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Hai-O Enterprise

BUY

Price	**RM1.68**
Target	**RM2.08**

Stock Profile / Statistics	
Bloomberg Ticker	HAIO MK Equity
KLCI	1079.72
Issued share capital (m)	67.23
Market Capitalisation (RMm)	112.95
52 week High (RM)	1.76
52 week Low (RM)	0.95
Average Volume (3m) '000	73.64
YTD Returns (%)	0.77
5 yr Average ROE (%)	5.12
5 yr Average ROA (%)	3.66
Net gearing (x)	(0.17)
Altman Z-Score	3.42
ROCE/WACC	0.39
Beta (x)	0.82
Cash Ratio (x)	0.64
FCF/share (x)	0.16
Price/FCF/share (x)	7.98
Book Value/share (RM)	1.36

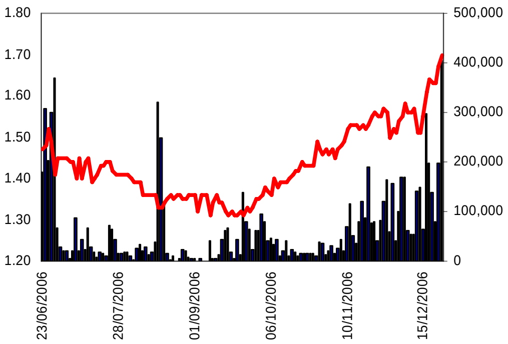
Major Shareholders (%)	
Tan Kai Hee & Family	21.5
Excellent Communication SB	5.3

Share Performance (%)	1m	3m	6m	12m
Absolute	13.5	33.3	21.3	79.3
Relative	5.8	16.5	(3.2)	48.7

Growth Profile (%)	05a	06fa	07f	08f
Revenue	16.6	3.6	11.3	10.2
EBITDA	51.0	33.3	22.1	10.2
PBT	61.5	46.7	37.6	10.8
NP	41.6	84.9	39.1	12.4

Margin (%)	05a	06fa	07f	08f
EBITDA	9.2	11.8	13.0	13.0
PBT	7.4	10.5	13.0	13.0
NP	4.0	7.1	8.8	9.0

Historical Price Ratio (x)	03a	04a	05a	06a
P/Sales	1.9	1.4	1.2	1.2
P/Earnings	115.0	29.1	20.5	11.1
P/Book	1.4	1.4	1.4	1.3



Strong 1H

Above expectation. Hai-O's 1HFY07 earnings of RM8.5m, when annualised is 30% above our forecast. 1H revenue grew by 9.5% while earnings were up 70.9%. The strong set of figures was generated by higher contributions from the multi-level marketing (MLM) division, and successful sales promotions held by the retail business division.

Higher EBITDA margin. 9-month EBITDA margin increase from 10.4% in previous year to 15.9%. The higher margin was attributed to stronger contribution from MLM and the disposal of its non-core businesses which improved operational efficiency.

Strengthening Ringgit is favourable. The strengthening of the Ringgit against the US$ will reduce imported costs hence improving overall profit margin of the Group. Based on our estimates, every 1% appreciation in Ringgit, Hai-O's gross profit margin will increase by 0.3%-0.4%.

Our forecast revised. We are increasing our FY07 and FY08 earnings forecast from RM13.1m and RM14.7m to RM14.2m (+6.1%) and RM15.9m (+8.2%) respectively. Its 3 year earnings going forward is expect to grow by an average of about 18.9% per annum.

Attractive dividend yield. Hai-O has promised to pay at least 50% of net profit as dividend to shareholders. For FY07, we expect the company to pay dividend of at least 15 sen per share translating into yield of 8.9%.

Maintain BUY. We are increasing our fair value from RM2.01 to RM2.08 resulted from earnings forecast by applying the composite average of 9x PER over FY08 EPS of 22.5 sen, P/BV of 1.3x and Gordon Growth model. We initiate coverage on the stock with a **BUY** recommendation.

FYE Apr (RMm)	FY04a	FY05a	FY06a	FY07F	FY08F
Total revenue	119.5	139.3	144.3	160.5	176.8
EBITDA	8.5	12.8	17.1	20.9	23.0
Pretax profit	6.4	10.3	15.1	20.8	23.1
Net Profit	3.9	5.5	10.2	14.2	15.9
% chg YoY	295.9	41.6	84.9	39.1	12.4
EPS (sen)	5.8	8.2	15.1	21.2	23.8
Gross DPS (sen)	2.1	2.5	8.0	14.9	15.9
Gross Div Yield (%)	1.2	1.5	4.7	8.9	9.5
PER (x)	29.1	20.5	11.1	7.9	7.1
BV/ share	1.19	1.21	1.33	1.43	1.55
P/BV	1.4	1.4	1.3	1.2	1.1
ROE (%)	4.8	6.8	11.9	15.2	15.7
ROA (%)	3.5	4.7	8.1	11.5	11.7

Figure 1: Results at glance

Results Table (RMm) FYE Apr 30	2QFY07	1QFY07	% chg	YTD FY07	YTD FY06	% chg
Turnover	41.9	39.4	6.4%	81.2	74.2	9.5%
EBITDA	7.8	6.3	22.2%	14.1	9.3	51.5%
Depreciation	(0.6)	(0.6)	0.0%	(1.1)	(1.1)	0.5%
Net interest expense	(0.0)	(0.0)	95.0%	(0.1)	(0.0)	436.4%
Associates	0.0	0.0	n.a.	0.0	0.0	n.a.
PBT before EI	7.2	5.8		12.9	8.2	
EI	0.0	0.0	n.a.	0.0	0.0	n.a.
PBT	7.2	5.8	24.1%	12.9	8.2	58.0%
Tax	(2.0)	(1.8)	12.0%	(3.8)	(2.9)	29.8%
MI	(0.2)	(0.4)		(0.6)	(0.3)	
Reported Net Profit	4.9	3.5	39.6%	8.5	5.0	70.9%
Core Net Profit	4.9	3.5		8.5	5.0	
Core EPS (sen)	7.4	5.3		12.7	7.4	
EBITDA margin	16.8%	15.0%		15.9%	10.4%	

Source: OSK Research

OSK Research Guide to Investment Ratings

Buy: Total return of the stock may exceed 10% OR outperform the relevant benchmark index over the next 12 months, whichever is higher

Trading Buy: Total return of the stock may exceed 10% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Total return of the stock may fall within the range of +/- 10% (inclusive) over the next 12 months OR is not expected to outperform or underperform the relevant benchmark index by the same quantum over the same period

Take Profit: Target price has been attained. Look to accumulate at lower levels.

Sell: Total return of the stock may fall more than 10% OR underperform the underlying benchmark index over the next 12 months

** Total Return (capital gain + dividend yield)*

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