

Company Result

27 June 2013

Hai-O Enterprise Berhad

BUY

FY2013 : A Year Of Aced

Maintained

Share Price	RM2.62
Target Price	RM3.05

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)	196.94
Par Value (RM)	0.50
Market cap. (RMm)	515.99
52-week price Range	RM1.93– 2.77
Beta (against KLCI)	1.04
3-m Average Daily Volume	0.23m
3-m Average Daily Value [^]	RM0.57m

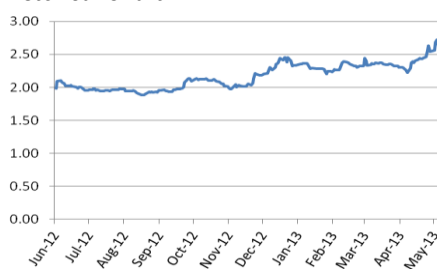
Share Performance

	1m	3m	12m
Absolute (%)	2.3	12.4	26.4
Relative (%-pts)	4.2	2.0	15.8

Major Shareholders

	%
KAI HEE TAN	9.90
AKINTAN SDN BHD	7.60
EXCELLANT COMMUNICATIONS	5.30

Historical Chart



Source: Bloomberg

Team Coverage

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- **Hai-O's FY13 net profit was recorded at RM47.3mil**, a commendable jump of 33% y-o-y which was in tandem with the growth in revenue of 12% y-o-y. Hai-O's 4QFY13 net earnings stood at RM10.47mil, slid marginally by 4.73% q-o-q but inched up 14.3% y-o-y. Meanwhile, 4QFY13 revenue edged up 4.59% q-o-q and 3.7% y-o-y.
- **Within expectations.** The Group's net profit and revenue was within our and consensus expectations for FY2013. The creditable performance was chiefly attributed by the growth in MLM division pursuant to the higher margins products sold.

Comment

- **Breathtaking sales** – 4QFY13 revenue of RM72mil were yet another record high achieved by the Group via-a-vis previous quarter. Full year revenue clinched at 267.9mil, a double digit growth of 12% from RM239.5mil in FY2012. The kicking sales was primarily boosted by the MLM division which saw higher sales from its food and beverage consumable products, wellness and personal care. This was further propelled by one of its newly launched product, namely health drinks during the year, which contributed c. 14% to the total revenue of this division.
- **MLM the trump card** which saw its revenue and pre-tax profit soared 18% and 24% y-o-y respectively. The total revenue and net profit recorded for FY2013 were RM167mil and RM30mil vis-à-vis FY2012 of RM141mil and RM24mil respectively. The splendid record for the division was due to the overwhelming response of incentive sales campaign launched and membership recorded double digit growth of 15% in FY2013 versus the previous year.
- **4QFY13 operating margin slightly down by 1.9ppt but full year margin still holding up well with increase of 3.4ppt.** We reckon that the intensive campaigns and A&P activities carried out was at the expense of the Group's profit margin though marginally. Despite stiff competitions, we opine that the Group's overall results were fairly undeterred.

- **Proposing a final dividend of 8 sen per share** – The proposed dividend of 8 sen per share in 4QFY2013 brings the full-year dividend to 14 sen per share or a payout of close to 60%. This translates into a decent dividend yield of 5.5%.

Earnings Outlook/Revision

- **We revised upward our FY14-FY15F earnings** by 2% and 6% respectively (from previous earnings of FY14F: RM49mil and FY15F: RM54mil to FY14F: RM50mil, FY15F: RM57mil). The adjusted earnings were premised on 1) MLM division's robust memberships growth of 15% y-o-y; 2) More new product launches; and 3) The Group has successfully secured the exclusive agency right on a few other new branded Chinese medicated tonic.

Valuation & Recommendation

- **Maintain BUY with a higher target price of RM3.05** (Previous TP: RM2.86) pegged at FY14F PER of 12x, which is close to its 3-year mean PE. This is based on adjusted FY14F EPS of 25 sen. Our TP denotes an upside potential of 16% from its closing price of RM2.62. Besides, we opine that the Group's current PE of 11x was much more attractive than the average industry PE of 19.9x.
- We are cautiously optimistic that Hai-O's MLM division will continue to capture impressive sales based on the Group's y-o-y robust memberships growth. For FY2013 the total contribution from this division was 62%.

Figure 1: Quarterly Figures

Year to 30 April	4QFY13	3QFY13	4QFY12	QoQ	YoY	FY13	FY12	YoY
	(RMm)	(RMm)	(RMm)	% chg	% chg	(RMm)	(RMm)	% chg
Revenue	72.0	68.9	69.4	4.6%	3.7%	267.9	239.5	11.9%
Operating Profit	14.4	15.0	13.2	-4.5%	9.1%	63.5	48.7	30.5%
Pre-tax Profit	14.7	15.1	13.3	-2.9%	10.5%	64.1	48.8	31.4%
Net Profit	10.5	11.0	9.2	-4.7%	14.3%	47.3	35.7	32.5%
Operating Margin (%)	19.9%	21.8%	18.9%	-1.9ppt	+1.0ppt	23.7%	20.3%	+3.4ppt
Profit Before Tax Margin (%)	20.4%	21.9%	19.1%	-1.5ppt	+1.4ppt	23.9%	20.4%	+4ppt
Net Profit Margin (%)	14.5%	16.0%	13.2%	-1.5ppt	+1.3ppt	17.7%	14.9%	+3ppt

Source: Company, JF Apex

Figure 2: MLM and Wholesale Division

	(RMm)	4QFY13	3QFY13	4QFY12	QoQ % chg	YoY % chg	FY13	FY12	YoY % chg	% contribution
MLM	Revenue	45.9	40.1	45.7	14.5%	0.5%	167.0	141.1	18.4%	62.0%
	Pre-tax Profit	8.1	7.3	7.1	12.1%	14.0%	29.8	23.9	24.4%	47.0%
	PBT Margin	17.7%	18.1%	15.6%	-0.39ppt	+2.1	17.8%	17.0%	+0.8	
	(RMm)	4QFY13	3QFY13	4QFY12	QoQ % chg	YoY % chg	FY13	FY12	YoY % chg	% contribution
Wholesale	Revenue	35.7	47.7	31.1	-25.3%	14.5%	137.9	114.4	20.5%	38.0%
	Pre-Tax Profit	3.3	6.6	3.0	-49.5%	12.1%	19.5	13.7	42.1%	31.0%
	PBT Margin	9.4%	13.8%	9.6%	-4.4ppt	-0.2ppt	14.1%	12.0%	+2.1	

Source: Company, JF Apex

Figure 3: Financial Summary

Year to 30 April (Rm'm)	2011	2012	2013	2014F	2015F
Revenue	223.3	239.4	267.9	310.5	335.3
EBITDA	39.3	43.1	48.9	54.6	60.8
Operating profit	41.3	48.7	63.5	67.0	70.0
Net profit	28.4	35.7	47.4	50.0	57.0
EPS (sen)	14.4	17.2	24.1	25.0	29.0
P/E (x)	18.2	15.2	10.9	11.0	9.0
P/BV (x)	2.4	2.1	2.1	2.0	1.8
EV/EBITDA	13.2	9.4	10.6	9.7	8.8
Dividend yield (%)	3.4%	3.5%	5.5%	5.8%	6.6%
PBT margin (%)	18.5%	20.2%	23.0%	20.0%	20.3%
Net profit margin (%)	12.7%	14.1%	17.7%	16.7%	17.0%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
ROE (%)	13.3%	14.6%	18.9%	19.8%	20.3%
ROA (%)	11.0%	11.9%	15.5%	16.3%	16.8%

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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