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Investment Research
Daily

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FY11 Results Review

Hai-O Enterprise

MLM Sales on The Mend

SELL ↔

Fair Value

RM1.93

Previous

RM1.93

Price

RM2.16

CONSUMER

Hai-O is involved in wholesaling, retailing, multi-level marketing and pharmaceuticals, and also operates modern Chinese medicinal clinics.

Stock Statistics

Bloomberg Ticker	HAI0 MK
Share Capital (m)	202.2
Market Cap	436.7
52 week H L Price	4.19 2.07
3mth Avg Vol (000)	202.7
YTD Returns	-18.5
Beta (x)	0.59

Major Shareholders (%)

Tan Kai Hee	9.62
Akintan SB	7.31
Excellent Communications	5.13

Share Performance (%)

Month	Absolute	Relative
1m	-2.3	-3.8
3m	-4.8	-3.6
6m	-15.6	-18.7
12m	-45.1	-56.0

6-month Share Price Performance



Hai-O FY11 results were within our full-year forecast of RM27.2m. Due to the poor y-o-y MLM sales (although improving for 2 consecutive quarters), revenue fell 56.3% to RM223.2m while net profit dived 59.2% to RM28.8m. Despite the stronger EBIT margin in 4Q (+5.4%-pts y-o-y), mainly driven by the MLM division, full-year EBIT was flat at 18.5% versus 18.7% in FY10. Management believes that MLM sales have hit bottom, and expects stronger results going forward. We maintain our earnings forecast and TP at RM1.93. **Maintain SELL.**

Within expectation. Hai-O's FY11 revenue fell 56.3% y-o-y to RM223.2m while net profit was 59.2% lower y-o-y to RM28.8m, coming in within our full-year earnings forecast of RM27.2m. The poor numbers were mainly attributed to the MLM division, which contributes >70% of total sales historically but accounted for only ~50% of total revenue for the current financial year. MLM sales plunged 70.1% y-o-y on slower membership growth as well as the smaller number of members compared to the previous year. On the other hand, retail sales grew 4.5% to RM43.7m y-o-y due to the stronger same-store-sales (sss) growth and new openings while wholesaling revenue rose 10.4%.

MLM continues to recover. On a q-o-q basis, top-line grew mildly by 0.9%, driven mainly by the MLM division while net profit jumped 34.7% due to lower operating costs and stronger other income. MLM sales improved by 17.7% after registering 8.6% q-o-q growth in 3Q, with EBIT margin expanding 8.6%-pts q-o-q on a change in product mix as well as write-back of over-provisioning of certain expenses which are no longer applicable in the previous quarters. The retail division, on the other hand, posted lower revenue of RM11.2m versus RM13m in 3Q due to the timing difference of the Chinese New Year festive sales, which fell in the 3rd quarter this year compared to the 4th quarter last year.

MLM margin improves. While 4QFY11 EBIT margin improved 5.4%-pts y-o-y, full-year EBIT margin was flat at 18.5% vs 18.7% in FY10 as a result of the weak 9MFY11 EBIT margin of 17.5%. The stronger margin in 4QFY11, driven by better margins at the MLM division (+7.3% y-o-y), was mainly due to the change in product mix and the write-back of over-provisioning of certain expenses which are no longer applicable in the previous quarters.

Maintain SELL. Given the in line results, we maintain our FY11 earnings forecast at RM32.6m. Our TP is hence maintained at RM1.93, based on 12x FY12 EPS. Management thinks that MLM sales have bottomed and expects stronger results going forward. The group will continue to diversify its MLM sales and conduct more product training rather than focus on networking training. Hai-O has declared a full-year tax exempt dividend of 7.5 sen per share, representing a >50% payout ratio.

FYE Apr	FY09	FY10	FY11	FY12f	FY13f
Revenue	435.2	511.1	223.2	236.6	273.0
Net Profit	52.3	70.6	28.8	32.7	38.4
% chg y-o-y	7.7	35.0	-59.2	13.3	17.6
Consensus	-	-	27.6	31.2	38.5
EPS	25.8	34.8	14.2	16.1	18.9
DPS	5.5	9.4	7.5	8.1	9.5
Dividend yield (%)	2.5	4.3	3.5	3.7	4.4
ROE (%)	31.6	33.7	12.7	13.4	14.7
ROA (%)	21.1	26.0	10.8	11.6	12.7
PER (x)	8.4	6.2	15.2	13.4	11.4
BV/share	0.82	1.03	1.12	1.20	1.29
P/BV (x)	2.6	2.1	1.9	1.8	1.7
EV/EBITDA (x)	5.3	4.0	8.7	7.3	6.3

Results Table (RMm)

FYE Apr	4Q11	3Q11	Q-o-Q chg	YTD FY11	YTD FY10	Y-o-Y chg	Comments
Revenue	58.2	57.6	0.9	223.2	511.1	-56.3	Poorer sales due to weak MLM sales
EBIT	12.4	9.0	37.6	41.4	95.7	-56.8	Flat margin
Net interest expense	0.1	0.0	1.0	0.0	-0.1	-150.0	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	12.5	9.0	38.4	41.4	95.6	-56.7	
Tax	-3.5	-2.3	50.7	-11.2	-23.8	-52.9	
MI	-0.4	-0.4	-24.6	-1.4	-1.3	7.2	
Net profit	8.5	6.3	34.7	28.8	70.6	-59.2	In line
EPS	4.2	3.1	-	14.2	34.8	-	
DPS	5.5	0.0	-	7.5	9.4	-	
EBIT margin	21.4	15.7	-	18.5	18.7	-	
NTA/Share	1.01	0.97	-	1.01	1.00	-	

EARNINGS FORECAST

FYE Apr	FY09	FY10	FY11	FY12f	FY13f
Turnover	435.2	511.1	223.2	236.6	273.0
EBIT	76.1	95.7	41.4	45.9	52.2
PBT	75.9	95.6	41.4	44.9	51.2
Net Profit	52.3	70.6	28.8	32.7	38.4
EPS	25.8	34.8	14.2	16.1	18.9
DPS	5.5	9.4	7.5	8.1	9.5
Margin					
EBIT (%)	17.5	18.7	18.5	19.4	19.1
PBT (%)	17.4	18.7	18.5	19.0	18.8
Net Profit (%)	12.0	13.8	12.9	13.8	14.1
ROE (%)	31.6	33.7	14.1	14.5	15.7
ROA (%)	21.1	26.0	11.6	12.4	13.5
Balance Sheet					
Fixed Assets	59.4	60.9	71.7	88.0	97.6
Current Assets	154.4	184.0	111.8	139.9	151.0
Total Assets	248.3	271.7	249.2	263.0	283.7
Current Liabilities	61.2	49.3	33.4	27.8	29.3
Net Current Assets	187.2	222.4	215.8	235.3	254.5
LT Liabilities	15.7	13.2	10.7	10.1	10.1
Shareholders Funds	165.4	209.2	205.1	225.2	244.4
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

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