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**NEUTRAL** ↔

Fair Value **RM2.16**  
Previous **RM2.16**  
Price **RM2.02**

**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	408.4
52 week H   L Price	2.42   1.55
3mth Avg Vol (000)	85.1
YTD Returns	5.8
Beta (x)	0.93
Shariah Compliant	YES

**Major Shareholders (%)**

Tan Kai Hee	9.62
Akintan SB	7.31
Excellent Communications	5.13

**Share Performance (%)**

Month	Absolute	Relative
1m	-1.9	-1.7
3m	-2.9	-5.8
6m	-5.6	-10.0
12m	17.2	-2.8

**6-month Share Price Performance**

**1QFY13 Results Review**
**Hai-O Enterprise**
**MLM Firmly on Growth Track**

Hai-O's 1QFY13 results were in line with consensus and our numbers. We deem the results in line as 1Q is generally a stronger quarter. The stronger revenue and earnings from the MLM division buoyed the company's results. However, EBIT margin was flat as the higher margins from MLM and other segments were offset by the lower margins from retail and wholesale businesses. Maintain NEUTRAL, with FV RM2.16, based on 12x FY13 EPS.

**In line.** The group's 1QFY13 results were within consensus and our forecast. Revenue and core earnings (excluding a one-off compensation of RM0.57m in the manufacturing division) expanded by 19.8% and 21.2% y-o-y to RM61.1m and RM9.7m respectively, boosted by better performance in its multi-level marketing (MLM) division. On q-o-q basis, Hai-O's topline declined by 12.0% but its bottomline grew 15.5% on margin improvement.

**MLM firmly on growth path.** Revenue and PBT from the major contributor – the MLM division – surged 39.3% and 68.2% y-o-y respectively due to stronger turnover from its high margin foundation garments and health food products. In addition, the division has been undertaking sales campaigns and implementing effective training programs, which have bolstered member sales. The good performance from MLM demonstrates that the division's growth momentum is sustainable. Meanwhile, revenue from the wholesale division ticked up marginally by 2.9% but PBT slipped 13.6% as the Chinese medicated halls cut down on orders when consumers grew cautious amid economic uncertainty. In the retail division, turnover and earnings were lower by 8.1% and 55% respectively due to a slower economy and the opening of seven new outlets in the previous financial year, which have yet to make any positive contribution despite incurring high overhead costs. Other divisions recorded 14.1% and 52.4% growth in revenue and earnings, largely attributed to a RM0.57m one-off compensation arising from the early termination of a sales contract by customers.

**EBIT margin stays flat.** EBIT margin remained flattish at 21.6% as higher margins from the MLM and other divisions were offset by weaker margins from the wholesale and retail segments.

**Maintain NEUTRAL.** Given that Hai-O's results were in line with estimates, we are maintaining our FY13 and FY14 forecasts. We also stick with our NEUTRAL call and FV of RM2.16.

FYE Apr (RMm)	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				37.9	42.2
EPS	34.8	14.2	16.3	18.0	19.2
DPS	9.4	7.5	9.0	9.4	10.0
Dividend yield (%)	4.6	3.7	4.5	4.6	4.9
ROE (%)	33.7	14.1	15.3	14.9	14.8
ROA (%)	26.0	11.2	11.9	12.3	12.3
PER (x)	5.8	14.2	12.4	11.2	10.5
BV/share	1.03	1.01	1.09	1.21	1.30
P/BV (x)	2.0	2.0	1.8	1.7	1.6
EV/EBITDA (x)	3.7	9.1	7.5	7.1	6.5

**Results Table (RMm)**

<b>FYE Apr</b>	<b>1Q13</b>	<b>4Q12</b>	<b>Q-o-Q chg</b>	<b>YTD FY12</b>	<b>YTD FY11</b>	<b>Y-o-Y chg</b>	<b>Comments</b>
Revenue	61.1	69.4	-12.0	61.1	51.0	19.8	Stronger due to higher sales from MLM, wholesale and other divisions
EBIT	13.2	12.4	6.5	13.2	11.0	20.0	
Net interest expense	0.0	0.1	-100	0.0	0.0	n.m	
Associates	0.0	0.0	n.m	0.0	0.0	n.m	
PBT	13.2	12.5	10.4	13.2	11.1	18.9	
Tax	-3.5	-3.7	-5.4	-3.5	-3.0	16.7	
MI	0.0	-0.4	-100	0.0	-0.3	-100	
Core Net profit	9.7	8.4	15.5	9.7	8.0	21.2	In line
EPS	5.2	4.6		5.2	3.9		
DPS	0.0	7.0		0.0	0.0		
EBIT margin	21.6	17.9		21.6	21.6		

**EARNINGS FORECAST**

<b>FYE Apr (RMm)</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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