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9MFY13 Results Review

Hai-O

Neutral ↔

Target MYR2.35
Previous MYR2.35
Price MYR2.44

Pharmaceuticals

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

Stock Statistics

Bloomberg Ticker HAI0 MK
Market Cap MYR481m
USD155m
52 wk H/L price 2.49 | 1.98
3m ADT MYR0.40m
YTD Returns (%) 8.4
Beta (x) 0.97

Major Shareholders (%)

Tan Kai Hee 9.6
Akintan SB 7.3
Excellent Communications 5.1

Share Price Performance (%)

Month Absolute	Relative
1m 8.4	5.7
3m 9.4	9.8
6m 19.0	16.6
12m 13.5	8.5

6-month Share Price Performance



Source: Bloomberg

MLM Catches Up

Hai-O's 9MFY13 results were largely in line with consensus and our estimates. Its MLM division continued to support both its top- and bottom-line growth, affirming our view that the company's recovery is indeed on track. Maintain NEUTRAL with its FV unchanged at RM2.35, based on 12x FY13 EPS.

Decent performance. Hai-O's revenue and core earnings (excluding a one-off compensation of RM0.57m received by the manufacturing division and a RM4.8m gain from disposal of vacant land) improved by 15.2% and 31.6% y-o-y respectively, largely supported by a stronger showing from its multi-level marketing (MLM) and wholesale divisions. Compared to the preceding quarter, Hai-O's sales grew by 4.6% while earnings contracted by 2.7%. This was mainly due to extensive A&P incurred pre-Chinese New Year and higher operating costs.

MLM on track. The MLM division charted higher revenue and PBT of RM121m (+27.4% y-o-y) and RM22m (+29.4% y-o-y) respectively, due to: i) better sales of foundation garments, health food and wellness products, ii) good response to its newly-launched products, iii) higher revenue from its F&B consumables, and iv) a growth of 27% in its membership base. Meanwhile, the company's wholesale division saw topline expanding by 6% on the back of stronger sales of Chinese health foods, medicated tonics and patented medicine products. The performance of its retail division, however, was disappointing. The unit's revenue and PBT slipped by 9% and 40% respectively, no thanks to higher A&P cost. Overall, the company's EBIT margin normalised from 39.1% to 36.9% y-o-y.

Maintain NEUTRAL. We are leaving our numbers unchanged as we expect margins to normalise in the next quarter. Maintain NEUTRAL, with a FV of RM2.35.

Forecasts and Valuations	Apr-10	Apr-11	Apr-12	Apr-13F	Apr-14F
Total turnover (MYRm)	511	223	240	256	277
Recurring net profit (MYRm)	70.8	27.4	33.4	39.7	42.2
Recurring net profit growth	36.5%	(61.3%)	21.9%	18.8%	6.4%
Core EPS (MYR)	0.35	0.14	0.16	0.20	0.21
Core EPS growth	36.5%	(61.3%)	21.9%	18.8%	6.4%
DPS (MYR)	0.12	0.07	0.09	0.12	0.13
Dividend Yield	4.9%	3.1%	3.7%	4.8%	5.1%
Core P/E (x)	7.0	18.1	14.8	12.5	11.7
Return on average equity	38.4%	13.4%	15.4%	17.1%	16.8%
P/B (x)	2.44	2.42	2.23	2.03	1.90
EV/EBITDA (x)	4.03	9.86	7.75	6.66	6.32
Net debt to equity	net cash	net cash	net cash	net cash	net cash
RHBRI vs consensus EPS					

Source: Company data, RHBRI estimates

FYE Apr	3Q13	2Q13	Q-o-Q chg	YTD FY13	YTD FY12	Y-o-Y chg	Comments
Revenue	68.9	65.9	4.6	195.9	170.0	15.2	Supported by its MLM and wholesale divisions
EBIT	15.0	15.6	-3.8	72.2	66.4	8.7	
Net interest expense	0.1	0.1	0.0	0.3	0.1	200.0	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	15.1	15.7	-3.8	44.1	35.3	24.9	Excluding RM4.8m vacant land disposal gain + RMO.57m compensation for contract termination
Tax	-4.1	-4.0	2.5	-11.6	-9.4	23.4	
MI	0.0	-0.4	-100	-0.5	-1.3	-61.5	
Core Net profit	11.0	11.3	-2.7	32.5	24.7	31.6	Largely in line with street estimates
EPS	5.4	8.1		16.1	12.4		
DPS	0.0	6.0		6.0	2.0		
EBIT margin	21.8	23.7		36.9	39.1		Margin normalising

FINANCIALS

Profit & Loss (MYRm)	Apr-10	Apr-11	Apr-12	Apr-13F	Apr-14F
Total turnover	511	223	240	256	277
Cost of sales	(357)	(138)	(148)	(156)	(170)
Gross profit	154	85	91	100	107
Gen & admin expenses	(27)	(21)	(23)	(23)	(25)
Selling expenses	(35)	(27)	(26)	(28)	(30)
Other operating costs	3	2	4	5	6
Operating profit	95	39	47	54	57
Operating EBITDA	97	41	49	55	59
Depreciation of fixed assets	(3)	(2)	(2)	(1)	(1)
Operating EBIT	95	39	47	54	57
Interest income	1	1	1	-	-
Interest expense	(1)	(1)	(1)	(1)	(1)
Exceptional income - net	-	-	(1)	-	-
Pre-tax profit	95	39	46	53	56
Taxation	(24)	(12)	(13)	(13)	(14)
Profit after tax & minorities	71	27	33	40	42
Net income to ord equity	71	27	33	40	42
Recurring net profit	71	27	33	40	42

Source: Company data, RHBRI

Balance Sheet (MYRm)	Apr-10	Apr-11	Apr-12	Apr-13F	Apr-14F
Total cash and equivalents	71	46	54	87	87
Inventories	44	44	38	38	42
Accounts receivable	20	17	20	33	36
Other current assets	50	40	66	40	40
Total current assets	184	147	177	199	204
Total investments	30	35	47	30	30
Tangible fixed assets	62	72	62	66	79
Intangible assets	0	0	0	-	-
Total other assets	3	3	3	-	-
Total non-current assets	95	110	112	96	109
Total assets	279	257	290	295	314
Short-term debt	5	6	5	5	5
Accounts payable	38	23	32	23	26
Other current liabilities	12	5	12	12	12
Total current liabilities	55	33	50	41	43
Total long-term debt	13	11	8	10	10
Other liabilities	0	0	0	-	-
Total non-current liabilities	13	11	8	10	10
Total liabilities	69	44	58	51	53
Share capital	101	101	101	101	101
Retained earnings reserve	106	108	127	142	159
Other reserves	(4)	(4)	(6)	-	-
Shareholders' equity	203	204	222	243	260
Minority interests	7	8	10	-	-
Total equity	211	213	231	243	260
Total liabilities & equity	279	257	290	295	314

Source: Company data, RHBRI

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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