

# Hai-O (HAIO MK)

Consumer Non-cyclical - Pharmaceuticals

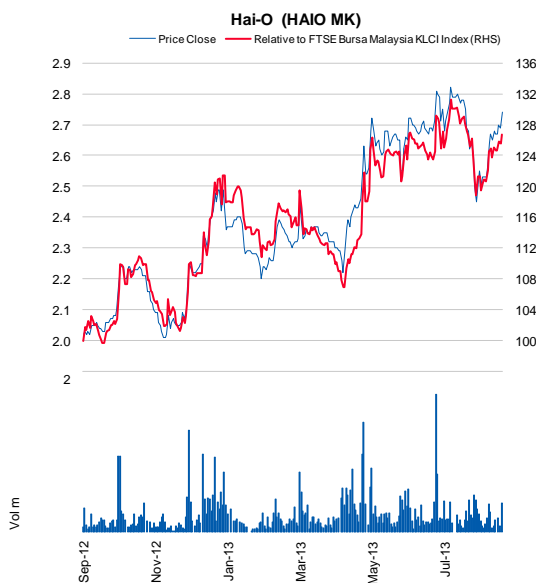
Market Cap: USD167m

**Buy** (Maintained)

Target Price: MYR3.28

Price: MYR2.74

## Weaker MLM Numbers

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (MYR/USD)	0.50m/0.15m
Cons. Upside (%)	-1.5
Upside (%)	19.7
52-wk Price low/high (MYR)	2.01 - 2.82
Free float (%)	50
Shareholders (%)	
Tan Kai Hee	9.9
Akintan SB	7.6
Excellent Communications	5.3

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**Hai-O (HAIO)'s 1Q14 results were largely in line with our and consensus forecasts. We deem the numbers within expectations, as 2H is a traditionally stronger period for the company. Revenue and earnings were lower due to weaker sales from its MLM division. Maintain BUY, with our FV unchanged at MYR3.28.**

- ◆ **Lower sales from MLM.** HAIO's 1Q14 revenue and net profit declined by 9.7% and 14.6% y-o-y to MYR54.7m and MYR8.8m respectively. The lower sales and earnings were mainly due to weaker revenue in the multi-level marketing (MLM) division and flat sales in its retail segment. MLM revenue dropped by 16.5% y-o-y, mainly attributed to the end of the special price promotion on foundation garments in the previous financial year. This was despite better sales from its newly-launched wellness products and other health food series, which had lower unit selling prices compared to foundation garments. Sales in the retail division dipped 0.1% y-o-y due to more cautious consumer spending. Meanwhile, the wholesale unit's sales expanded by 19.6% y-o-y on the back of higher demand for Chinese medicated tonics as well as an effective advertising and promotions programme. Similarly, earnings were weaker due to lower EBIT growth from MLM, which contracted by 28.4% y-o-y. HAIO's retail segment recorded slight losses despite flat revenue, due to higher operating costs incurred by rental and personnel expenses. EBIT for its wholesale division grew by 26.3% y-o-y, thanks to higher margins derived from Chinese medicated tonics.
- ◆ **Margins.** GPM rose to 40.4% from 38.3% in 1Q13, but its EBIT margin moderated by 1.4% from higher administrative expenses.
- ◆ **Maintain BUY.** The MLM division is focusing on: i) launching new products, ii) rewarding its distributors via an incentive trip programme, and iii) reintroducing special price promotions on key items in order to beef up its performance. With these strategies in place, we believe the MLM division will continue to deliver satisfactory numbers moving forward. Maintain BUY, with the FV unchanged at MYR3.28, based on 12x CY14 EPS. HAIO's dividend yield remains attractive at >5%.

Forecasts and Valuations	Apr-11	Apr-12	Apr-13	Apr-14F	Apr-15F
Total turnover (MYRm)	223	240	268	297	325
Reported net profit (MYRm)	27.4	32.8	47.4	51.2	57.4
Recurring net profit (MYRm)	27.4	33.4	43.5	51.2	57.4
Recurring net profit growth (%)	(61.3)	21.9	30.1	17.7	12.1
Core EPS (MYR)	0.14	0.16	0.21	0.25	0.28
DPS (MYR)	0.07	0.09	0.14	0.15	0.17
Dividend Yield (%)	2.7	3.3	5.1	5.5	6.2
Core P/E (x)	20.3	16.6	12.8	10.9	9.7
Return on average equity (%)	13.4	15.4	20.5	20.1	20.4
P/B (x)	2.72	2.51	2.32	2.06	1.90
P/CF (x)	na	11.1	15.6	11.3	12.4
EV/EBITDA (x)	11.1	8.7	6.8	6.3	5.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)				0.0	0.0

Source: Company data, RHB estimates

Figure 1: Results table

FYE April	1Q14	4Q13	% chg	YTD FY14	YTD FY13	% chg	Comments
Revenue	54.7	72.1	-24.1%	54.7	60.6	-9.7%	Lower due to weaker MLM and flat retail sales
EBIT	11.6	14.4	-19.4%	11.6	13.7	-15.3%	
Net interest expense	0.2	0.3	-29.3%	0.2	0.1	259.3%	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	11.8	14.7	-19.7%	11.8	13.8	-14.5%	
Tax	-3.1	-4.2	-26.2%	-3.1	-3.5	-11.4%	
MI	0.0	-0.4	-100.0%	0.0	0.0	-	
Net profit	8.8	10.1	-12.9%	8.8	10.3	-14.6%	Largely in line with consensus and RHBRI
Exceptional Item	0.0	1.5	-100.0%	0.0	0.0	-	
Core Net profit	8.8	11.6	-24.1%	8.8	10.3	-14.6%	
EPS	4.3	5.7		4.3	5.1		
DPS	14.0	8.0		14.0	9.0		
EBIT margin	21.2%	20.0%		21.2%	22.6%		Weaker due to higher admin costs

Source: Company data

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Apr-11</b>	<b>Apr-12</b>	<b>Apr-13</b>	<b>Apr-14F</b>	<b>Apr-15F</b>
Total turnover	223	240	268	297	325
Cost of sales	(138)	(148)	(163)	(181)	(197)
<b>Gross profit</b>	<b>85</b>	<b>91</b>	<b>105</b>	<b>116</b>	<b>128</b>
Gen & admin expenses	(21)	(23)	(21)	(24)	(26)
Selling expenses	(27)	(26)	(29)	(33)	(36)
Other operating costs	2	4	5	10	11
<b>Operating profit</b>	<b>39</b>	<b>47</b>	<b>60</b>	<b>69</b>	<b>77</b>
Operating EBITDA	41	49	62	71	79
Depreciation of fixed assets	(2)	(2)	(3)	(2)	(2)
<b>Operating EBIT</b>	<b>39</b>	<b>47</b>	<b>60</b>	<b>69</b>	<b>77</b>
Interest income	1	1	-	-	-
Interest expense	(1)	(1)	1	(1)	(1)
Exceptional income - net	-	(1)	4	-	-
<b>Pre-tax profit</b>	<b>39</b>	<b>46</b>	<b>64</b>	<b>68</b>	<b>76</b>
Taxation	(12)	(13)	(16)	(17)	(19)
Minority interests	-	-	(1)	-	-
<b>Profit after tax &amp; minorities</b>	<b>27</b>	<b>33</b>	<b>47</b>	<b>51</b>	<b>57</b>
<b>Reported net profit</b>	<b>27</b>	<b>33</b>	<b>47</b>	<b>51</b>	<b>57</b>
<b>Recurring net profit</b>	<b>27</b>	<b>33</b>	<b>43</b>	<b>51</b>	<b>57</b>

Source: Company data, RHB estimates

<b>Cash flow (MYRm)</b>	<b>Apr-11</b>	<b>Apr-12</b>	<b>Apr-13</b>	<b>Apr-14F</b>	<b>Apr-15F</b>
<b>Operating profit</b>	<b>39</b>	<b>47</b>	<b>60</b>	<b>69</b>	<b>77</b>
<b>Depreciation &amp; amortisation</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>
<b>Change in working capital</b>	<b>(9)</b>	<b>12</b>	<b>(10)</b>	<b>(31)</b>	<b>(6)</b>
Other operating cash flow	(44)	3	1	25	(10)
<b>Operating cash flow</b>	<b>(12)</b>	<b>63</b>	<b>54</b>	<b>65</b>	<b>63</b>
Interest received	(1)	(1)	-	-	-
Interest paid	1	1	(1)	1	1
Dividends received	(1)	(2)	(2)	-	-
Tax paid	(17)	(11)	(16)	(17)	(19)
<b>Cash flow from operations</b>	<b>(31)</b>	<b>50</b>	<b>36</b>	<b>49</b>	<b>45</b>
Capex	-	-	(11)	(15)	(15)
Other investing cash flow	43	(21)	15	10	4
<b>Cash flow from investing activities</b>	<b>43</b>	<b>(21)</b>	<b>4</b>	<b>(5)</b>	<b>(11)</b>
Dividends paid	(34)	(15)	(24)	(31)	(34)
Shares repurchased	(0)	(2)	-	-	-
Increase in debt	(2)	(3)	(2)	4	-
Other financing cash flow	(1)	(1)	(4)	9	4
<b>Cash flow from financing activities</b>	<b>(37)</b>	<b>(21)</b>	<b>(30)</b>	<b>(18)</b>	<b>(30)</b>
Cash at beginning of period	71	46	54	65	91
<b>Total cash generated</b>	<b>(25)</b>	<b>8</b>	<b>10</b>	<b>26</b>	<b>3</b>
<b>Implied cash at end of period</b>	<b>46</b>	<b>54</b>	<b>65</b>	<b>91</b>	<b>94</b>

Source: Company data, RHB estimates

## Financial Exhibits

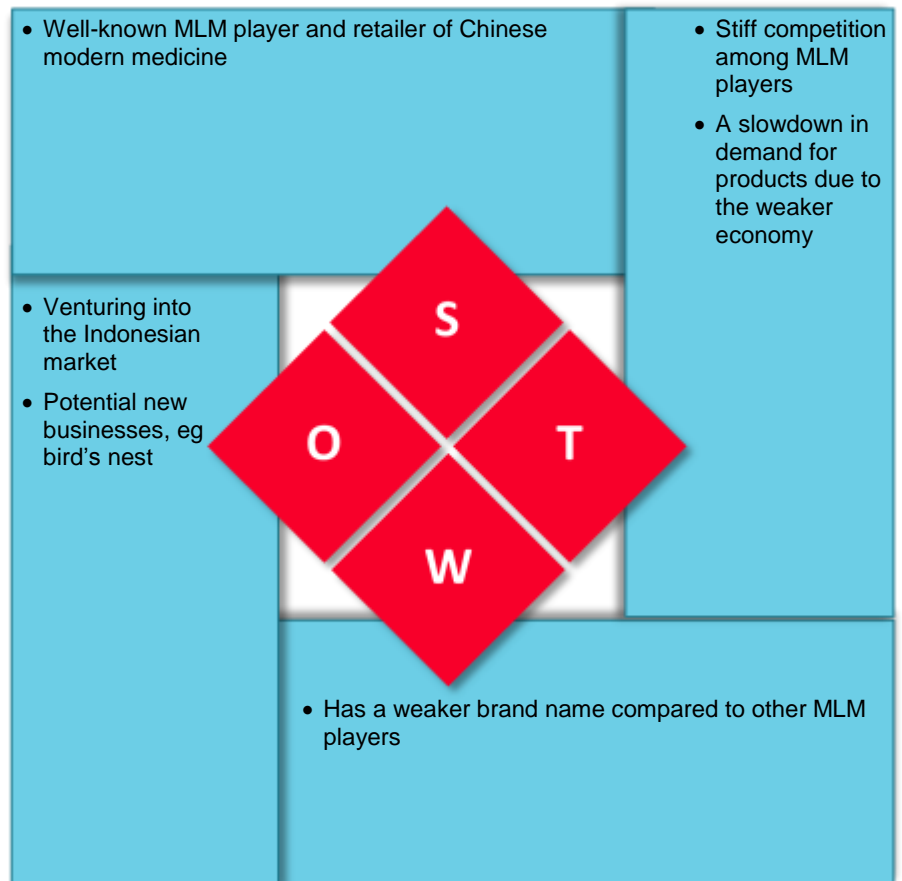
<b>Balance Sheet (MYRm)</b>	<b>Apr-11</b>	<b>Apr-12</b>	<b>Apr-13</b>	<b>Apr-14F</b>	<b>Apr-15F</b>
Total cash and equivalents	46	54	65	91	95
Inventories	44	38	50	50	55
Accounts receivable	17	20	20	39	42
Other current assets	40	66	54	40	40
<b>Total current assets</b>	<b>147</b>	<b>177</b>	<b>189</b>	<b>220</b>	<b>232</b>
Total investments	35	47	46	30	30
Tangible fixed assets	72	62	67	79	92
Intangible assets	0	0	0	-	-
Total other assets	3	3	4	-	-
Total non-current assets	110	112	118	109	122
<b>Total assets</b>	<b>257</b>	<b>290</b>	<b>306</b>	<b>329</b>	<b>354</b>
Short-term debt	6	5	7	7	7
Accounts payable	23	32	35	24	26
Other current liabilities	5	12	7	7	7
<b>Total current liabilities</b>	<b>33</b>	<b>50</b>	<b>50</b>	<b>38</b>	<b>40</b>
Total long-term debt	11	8	6	10	10
Other liabilities	0	0	0	-	-
<b>Total non-current liabilities</b>	<b>11</b>	<b>8</b>	<b>6</b>	<b>10</b>	<b>10</b>
<b>Total liabilities</b>	<b>44</b>	<b>58</b>	<b>56</b>	<b>48</b>	<b>50</b>
Share capital	101	101	101	101	101
Retained earnings reserve	108	127	148	169	192
Other reserves	(4)	(6)	(10)	-	-
<b>Shareholders' equity</b>	<b>204</b>	<b>222</b>	<b>240</b>	<b>270</b>	<b>293</b>
Minority interests	8	10	11	11	11
<b>Total equity</b>	<b>213</b>	<b>231</b>	<b>251</b>	<b>281</b>	<b>304</b>
<b>Total liabilities &amp; equity</b>	<b>257</b>	<b>290</b>	<b>306</b>	<b>329</b>	<b>354</b>

Source: Company data, RHB estimates

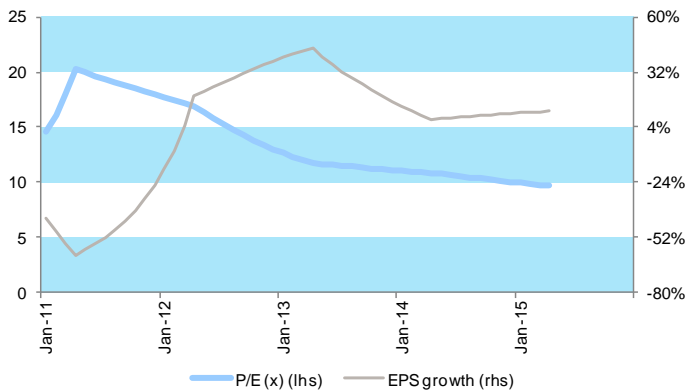
<b>Key Ratios (MYR)</b>	<b>Apr-11</b>	<b>Apr-12</b>	<b>Apr-13</b>	<b>Apr-14F</b>	<b>Apr-15F</b>
Revenue growth (%)	(56.3)	7.3	11.9	10.7	9.6
Operating profit growth (%)	(58.9)	19.6	27.7	15.9	12.0
Net profit growth (%)	(61.3)	19.8	44.3	8.0	12.1
EPS growth (%)	(61.3)	19.8	44.3	8.0	12.1
Bv per share growth (%)	0.6	8.5	8.1	12.6	8.5
Operating margin (%)	17.5	19.5	22.2	23.3	23.8
Net profit margin (%)	12.3	13.7	17.7	17.3	17.7
Return on average assets (%)	10.2	12.0	15.9	16.1	16.8
Return on average equity (%)	13.4	15.4	20.5	20.1	20.4
Net debt to equity (%)	(13.9)	(17.7)	(20.6)	(26.2)	(25.4)
DPS	0.07	0.09	0.14	0.15	0.17
Recurrent cash flow per share	(0.15)	0.25	0.18	0.24	0.22

Source: Company data, RHB estimates

## SWOT Analysis

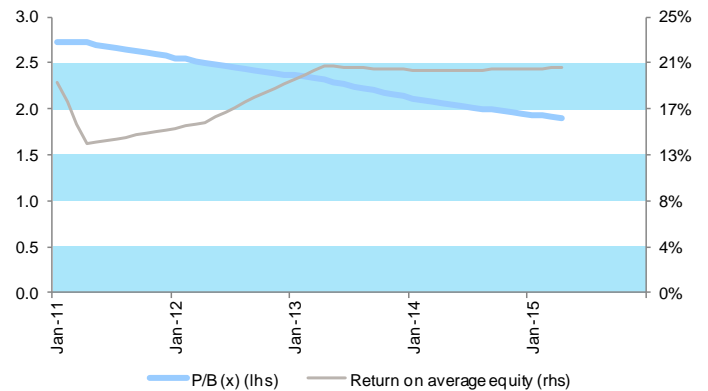


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

## Company Profile

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

## Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-07-23	Buy	3.28	2.71
2013-06-27	Buy	2.91	2.66
2013-03-28	Neutral	2.35	2.40
2012-06-29	Neutral	2.16	2.20
2012-04-20	Neutral	2.03	2.18
2012-03-30	Neutral	1.99	2.18

Source : RHB estimates, Bloomberg

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