Hai-O Enterprise Bhd

An enterprising entity

OUTPERFORM

Price: RM2.49

Target Price: RM2.90

We are initiating coverage on Hai-O Enterprise Bhd with an OUTPERFORM recommendation and a Target Price (TP) of RM2.90. We like Hai-O for its 1) strong Multi-Level Marketing ("MLM") business growth that will see it making a substantial growth in earnings, 2) decent net dividend yields of 3.3%-3.8% given its >50% dividend payout policy, which should be sustainable as its earnings are still in a high growth stage, 3) its potential bonus issue and share dividend and 4) its stable consumer and retail segment, which will benefit from the rising consumer sentiment and affluence and also supported by its strong and expanding MLM division, which consists of more than a 80% Bumiputra distributor force.

Strong growth in MLM to lead to a high substantial growth in earnings. We expect the MLM division's EBIT to register strong FY13-14E growth of 10.7%-12.2% to RM27.0m-RM30.3m on the back of a 12.5%-12.2% growth in the revenue. This will be driven by a membership growth of 6.6%-6.9%. Since the MLM division contributes at least >50% of the group's earnings, we hence believe that the group's rising earnings trend will continue and expect it to post a sustainable net earnings growth of 17.0%-13.4% for FY13-14E.

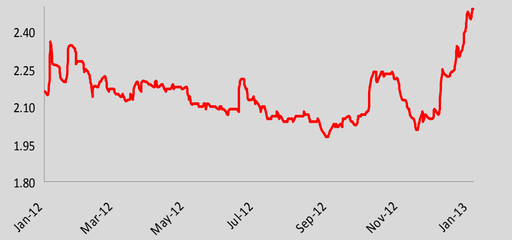
Decent net dividend yields of 3.3%-3.8%. Hai-O has been constantly liquid with a net cash position. Low capex and advertising costs are one of the main reasons for this as the company requires low outlet expansions unlike other retail businesses. In addition, Hai-O's stockists bear the cost of opening of stockist stores, hence saving the company from capex and maintenance costs. We believe the cash pile from its operating activities will continue to stay strong in FY13-14E at 33.4m-38.5m, leading to likely FY13-14E NDPS of 8.09-9.34 sen.

Potential corporate exercise. Based on its historical corporate exercise practice, the company could likely issue a bonus and share dividend ahead. The company has been stacking up its retained earnings, which is currently 25% more than its share capital. Thus, we are expecting a 1-for-5 bonus issue as the company will still have a 1:1 retained earnings ratio to its share capital after that. In addition, the company has been buying back its own share and we believe a share dividend is also likely. A new bonus issue should increase the trading activities of the stock. For instance, after the announcement of a bonus issue in Dec 2009, the share price went up 55% while the trading volume increased about 2.0 times within a 3-month period.

Well-built distributor force. In Malaysia, the Malay population make up about 55% of the total population and it is also the highest growth segment compared to the other ethnic groups. Hence, the Malay population contributes a lot to the total private consumption growth in the country. Hai-O has leveraged on this factor in its MLM sales force whereby the majority of its current distributors consists of the Malay ethnic group (>80%), which should ensure a sustainable earnings returns to the group going forward.

Initiating coverage on Hai-O Enterprise Bhd with an OUTPERFORM rating and a fair value of RM2.90. We have applied a 12.8x Fwd. PER (representing +1.0 standard deviation above Hai-O's 2-year average Fwd. PER) on our FY14E EPS of 22.64sen. The targeted Fwd. PER of 12.8x is reasonable given Hai-O's still strong growth rates in FY13E and FY14E. However, it is still marginally below the industry's average 1-Year Fwd. PER of 17.0x, which we think is fair due to the volatility in the group's earnings in recent financial years. Our fair value implies a 16.5% upside to the current share price and total return of 20.3%. Hence, we assign an OUTPERFORM rating on the stock.

Share Price Performance



KLCI	1682.95
YTD KLCI chg	-0.4%
YTD stock price chg	10.7%

Stock Information

Bloomberg Ticker	HAIO MK Equity
Market Cap (RM m)	491.2
Issued shares	197.3
52-week range (H)	2.50
52-week range (L)	1.95
3-mth avg daily vol:	189,760
Free Float	77%
Beta	0.9

Major Shareholders

KAI HEE TAN	9.9%
AKINTAN SDN BHD	7.5%
EXCELLANT COMMUNICAT	5.3%

Summary Earnings Table

FY Apr (RM m)	2012A	2013E	2014E
Turnover	239.5	259.3	280.9
EBIT	48.7	57.4	65.0
PBT	48.8	57.6	65.3
Net Profit (NP)	**34.0**	**39.8**	**45.1**
Consensus (NP)	-	39.8	44.1
Earnings Revision	-	-	-
EPS (sen)	17.07	19.97	22.64
EPS growth (%)	20.2	17.0	13.4
NDPS (sen)	6.75	8.09	9.34
BVPS	0.86	0.79	0.73
NTA/Share (RM)	1.11	1.20	1.31
PER	14.35	12.27	10.82
Price/NTA (x)	2.20	2.03	1.88
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	2.8	3.3	3.8

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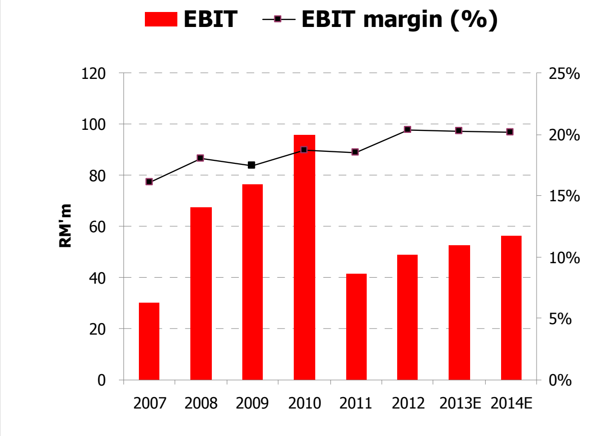
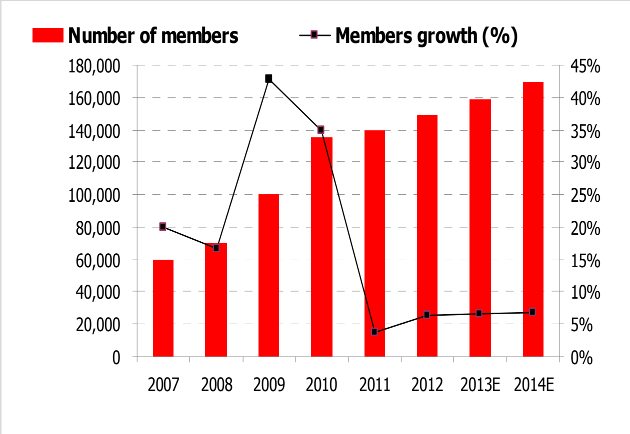
Investment Merit

Good growth prospect from MLM division. We expect the MLM division's EBIT to register a strong FY13-14E growth of 10.7%-12.2% to RM27.0m-RM30.3m on the back of 12.5%-12.2% growth in revenue. This will be driven by membership growth of 6.6%-6.9%, where we expect the company to maintain approximately 10,000-11,000 new active members per year for FY13-14E, which is in line with its historical active membership growth. Meanwhile, we also expect 5.5%-5.0% growth in sales per member, which are conservatively below our in-house forecast of Malaysia's private consumption growth of 10.3% and 7.6% for 2012 and 2013, respectively. Historically, the MLM division has contributed >50% to the group's EBIT in the last five years and we think this trend will continue in FY13E and FY14E. We think the good prospect of the Malaysian economy should bode well for Hai-O's overall sales.

EBIT and EBIT Margin



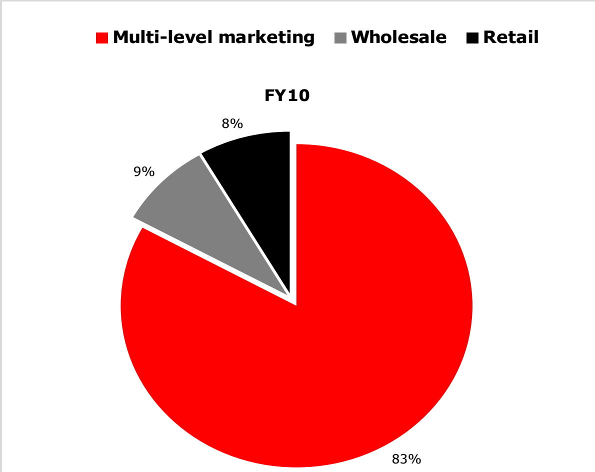
Number of Members and Members Growth



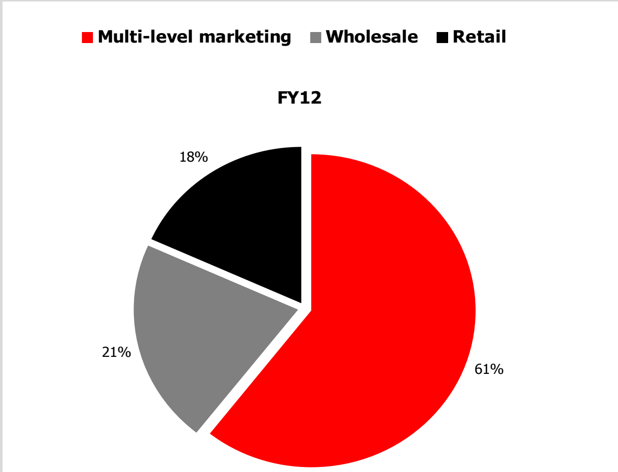
Source: Company, Kenanga Research

The worst is over. The FY11 net income has fallen by 56% to RM223m as the Malaysian government had revised its Direct Sales Act and imposed stricter new membership guidelines. The new Direct Sales Act was implemented to prevent MLM members from stockpiling products to earn higher commission. As a result of the Direct Sales Act, Hai-O had stringent the company rules to reduce stockpiling activities, which encouraged members to focus in selling products rather than on earning commissions. However, we believe the worst is over as the likelihood of another regulatory change is unlikely. Hence, Hai-O earnings are poised to grow again (albeit from the lower base in FY11). In fact, its FY06-FY10 net profits grew at a CAGR of 62.3% on the back of strong MLM revenue CAGR of 66.7%. Moreover, its current FY12 revenue has also rebounded to grow 7.3% to RM239m due to a 12.7% jump in MLM's revenue. Thus, we reckon that FY11 could be the new base to restart again the group's double-digit growth. Nevertheless, we believe Hai-O can continue its growth trajectory in revenue and earnings at 8.2%-8.3% and 17.0%-13.4% in FY13-FY14E respectively.

FY10 Revenue Breakdown by Segment



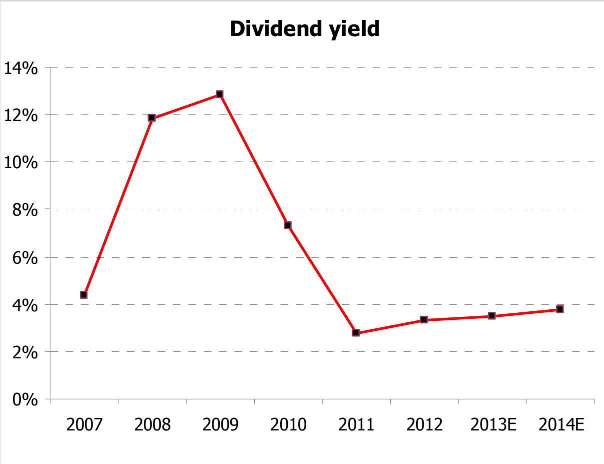
FY12 Revenue Breakdown by Segment



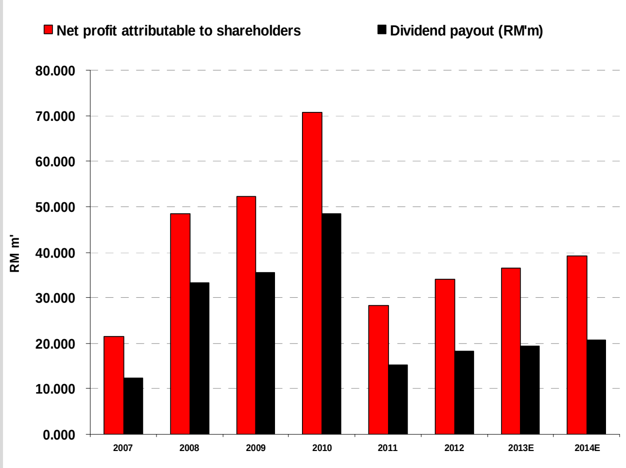
Source: Company, Kenanga Research

Healthy cash pile with decent net dividend yields of 3.3%-3.8%. With its estimated strong FY13-14E operating cash flow of RM33.4m-RM38.5m, we think that Hai-O will be in a very strong position to afford FY13-14E NDPS of 8.09sen-9.34sen (net dividend yields of 3.3%-3.8%). The expected dividend payout is consistent with the company policy of paying out >50% of its earnings as dividends. We expect FY13-14E capex requirement to be minimal at less than RM5m as the nature of Hai-O business requires minimal spending on retail stores expenditures, advertising and marketing.

EBIT and EBIT Margin



Net Cash & Dividend Payout



Source: Company, Kenanga Research

MLM primary target is the Malay Bumiputera demographic segment. The Malay Bumiputera population in Malaysia is at about 55% of the 26.97m total population in 2010. Historically, the population growth for the Malay Bumiputera ethnic is higher than the rest of the ethnic groups in Malaysia, and hence focusing on this higher growth population segment should result in a higher sales growth. Hai-O has a very strong MLM structure where >80% of its distributor force are made up of the Malay Bumiputera ethnic group. At the same time, it has carefully designed and produced its MLM products in accordance with the ethnic group's preference and demand. While we understand that Amway (M) has also just started its focus on this attractive ethnic group market segment, we believe that Hai-O's matured distributor force and product options should enable it to maintain its market share.

Possible bonus issue. As of Sep-12, the treasury shares held by the company amounted to 4.59m shares of RM0.50 each. In Aug-08, total of 3.23m shares of RM1.00 each were distributed to entitled shareholders in relation to a share dividend then. In addition, the group's retained earnings is 25% more than its current share cap. Assuming a bonus issue of 1 bonus share for every 5 existing shares will still keep the company reserves at a 1:1 ratio to its share cap. Thus, we have reasons to believe that a bonus issue could be likely based on its historical corporate exercise practice and would likely to increase the trading activities of the stock. For instance, after the announcement of bonus issue in Dec 2009, the share price went up around 55% while the trading volume instantly increased >2.0 times within 3-mont period.

Potential upside. Hai-O is currently trading at FY14E PER of 11.0x, which is inline with its 2-year average forward PER of 11.2x (we reckon FY11 to be the new base to start with). We have pegged Hai-O's valuation at 12.8x FY14E PER, which is +1.0 standard deviation above Hai-O's 2-year average Fwd. PER. We believe this is fair given its high earning growth of 17.0% and 13.4% for FY13E and FY14E, respectively. In fact, our target PER is still below the industry's average 1-Year Fwd. PER of 15.8x based on weighted average market cap although this is justified given that Hai-O has had volatile earnings in its past financial year and an overall smaller in-term of market cap.

Weighted Average PER – Based on Industry's Weighted Average Market Cap

Name	Mkt Cap	1-Year P/E	Weightage (By Mkt Cap)	PER COMPOSITION
PARKSON HOLDINGS	5302.2	14.5	0.354	5.1
AEON CO (M) BHD	4556.0	22.8	0.305	7.0
AMWAY MALAYSIA H	1854.3	19.2	0.124	2.4
ZHULIAN CORP BHD	1334.0	12.6	0.089	1.1
PADINI HLDGS	1197.4	11.2	0.080	0.9
BONIA CORP BHD	453.5	7.9	0.030	0.2
ENG KAH CORP BHD	239.8	16.9	0.016	0.3
Total Market Capitalisation	14937.2			
			Weighted Average PER	**17.0**

Source: Kenanga Research

Industry Outlook

Increasing healthcare expenditure. According to the World Health Organization (WHO), the number of total expenditure on health as a percentage of GDP has been gradually increasing from the past decade to reach 4.4% in year 2010. The increase in healthcare expenditure is partly come from the increase in affordability and also the increase in healthcare awareness in the country. Hai-O, who offers traditional medicine and health supplements in their grounded retail stores should gain from the increase in healthcare expenditure. Furthermore, Hai-O MLM division also distributes healthy consumable products which again promote healthcare culture and improving the human's well being. As a result of the increase in health concern in the society, it will eventually leads to a higher fortune to the company.

MLM in Malaysia is vigorously accepted and dominant. According to WFDSA, it estimated that there was approximately 1 direct seller for every 6.5 people for the year 2010 in Malaysia. In 2011, the number rose significantly to approximately 1 direct seller for every 3.9 people. These amounts are based on 4.3m and 7.4m direct sellers for the year 2010 and 2011, respectively. The increase in the number of direct sellers also indicate the acceptance and dominant of the MLM industry in Malaysia, which we can expect a more stable or increasing sales per member in Hai-O. In addition, according to the Ministry of Domestic Trade, Cooperative and Consumerism Malaysia (MDTCC), the total sales recorded on MLM companies in year 2011 are estimated at RM7.1b from only RM6.5b and RM5.7b in year 2010 and 2009 respectively. Therefore, we can also expect Hai-O MLM division to have stronger growth in the coming year.

Very few MLM companies listed on Bursa. There are many MLM companies in Malaysia but only a few MLM companies have gone public. Hai-O leads the pack in terms of popularity and options on medical and healthcare products among the other familiar MLM companies. In addition, Hai-O has a unique combination of business model, which includes both high and stable growth businesses. Unlike other MLM companies who mainly concentrate on the direct selling business, Hai-O has its retail and wholesale division which gives the company a stable growth, protecting the company from the threats from MLM division.

SWOT Analysis

SWOT Analysis

STRENGTHS
1) First-mover advantage.
2) Mixture of high and stable growth business model.
3) Domination in Bumiputra market.
4) Attractive reward scheme and excellent company support

WEAKNESSES
1) Small market capitalization.
2) Increasing number of competitors.
3) Lacking of new exciting products.
4) Illiquid trading volume

SWOT Analysis

OPPORTUNITIES
1) New complimentary market from bird's nest production.
2) Strategic alliance with Beijing Tongrentang Co. Ltd.
3) Possible expansion into oversees market.
4) Weak competitive rivalry within the TCM industry

THREATS
1) Weak against government regulations.
2) Intense price competition.
3) Bad press in the past two years.
4) New entrant threat

Source: Kenanga Research

Strengths

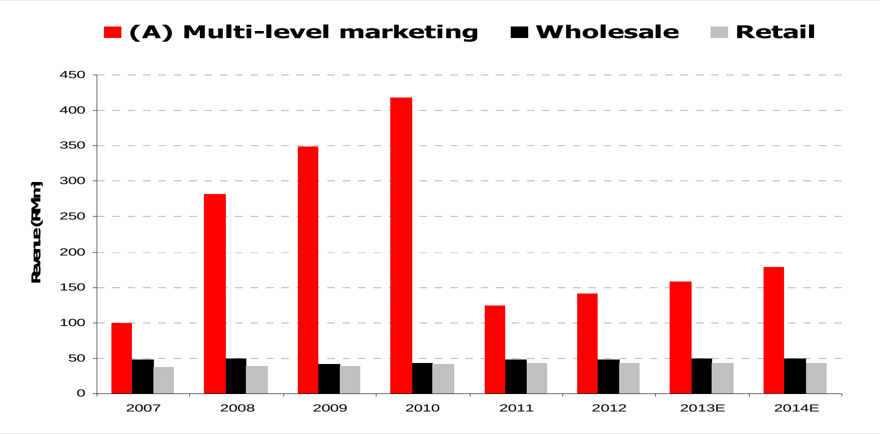
First mover advantage – Hai-O is the first and also largest traditional healthcare company listed on Bursa Malaysia. Hai-O has successfully controlled its resources and still has a competitive advantage on the import of traditional medicine. Hai-O's mass import has resulted in a cost advantage to it compared with other traditional healthcare companies.

Mixture of high and stable growth business model – The company is able to provide tremendous returns in a good economic cycle with its high-growth MLM division. On the converse, in an economic downturn, its wholesale and retail divisions will continue running as normal, protecting the company from liquidity problems.

Attractive reward scheme and excellent company support - Hai-O has always been very generous with its commission scheme. Hai-O tends to reward its distributors with a commission of 50% as compared to the market average of 30%-50%. Other than that, Hai-O also provides training and development to assist its distributor force to grow. With the strong payout and continuous focus on training and development, we believe Hai-O can retain and continue to grow its MLM distributor force.

Domination in Bumiputra market – Hai-O's MLM division has a very strong structure that is suited for the Bumiputra market. More than 80% of Hai-O's distributor comprise of the Bumiputra ethnic group, which targets the Bumiputra population segment (mainly woman). Another reason for Hai-O having being successful in dominating the Bumiputra market is because of its consumable traditional medicine being Halal certified, which differentiates Hai-O with a number of other MLM companies. The advantage of this ethnic group is that they can borrow from Bank Rakyat with a special rate to buy their product needs or to start up their own entrepreneurship.

Segmented Revenue Contribution



Source: Company, Kenanga Research

__Weaknesses__

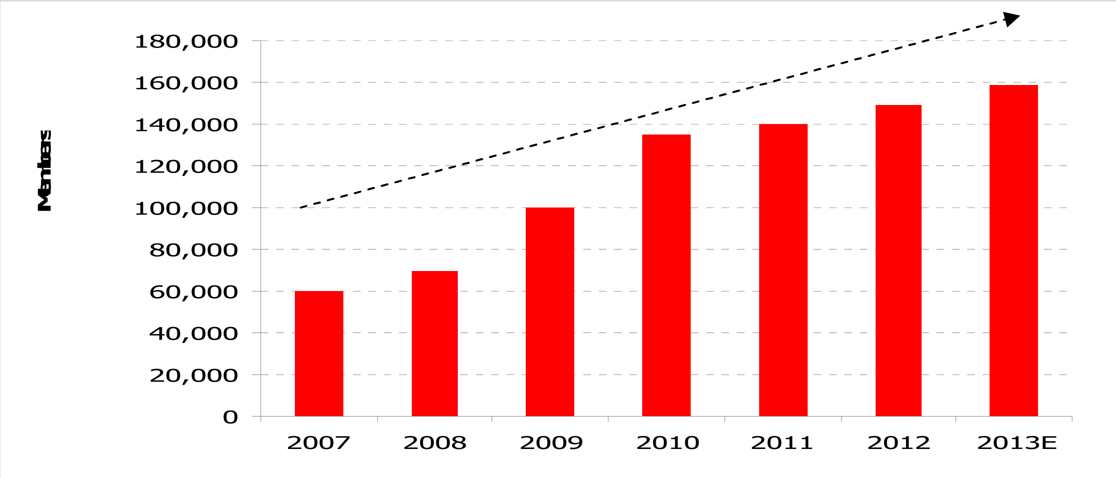
Small market capitalization – Hai-O's market cap is relatively smaller than its peers Amway (Malaysia) and Zhulian, which could give it an unfavourable perception of being smaller to these peers when it is actually the largest player in the country's MLM business (healthcare segment). Hai-O is currently ranked third in terms of market cap.

Increasing number of competitors – Many new sales based companies are adopting the MLM concept for its traits of low CAPEX and high-growth model. Opening a traditional Chinese medicine clinic is also rather easy as the most expensive cost would only be in hiring professional physicians. This is unlike other general clinics, which somewhat required high end diagnosis machines and equipments. New easy entrants will lead to higher competition and lower market share and thus affecting the company's profitability.

Lack of new exciting products – The traditional Chinese medicine industry is homogenous and thus hardly has any product differentiations. In order to provide fresh products for its MLM distributors, Hai-O had diversified its principal products by bringing in inner beauty wear (Premium Beauty Wear) and water filters (Bio Aura), which has led to wider competition and challenges.

Illiquid trading volume - Hai-O historical 6-month average daily trading volume is only 96,000 units. Which means the seller might face some difficulties to sell a big amount of shares at the same market price. Illiquid stocks also imply that the stocks are more suitable to hold for long term.

Number of Distributor Force



Source: Company, Kenanga Research

Opportunities

New complimentary market from bird's nest production – Joint venturing with Yan Zhi Enterprise Sdn Bhd has opened up a new market for Hai-O. The JV subsidiary company named Yan Ou Holdings (M) Sdn Bhd principally focuses on the sourcing for and processing, trading and distributing of bird's nests and related products.

Strategic alliance with Beijing Tongrentang Co. Ltd – Beijing Tongrentang is one of the oldest and the most respected practitioners in traditional Chinese medicine in China. It is also the largest practitioner in China. Despite minimal contribution from this division, this alliance has widened Hai-O's reach to end users while creating a stronger brand name and traditional Chinese medicine recognition for the group.

Possible expansion into overseas markets – As one of the leading manufacturing companies in traditional medicine and the distribution of bird nest, Hai-O sees the opportunity to export its products to China, Hong Kong and Singapore where these products are highly demanded. In addition, with its products having the Halal certificate, Hai-O also sees the opportunity to export some of its products to the Middle East countries.

Weak competitive rivalry within the Traditional Chinese Medicine ("TCM") industry – The competition within the local market is still relatively low as there are very few TCM competitors in Malaysia. Although the demand for TCM are increasing, but the big players in town still remain the same over the years. The majority of new comers are practitioners who do neighbourhood businesses and sell their own made TCM products. Therefore, rivalry is still very weak in the TCM industry.

Threats

Stringent government regulations – MLM and the healthcare industry are highly regulated by the Malaysian government. Changes in regulatory will affect the distribution flow of the MLM industry and its products' pricing, especially for the healthcare line.

Intense price competition – A free-trade market like Malaysia often has price competition among the existing peers. New entrants to the market will bring in substitute products, resulting in a higher bargaining power for consumers and hence affecting the price of the products. Any price wars in the market will affect Hai-O's profit margin and the company's growth.

Bad publicity in the past – There were many negative press reports relating to MLM companies as their business models are very similar with ponzi scheme. Many ponzi schemes started their business pretending to be MLM, thus giving a bad image on the MLM industry, particularly in the past two years.

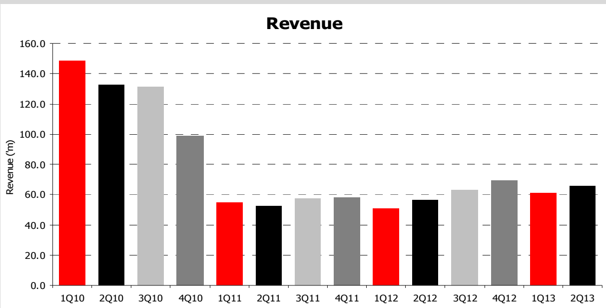
New entrant threat – A lot of research found that TCM is effective in cancer treatment and it is getting popular for consumer to seek Chinese medication. Consequently, it creates plenty of business opportunities that invite businessman to enter into the industry. Furthermore, the start-up cost to open a new TCM clinic is relatively low if compare to other general clinics that usually required to have expensive medical equipment. With such attraction, more people will be coming into the business resulted a high threat of new entrants for Hai-O.

Financial Analysis

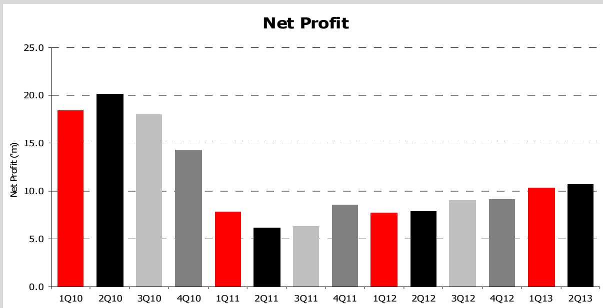
Income Statement Analysis

FY12 net profit grew at 19.9%. The group has managed to achieve a higher revenue of RM239.5m in FY12 compared to RM223.3m for the preceding year. This was mainly contributed by the MLM division with its revenue growth of 12.7%, which largely comes from the popular demand and high-margin products such as its foundation garments and its key health-food products. Besides, the wholesale division has been able to maintain its stable revenue at an increased of 0.6% in FY12 to RM48.7m. On top of that, the retail division was affected by the general economy slow-down, slipping down 1.9% to RM42.8m. The company has been maintaining net profit margin to be 12%-14% throughout the past 5 years. Consequently, this has led to an overall high net profit growth of 19.9% for FY12 after the slowdown in year 2011.

Quarterly Revenue



Quarterly Net Profit



Source: Company, Kenanga Research

1H13 saw a higher revenue and net profit compared to 1H12. The group recorded higher revenue and core net profit of RM127.0m and RM21.0m (excluding one-off gains of RM4.8m from disposal of vacant land and one-off compensation of RM0.57m from manufacturing division) in its 1H13 result as compared to RM107.2m and RM15.6m, increased 18.5% and 34.6% respectively in the corresponding period of the preceding year. The increase was mainly contributed by the MLM division, which climbed 33.4% YoY to RM81.0m in revenue and 45.7% YoY in EBIT. The contribution was mainly due to its sale in higher-margin products such as the foundation garments, series of health-food products and also its newly launched health wellness products. As for the wholesale division, revenue in 1H13 dropped by a marginal 2.5% YoY to RM23.2m, mainly due to the slowdown in the economy. The general economy slow-down had also affected the retail division, which saw its revenue falling by 4.3% YoY to RM18.6m. However, the high growth in MLM has helped to offset the lower growth of the other two divisions, resulting in an overall higher revenue and net profit in 1H13.

Expecting more in 2H13. Based on the strong recovery in FY12 and the good performance in 1H13, we believe the company will do better in the coming quarter. This shall be driven by the continuous high growth path of the MLM division where we believe the company will be coming out new products for the distributors to target year end holiday crowd. We also think that the performance of the retail and wholesale division will remain defensive in the coming quarters.

Continue to growth. Going forward, we believe Hai-O can meet up with the growth expectation of 17.0%-13.4% on the back of our revenue estimates of 8.2%-8.3% in FY13-FY14E respectively, reason being the company has a strong historical net profit growth which grew at a CAGR of 62.3% in FY06-FY10. Despite the downfall in FY11, Hai-O managed to return to high double digit earnings growth of 19.9% in FY12A. With the good performance shown in 1H13 which contributed mainly by its MLM division as well as better margins, we can expect the performance of division to continue performing given that the improving product portfolio which is the main driver for the MLM division growth. Furthermore, we also expect the company to have a better marketing and distribution cost efficiency which is in-line with the historical trend, where the increase in product sales will decrease the overall average cost per sales, which lead to better EBIT growth at 17.9%-13.3% in FY13-FY14E. While at the bottom-line, we target Hai-O's EPS to have a double digit growth of 17.0%-13.4% to 20.0sen-22.6sen in FY13-FY14E.

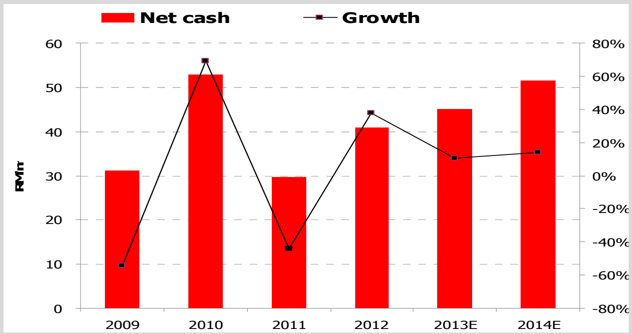
Balance Sheet Analysis

Hai-O has a strong net cash position. Its FY12 net cash position stood at RM40.9m, which will enable the group to take up business opportunity such as new retail store openings. The group also has a high short-term investment of 57.3m, which yield c.3.3%, implies a strong state of liquid asset position that continues to generate income for the company.

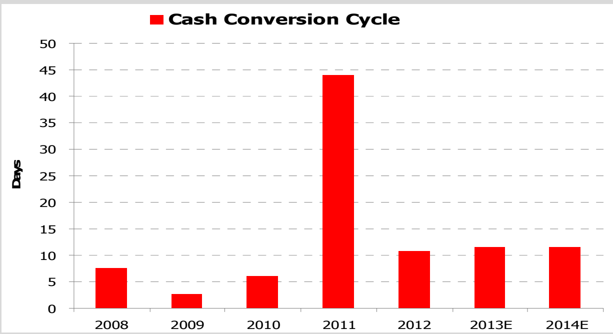
Lower cash conversion cycle ("CCC"). FY11 CCC has dramatically increased to 45 days from a low of 7 days in FY10. This was mainly due to the unsold inventory stock up after the change in the government's policy. However, it was quickly solved by the management, drawing down its latest CCC cycle to 11 days. The low CCC implies that Hai-O only needs to finance its inventory and account receivables for a short period of time. Hence, we believe that Hai-O will maintain the CCC at roughly 10 days due to its cash term businesses.

Consistent dividend payment. Hai-O has been complying with its company policy of paying out >50% of its earnings as dividends since FY07. With the strength on Hai-O's cash pile and cash flow stated above, we expect better dividend payout at 54.0%-55.0%, NDPS 8.09sen-9.34sen with a dividend yield of 3.3%-3.8% in FY13-FY14E.

Net Cash and Growth



Cash Conversion Cycle



Source: Company, Kenanga Research

Valuation and Recommendation

Initiating Coverage on Hai-O Enterprise Bhd with an OUTPERFORM rating and a fair value of RM2.90. We have applied a 12.8x Fwd. PER (representing +1.0 standard deviation above Hai-O's 2-year average Fwd. PER) on our FY14E EPS of 22.64sen. The targeted Fwd. PER of 12.8x is reasonable given Hai-O's still strong earning growth of 17.0% and 13.4% in FY13E and FY14E. However, it is still marginally below the industry's average 1-Year Fwd. PER of 17.0x, which we think is fair due to the volatility in the group's earnings in recent financial years. Our fair value implies a 16.5% upside to the current share price and total return of 20.3%. Hence, we assign an OUTPERFORM rating on the stock.

We continue to like Hai-O for its 1) strong MLM business growth that will see it making a high single digit growth in earnings, 2) decent net dividend yields of 3.3%-3.8% given its >50% dividend payout policy, which should be sustainable as its earnings are still in a high growth stage, 3) its potential bonus issue and share dividend and 4) its stable consumer and retail segment, which will benefit from the rising consumer sentiment and affluence and also supported by its strong and expanding MLM division, which consists of more than a 80% Bumiputra distributor force.

Risks

Intense competition. Many new sales companies are trying to adopt the MLM concept for its low CAPEX nature. They also like the high growth of the MLM model because cost is low and recurring sales are high. Therefore, the increasing numbers of new entrants could be a competitive threat to Hai-O, which may see its market share of the industry reduced in the long run.

Highly dependent on imported goods. The majority products offered by Hai-O are imported directly from other countries. Any changes in the government policy on imports will affect its overall business. In addition, any price hikes from these countries will also have a direct impact to the company's margin, affecting its profitability. Furthermore, the imported goods are transacted using the US Dollar currency, thus leaving Hai-O exposed to currency exchange risk where a fluctuation in USD/MYR will affect directly its COGS.

The hype can die down very quickly in MLM. Many MLM companies have come and go into the industry. The main reason is because the industry is highly competitive where products can be imitated or replaced with similar products. Hence, new products have to be introduced regularly to prevent sales being lost to other MLM companies.

Healthcare is a heavily regulated industry. Changes in regulations will affect the supply and demand of healthcare products as well as the its pricing, which will impact the demand for the products and the healthcare industry as a whole.

Malaysian Retail Sector Comparisons

COMPANY NAME	Price (16/01/13)	Mkt Cap	PER (x)			Est. Div. Yld.	Historical ROE	P/BV	Net Profit (RM'm)			FY12 NP Growth	FY13 NP Growth	TP	Rating
	(RM)	(RM'm)	Hist.	1-Yr Fwd	2-Yr Fwd	(%)	(%)	(x)	Histoical	1-Yr Fwd	2-Yr Fwd	(%)	(%)	(RM)	
CORE COVERAGE															
AEON CO (M)	12.98	4,555.98	23.3	20.4	18.1	0.9%	15.3%	3.54	195.40	223.20	251.80	14.2%	12.8%	11.30	UP
AMWAY (M) HLDGS	11.34	1,864.13	20.7	18.7	17.5	5.1%	45.5%	9.69	90.00	100.00	106.40	11.1%	6.4%	11.68	MP
ENG KAH CORP	3.45	239.84	18.8	17.0	14.4	5.8%	15.5%	3.11	12.80	14.10	16.60	10.2%	17.7%	3.57	MP
HAI-O ENTERPRISE	2.49	491.16	14.6	12.5	11.0	3.2%	16.5%	2.89	34.00	39.78	45.09	17.0%	13.4%	2.90	OP
PARKSON HLDGS	4.90	5,313.02	14.1	14.5	12.8	3.2%	13.4%	1.98	380.10	370.20	417.90	-2.6%	12.9%	4.50	MP
CONSENSUS NUMBERS															
BONIA CORP	2.20	443.46	12.2	7.9	7.0	3.0%	16.3%	1.65	36.46	56.44	63.50	54.8%	12.5%	2.94	BUY
PADINI HLDGS	1.83	1,203.97	12.9	11.2	10.0	4.2%	28.2%	3.42	93.42	107.24	120.40	14.8%	12.3%	2.21	BUY
ZHULIAN CORP	2.93	1,347.80	11.8	12.7	11.3	4.8%	28.1%	3.08	114.59	105.80	119.60	-7.7%	13.0%	2.60	HOLD

Source: Bloomberg, Kenanga Research

Income Statement

FY Apr (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	511.1	223.3	239.5	259.3	280.9
EBITDA	98.3	44.0	51.4	60.0	67.8
Depreciation	2.62	2.70	2.75	2.66	2.79
Operating Profit	95.7	41.3	48.7	57.4	65.0
Other Income	0.8	0.9	0.8	0.9	0.9
Interest Exp	-0.8	-0.8	-0.7	-0.7	-0.7
PBT	95.6	41.3	48.8	57.6	65.3
Taxation	-23.8	-11.6	-13.1	-15.8	-17.9
Minority Interest	1.3	1.3	1.7	2.0	2.3
Net Profit	70.6	28.4	34.0	39.8	45.1

Balance Sheet

FY Apr (RM m)	2010A	2011A	2012A	2013E	2014E
Fixed Assets	62.2	72.2	62.1	63.4	64.6
Inv. Properties	28.0	33.2	45.2	51.6	56.6
Other FA	4.7	4.7	5.1	5.1	5.1
Inventories	44.0	44.3	37.8	41.5	44.9
Receivables	19.7	19.1	21.9	23.3	25.3
Other CA	49.6	37.4	63.4	70.1	75.1
Cash	70.9	46.1	54.2	57.3	65.9
Total Assets	279.1	257.0	289.6	312.3	337.5
Payables	38.5	22.6	32.5	35.0	37.9
ST Borrowings	4.8	5.7	5.2	5.1	5.0
Other ST Liability	12.1	5.2	12.4	12.4	12.4
LT Borrowings	13.2	10.7	8.1	8.0	7.9
Other LT Liability	0.0	0.1	0.0	0.0	0.0
Minorities Int.	7.4	8.3	9.7	11.7	14.0
Net Assets	**203.1**	**204.4**	**221.7**	**240.0**	**260.3**
Share Capital	101.1	101.1	101.1	101.1	101.1
Treasury Shares	-4.1	-4.3	-5.9	-5.9	-5.9
Reserves	106.1	107.6	126.5	144.8	165.1
Equity	**203.1**	**204.4**	**221.7**	**240.0**	**260.3**

Cashflow Statement

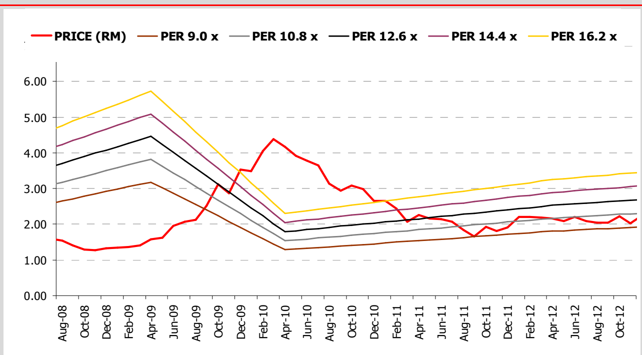
FY Apr (RM m)	2010A	2011A	2012A	2013E	2014E
Operating CF	69.2	13.9	50.0	33.4	38.5
Investing CF	-19.8	-1.7	-21.4	-9.9	-9.2
Financing CF	-29.1	-36.8	-20.5	-18.2	-21.4
Change In Cash	20.4	-24.6	8.1	5.3	7.9

Financial Data & Ratios

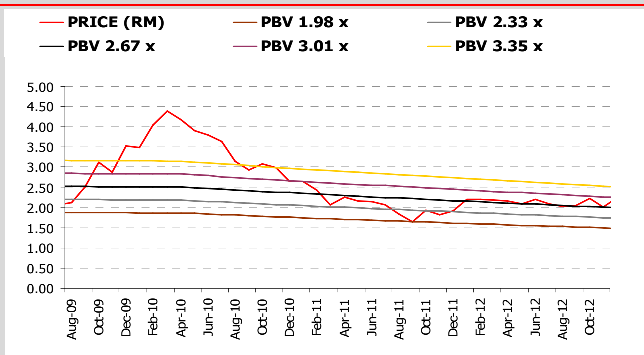
FY Apr (RM m)	2010A	2011A	2012A	2013E	2014E
Growth					
Turnover (%)	17.4%	-56.3%	7.3%	8.2%	8.3%
EBITDA (%)	25.0%	-55.3%	17.0%	16.7%	12.9%
Op. Profit(%)	25.8%	-56.9%	18.0%	17.9%	13.3%
PBT (%)	26.0%	-56.8%	18.1%	18.0%	13.4%
Core Net Profit(%)	35.0%	-59.8%	19.9%	17.0%	13.4%
Profitability (%)					
EBITDA Margin	19.2%	19.7%	21.5%	23.2%	24.1%
Operating Margin	18.7%	18.5%	20.3%	22.1%	23.1%
PBT Margin	18.7%	18.5%	20.4%	22.2%	23.2%
Core Net Margin	13.8%	12.7%	14.2%	15.3%	16.1%
Effective Tax Rate	24.8%	28.0%	26.8%	27.5%	27.5%
ROA	25.3%	11.0%	11.7%	12.7%	13.4%
ROE	34.8%	13.9%	15.3%	16.6%	17.3%
DuPont Analysis					
Net Margin (%)	14%	13%	14%	15%	16%
Assets Turnover(x)	1.83	0.87	0.83	0.83	0.83
Leverage Factor(x)	1.33	1.21	1.25	1.24	1.23
ROE (%)	35%	14%	15%	17%	17%
Leverage					
Debt/Asset (x)	0.06	0.06	0.05	0.04	0.04
Debt/Equity (x)	0.09	0.08	0.06	0.05	0.05
Net Cash/(Debt)	52.93	29.64	40.90	44.16	53.01
Net Debt/Equity	N.Cash	N.Cash	N.Cash	N.Cash	N.Cash
Valuations					
EPS (sen)	35.36	14.21	17.07	19.97	22.64
NDPS (sen)	18.00	5.63	6.75	8.09	9.34
NTA/share (RM)	1.02	1.02	1.11	1.20	1.31
PER (x)	6.93	17.24	14.35	12.27	10.82
Net Div. Yield (%)	6.1%	2.3%	2.8%	3.3%	3.8%
P/NTA (x)	2.41	2.39	2.20	2.03	1.88
EV/EBITDA (x)	4.50	10.60	8.84	7.52	6.53

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Appendix

Company Background

Hai-O Enterprise Bhd (Hai-O) was incorporated in year 1975 with a small and humble capital. Since then, the company had gone through many business challenges before it had developed a stronger base with a current equity base of more than RM200m. In year 1996, the company was listed on the second board of Bursa Malaysia under the category of consumer trade and services. Striving through that year, Hai-O had successfully transferred to the Main Board of Bursa Malaysia in year 1997.

The initial principal business of Hai-O is in wholesaling and retailing a wide range of products including herbal medicine, medicated tonic, beauty and healthcare products and also clinical services. After running the wholesale and retail business for years, Hai-O had decided to enter the new era and entered into the direct sales business by establishing a wholly owned direct sales subsidiary namely Hai-O Marketing Sdn Bhd in the year 1992. Hai-O Marketing Sdn Bhd prioritizes on promoting consumable products such as health supplements and herbs. These products provide high profits to the company as the products have high margins and it is likely to have repeat sales.

Hai-O is led Mr Tan Kai Hee, who is one of the founders and also the managing director of the company. Mr Tan is a famed businessman that has more than 36 years of experience in the trading business. Besides working, Mr Tan is also a well-known active social worker who often involved himself in the community works. Apart from that, Mr Tan is the founder of Malaysia-China Friendship Federation, Malaysia-China Medicine & Health Product Association, Malaysia-China Chamber of Commerce and Malaysia-China Culture & Arts Association. Under the leadership of Mr Tan Kai Hee, the group continued to improve on its operational and cost efficiency as well as expand its business to a broader horizon in the healthcare industry.

Business

Wholesale Business

The Wholesale Division is one of the main pillars of Hai-O Group and has been running for the past 3 decades with a sustainable growth over the years. Also, this division has accumulated exclusive rights from China to import and distribute hundreds of branded products in Malaysia. The products include traditional Chinese medicines, teas, wines, healthcare food & beverages and other consumer products. These products are being distributed to Chinese medical halls, hypermarkets, supermarkets, convenience stores and food & beverage outlets with their developed multi-distribution channels around Malaysia. Currently, Hai-O had a group of well-trained and experienced dynamic sales personnel and promoters to serve their clients, together with the logistics team that managed to deliver products to clients on time without fail, which had earned the group a good reputation and trust in the industry.

Retail Business

The Retail Division is another important business for Hai-O group. The company has managed to create a strong retail presence across the country with more than 70 Hai-O chain stores. These retail outlets carry products include traditional Chinese medicines, teas, wines, health tonic, gifts packs, hampers and also other healthcare products. Some of these products are imported directly from China and the others are locally acquired or self-manufactured. Furthermore, these retail outlets are staffed with professional herb masters or qualified traditional Chinese medicine physicians to provide in-house advisory on herbs and medical consultations. Hai-O had successfully captured the local health conscious customers and able to maintain high recurring business over the years.

Multi-Level Marketing

Hai-O has started the multi-Level marketing business in 1992, much later than its wholesale and retail business. However, Hai-O marketing has been working closely with its distributor and had developed a strong partnership between them over the years. This has rewarded Hai-O continuous high growth for the past decades. The main reason for their success is that Hai-O Marketing had come out with a fair and reliable system offered to their distributors. Also, Hai-O Marketing often comes out with new and quality products that enable their distributor to easily attract new customers. With these dedicated support and reward system, Hai-O is now one of the leading local multi-level direct selling companies in Malaysia.

Other Businesses

In addition to the core businesses, Hai-O also manufactures their own pharmaceutical products such as herbal natural medicine, food supplements and health food. The manufacturing business focus in helping its clients to design, conceptualize and develop effective product formulation. Other than that, they also provide research & laboratory services, imports and trades wines, advertising services and leases machinery and equipment.

Management Team

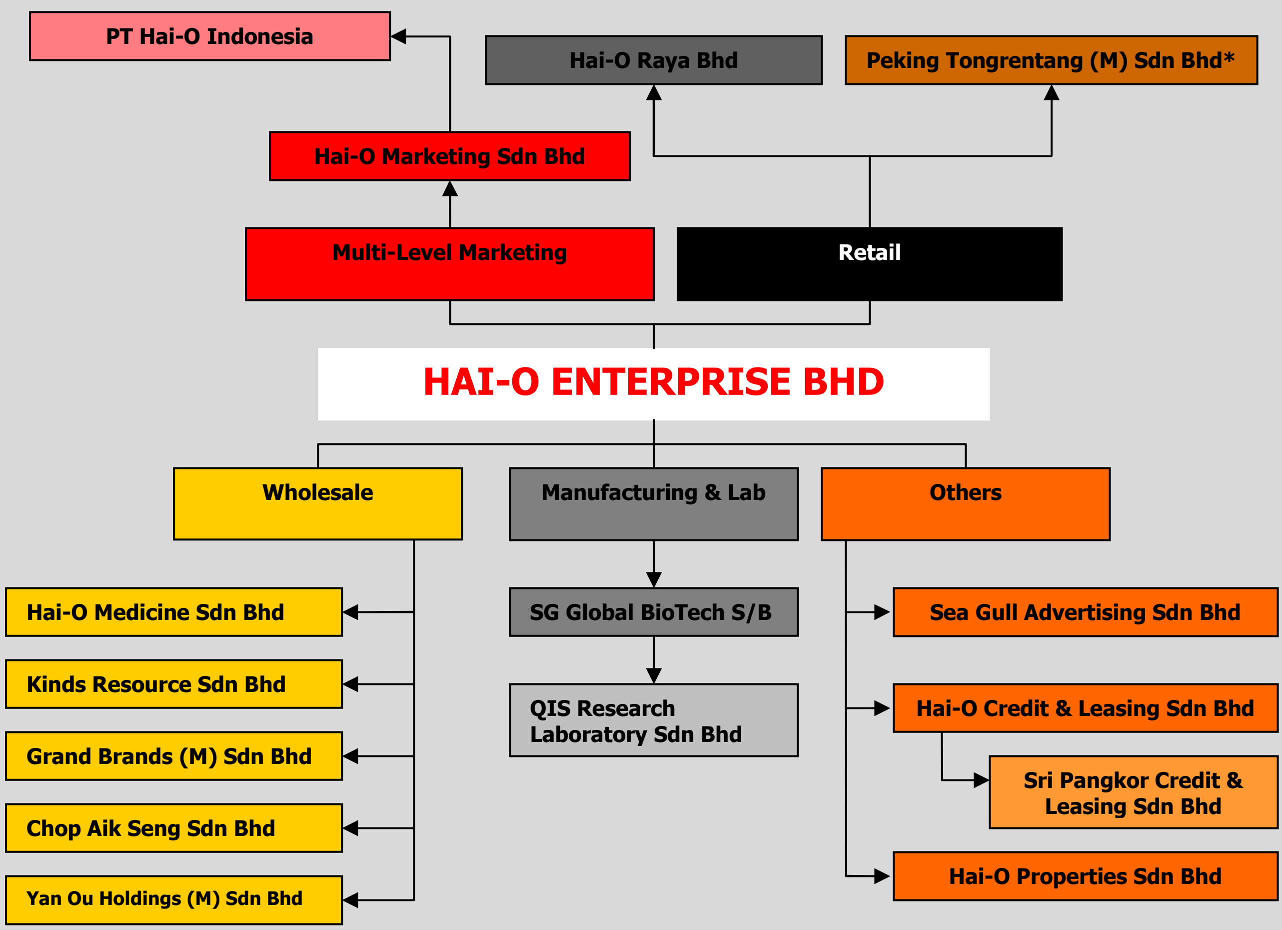
Key Management team /Board of Directors

Name	Designation/Function
Y.Bhg. Tan Sri Osman S. Cassim	Chairman, Independent Non-Executive Director
Tan Kai Hee	Managing Director, Non-Independent Director
Hew Von Kin	Chief Financial Officer
Datin Sunita Mei-Lin Rajakumar	Independent Non Executive Director
Chow Kee Kan @ Chow Tuck Kwan	Independent Non Executive Director
Tan Keng Kang	Non-Independent Executive Director
Chia Kuo Wui	Non-Independent Executive Director
Tan Keng Song	Non-Independent Non-Executive Director
Lim Chin Luen	Non-Independent Non-Executive Director

Source: Company, Kenanga Research

Corporate Structure

Corporate Structure



**Peking Tongrentang (M) Sdn Bhd is a joint venture company*

Source: Company, Kenanga Research

Hai-O MLM distributor ranking

Hai-O Marketing – MLM Distributor Ranking

Source: Company

Brand Products

Brand Products – Medicine

Source: Company

Brand Products – Medicated Tonic

Source: Company

Brand Products - Tea

Source: Company

Brand Products – Health Food

Source: Company

Sample MLM companies in Malaysia

MLM Company List 1

Gano Excel Enterprise Sdn Bhd	Grolier (Malaysia) Sdn Bhd	AMC Allied Metalcraft Corporation Sdn Bhd	Americ Corporation Sdn Bhd
Hai-O Marketing Sdn Bhd	HDI Network (M) Sdn Bhd	Amway (Malaysia) Sdn Bhd	Avon Cosmetics (M) Sdn Bhd
Healthy Homes Marketing (M) Sdn Bhd	Herbalife Products Malaysia Sdn Bhd	Best World Lifestyle Sdn Bhd	Blondal Sales & Service Sdn Bhd
Infinitus International (Malaysia) Sdn Bhd	Lanfar (M) Sdn Bhd	Brilliant Point Sdn Bhd	Chini Enterprise (M) Sdn Bhd
Leroy International Sdn Bhd	Le Reve (Malaysia) Sdn Bhd	CNI Enterprise (M) Sdn Bhd	Creative Dreams International Sdn Bhd
Lingua Publication Sdn Bhd	Linguaphone Distributors Sdn Bhd	Crony Beauty (M) Sdn Bhd	Diamond Interest Sdn Bhd
Lion Best Sdn Bhd	Luxor Network Sdn Bhd	DNMC International Sdn Bhd	DXN Marketing Sdn Bhd
Mangosteen Beverage (M) Sdn Bhd	Mary Kay (Malaysia) Sdn Bhd	Elken Sdn Bhd	Forever Living Products (M) Sdn Bhd

Source: DSAM

MLM Company List 2

N.Z. New Image Sdn Bhd	Neways Worldwide Sdn Bhd	Tahitan Noni International (M) Sdn Bhd	Taiway Marketing (M) Sdn Bhd
Nu Skin (Malaysia) Sdn Bhd	Ohhira Nutrition (M) Sdn Bhd	Totalife (M) Sdn Bhd	Total Reach Marketing Sdn Bhd
OSN Network Sdn Bhd	P-Life Marketing Sdn Bhd	True Mix Sdn Bhd	Tupperware Brands Malaysia Sdn Bhd
Perfect Pentagon Sdn Bhd	PHHP Marketing (M) Sdn Bhd	UHS Essential Health (M) Sdn Bhd	Unicity Marketing Sdn Bhd
QNet (M) Sdn Bhd	Reliv International Sdn Bhd	Unilever Malaysia Aviance Sdn Bhd	Uptrend Network Sdn Bhd
Revell Sdn Bhd	Shaklee Products (M) Sdn Bhd	Vita Life Sciences Sdn Bhd	Viva Life Science Sdn Bhd
Shuang Hor Enterprise (M) Sdn Bhd	Stemtech Malaysia Sdn Bhd	Wonder Way Marketing Sdn Bhd	Worldwellness Network Sdn Bhd
STP Distributors (M) Sdn Bhd	Sunrider International (M) Sdn Bhd	Zhulian Marketing (M) Sdn Bhd	

Source: DSAM

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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