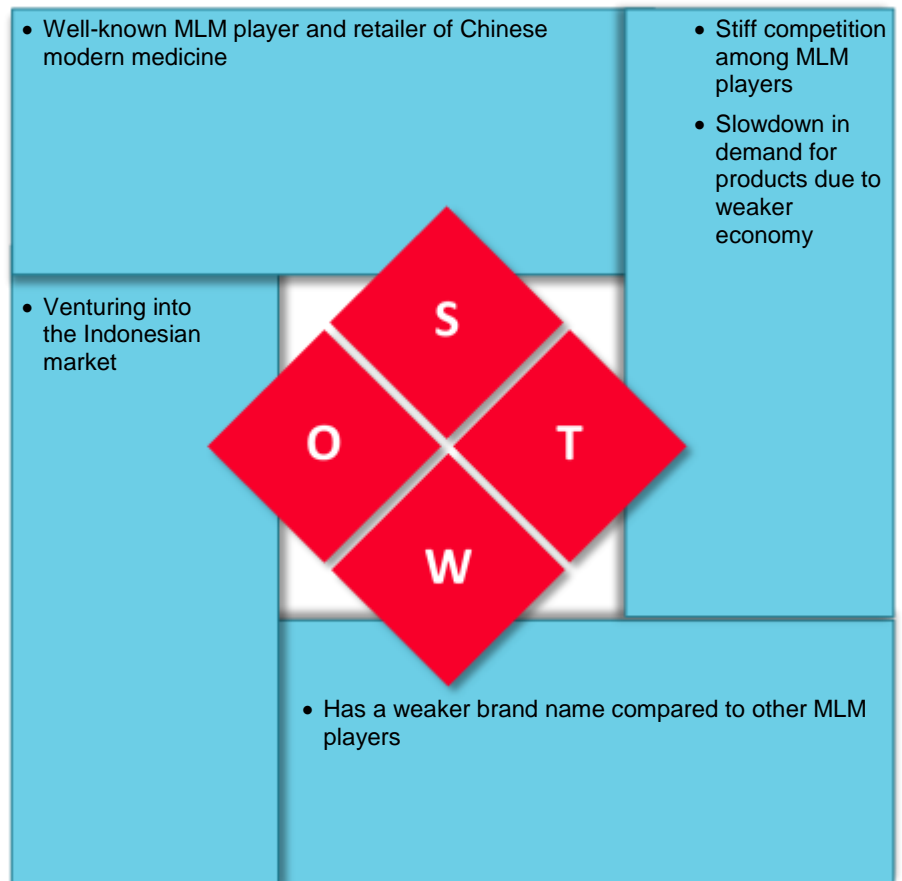
Balance Sheet (MYRm)	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Total cash and equivalents	46	54	65	81	86
Inventories	44	38	50	49	52
Accounts receivable	17	20	20	37	40
Other current assets	40	66	54	40	40
Total current assets	147	177	189	207	218
Total investments	35	47	46	30	30
Tangible fixed assets	72	62	67	79	93
Intangible assets	0	0	0	-	-
Total other assets	3	3	4	-	-
Total non-current assets	110	112	118	109	123
Total assets	257	290	306	316	341
Short-term debt	6	5	7	7	7
Accounts payable	23	32	35	23	24
Other current liabilities	5	12	7	7	7
Total current liabilities	33	50	50	37	38
Total long-term debt	11	8	6	10	10
Other liabilities	0	0	0	-	-
Total non-current liabilities	11	8	6	10	10
Total liabilities	44	58	56	47	48
Share capital	101	101	101	101	101
Retained earnings reserve	108	127	148	168	190
Other reserves	(4)	(6)	(10)	-	-
Shareholders' equity	204	222	240	269	291
Minority interests	8	10	11	-	1
Total equity	213	231	251	269	292
Total liabilities & equity	257	290	306	316	341

Source: Company data, RHB estimates

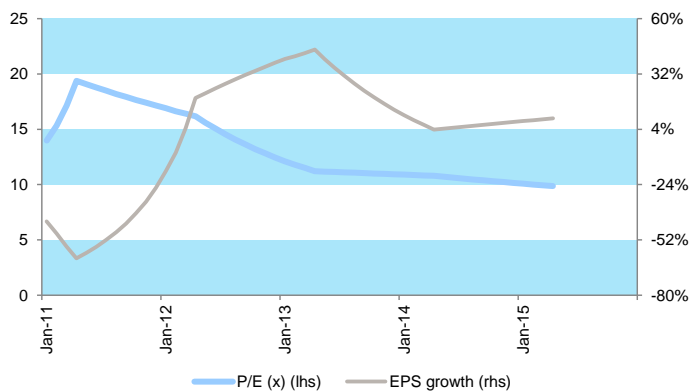
Key Ratios (MYR)	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Revenue growth (%)	(56.3)	7.3	11.9	6.9	7.3
Operating profit growth (%)	(58.9)	19.6	27.7	11.5	9.4
Net profit growth (%)	(61.3)	19.8	44.3	3.8	9.5
EPS growth (%)	(61.3)	19.8	44.3	3.8	9.5
Bv per share growth (%)	0.6	8.5	8.1	12.3	8.2
Operating margin (%)	17.5	19.5	22.2	23.2	23.6
Net profit margin (%)	12.3	13.7	17.7	17.2	17.5
Return on average assets (%)	10.2	12.0	15.9	15.8	16.4
Return on average equity (%)	13.4	15.4	20.5	19.3	19.2
Net debt to equity (%)	(13.9)	(17.7)	(20.6)	(23.6)	(23.4)
DPS	0.07	0.09	0.14	0.15	0.16
Recurrent cash flow per share	(0.15)	0.05	0.20	0.14	0.17

Source: Company data, RHB estimates

SWOT Analysis

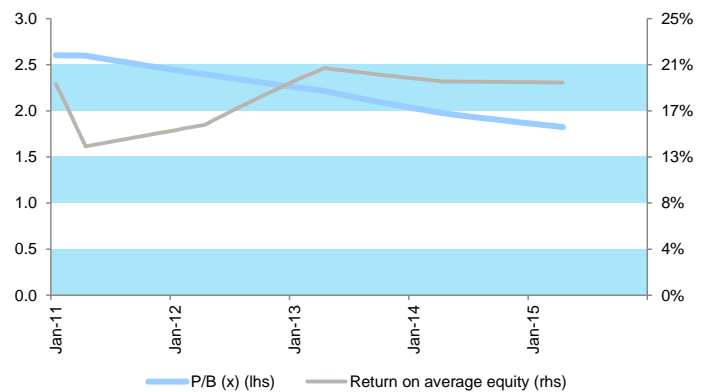


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

Hai-O is involved in the wholesaling, retailing, multi-level marketing and pharmaceuticals businesses. It also operates clinics providing modern Chinese medicine and treatment.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-03-28	Neutral	2.35	2.40
2012-06-29	Neutral	2.16	2.20
2012-04-20	Neutral	2.03	2.18
2012-03-30	Neutral	1.99	2.18

Source : RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months
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