



CONSUMER

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1QFY09 Results Review

Private Circulation Only

Hai-O Enterprise

BUY	Maintain
Price	RM3.34
Target	RM4.50

Still Going Strong

Stock Profile/Statistics

Bloomberg Ticker	HAIO MK Equity
KLCI	1025.70
Issued Share Capital (m)	84.16
Market Capitalisation (RMm)	281.11
52 week H L Price (RM)	3.90 2.50
Average Volume (3m) '000	105.78
YTD Returns (%)	0.18
Net gearing (x)	(0.56)
Altman Z-Score	6.85
ROCE/WACC	2.36
Beta (x)	0.92
Book Value/share (RM)	1.76

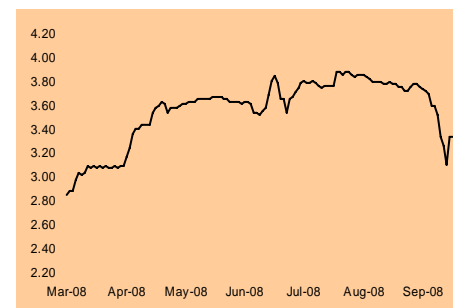
Major Shareholders (%)

Tan Kai Hee & Family	24.2
Excellent Communication SB	5.3

Share Performance (%)

Month	Absolute	Relative
1m	(12.11)	(6.97)
3m	(5.61)	11.05
6m	18.55	35.13
12m	41.91	69.45

6-month Share Price Performance



Hai-O registered another set of strong results with 1Q earnings of RM13.6m, 70% higher than our estimates, while revenue and earnings expanded 90.5% and 94.3% respectively. All divisions recorded positive revenue growth, especially the MLM division, which grew 126.6%. Q-o-q earnings were, however, 28.3% lower due to seasonal factors as 1Q is the weakest quarter for the entire year. We are reducing our earnings forecast and target price despite the strong 1Q earnings in view of the weaker consumer sentiment due to higher fuel price, CPI and bearish market. Nevertheless, Hai-O is still a BUY with target price of RM4.50

MLM unit going strong. The current economic situation may curb consumer spending, but the number of MLM distributors is still surging. Hence, a larger volume will compensate for the lower average revenue per MLM distributor. Currently Hai-O has about 80,000 members, which is still far lower from Amway's benchmark 190,000. This means that Hai-O has a long way to go to achieve maturity, which leads us to believe that Hai-O would be able to maintain the current momentum for 8 to 10 more years at the least.

Revising down our numbers. Despite the strong momentum in the MLM division, we are cautious given that the recent fuel price hike may have a negative impact on consumer spending; and are thus reducing our earnings forecast from RM55.7m and RM64.1m to RM49.6m and RM50.5m for FY09 and FY10 respectively.

Among the best in Asia Pacific. Hai-O was named one of 13 Malaysian companies in "Forbes Asia's fourth annual Best Under A Billion" for the second consecutive year.

Defensive play. With the current bearish market, we are revising downwards our valuation parameter from 9x PER and 2.7x P/BV to a lower band of 8x PER and 2.3x P/BV over FY09 numbers. Hence, we derive a lower target price of RM4.50 compared with RM5.50 previously. Despite flattish earnings for FY09, Hai-O will still be able to maintain its dividend payout and we see a dividend of 40 sen per share, translating into gross yield of 12% for FY09. At the current price, the stock is trading at an undemanding forward PER of 6.0x and 5.9x for FY09 and FY10 respectively. Given its strong net cash per share of RM0.43, ROE of above 30% and FY09 dividend yield of 12%, we believe Hai-O does not deserve such a low PER valuation. Maintain **BUY**.

Principal Activities : Wholesaling, retailing, multi-level marketing (MLM), pharmaceutical factory and modern Chinese Medicinal Clinics.

FYE 30 Apr	FY06	FY07	FY08	FY09f	FY10f
Total revenue	144.3	189.3	373.8	387.5	406.3
Net Profit	10.2	21.4	48.5	49.6	50.5
% chg YoY	84.9	110.0	126.8	2.3	1.9
EPS (sen)	11.8	24.8	56.2	55.2	56.3
Gross DPS (sen)	6.1	14.0	40.0	40.0	43.0
Gross Div Yield (%)	1.8	4.2	12.0	12.0	12.9
ROE (%)	11.9	21.9	39.4	31.5	27.3
ROA (%)	8.4	15.6	27.5	22.4	19.9
PER (x)	28.3	13.5	5.9	6.0	5.9
P/BV	3.2	2.7	2.1	1.8	1.6
EV/EBITDA	16.0	7.6	3.0	3.4	2.9

APPENDIX

Figure 1: Results Table (RMm)

FYE 30 Apr	1QFY09	4QFY08	% chg	YTD FY09	YTD FY08	% chg
Turnover	112.9	133.5	-15.5%	112.9	59.3	90.5%
Wholesaling	12.3	12.3	-0.5%	12.3	10.5	16.2%
MLM	91.5	(74.6)	-222.7%	91.5	40.0	128.6%
Retail	8.0	7.2	10.7%	8.0	7.9	1.1%
Manufacturing	0.6	0.3	133.3%	0.6	0.4	73.1%
Others	0.5	0.9	-43.7%	0.5	0.4	14.5%
EBITDA	19.2	26.8	-28.4%	19.2	10.5	83.1%
Depreciation	(0.5)	(0.5)	5.2%	(0.5)	(0.5)	5.2%
Net interest expense	0.1	0.3	-54.0%	0.1	0.0	269.7%
Associates	0.0	0.0	n.a.	0.0	0.0	n.a.
PBT	18.7	26.4	-29.3%	18.7	9.9	88.4%
Tax	(5.1)	(7.3)	-29.8%	(5.1)	(2.9)	78.7%
MI	0.0	(0.2)	-100.0%	0.0	(0.1)	-100.0%
Net Profit	13.6	18.9	-28.3%	13.6	7.0	94.3%
EPS (sen)	15.7	21.9		15.7	8.1	
EBITDA margin	17.0%	20.0%		17.0%	17.7%	

FYE Apr 30	FY06	FY07	FY08	FY09f	FY10f
Turnover	144.3	189.3	373.8	387.5	406.3
EBITDA	17.1	32.8	69.6	66.6	68.8
PBT	15.1	30.6	67.7	67.8	69.1
Net Profit	10.2	21.4	48.5	49.6	50.5
EPS (sen)	11.8	24.8	56.2	55.2	56.3
DPS (sen)	6.1	14.0	40.0	40.0	43.0
Margin					
EBITDA	11.8%	17.3%	18.6%	17.2%	16.9%
PBT	10.5%	16.2%	18.1%	17.5%	17.0%
Net Profit	7.1%	11.3%	13.0%	12.8%	12.4%
ROE	11.9%	21.9%	39.4%	31.5%	27.3%
ROA	8.4%	15.6%	27.5%	22.4%	19.9%
Balance Sheet					
Fixed Assets	54.6	53.8	50.2	91.9	89.5
Current Assets	70.6	95.2	153.1	148.2	177.2
Total Assets	125.2	149.0	203.3	240.1	266.7
Current Liabilities	31.1	38.0	57.2	61.1	64.8
Net Current Assets	39.4	57.2	95.9	87.1	112.4
LT Liabilities	0.0	0.1	0.1	0.1	0.1
Shareholders' Funds	89.4	105.7	140.5	173.9	196.6
Net Cash/(debt)	15.6	38.9	81.5	63.4	88.5

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