

# Corporate Highlights

## Visit Note/Results Preview

# Hai-O Enterprise

100% Committed to 50% Dividend Payout



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

23 March 2009

Share Price : RM3.18  
Fair Value : RM4.00  
Recom : **Outperform**  
(Maintained)

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

Bloomberg: HAIO MK

FYE	Net				PER	C. EPS *	P/NTA	ROE	Net	
	Revenue	Profit	EPS	Growth					Gearing	GDY
Apr	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(%)	(x)	(%)
2008a	373.8	48.5	58.4	127.0	5.4	-	1.7	Net cash	39.4	12.6
2009f	409.9	48.0	57.7	-1.2	5.5	54.0	2.0	Net cash	30.9	9.4
2010f	416.4	47.4	57.1	-1.2	5.6	57.0	2.4	Net cash	25.7	9.4
2011f	468.2	54.5	65.5	14.8	4.9	62.0	2.9	Net cash	25.0	11.0

Main Board Listing / Trustee Stock

\* Consensus Based On IBES Estimates

◆ **Committed to its 50% payout policy.** Given the disappointing dividend cuts/lower payouts by “resilient” companies such as Carlsberg and BAT, investors are questioning the ability of smaller companies to adhere to dividend policies. We are confident of Hai-O’s commitment to its minimum gross dividend payout policy of 50%, which translates to a 7% net dividend yield for FY09 (or 9.4% gross dividend yield). The company declared 10 sen (less 25% tax) interim dividend (ex-date 16 Mar 09), payable on 26 Mar, and we believe that the company would be paying out at least 20 sen final dividend (excl. share dividend) for FY09. Historically, the company has been paying out 49-83% of its net profit (the minimum 50% payout policy was implemented from FY07 onwards).

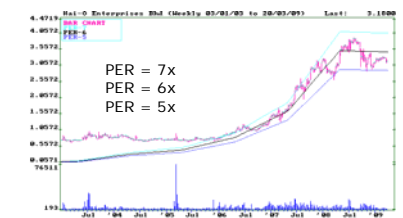
Issued Capital (m shares)	84.5
Market Cap(RMm)	268.57
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	2.83 – 3.90

<b>Major Shareholders:</b>	<b>(%)</b>
Tan Family	63.7

FYE Apr	FY09	FY10	FY11
EPS chg (%)	2.4	(6.3)	(5.7)
Var to Cons (%)	6.9	0.2	5.6

◆ **3QFY04/09 results expected to be in line with our expectations.** Hai-O’s 3Q09 results (to be released on 26/27 Mar 09) is expected to be in line with our initial estimates with an upside bias, due to lower-than-projected drop for the wholesale division (27% vs. our forecasted 32%). We maintain our view that Hai-O’s topline growth would be underpinned by: 1) double-digit topline growth from MLM division; 2) flattish retail sales; slightly offset by 3) drop in wholesale revenue, but with margin pressure due to the weakening of RM against US\$ as compared to FY08 (average US\$/RM of 3.35). We have also cut our distributor productivity for FY10-11 by 6.0-6.3% p.a. in anticipation of weaker consumer spending ahead.

### PE Band



◆ **Reducing its US\$ exposure.** The company has been able to reduce its US\$ exposure in 2009. In 2008, about 60% of the company’s goods are procured in US\$ as compared to its current 40%. This was mainly due to two factors: 1) lower demand from the wholesale division (goods imported from China in US\$); and 2) switch in consumer purchases from slimming corset (cost in US\$) to water filter (cost in RM). We estimate that every 1% strengthening of US\$ would cause its FY09-11’s bottom-line to drop by 1.2-1.3% (based on average US\$/RM of RM3.45).

### Relative Performance To KLCI



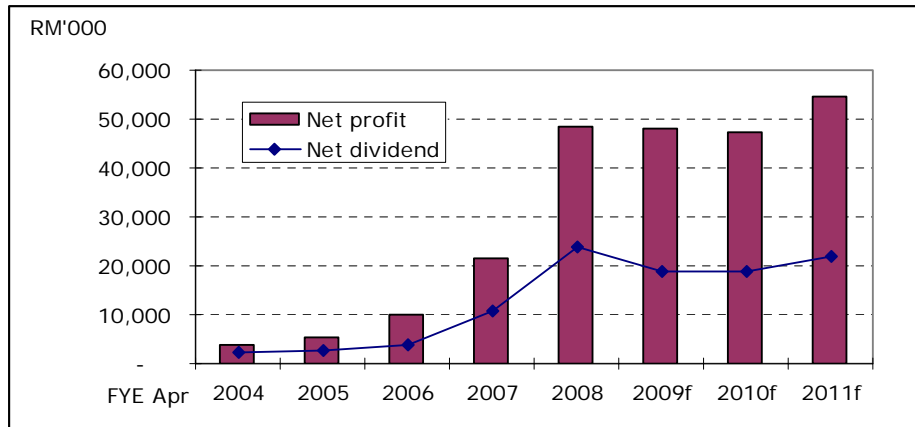
◆ **Risks.** The risks include: 1) termination of supply agreements from its suppliers in China; 2) stronger-than-expected strengthening of US\$; and (3) worse-than-expected contraction in consumer spending.

◆ **Forecasts.** We adjust up our FY09 forecast by 2.5% to reflect higher than expected contribution from the wholesale division. However, we revise down our FY10-11 forecasts by 5.6-6.3% to reflect lower distributor productivity due to weaker consumer spending.

◆ **Investment case.** We reiterate our Outperform call on the stock, with a lower indicative fair value of RM4.00 (from RM4.16), 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 7%, this translates to a total return of 33%. The share price is supported by share buy backs as well as high dividend yield.

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**Chart 1: Net Profit vs. Net Dividend Payout**



Source: Company, RHBRI

**Table 2. Historical Gross Dividend**

FYE Apr	Gross dividend	GDY
2004	5 sen	5.03%
2005	6 sen	5.61%
2006	8 sen	4.40%
2007	18 sen + 5% share dividend	5.33%
2008	40 sen + 4% share dividend	12.05%
2009f^	30 sen	9.40%
2010f^	30 sen	9.40%
2011f^	35 sen	11.00%

Source: Company, RHBRI

^based on 52-53% gross dividend payout

Table 3. Earnings Forecasts

FYE Apr (RMm)	FY08a	FY09F	FY10F	FY11F
<b>Turnover</b>	<b>373.8</b>	<b>409.9</b>	<b>416.4</b>	<b>468.2</b>
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
<b>EBITDA</b>	<b>70.3</b>	<b>67.7</b>	<b>66.5</b>	<b>74.6</b>
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
<b>Pretax Profit</b>	<b>67.7</b>	<b>66.5</b>	<b>65.7</b>	<b>74.4</b>
Tax	(18.6)	(18.0)	(17.7)	(19.4)
Minorities	(0.6)	(0.6)	(0.6)	(0.6)
<b>Net Profit</b>	<b>48.5</b>	<b>48.0</b>	<b>47.4</b>	<b>54.5</b>

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.

Market Perform = The stock return is expected to be in line with the KLCI benchmark (+/- five percentage points) over the next 6-12 months.

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

Industry/Sector Ratings

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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