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NEUTRAL

Target **RM5.04**  
Previous **RM5.04**  
Price **RM4.68**

#### CONSUMER (RETAIL)

Hai-O is involved in wholesaling, retailing, multi-level marketing and pharmaceuticals, and also operates modern Chinese medicinal clinics.

#### Stock Statistics

	HAI O MK
Bloomberg Ticker	202.7
Share Capital (m)	948.6
Market Cap (RMm)	4.93   1.32
52 week H   L Price (RM)	615.3
3mth Avg Vol ('000)	32.6
YTD Returns	0.77
Beta (x)	

#### Major Shareholders (%)

Tan Kai Hee	9.59
Akintan SB	7.15
Excellent communication	5.11

#### Share Performance (%)

Month	Absolute	Relative
1m	23.3	16.3
3m	54.3	46.7
6m	130.5	102.3
12m	276.7	130.7

#### 6-month Share Price Performance



## 9MFY10 Results Review

# Hai-O

### A Good Set of Numbers

Hai-O's 9MFY10 revenue and net profit rose 36.3% and 55.3% y-o-y to RM412.2m and RM56.7m respectively, making up 78% of our full year estimates. The solid set of results stemmed from the strong momentum of MLM, spurred mainly by the increase in numbers of members. While we are maintaining our FY10/11 earnings, we downgrade the stock to NEUTRAL given the limited share price upside. We however still like the stock given its decent dividend yield, superior fundamentals, resilient business nature and defensiveness of the stock. We recommend investors to buy on share price weakness.

**Another strong set of results.** Hai-O reported another good set of results with 9MFY10 revenue and net profit rising 36.3% and 55.3% y-o-y to RM412.2m and RM56.7m respectively, making up 78% of our full year estimates. The solid set of results stemmed from the strong momentum of MLM (+46.1% in revenue y-o-y) seen in 9MFY10, spurred mainly by the increase in numbers of members. Note that the MLM division has been growing by an average of 47% over the past 3 quarters. While the wholesaling division grew marginally by 0.9% y-o-y, manufacturing revenue dropped by 7.1% y-o-y while retail sales decreased 5.3% y-o-y as the Chinese Lunar New Year fell in Hai-O's 4QFY10. Sales growth was also fuelled by the increase in revenue from other segments which included the rental income received from the leasing of land in Klang and realization of exchange fluctuation reserve on disposal of foreign associates amounting to RM 624,799. Y-o-y EBIT margins improved 2.1% pts driven by the contribution of higher margin products and stronger RM against USD which led to lower raw material cost.

**Weaker q-o-q.** Although expectation was that 3Q results is usually higher than 2Q, q-o-q revenue dropped by 0.8%, attributed to lower revenue achieved by both MLM (-2.4% y-o-y) and retail (-12% y-o-y) divisions. The main reasons of the contractions are (i) MLM division had just completed its sales campaign in 2Q (ii) retail division was affected by Chinese lunar new year which fell in 4Q. The weaker sales coupled with higher personnel and A&P expenses as well as the one-off realization of exchange fluctuation reserve on disposal of foreign associates which amounted to RM0.6m booked in the previous quarter, led to q-o-q net profit decreasing by 10.8% y-o-y.

**Downgrade to NEUTRAL.** While we are maintaining our FY10/11 earnings, we are downgrading the stock to NEUTRAL as Hai-O's share price has rallied strongly within a short period and our TP of RM5.04 only offers 7.7% upside versus its last closing price of RM4.68. Since the publication of our 2010 strategy in Dec 1 2010 which featured Hai-O as our top 10 stock pick, the stock has rallied more than 65% YTD. Nonetheless, we still like the stock given its decent dividend yield, superior fundamentals, resilient business nature and defensiveness of the stock. Investors should buy on share price weakness.

FYE Apr (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Revenue	373.8	435.2	569.6	679.0	786.1
Net Profit	48.5	52.3	72.6	85.2	101.4
% chg y-o-y	127.0	7.7	38.8	17.3	19.1
Consensus	-	-	78.6	94.8	105.5
EPS (sen)	57.5	25.8	35.8	42.0	50.0
DPS (sen)	16.7	17.5	24.0	28.0	34.0
Dividend yield (%)	3.6	3.7	5.1	6.0	7.3
ROE (%)	34.5	31.6	33.7	30.7	29.0
ROA (%)	23.8	21.1	25.8	24.5	24.3
PER (x)	8.1	18.1	13.1	11.1	9.4
BV/share (RM)	0.69	0.82	1.06	1.37	1.73
P/BV (x)	6.7	5.7	4.4	3.4	2.7
EV/ EBITDA (x)	12.7	11.9	8.3	7.0	5.8

**Results Table (RMm)**

<b>FYE Apr</b>	<b>3Q10</b>	<b>2Q10</b>	<b>Q-o-Q chg</b>	<b>YTD FY10</b>	<b>YTD FY09</b>	<b>Y-o-Y chg</b>	<b>Comments</b>
Revenue	131.3	132.4	-0.8	412.2	302.3	36.3	Stronger mainly due to strong sales growth from MLM division
EBIT	25.2	28.7	-12.2	80.2	52.7	52.2	Margin expansion driven by the contribution of higher margin products and stronger RM against US\$ which led to lower raw material cost
Net interest expense	0.0	-0.1	1.0	-0.1	-0.1	-40.0	
Associates	0.0	0.0	-	0.0	0.0	-	
PBT	25.2	28.6	-11.9	80.2	52.6	52.5	
Tax	-7.0	-8.2	-14.3	-23.0	-15.4	48.9	
MI	-0.2	-0.3	24.2	-0.5	-0.7	-21.3	
Net profit	18.0	20.2	-10.8	56.7	36.5	55.3	In line – 78% of OSK full year forecast.
EPS (sen)	21.3	23.9	-	67.1	43.2	-	
DPS (sen)	4.0	10.0	-	14.0	10.0	-	Second interim dividend less tax
EBIT margin	19.2	21.7	-	19.5	17.4	-	
NTA/share (RM)	2.39	2.41	-	2.39	1.85	-	

**EARNINGS FORECAST**

<b>FYE Apr (RMm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10f</b>	<b>FY11f</b>	<b>FY12f</b>
Turnover	373.8	435.2	569.6	679.0	786.1
EBITDA	67.2	76.1	107.4	125.4	147.5
PBT	67.7	75.9	106.4	124.4	147.5
Net Profit	48.5	52.3	72.6	85.2	101.4
EPS (sen)	57.5	25.8	35.8	42.0	50.0
DPS (sen)	16.7	17.5	24.0	28.0	34.0
<b>Margin</b>					
EBITDA (%)	18.0	17.5	18.9	18.5	18.8
PBT (%)	18.1	17.4	18.7	18.3	18.8
Net Profit (%)	13.0	12.0	12.7	12.5	12.9
<b>ROE (%)</b>	<b>34.5</b>	<b>31.6</b>	<b>33.7</b>	<b>30.7</b>	<b>29.0</b>
<b>ROA (%)</b>	<b>23.8</b>	<b>21.1</b>	<b>25.8</b>	<b>24.5</b>	<b>24.3</b>
<b>Balance Sheet</b>					
Fixed Assets	21.6	59.4	64.1	73.7	83.3
Current Assets	154.0	154.4	187.7	229.3	279.7
Total Assets	204.1	248.3	281.9	348.1	418.0
Current Liabilities	58.0	61.2	51.2	60.9	68.2
Net Current Assets	146.2	187.2	230.7	287.2	349.9
LT Liabilities	0.1	15.7	15.1	10.1	0.1
Shareholders Funds	140.6	165.4	215.6	277.1	349.8
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

**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 (NR):** Stock is not within regular research coverage

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