



CONSUMER

Eing Kar Mei
+60 (3) 9207 7620
eing.karme@osk.com.my

Stock Profile/Statistics

Bloomberg Ticker	HAIO EQUITY
KLCI	885.43
Issued Share Capital (m)	84.46
Market Capitalisation (RMm)	282.09
52 week H L Price (RM)	3.90 2.86
Average Volume (3m) '000	42.81
YTD Returns (%)	0.25
Net gearing (x)	-0.56
Altman Z-Score	5.64
ROCE/WACC	3.30
Beta (x)	0.83
Book Value/share (RM)	1.76

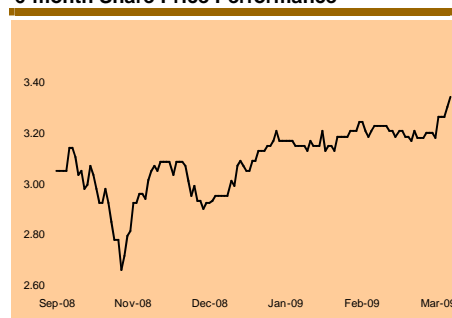
Major Shareholders (%)

Kai Hee Tan	9.59
Akintan SB	7.00
Excellent communication	5.11

Share Performance (%)

Month	Absolute	Relative
1m	3.15	2.43
3m	7.71	3.54
6m	13.18	15.95
12m	30.26	58.70

6-month Share Price Performance



Hai-O is involved in wholesaling, retailing, multi-level marketing, and operates a pharmaceutical factory and modern Chinese medicinal clinics.

9MFY09 Results Review

Private Circulation Only

Hai-O Enterprise

BUY	Maintain
Price Target	RM3.34
	RM4.16

Another Bumper Quarter

Hai-O's revenue and net profit grew 25.8% and 23.4% y-o-y respectively in 9MFY09, driven mainly by continued robust growth of its MLM division. Despite the weaker ringgit against the US\$, EBIT margin inched up 0.3%-pts higher y-o-y on stronger contribution from its house brands. The MLM division would continue to drive the group's growth going forward. Hai-O offers a generous dividend yield of 12% and is one of the top yielding stocks in the consumer sector. Reiterate BUY.

Earnings continue to flourish. Hai-O's 9MFY09 earnings of RM36.5m came in at 73.5% of OSK forecast but was 7% above consensus forecast when annualised. Earnings increased 23.4% y-o-y on the back of the better performance of its MLM division (revenue +35.6%, PBT +49%), which accounted for 77.3% of sales in 3QFY09. Cumulative retail sales grew 4.8% y-o-y, boosted by the Chinese New Year festivities while manufacturing sales rose an impressive 109.4%. Wholesale sales and profit, nonetheless, contracted 7.2% and 18% y-o-y respectively owing to lower orders, the weakening of the RM and higher advertising cost. A q-o-q comparison revealed that all key divisions recorded positive sales growth ranging from 1.3%-19.8%, with MLM showing the strongest growth. Consequently, net profit grew 10.1% q-o-q.

Steady margins. In spite of the weaker ringgit against US\$ in the current quarter, YTD EBIT still improved marginally by 0.3%-pts y-o-y. We attribute this to the change in its product mix and higher sales contribution from its house brands. That said, we retain our view that margins would come under pressure on lower sales of higher margin products and as the group offers more discounts to boost retail sales. Given our house view that the ringgit would appreciate to RM3.65-RM3.70 against US\$ by end-2009, we expect the longer-term margin pressure to be mitigated.

MLM division still robust. We understand that its higher margin and fast moving products, namely its slimming lingerie and water filters, are still selling fast despite the weak consumer sentiment. Its membership base continued to grow steadily at 2k-3k/month. The approval for the launch of its MLM products in Indonesia is expected to be obtained by end-April and contribution should start to flow in from FY10.

Maintain BUY based on target price of RM4.16. We maintain our FY09/10 forecasts of RM49.6m and RM50.4m respectively. We value Hai-O at RM4.16 based on 7x CY09 EPS. It is worth noting that Hai-O offers an attractive dividend yield of 12%, and is among the top dividend yielding stocks in our small cap/consumer universe.

FYE Apr (RM m)	FY06	FY07	FY08	FY09f	FY10f
Turnover	144.3	189.3	373.8	387.5	406.3
Net Profit	10.2	21.4	48.5	49.6	50.4
% chg YoY	85%	110%	127%	2%	2%
Consensus	-	-	-	45.2	47.6
EPS (sen)	12.1	25.3	57.5	58.7	59.7
DPS (sen)	8.0	18.0	40.0	40.0	40.0
Div Yield	2.4%	5.4%	12.0%	12.0%	12.0%
ROE	11.4%	20.2%	34.5%	31.7%	29.1%
ROA	8.1%	14.4%	23.8%	21.2%	19.9%
PER (x)	27.7	13.2	5.8	5.7	5.6
P/BV (x)	3.2	2.7	2.0	1.8	1.6
EV/EBITDA (x)	15.5	7.9	3.1	3.8	3.7

KEY HIGHLIGHTS

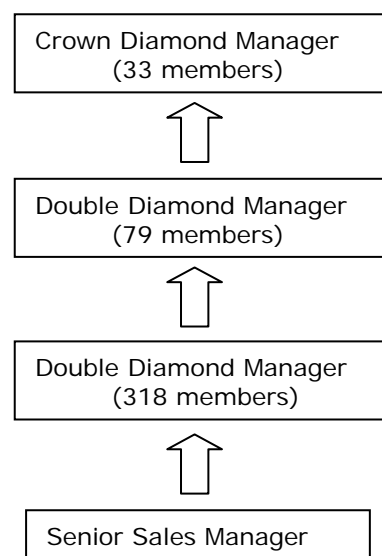
FYE Apr (RMm)	3QFY09	2QFY09	% chg	FY09	FY08	% chg
Turnover	102.1	87.3	17.0	302.3	240.3	25.8
EBIT*	18.6	15.5	20.1	52.7	41.1	28.3
Net interest expense	-0.1	-0.2	1.0	-0.1	0.2	-162.5
Associates	0.0	0.0	-	0.0	0.0	-
PBT	18.6	15.3	21.0	52.6	41.3	27.4
Tax	-6.2	-4.2	47.0	-15.4	-11.4	35.3
MI	-0.4	-0.3	-59.7	-0.7	-0.3	102.8
Net Profit	12.0	10.9	10.1	36.5	29.6	23.4
EPS (sen)	14.2	12.9	-	43.2	35.0	-
Gross DPS (sen)	0.00	10.00	-	0.00	0.00	-
EBIT margin	18.2%	17.8%	-	17.4%	17.1%	-
NTA/share (RM)	1.85	1.95	-	1.85	1.42	-

Hai-O Diamond Night Celebration

At the Oscars. We were invited to Hai-O's 16th Diamond Award ceremony at the Mines Exhibition and Convention Center on March 28. The event was officiated at by Tun Musa Hitam, and attended by over 4,000 MLM sales agents and distributors representing a cross section of its strong community of bumiputera MLM membership base of 80,000. The night saw the top sales agents from all regions honoured for their sales achievements during the past year in a glitzy occasion.

Figure 1: Hai-O Marketing – Diamond Night Dinner

Source: OSK, Company

Figure 1: Hai-O MLM structure

Source: OSK, Company

Strong and motivated agency force. We were enthralled by the thunderous support and commitment shown by Hai'O's agents at the event, which saw a variety of activities organised to foster a strong sense of belonging and kinship, attributes we consider as key for the long-term success of any MLM business. The members' attire bore the official corporate colours of Hai-O, which instils the spirit of unity and professionalism. We note that the event was partially subsidised whereby members were required to purchase tickets in advance to witness the successful promotion and installation of their agency peers to higher membership tiers.

Figure 1: Diamond Night opening ceremony



Source: OSK

Figure 2: Top sales agent receiving his award from the Tun Musa Hitam



Source: OSK

Figure 3: A Group picture with Diamond Managers



Source: OSK

Figure 4: VIPs and senior management team



Source: OSK

Figure 5: MLM members performing on stage after the award presentation



Source: OSK

Positive feedback from members. We gather from some MLM members that sales continue to be strong despite the weaker economy. This is attributed to the trust and confidence placed on the Hai-O brand and products while MLM agents are well incentivised. Among the more recent incentive trips were to Australia, Korea, China and Paris. The group takes pride on the MLM business and regularly holds motivational talks and seminars to equip members with the necessary soft skills to develop entrepreneurship.

New skin care range unveiled. On the sidelines of the event, Hai-O showcased its *La Praise* skin care products launched early this year. While there are concerns that demand for MLM products may suffer as consumers downtrade to cheaper alternatives due to the weak economy and the premium pricing accorded, we were told that the underlying demand for cosmetic and skincare products remains robust supported by a good 70% of its membership base being made up of women. While many companies have scaled down their A&P spending, Hai-O has instead opted for bigger adspend to create awareness of its products with advertisements aired on Channel 9 (TV9) and product profiling on women's programmes.

Figure 6: Newly launched skincare range



Source: OSK

OSK Research Guide to Investment Ratings**Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

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Chris Eng

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	Hong Kong Office OSK Securities Hong Kong Ltd. 1201-1203, 12/F, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : + (852) 2525 1118 Fax : + (852) 2537 1332	Singapore Office DMG & Partners Securities Pte. Ltd. #22-01 Ocean Towers 20 Raffles Place Singapore 048620 Tel : +(65) 6438 8810 Fax : +(65) 6535 4809	Jakarta Office PT OSK Nusadana Securities Indonesia Plaza Lippo, 14 th Floor, Jl. Jend. Sudirman Kav. 25. Jakarta 12920 Indonesia Tel : + (6221) 520 4599 Fax : + (6221) 520 4505	Shanghai Office OSK (China) Investment Advisory Co. Ltd Room 6506, Plaza 66 No. 1266 West Nanjing Road 200040, Shanghai China Tel : +(8621) 6288 9611 Fax : + (8621) 6288 9633