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**NEUTRAL** ↔

Fair Value **RM2.16**  
Previous **RM2.16**  
Price **RM2.08**

**CONSUMER /RETAIL**

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	420.6
52 week H   L Price	2.42   1.55
3mth Avg Vol (000)	72.8
YTD Returns	8.9
Beta (x)	0.89
Shariah Compliant	YES

**Major Shareholders (%)**

Tan Kai Hee	9.62
Akintan SB	7.31
Excellent Communications	5.13

**Share Performance (%)**

Month	Absolute	Relative
1m	-1.0	-3.2
3m	-2.8	-2.9
6m	8.2	2.4
12m	1.9	-4.4

**6-month Share Price Performance**

**FY12 Results Review**
**Hai-O Enterprise**
**On The Road to Recovery**

Hai-O's FY12 results were in line with consensus but above our forecasts. The better revenue (+7.2%) and net profit (+16.2%) y-o-y were mainly buoyed by stronger sales from the MLM division and higher margin products. EBIT margin widened to 19.9% from 18.4% y-o-y. The company has declared a final single tier dividend of 7 sen for this financial year. Given the stronger-than-expected performance, we are raising our FY12 earnings by 6.5%. Maintain NEUTRAL, with a new FV of RM2.16.

**MLM division rebounds.** Hai-O's full-year results were within consensus estimates but 7.8% above our forecast, as its topline and core net profit (excluding a one-off RM0.8m gain from disposal of vintage tea) jumped 7.2% and 16.2% y-o-y respectively. The stronger revenue growth was mainly contributed by higher sales from the MLM division (+12.7%), which made up 59% of the group's total revenue. Vis-à-vis 3QFY12, the company's revenue and core net profit came in at RM69.4m and RM8.4m.

**Good showing from all divisions.** The MLM division's earnings went up by 7.2%, thanks to proactive strategies to attract new members and distributors, coupled with higher repeat sales from existing members. We reiterate our view that the growth momentum in the MLM division should be sustainable given the improved marketing strategy and balanced product mix. In the wholesale division (revenue: -5.6% y-o-y), the better sales from patented medicine and goods supplied to duty-free shops plus the one-off gain from the disposal of some vintage tea products mitigated the lower revenue from Chinese Medicated Tonic. Nonetheless, PBT in the wholesale division surged 27% due to higher inter-segment sales and sales of higher margin products. On the other hand, the retail division's revenue was relatively flat (+2% y-o-y) due to the company's outlet rationalization involving two unprofitable outlets and the opening of seven new outlets. This division's PBT rose 7.6% mainly due to higher sales of house-brand products.

**Better margin.** EBIT margin expanded by 1.5% to 19.9%, mainly attributed to: i) better sales from MLM division, ii) higher margins from wholesale products, and iii) higher rental income from renewal of tenancy agreements of existing investment properties and lower research costs. The company has proposed a final single tier dividend of 7 sen, translating into a decent dividend yield of 4.3%.

**Maintain NEUTRAL.** We remain optimistic on the recovery of MLM division as it continues to introduce new products, implement effective sales campaigns and recruit new members. In view of the better-than-expected results, we are raising our FY13 forecasts by 6.5%. Maintain Neutral, with a higher FV of RM2.16.

FYE Apr (RM'm)	FY10	FY11	FY12	FY13f	FY14f
Revenue	511.1	223.2	239.4	256.0	276.8
Net Profit	70.6	28.8	33.0	36.4	38.8
% chg y-o-y	35.0	-59.2	17.3	7.8	6.5
Consensus				37.1	43.9
EPS	34.8	14.2	16.3	18.0	19.2
DPS	9.4	7.5	9.0	9.4	10.0
Dividend yield (%)	4.5	3.6	4.3	4.5	4.8
ROE (%)	33.7	14.1	15.3	14.9	14.8
ROA (%)	26.0	11.2	11.9	12.3	12.3
PER (x)	6.0	14.6	12.8	11.6	10.9
BV/share	1.03	1.01	1.09	1.21	1.30
P/BV (x)	2.0	2.1	1.9	1.7	1.6
EV/EBITDA (x)	3.8	9.4	7.8	7.4	6.7

**Results Table (RMm)**

FYE Apr	4Q12	3Q12	Q-o-Q chg	YTD FY12	YTD FY11	Y-o-Y chg	Comments
Revenue	69.4	62.8	10.5	239.4	223.3	7.2	Higher due to recovery from MLM division
EBIT	12.4	13.0	-4.6	47.6	41.1	15.8	
Net interest expense	0.1	0.0	>100	0.2	0.2	0.0	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	12.5	13.0	-3.8	47.8	41.3	15.7	
Tax	-3.7	-3.5	5.7	-13.1	-11.6	12.9	
MI	-0.4	-0.4	0.0	-1.7	-1.3	30.8	
Net profit	8.4	9.1	-7.7	33.0	28.4	16.2	Excluding one-off RM0.8m gain on disposal of vintage tea
EPS	4.6	4.6		17.0	14.2		
DPS	7.0	0.0		9.0	7.5		55.2% dividend payout
EBIT margin	17.9	20.7		19.9	18.4		

**EARNINGS FORECAST**

<b>FYE Apr (RM m)</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13f</b>	<b>FY14f</b>
Turnover	511.1	223.2	239.4	256.0	276.8
EBIT	95.7	41.4	47.6	49.4	52.6
PBT	95.6	41.4	47.8	48.6	51.8
Net Profit	70.6	28.8	33.0	36.4	38.8
EPS	34.8	14.2	16.3	18.0	19.2
DPS	9.4	7.5	9.0	9.4	10.0
Margin					
EBIT (%)	18.7	18.5	19.9	19.3	19.0
PBT (%)	18.7	18.5	20.0	19.0	18.7
Net Profit (%)	13.8	12.9	14.1	14.2	14.0
ROE (%)	33.7	14.1	15.3	14.9	14.8
ROA (%)	26.0	11.2	11.9	12.3	12.3
Balance Sheet					
Fixed Assets	60.9	71.7	62.3	85.9	90.9
Current Assets	184.0	111.8	171.2	175.2	191.0
Total Assets	271.7	257.5	283.6	296.2	316.9
Current Liabilities	49.3	33.4	44.1	41.6	43.7
Net Current Assets	222.4	224.1	239.5	254.6	273.2
LT Liabilities	13.2	10.7	8.1	10.0	10.0
Shareholders Funds	209.2	205.1	221.6	244.6	263.2
Net Gearing (%)					
	Net cash	Net cash	Net cash	Net cash	Net cash

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