

Esthetics International Group

Recommendation: **BUY**

Stock Code: 5081

Bloomberg: EIG MK

Price: MYR0.78

12-Month Target Price: MYR0.87

Date: February 12, 2007

Board: Main

Sector: Trading/Services

GICS: Consumer Discretionary/Specialized Consumer Services

Market Value - Total: MYR93.0 mln

Summary: Esthetics International Group (EIG) is the exclusive distributor of several brands of professional skincare and beauty products in Malaysia and parts of Asia, like Dermalogica. EIG also provides professional skincare and beauty services via the operations of Leonard Drake and Belle Lina Skincare Centres around the Asian region.

Analyst: Lee Leng Hoe, CPA



Results Review & Earnings Outlook

- EIG's 9MFY07 (Mar.) net profit (ex-EI) was slightly below expectations, mainly due to lower-than-expected revenue growth from the professional services division. In 2QFY07, EIG had recorded an exceptional gain of MYR2.73 mln on the disposal of three units of shop offices. There are no comparative figures for the quarter, as EIG changed its financial year-end recently to March 31 from Jan. 31.
- On a QoQ comparison, revenue rose 9.6% in 3QFY07, while the EBIT margin rose by 1.9 ppt to 13.7%. The increase in revenue and EBIT margin was mainly attributable to the product distribution division, which saw sales rising 16.2% QoQ, while the EBIT margin rose by 5.9 ppt to 12.4%. We believe this was due to EIG's recent expansion of its distribution channels for its Clinelle brand into the Giant hypermarkets, as well as the impact of the average selling price increase of 5% for its Dermalogica products (implemented in stages between May and July 2006 in all its main markets). The professional services division, however, saw a 1.8% drop in revenue QoQ and a 4.6 ppt decline in the EBIT margin in 3QFY07 to 16.3%, which we believe was due to the highly competitive environment, which has impeded EIG from implementing any price increase for its services.
- We have reduced our forecasts by 4.1% for FY07 and by 6.0% for FY08, after imputing lower revenue growth for the professional services division and some other minor adjustments. EIG's annualized two year net earnings (ex-EI) CAGR is now 4.6% (from 7.7%).

Key Stock Statistics

FY Mar.	2006	2007E
Reported EPS (sen)	11.7	11.5
PER (x)	6.6	6.7
Dividend/Share (sen)	5.0	5.0
NTA/Share (MYR)	0.77	0.83
Book Value/Share (MYR)	0.77	0.83
No. of Outstanding Shares (mln)	120.0	
52-week Share Price Range (MYR)	0.75 - 0.92	
Major Shareholders:	%	
Lim Yee Soon	26.9	
Melissa Chen	22.4	

* FY chg from Jan to Mar in FY06. 14M FY06.

Recommendation & Investment Risks

- We maintain our Buy recommendation on EIG, but revise our 12-month target price slightly downwards to MYR0.87 (from MYR0.91), after our earnings revision.
- Our target price is derived from a 9x (unchanged) target PER (based on a 40% discount to market PER) on EIG's FY07 forecast EPS (ex-EI) of 9.3 sen (from 9.7 sen), and includes our FY07 forecast net DPS of 3.6 sen (from 3.2 sen). We believe the 40% discount to market is fair given EIG's tight share liquidity and small free float of only 25%.
- EIG declared a gross interim dividend per 50 sen share (DPS) of 5 sen in 3QFY07. Together with our estimated final gross DPS of another 5 sen, we project total gross DPS at 10 sen, which would translate to a gross yield of 6.5% for FY07. We believe EIG's relatively generous dividend payout is an added attraction and project EIG's net dividend payout to remain at 30%-40% p.a. over the next few years, implying gross dividend yields of 6.5% - 7.5% p.a.
- Risks to our recommendation and target price include the extremely competitive environment EIG operates in, given the low barriers to entry. In addition, we believe EIG's overseas operations may be difficult to manage efficiently from Malaysia, given the diversity of cultures, operational structures and government regulations.

Per Share Data

FY Mar.	2004	2005	2006	2007E
Book Value (MYR)	1.31	0.70	0.77	0.83
Cash Flow (sen)	16.5	12.1	14.8	12.2
Reported Earnings (sen)	24.2	10.2	11.7	11.5
Dividend (sen)	2.5	6.0	5.0	5.0
Payout Ratio (%)	18.5	42.4	30.7	39.4
PER (x)	3.2	7.6	6.6	6.7
P/Cash Flow (x)	4.7	6.4	5.2	6.3
P/Book Value (x)	0.6	1.1	1.0	0.9
Dividend Yield (%)	3.2	7.7	6.5	6.5
ROE (%)	20.4	16.6	15.9	11.5
Net Gearing (%)	0.0	0.0	0.0	0.0

* FY chg from Jan to Mar in FY06. 14M FY06.

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Quarterly Performance

FY Mar. / MYR mln	3Q07	3Q06	% Change
Reported Revenue	28.7	17.7	61.7
Reported Operating Profit	3.9	3.1	27.9
Depreciation & Amortization	-1.2	NA	NA
Net Interest Income / (Expense)	0.6	0.6	6.3
Reported Pre-tax Profit	4.5	3.6	25.4
Reported Net Profit	3.4	2.4	38.1
Reported Operating Margin (%)	13.7	17.3	-
Reported Pre-tax Margin (%)	15.8	20.4	-
Reported Net Margin (%)	11.7	13.7	-

* Qtrly numbers not comparable - 3Q06 is for 2-mths, 3Q07 is for 3-mths.

Source: Company data

Profit & Loss

FY Mar. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	80.7	114.4	121.9	133.8
Reported Operating Profit	17.4	17.8	17.8	20.4
Depreciation & Amortization	-2.3	-3.7	-3.6	-3.7
Net Interest Income / (Expense)	1.2	1.1	0.5	0.6
Reported Pre-tax Profit	17.7	18.9	18.0	17.9
Effective Tax Rate (%)	30.8	25.5	22.9	26.0
Reported Net Profit	12.2	14.1	13.8	13.2
Reported Operating Margin (%)	21.6	15.6	14.6	15.3
Reported Pre-tax Margin (%)	22.0	16.5	14.8	13.3
Reported Net Margin (%)	15.2	12.3	11.4	9.9

* FY chg from Jan to Mar in FY06. 14M FY06.

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	0.87
14-Dec-06	Buy	0.91
3-Oct-06	Strong Buy	0.94
22-Aug-06	Buy	0.94
5-Jul-06	Buy	0.97
31-May-06	Buy	0.98
23-Feb-06	Buy	1.02
28-Sep-05	Buy	0.97
5-Jul-05	Buy	1.00

