

ESTHETICS INTERNATIONAL GROUP Results Report Stock Code: 5081	Price:	RM0.81
	Market Capitalisation:	RM97.2m
	Board:	Main Board
	Sector:	Trading/Services
	Recommendation:	Buy

KEY STOCK STATISTICS

	2005	2006F
EPS (sen)	10.4	11.2
P/E (x)	7.8	7.2
Dividend/Share (sen)	6.0	7.5
NTA/Share (RM)	0.74	0.81
Book Value/Share (RM)	0.74	0.81
Issued Capital (mil shares)	117.8	120.0
52-weeks Share Price Range		RM0.81-RM1.28
Major Shareholders	%	
Li mYee Soon	25.1	
Melissa Chen	22.4	

PER SHARE DATA

YE 30 Jan	2004	2005	2006F	2007F
Book value (RM)	0.67	0.74	0.81	0.89
Cash Flow (RM)	0.14	0.12	0.13	0.16
Earnings (sen)	12.1	10.4	11.2	13.7
Gross Dividend (sen)	2.5	6.0	7.5	9.5
Payout Ratio (%)	15.4	35.3	40.0	41.6
PER (x)	6.7	7.8	7.2	5.9
P/Cash Flow (x)	5.7	7.0	6.3	5.0
P/Book Value (x)	1.2	1.1	1.0	0.9
Dividend Yield (%)	3.1	7.4	9.3	11.7
ROE (%)	19.7	15.8	14.5	16.1
Net Gearing (%)	net cash	net cash	net cash	net cash

P&L ANALYSIS (RMm)

YE 30 Jan	2004	2005	2006F	2007F
Revenue	62.59	80.66	99.33	112.60
Operating profit	17.87	19.72	22.10	25.31
Depreciation	(2.17)	(2.33)	(2.63)	(3.00)
Net interest income	0.53	1.23	0.69	0.95
Exceptional items	-	-	-	-
Pre-associate profit	16.22	18.62	20.15	23.26
Associates	(0.19)	(0.89)	(0.80)	-
Pretax profit	16.04	17.73	19.35	23.26
Taxation	(4.33)	(5.46)	(5.81)	(6.74)
Minorities	(0.02)	(0.06)	(0.06)	(0.06)
Net profit	11.69	12.22	13.49	16.46
Operating margin (%)	28.6	24.4	22.2	22.5
Pretax margin (%)	25.6	22.0	19.5	20.7
Net margin (%)	18.7	15.2	13.6	14.6
Effective tax rate (%)	27.0	30.8	30.0	29.0

1 2Q 2005 Result Highlights

YE 30 Jan (RMm)	1Q06	2Q06	% QoQ
Revenue	19.3	22.6	17.5
EBITDA	2.7	4.7	75.7
Net Interest Inc / (Exp)	0.2	(0.0)	
Depreciation	(0.6)	(0.7)	
Pretax Profit	2.2	4.0	79.1
Net Profit	1.5	2.8	82.0
EBITDA margin (%)	13.9	20.8	
Pretax margin (%)	11.6	17.7	
Net margin (%)	7.9	12.3	

In line. Esthetics International Group ("EIG") achieved a net profit of RM2.8m for the second quarter ended July 2005 and RM4.3m for the 6-month period. Earnings at half time accounted for 33.6% of our forecast of RM12.8m for the 12 months ending January 2006. This is in line with EIG's historical track record of achieving a third of its annual net profit in the first half of its financial year.

Revenue improved 17.5% QoQ. Compared with 1QFY06, revenue in the second quarter was 17.5% higher at RM22.6m. A full 3 months contribution of RM2.8m (as opposed to a maiden 1-month sales of RM1.5m in 1QFY06) from the distribution of Radiancy beauty equipment and higher sales of Clinelle products (EIG's skincare range for the FMCG market) were key factors that boosted the Group's turnover. EIG's product distribution activities posted a 29.1% QoQ jump in sales to RM20.3m.

Provision of professional services under Leonard Drake and Bella Lina recorded a moderate 11.4% QoQ increase in revenue to RM8.0m.

Due to the Group's efforts to expand its distribution activities, revenue from this division now accounts for approximately 70% of Group turnover compared with 60% previously.

Earnings surged 82% QoQ on rebound of margins. EIG's EBITDA margin rebounded from a low of 13.9% in 1QFY06 to 20.8% in 2QFY06. The recovery can be attributed to non-recurrence of certain professional fees related to the face-lift exercises for EIG's Leonard Drake and Bella Lina centres. There was also the benefit of a

3%-5% price increase implemented in June 2005 for Dermalogica products sold to dealers as well as lower losses from Lexwel International Sdn Bhd ("Lexwel"),

EIG's direct selling unit. Lexwel commenced operations on 15 March 2005. It now has 3 SKUs, consisting mainly dietary supplements.

Declared interim dividend of 2.5 sen. EIG declared its first second quarter dividend of 2.5 sen per share. The stock will trade ex-dividend on 12 October with payment date on 28 October.

Has very little borrowings. As at 31 July 2005, EIG had borrowings of RM0.6m and cash reserves of RM21.6m.

2 Earnings Forecast

Net profit raised by 4%-6% ... All in, we have upgraded our projected net profit by 5.8% to RM13.5m for FY06 and 4.1% to RM16.5m for FY07. With the revision, EIG is expected to achieve earnings growth of 9.4% in FY06 and a stronger 18.0% in FY07.

... on upgrade of forecast revenue. Our higher net profit forecast takes into account stronger-than-expected revenue from the Group's product distribution activities. We now foresee this division to rake in sales of RM66.6m (YoY: +33%) in FY06 and RM77.3m (YoY: +16%) in FY07. Earlier, we had expected revenue from product distribution to grow by a modest 12% in FY06 and 16% in FY07.

Lower margins assumed. EBITDA margin was 17.2% in 1HFY06 compared with 19.6% in 1HFY05. Although 2HFY06 would not see a repeat of professional fees while start-up losses for Lexwel are expected to be narrowed, margins are likely to remain compressed in 2HFY06. This would be mainly due to expenses related to the aggressive recruitment of multi-level marketing ("MLM") leaders. In our forecasts, we have assumed EBITDA margins of 22% for FY06-07 (FY05: 24.4%).

3 Recommendation

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For AmResearch Sdn Bhd



Gan Kim Khoon
Executive Director

Buy for attractive dividend yield. Since the release of its 1QFY06 results, EIG's share price has slid some 16% from RM0.96 to RM0.81 currently. The weakness in share price can be attributed to the Group's rather disappointing 1QFY06 results.

Moving our base year from CY05 to CY06 and applying a low PER of 7x, we have a fair value of RM0.95. At 7x multiple, EIG would be valued at a steep 50% discount to average market PER of 14x.

Besides potential capital appreciation of 17%, investors can also look forward to very attractive dividend yields of 9.3% for FY06. **We rate EIG a Buy for investors looking for high dividend yield stocks.**

