

Esthetics International Group

Recommendation: **BUY**

Stock Code: 5081

Bloomberg: EIG MK

Price: MYR0.73

12-Month Target Price: MYR0.88

Date: April 23, 2007

Board: Main

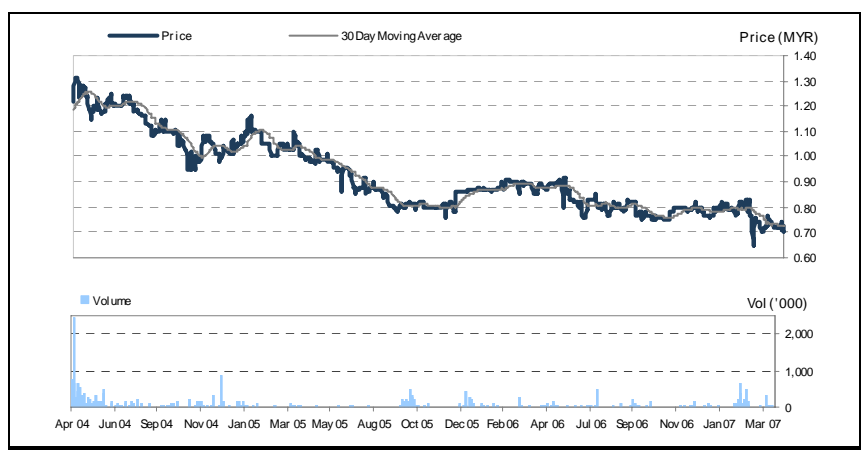
Sector: Trading/Services

GICS: Consumer Discretionary/Specialized Consumer Services

Market Value - Total: MYR87.6 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



Recent Developments

- EIG's acquisition of a 100% stake in 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) for SGD3 (MYR7) was completed at end-Mar. 2007. The acquisition price was based on the net effect of offsetting the shareholders' deficit of the three companies with the goodwill arising from the acquisition. EIG's effective acquisition price was therefore the goodwill amount of MYR3.4 mln, which we believe is fair, given IG's large Singaporean distributor base of 200, LDS's nine outlets and LDHK's two outlets.
- Although these companies were loss-making in 2006 (proforma net loss for 12 months estimated at MYR7.5 mln), they have since returned to profitability in 2007. As per the acquisition agreements, EIG will be able to consolidate these companies' earnings from 1 Dec. 2006 onwards, translating to a PBT of MYR0.8 mln for the four-month period to Mar. 31, 2007. After taking over the management control of these companies (in Apr. 07), EIG expects to be able to obtain synergistic benefits as well as accelerate regional growth and expansion. In addition, the beauty and skincare industry in Singapore and Hong Kong is expected to grow faster (of 5-10%) than Malaysia (of 3-7%).
- We have imputed the MYR0.8 mln four-month profit contribution of the three companies in EIG's FY07 (Mar.) financials, and project a profit contribution of between MYR2 mln-MYR3 mln for FY08. All in, our forecasts have been raised by 1% for FY07 and by 7.9% for FY08.

Key Stock Statistics

FY Mar.	2006	2007E
Reported EPS (sen)	11.7	11.6
PER (x)	6.2	6.3
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)	0.65 - 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 upwards to MYR0.88 (from MYR0.87), 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 9.4 sen (from 9.3 sen), and includes our FY07 forecast net DPS of 3.7 sen (from 3.6 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% - 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.

Earnings Outlook

- EIG's annualized two year net earnings (ex-EI) CAGR is now 9% (from 4.6%) with growth coming from an expansion of its distribution network, maiden contributions from its multi-level marketing subsidiary, and further expansion of its FMCG business.

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	12.3
Reported Earnings (sen)	24.2	10.2	11.7	11.6
Dividend (sen)	2.5	6.0	5.0	5.0
Payout Ratio (%)	18.5	42.4	30.7	39.1
PER (x)	3.0	7.2	6.2	6.3
P/Cash Flow (x)	NA	9.3	6.1	5.9
P/Book Value (x)	0.6	1.0	0.9	0.9
Dividend Yield (%)	3.4	8.2	6.8	6.8
ROE (%)	20.4	16.6	15.9	11.6
Net Gearing (%)	0.0	0.0	0.0	0.0

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

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Profit & Loss

FY Mar. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	80.7	114.4	135.2	177.5
Reported Operating Profit	17.4	17.8	18.4	22.5
Depreciation & Amortization	-2.3	-3.7	-3.6	-3.7
Net Interest Income / (Expense)	1.2	1.1	0.4	0.4
Reported Pre-tax Profit	17.7	18.9	18.4	19.7
Effective Tax Rate (%)	30.8	25.5	23.9	27.0
Reported Net Profit	12.2	14.1	13.9	14.3
Reported Operating Margin (%)	21.6	15.6	13.6	12.7
Reported Pre-tax Margin (%)	22.0	16.5	13.6	11.1
Reported Net Margin (%)	15.2	12.3	10.3	8.0

* 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	0.88
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

