

## Results Note

## Hai-O Ent

HAIO MK  
RM2.44

ADD (maintain)

Target Price: RM2.55 (↔)



## Price Performance

	1M	3M	12M
Absolute	+8.4%	+10.4%	+14.4%
Rel to KLCI	+5.7%	+10.9%	+9.1%

## Stock Data

Issued shares (m)	197.1
Mkt cap (RMm)	481.0
Avg daily vol - 6mth (m)	0.16
52-wk range (RM)	1.93 – 2.48
Est free float	63.9%
NTA per share (RM)	1.24
P/NTA (x)	1.96
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 &amp; Valuation Revisions

	13E	14E	15E
Prev EPS (sen)	19.8	23.2	27.0
Curr EPS (sen)	19.8	23.2	27.0
Chg (%)	-	-	-
Prev target price (RM)		2.55	
Curr target price (RM)		2.55	

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## Triumphing expectation

## 9MFY04/13 core net profit exceed our and street expectation by 5%

Hai-O reported a strong 9MFY04/13 revenue of RM196m (+15.2% yoy), mainly driven by the wholesale division and the continued revenue recovery in the MLM division. 9MFY04/13 revenue contribution from the MLM division (largest revenue contributor at 62% of Hai-O's 9MFY04/13 revenue) grew by +27% yoy to RM121m. This was mainly attributed to the higher sales from its high-margin foundation garments and key health food products. The group's second biggest revenue contributor – wholesale, surged by >100% to RM102.2m. This was due to the improved sales orders from medical halls for its Chinese medicated tonic, health food and patented medicine products. Overall, 9MFY04/13's EBIT margin improved by +3.3%-points to 24% and along with that core net profit jumped by +31% yoy to RM32.2m. Results are above both our and consensus expectations, accounting for 80% of full year forecast.

## 3QFY04/13's core net profit fell 3.7% due to higher A&amp;P and tax expenses

On a sequential basis, Hai-O recorded a stronger 3QFY04/13 revenue of RM68.9m (+4.6% qoq). This was largely due to the higher revenue contribution from the wholesale division (+10% qoq). Sales in the retail division improved by a marginal +4% qoq to RM11m. The positive impact was however offset by an increase in advertising and promotional cost incurred in conjunction with the CNY sales. As a result, 3QFY04/13 EBIT margin fell by -4.2%-points qoq to 21.5%. Coupled with a higher effective tax rate of 27% vis-à-vis 19.5% in 2QFY04/13, Hai-O's core net profit fell -3.7% qoq to RM10.8m. We are not perturbed by the seasonal weakness, as we believe earnings momentum will pick up in 4QFY04/13, capturing the bulk of the CNY festive sales.

## Maintain ADD with TP lifted to RM2.65 from RM2.55

We make no changes to our forecast for now, hence on our **ADD** rating and TP of **RM2.55** (pegged to an unchanged TP of 11.5x CY13 EPS) pending a meeting with management on 3 April 2013. We continue to like Hai-O for its attractive valuations and generous dividend payout. While there was no dividend declared for this quarter, we believe the group will continue to reward its shareholders by declaring a final dividend of 6 sen, bringing its total FY13 DPS to 12 sen. (Hai-O declared DPS of 6 sen in 2QFY04/13) We are lifting upwards our FY13 DPS forecast slightly to 12 sen (from 11 sen), based on a payout ratio of 56%. This translate to an attractive yield of 4.9-5.7%, which looks appealing against its CY14 PE of 10.5x. Reiterate **ADD** recommendation.

## Earnings and valuation summary

FYE 30 April	2011	2012	2013E	2014E	2015E
Revenue (RMm)	223.3	239.5	290.5	332.4	377.9
EBITDA (RMm)	44.8	52.3	59.7	69.5	80.2
Pretax profit (RMm)	41.3	48.8	56.0	65.8	76.4
Net profit (RMm)	28.4	34.0	40.1	47.1	54.7
EPS (sen)	14.0	16.8	19.8	23.2	27.0
PER (x)	17.4	14.5	12.3	10.5	9.0
Core net profit (RMm)	28.4	33.2	40.1	47.1	54.7
Core EPS (sen)	14.0	16.4	19.8	23.2	27.0
Core EPS chg (%)	-59.8	17.0	20.8	17.4	16.2
Core PER (x)	17.4	14.9	12.3	10.5	9.0
Net DPS (sen)	7.5	9.0	12.0	14.0	16.0
Net Dividend Yield (%)	3.1	3.7	4.9	5.7	6.6
EV/EBITDA (x)	9.6	7.6	6.4	5.2	4.2
Consensus profit (RMm)			39.8	44.3	51.0
Affin/Consensus (x)			1.0	1.1	1.1

**Fig 1: Quarterly results comparison**

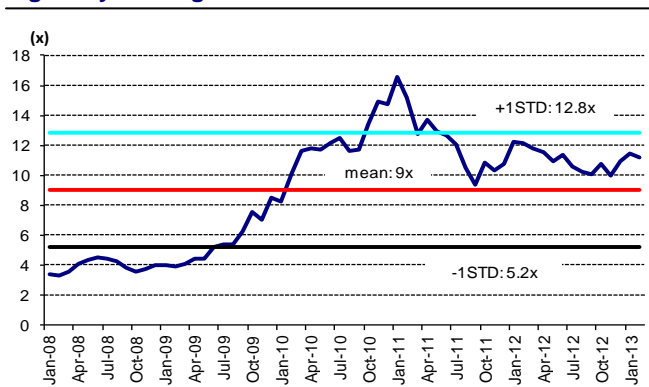
FYE April (RMm)	3QFY12	2QFY13	3QFY13	QoQ % chg	YoY % chg	Comment
Revenue	62.8	65.9	68.9	4.6	9.7	Healthy sequential growth mainly contributed by healthy revenue growth from wholesale division by +10%.
Op costs	(75.8)	(82.8)	(83.6)	1.1	10.4	Increased in advertising & promotional activities pre-CNY festival celebration
EBIT	13.0	16.9	14.8	(12.6)	14.1	
EBIT margin (%)	20.7	25.7	21.5	(4.2)	0.8	Impacted by higher cost
Int expense	(0.2)	(1.6)	(0.2)	(89.8)	(15.3)	
Int and other inc	0.2	0.3	0.3	(7.8)	9.2	
Associates	0.0	0.0	0.0	nm	nm	
Exceptional gain/losses	0.0	4.9	0.2	nm	nm	
<b>Pretax</b>	<b>13.0</b>	<b>20.5</b>	<b>15.1</b>	<b>(26.4)</b>	<b>16.0</b>	Impacted by higher operating cost in the manufacturing & advertising divisions
Tax	(3.5)	(4.0)	(4.1)	2.6	17.2	
Tax rate (%)	26.9	19.5	27.2	nm	nm	Higher effective tax rate
MI	(0.4)	(0.4)	(0.0)	(95.2)	nm	
<b>Net profit</b>	<b>9.1</b>	<b>16.1</b>	<b>11.0</b>	<b>(31.9)</b>	<b>21.1</b>	
EPS (sen)	4.5	8.0	5.4	(31.9)	21.1	
<b>Core net profit</b>	<b>9.1</b>	<b>11.2</b>	<b>10.8</b>	<b>(3.7)</b>	<b>18.7</b>	Accounts for 27% of our and total consensus estimates

Source: Company, Affin

**Fig 2: Cumulative results comparison**

FYE April (RMm)	9MFY12	9MFY13	YTD % chg	Comment
Revenue	170.0	195.9	15.2	Driven primarily by the recovery in MLM revenue (+27% yoy) and Wholesale revenue (>100% yoy)
Op costs	(205.2)	(242.9)	18.4	
EBIT	35.2	47.1	33.7	
EBIT margin (%)	20.7	24.0	3.3	Stronger margin attributed to sales of higher margin products (foundation garments and patented Chinese medicine)
Int expense	(0.6)	(3.6)	502.4	
Int and other inc	0.7	0.8	12.0	
Associates	0.0	0.0	nm	
Exceptional gain/losses	0.0	5.1	nm	EI: Gain in disposals of a piece of freehold vacant land
<b>Pretax</b>	<b>35.3</b>	<b>49.4</b>	<b>40.0</b>	
Tax	(9.4)	(11.6)	23.9	
Tax rate (%)	26.5	23.5	nm	
MI	(1.3)	(0.5)	(62.6)	
<b>Net profit</b>	<b>24.7</b>	<b>37.3</b>	<b>51.4</b>	
EPS (sen)	12.2	18.5	51.4	
<b>Core net profit</b>	<b>24.7</b>	<b>32.2</b>	<b>30.6</b>	Above expectations, accounting for 80% of both our and consensus full year forecasts

Source: Company, Affin

**Fig 3: 5-yr average PER band**


Source: Bloomberg, Affin

## Equity Rating Structure and Definitions

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<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	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
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	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
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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