

Esthetics International Group

Recommendation: **BUY**

Stock Code: 5081

Bloomberg: EIG MK

Price: MYR0.75

12-Month Target Price: MYR0.94

Date: May 28, 2007

Board: Main

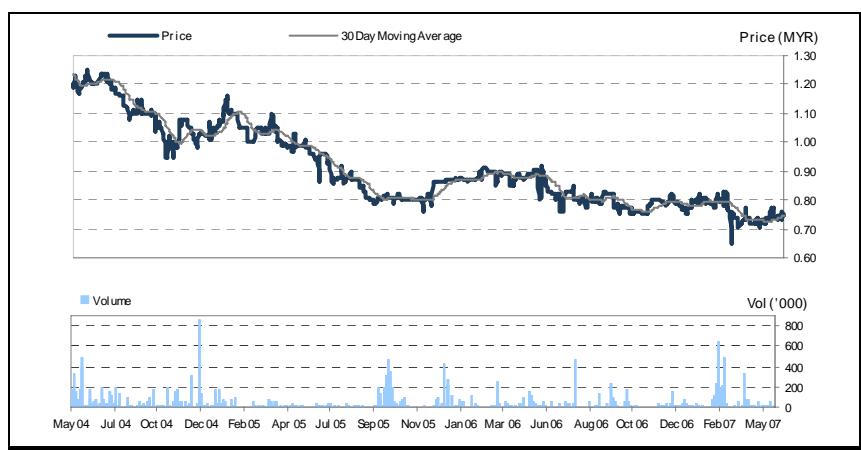
Sector: Trading/Services

GICS: Consumer Discretionary/Specialized Consumer Services

Market Value - Total: MYR90.0 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 FY07 (Mar.) net profit (ex-EI) was in line with expectations, comprising 98.7% of our FY07 forecast. EIG had recorded an exceptional gain of MYR2.73 mln on the disposal of three units of shop offices in 2QFY07. There are no comparative figures for the quarter, as EIG has changed its financial year-end to March 31 from Jan. 31.
- On a QoQ comparison, revenue rose 46.5% in 4QFY07, while net profit rose by 12%. The sharp rise in revenue was mainly due to new contributions from the recently completed acquisitions of Singaporean skincare and beauty product distributor Ina Gail Pte Ltd (IG) and professional skincare centre operators Leonard Drake (Singapore) Pte Ltd (LDS) and Leonard Drake (Hong Kong) Ltd (LDHK), and higher contributions from its direct selling business, Lexwel International. The disproportionately lower rise in net profit was due to: (i) a decline in EBIT margin to 12.2% (from 13.7% in 3QFY07), which was caused by, we believe, losses recorded in the newly acquired businesses as well as the highly competitive environment, which has impeded EIG from implementing any price increase for its professional services; and (ii) higher depreciation expense (+50.6% QoQ).
- EIG declared a final tax-exempt dividend of 2.5 sen (versus our expectation of 2.5 sen less tax), which translates to a 37.7% net payout ratio and 6.7% gross yield.
- We have updated our numbers, but our FY08 forecast remains relatively unchanged. We introduce our FY09 forecast. EIG's two year net earnings (ex-EI) CAGR is now 24.4%.

Key Stock Statistics

FY Mar.	2007	2008E
Reported EPS (sen)	11.5	11.9
PER (x)	6.5	6.3
Dividend/Share (sen)	5.0	5.0
NTA/Share (MYR)	0.84	0.91
Book Value/Share (MYR)	0.84	0.91
No. of Outstanding Shares (mln)	120.0	
52-week Share Price Range (MYR)	0.65 - 0.85	
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 upwards to MYR0.94 (from MYR0.88), after rolling forward our valuation period and updating our valuation parameters. Although the implied upside of 25.2% would, under normal circumstances, justify a Strong Buy recommendation, we refrain from upgrading our recommendation in view of EIG's tight share liquidity and lack of trading volume.
- Our target price is derived from an 8x (from 9x) target PER (based on an unchanged 40% discount to updated market PER) on EIG's CY07 (from FY07) forecast EPS (ex-EI) of 11.2 sen (from 9.2 sen), and includes our FY08 forecast net DPS of 4.4 sen (previously FY07 forecast DPS of 3.7 sen). We believe the 40% discount to market is fair given EIG's tight share liquidity and small free float of only 25%.
- 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% - 8% 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.	2005	2006	2007	2008E
Book Value (MYR)	0.70	0.77	0.84	0.91
Cash Flow (sen)	12.1	14.8	13.5	16.0
Reported Earnings (sen)	10.2	11.7	11.5	11.9
Dividend (sen)	6.0	5.0	5.0	5.0
Payout Ratio (%)	42.4	30.7	47.0	36.7
PER (x)	7.4	6.4	6.5	6.3
P/Cash Flow (x)	6.2	5.1	5.6	4.7
P/Book Value (x)	1.1	1.0	0.9	0.8
Dividend Yield (%)	8.0	6.7	6.7	6.7
ROE (%)	16.6	15.9	11.4	13.6
Net Gearing (%)	0.0	0.0	0.0	0.0

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

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Page 1 of 4

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Quarterly Performance

FY Mar. / MYR mln	4Q07	4Q06	% Change
Reported Revenue	42.4	28.9	46.5
Reported Operating Profit	5.2	4.2	23.2
Depreciation & Amortization	-1.8	-1.6	13.4
Net Interest Income / (Expense)	0.1	0.1	7.2
Reported Pre-tax Profit	4.9	4.3	16.1
Reported Net Profit	3.8	3.9	-3.1
Reported Operating Margin (%)	12.2	14.5	-
Reported Pre-tax Margin (%)	11.7	14.7	-
Reported Net Margin (%)	8.9	13.5	-

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

Source: Company data

Profit & Loss

FY Mar. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	114.4	124.7	180.5	200.3
Reported Operating Profit	17.8	17.6	23.3	26.9
Depreciation & Amortization	-3.7	-5.1	-5.0	-5.0
Net Interest Income / (Expense)	1.1	0.8	0.6	0.7
Reported Pre-tax Profit	18.9	18.1	19.5	23.1
Effective Tax Rate (%)	25.5	24.0	27.0	26.0
Reported Net Profit	14.1	13.8	14.2	17.1
Reported Operating Margin (%)	15.6	14.1	12.9	13.4
Reported Pre-tax Margin (%)	16.5	14.5	10.8	11.5
Reported Net Margin (%)	12.3	11.0	7.9	8.5

* 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.

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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	0.94
23-Apr-07	Buy	0.88
12-Feb-07	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

