

Corporate Highlights



**RHB Research
Institute Sdn Bhd**
A member of the
RHB Banking Group
Company No: 233327 -M

Results Note

30 March 2009

Hai-O Enterprise

On Track

Share Price : RM3.34
Fair Value : RM4.00
Recom : **Outperform**
(Maintained)

Table 1 : Investment Statistics (HAIO; Code: 7668)

Bloomberg: HAIO MK

FYE	Net							Net		
	Revenue	Profit	EPS	Growth	PER	C. EPS *	P/NTA	ROE	Gearing	GDY
Apr	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(%)	(x)	(%)
2008a	373.8	48.5	58.4	127.0	5.7	-	1.7	Net cash	39.4	12.0
2009f	409.9	48.0	57.7	-1.2	5.8	54.0	2.0	Net cash	30.9	9.0
2010f	416.4	47.4	57.1	-1.2	5.9	56.0	2.4	Net cash	25.7	9.0
2011f	468.2	54.5	65.5	14.8	5.1	60.0	2.9	Net cash	25.0	10.5

Main Board Listing / Trustee Stock

* Consensus Based On IBES Estimates

◆ **9MFY04/09 net profit in line.** Hai-O's 9MFY04/09 net profit was within our and consensus' expectations, accounting for 76% and 80% of our and consensus' full year net profit forecasts. 9MFY04/09 net profit rose 24.2% yoy to RM36.7m on the back of: 1) 35.6% yoy increase in MLM division revenue contribution, attributed to higher CDF and an estimated 16% yoy increase in distributor productivity, which filtered down to a 1.5% pt increase in EBIT margin to 16.2% (vs. 14.7% in 9MFY08); 2) 4.8% yoy sales growth and 2.4% pt yoy EBIT margin increase for the retail division mainly from its Chinese New Year sales campaign; offset slightly by 3) 7.2% yoy drop in revenue for wholesale division, due to slower demand from its customers (i.e. Chinese medical halls), as well as lower EBIT margin of 32% (vs. 36% in 9MFY08) due to the strengthening of US\$ against RM; and 4) underprovision of taxation during the prior years amounting to about RM0.89m recognised during the quarter.

◆ **Moving forward.** As highlighted in our results preview on 23 Mar 09, we believe Hai-O would be committed to its minimum gross dividend payout policy of 50%, which translates to a 6.6% net dividend yield for FY09 (or 9.0% gross dividend yield). We are also confident that Hai-O's full year earnings would be in line with our full year expectations, underpinned mainly by its double-digit topline growth from the MLM division.

◆ **Risks.** The risks include: 1) termination of supply agreements from its suppliers in China; 2) stronger-than-expected strengthening of US\$; and (3) worse-than-expected contraction in consumer spending.

◆ **Forecasts.** We maintain our forecasts.

◆ **Investment case.** We reiterate our **Outperform** call on the stock, with an unchanged fair value of RM4.00, based on unchanged 7x CY09 EPS, representing a 40% discount to our target PE for the consumer sector on account of its small market capitalisation. Together with net dividend yield of 6.6%, this translates to a total return of 26.6%. The share price is supported by share buybacks as well as high dividend yield.

RHBRI	Vs.	Consensus
✓	Above In Line Below	✓

Issued Capital (m shares)	84.5
Market Cap(RMm)	282.23
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	2.83 – 3.90

Major Shareholders:	(%)
Tan Family	30.0

FYE Apr	FY09	FY10	FY11
EPS chg (%)	-	-	-
Var to Cons (%)	6.9	1.9	9.2

PE Band



Relative Performance To KLCI



Please read important disclosures at the end of this report.

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Table 2: Earnings Reviews (YoY Cumulative)

FYE Apr (RMm)	3Q08	2Q09	3Q09	QoQ (%)	YoY (%)	9M08	9M09	YoY (%)	Comments
Revenue	100.5	87.3	102.1	17.0	1.6	240.3	302.3	25.8	Mainly due to higher revenue contribution from the MLM division.
- Wholesale & retail	25.0	20.2	22.0	9.3	(11.9)	63.5	62.4	(1.8)	Slight decline due to lower contributions from wholesale division from slower demand; offset slightly by higher contributions from retail division.
- MLM	74.7	65.9	78.9	19.8	5.7	174.3	236.4	35.6	Yoy increase in CDF as well as distributor productivity by 16%.
- Others	0.8	1.2	1.2	(5.4)	49.7	2.4	3.6	46.3	
EBIT	18.4	15.5	18.6	20.1	1.4	41.1	52.7	28.3	Filtered down from revenue.
Interest income/(expense)	0.1	(0.2)	(0.1)	(58.4)	>(100)	0.2	(0.1)	>(100)	
PBT	18.5	15.3	18.6	21.0	0.5	41.3	52.6	27.4	Filtered down from EBIT.
Taxation	(4.9)	(4.2)	(6.2)	47.0	24.4	(11.4)	(15.4)	35.3	Underprovision of taxation in during the prior years amounting to about RM885,000.
MI	(0.1)	0.3	(0.4)	>(100)	241.5	(0.3)	(0.2)	(45.3)	
Net profit	13.4	11.2	12.0	7.5	(10.5)	29.6	36.7	24.2	
EPS (sen)	18.2	13.1	14.6	12.1	(19.4)	40.1	44.5	11.1	
Gross dividend (sen)	0.0	0.0	0.0	n.a.	n.a.	8.0	10.0	25.0	
EBIT margin (%)	18.3	17.8	18.2	(0.1)	0.5	17.1	17.4	0.3	Driven by margin expansion at both MLM and retailing divisions; offset slightly by lower margin for wholesale division due to US\$ strengthening against RM.
PBT margin (%)	18.4	17.6	18.2	(0.2)	0.6	17.2	17.4	0.2	
Net profit margin (%)	13.3	12.8	11.7	(1.6)	(1.0)	12.3	12.1	(0.2)	Drop due to under provision of taxation during the prior years.
Effective tax rate (%)	26.8	27.3	33.1	6.4	5.9	27.6	29.4	1.7	

Source: Company; RHBRI

Table 3. Earnings Forecasts

FYE Apr (RMm)	FY08a	FY09F	FY10F	FY11F
Turnover	373.8	409.9	416.4	468.2
Wholesale	49.4	41.5	39.4	41.4
MLM	281.6	324.7	331.2	379.4
Retail	39.3	41.2	42.3	42.9
Manufacturing	1.2	2.5	3.5	4.5
Other	2.3	0	0	0
Turnover growth (%)	97.4	9.6	1.6	12.5
Cost of Sales	(247.74)	(268.77)	(271.12)	(308.21)
Gross Profit	126.1	141.1	145.3	160.0
EBITDA	70.3	67.7	66.5	74.6
EBITDA margin (%)	18.8	16.5	16.0	15.9
Depreciation	(2.2)	(2.1)	(2.1)	(2.1)
Net Interest	(0.4)	1.0	1.3	2.0
Associates	0.0	0.0	0.0	0.0
Pretax Profit	67.7	66.5	65.7	74.4
Tax	(18.6)	(18.0)	(17.7)	(19.4)
Minorities	(0.6)	(0.6)	(0.6)	(0.6)
Net Profit	48.5	48.0	47.4	54.5

Source: Company data, RHBRI estimates

Table 4. Forecast Assumptions

FYE Apr	FY09F	FY10F	FY11F
Core distributor force (CDF)	82,000	92,000	102,000
Distributor productivity (RM/CDF)	3,960	3,600	3,720
Opening of new retail outlets	2	1	0
Revenue per outlet (RM'000)	698	705	716

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Outperform = The stock return is expected to exceed the KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

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Underperform = The stock return is expected to underperform the KLCI benchmark by more than five percentage points over the next 6-12 months.

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Overweight = Industry expected to outperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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