



FY10 Results Review

Eing Kar Mei
+60 (3) 9207 7620
karme.eing@my.oskgroup.com

Hai-O

NEUTRAL

Target Price **RM4.42**
Previous Price **RM5.03**
Price **RM4.12**

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	HAIO MK
Share Capital (m)	202.2
Market Cap (RMm)	833.0
52 week H L Price (RM)	4.93 1.84
3mth Avg Vol ('000)	454.7
YTD Returns	16.7
Beta (x)	0.74

Major Shareholders (%)

Tan Kai Hee	9.61
Akintan SB	7.17
Excellent communication	5.13

Share Performance (%)

Month	Absolute	Relative
1m	13.5	1.1
3m	-5.3	-9.2
6m	26.5	18.2
12m	141.5	80.6

6-month Share Price Performance



A Slower 4QFY10

Hai-O's FY10 net profit of RM70.9m (+35.6% y-o-y) was spot on versus our FY10 earnings forecast of RM71.7m despite the fact that the 4QFY10 top and PBT contracted by 25.6% and 32.3% y-o-y respectively given our conservative forecasts. The poor 4Q performance was mainly attributed to its MLM division (-35.5% y-o-y), but which was partially offset by strong retail sales growth (+44.7% y-o-y). Taking into consideration recent headwinds encountered by its MLM division, we cut our FY11/12 earnings forecast by 12%-18% to RM74.6m and RM83.6m respectively. Our TP is reduced to RM4.42. Downgrade to NEUTRAL.

A boost from strong 9MFY10 results. Hai-O's FY10 net profit of RM70.9m was spot on versus our FY10 earnings forecast of RM71.7m but below consensus' forecast of RM93.1m. Full-year revenue rose 17.4% y-o-y to RM511.1m while net profit jumped 35.6% y-o-y on better EBIT margin (+1.3% pts y-o-y). Full year sales at the MLM division surged 19.8% y-o-y while that in the wholesaling and retail divisions inched up by 4% and 6.7% respectively. Given that the 4QFY10 topline and PBT shrank 25.6% and 32.3% y-o-y respectively, the impressive full-year y-o-y revenue and profit growth were mainly attributed to the strong 9MFY10 results. The better showing was also driven by higher rental income from leasing in Klang and a lower effect tax of 24.8% vs 30.1% in FY09.

4QFY10 results pulled down by MLM division. While 4Q results are usually strong, this time around the y-o-y 4QFY10 revenue and PBT fell 25.6% and 32.3% respectively, dragged down by the MLM division, which reported a 35.5% y-o-y contraction in sales although this was partially offset by strong retail sales growth of 44.7% y-o-y. The MLM division was impacted by slower membership growth, which in turn was affected by: (i) the more stringent rules on new member recruitment set by the authorities, and (ii) reduced appetite for loans following the rise in interest rates recently. On the other hand, the retail division recorded historical highs in sales and profit, mainly attributed to the (i) success in promoting in-house brands – y-o-y EBIT margin improved 6.9% pts in 4QFY10; (ii) Chinese New Year festival, which fell late this year and coincided with the year-end members' sales promotion. On a q-o-q basis, revenue and net profit declined by 24.7% and 20.8% y-o-y respectively due to the poor performance from its MLM division.

Downgrade to NEUTRAL. We cut our FY11 and FY12 earnings forecast by 12%-18% to RM74.6m and RM83.6m respectively to factor in the slower growth from its MLM division. This reduces our TP to RM4.42. The stock's re-rating catalyst will be new contribution from its technology venture, which could come in as soon as this year. We note that more parties have shown interest in its newly invented heat transfer technology. Hai-O has proposed a final dividend of 10 sen and a single tier dividend of 4.5 sen, bringing the total full year gross dividend to 21.8 sen.

FYE Apr (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	373.8	435.2	511.1	551.3	593.0
Net Profit	48.5	52.3	70.9	74.6	83.6
% chg y-o-y	127.0	7.7	35.6	5.2	12.1
Consensus	-	-	-	93.1	106.0
EPS (sen)	57.5	25.8	35.0	36.8	41.3
DPS (sen)	16.7	17.5	21.8	24.0	28.0
Dividend yield (%)	4.0	4.2	5.3	5.8	6.8
ROE (%)	34.5	31.6	33.9	31.2	31.5
ROA (%)	23.8	21.1	26.1	25.8	26.3
PER (x)	17.2	16.0	11.8	11.2	10.0
BV/share (RM)	0.69	0.82	1.03	1.18	1.31
P/BV (x)	5.9	5.0	4.0	3.5	3.1
EV/ EBITDA (x)	11.1	10.4	8.0	7.4	6.6

Results Table (RMm)

FYE Apr	4Q10	3Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	98.8	131.3	-24.7	511.1	435.2	17.4	Stronger due to the strong results in the past 3 quarters, mainly attributed to its MLM division. Margin boosted by higher sales volume and the higher contribution of in-house products
EBIT	15.8	25.2	-37.4	96.0	76.1	26.2	
Net interest expense	0.0	0.0	1.0	-0.1	-0.2	-60.2	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	15.8	25.2	-37.5	95.9	75.9	26.4	
Tax	-0.8	-7.0	-89.0	-23.8	-22.9	3.9	
MI	-0.7	-0.2	-273.5	-1.3	-0.7	75.7	
Net profit	14.3	18.0	-20.8	70.9	52.3	35.6	In line
EPS (sen)	7.0	21.3	-	35.0	25.8	-	
DPS (sen)	16.0	4.0	-	21.8	17.5	-	Final dividend of 10 sen and a single tier dividend of 4.5 sen
EBIT margin	16.0%	19.2%	-	18.8%	17.5%	-	
NTA/share (RM)	1.03	1.00	-	1.03	0.82	-	

EARNINGS FORECAST

FYE Apr (RMm)	FY08	FY09	FY10	FY11f	FY12f
Turnover	373.8	435.2	511.1	551.3	593.0
EBIT	67.2	76.1	96.0	101.8	113.9
PBT	67.7	75.9	95.9	100.8	112.9
Net Profit	48.5	52.3	70.9	74.6	83.6
EPS (sen)	57.5	25.8	35.0	36.8	41.3
DPS (sen)	16.7	17.5	21.8	24.0	28.0
Margin					
EBIT (%)	18.0	17.5	18.8	18.5	19.2
PBT (%)	18.1	17.4	18.8	18.3	19.0
Net Profit (%)	13.0	12.0	13.9	13.5	14.1
ROE (%)	34.5	31.6	33.9	31.2	31.5
ROA (%)	23.8	21.1	26.1	25.8	26.3
Balance Sheet					
Fixed Assets	21.6	59.4	60.9	73.7	83.3
Current Assets	154.0	154.4	184.0	180.7	199.7
Total Assets	204.1	248.3	271.7	289.5	318.0
Current Liabilities	58.0	61.2	49.3	40.4	42.1
Net Current Assets	146.1	187.2	222.4	249.0	275.9
LT Liabilities	0.1	15.7	13.2	10.1	10.1
Shareholders Funds	140.6	165.4	209.2	239.0	265.9
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

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Chris Eng

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	Hong Kong Office OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	Singapore Office DMG & Partners Securities Pte. Ltd. 20 Raffles Place #22-01 Ocean Towers Singapore 048620 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211	Jakarta Office PT OSK Nusadana Securities Indonesia Plaza Lippo, 14 th Floor, Jln. Jend. Sudirman Kav 25, Jakarta 12920 Indonesia Tel : +(6221) 520 4599 Fax : +(6221) 520 4598	Shanghai Office OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633